#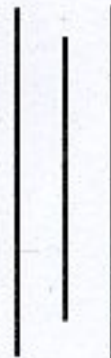 EVALUATION OF FINANCIAL PERFORMANCE OF NEPAL INVESTMENT BANK LTD AND BANK OF KATHMANDU LTD, BEFORE AND AFTER JOINT VENTURE

By:
Aman Mani Shakya
Shanker Dev Campus
Campus Roll No: 363/060
T.U. Regd. No: 7-2-39-47-2000

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirement for the Degree of
Master of Business Studies (MBS)

Kathmandu, Nepal
April, 2010

Ref. :........................

Date :..............................

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

Aman Mani Shakya

Entitled:

EVALUATION OF FINANCIAL PERFORMANCE OF NEPAL INVESTMENT BANK LTD AND BANK OF KATHMANDU LTD, BEFORE AND AFTER JOINT VENTURE

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

....
Prof. Dr. Kamal Das Manandhar
(Thesis Supervisor)

....
Prof. Bisheshwor Man Shrestha
(Head of Research Department)

....
Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

....
Dhurba Subedi
(Thesis Supervisor)

Tribhuvan University

☎ {
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4-226931
4-266336
4-218016 B.B.A.
}

Faculty of Management

Shanker Dev Campus

Use Only for Thesis

Putali Sadak
Kathmandu, Nepal.

Ref. :........................

Date :..............................

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by

Aman Mani Shakya

Entitled:

EVALUATION OF FINANCIAL PERFORMANCE OF NEPAL INVESTMENT BANK LTD AND BANK OF KATHMANDU LTD, BEFORE AND AFTER JOINT VENTURE

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

Master Degree of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department   ....

Member (Thesis Supervisor)   ....

Member (Thesis Supervisor)   ....

Member (External Expert)   ....

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled **"EVALUATION OF FINANCIAL PERFORMANCE OF NEPAL INVESTMENT BANK LTD AND BANK OF KATHMANDU LTD., BEFORE AND AFTER JOINT VENTURE"** submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (MBS) under the supervision of **Prof. Dr. Kamal Das Manandhar** and **Dhurba Subedi** of Shankar Dev Campus.

....

Aman Mani Shakya
Researcher
T.U. Regd. No.:7-2-39-47-2000

College Roll No.:363/060
Second Year Symbol No.:

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Aman Mani Shakya
College Roll No.: 363/060
T.U.Reg. No.: 7-2-39-47-2000

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ABBREVIATIONS

ASEAN = Association of South East Asian Nations
BIMSTEC = Bay of Bengal Initiative For Multi-Sectrol Technical Co-Operation
BOP = Balance of Payment
BOKL = Bank of Kathmandu Ltd.
CBs = Commercial Banks
CD Ratio=Credit Deposit Ratio
CRR = Cash Reserve Ratio
CV = Co-Efficient of Variation
COM. = Commercial Bank
CIC = Credit Information Centre
DPS=Dividend Per Share
EBL=Everest Bank Ltd.
EPS= Earning Per Share
E-Generation=Electronic Generation
FDI = Foreign Direct Investment
F.Y = Fiscal Year
GBBs = Grameen Bikash Banks
GDP = Gross Domestic Product
GOVT = Government of Nepal
HBL = Himalayan Bank Ltd.
IT = Information Technology
IMF = International Monetary Fund
JV=Joint Venture
LTD = Limited
MVPS=Market Value Per Share
NRB = Nepal Rastra Bank
NBL = Nepal Bank Ltd.
NO. = Number
NBB = Nepal Bangladesh Bank Ltd.
NABIL = Nabil Bank Ltd.
NPA = Non – Performing Assets
NIBL = Nepal Investment Bank Ltd.
NEPSE = Nepal Stock Exchange Ltd
NGO = Non – Government Organization
NIDC = Nepal Industrial Development Corporation
NCC = Nepal Credit and Commerce
NIC = Nepal Industrial and Commercial

NPM = Net Profit Margin
P-E = Price – Earning Ratio
ROA = Return on Assets
Rs. = Rupees
RDBs = Rural Development Banks
RBB = Rastriya Banijya Bank
S.N = Serial Number
SCBNL = Standard Chartered Bank Nepal Ltd.
SAARC = South Asian Association for Regional Co-operation
SEBON = Securities Board of Nepal
SWOT = Strength Weakness Opportunity Threats
T-BILLS = Treasury Bills
T.U = Tribhuvan University
U.K = United Kingdom
WTO = World Trade Organization

CHAPTER I

1.   INTRODUCTION

Banking sector in particular act as the backbone for any economy, but banking is still out of reach for most of Nepalese population. More than 31% of its population is living under poverty line, which lives on an income of less than $1 a day. (DFID, 2006) & its per capita income is just $ 280, which is among the lowest per capita income countries (World Bank, 2006). Nepal is the 48th poorest country in the world (CIA World Fact book, 2005). Nepalese economy used to depend mostly on agriculture, but the recent structure tends to change slightly. The contribution on GDP through year 2000-2001 shows; 36.90% from Agriculture, 19.90% from Industry, and 38.10% from Service, however still percent employed in agriculture covers 80% of population.[1] The trend shows the importance of banking sector, which must play a pivotal role in the overall development of an economy. The economic reforms initiated by the Government more than a decade ago have changed the landscape of several sectors of Nepalese including the banking sector.

The increasing size of the total population and active labor force coupled with the intensively used and limited area of the arable land in Nepal compels her to seek new avenues for her development strategies. The industrial sector is in the forefront, as the only alternative for growth and overall economic development.

In the process of creating the basic prerequisites for industrial development, the development of financial institutions plays an important role in industrialization by making available the financial resources required for the economic activities of the financial institution.

Banks play a vital role in developing the economy of any country, and today's banking system has evolved through ancient times. There was reference to the activities of moneychangers in the temple of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus funds and these were the centers of money lending transaction. The traces of 'rudimentary banking' were found in the

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[1] Nepal Development Forum Economic Update 2002, World Bank Jan 30, 02.

Chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire on death of Emperor Justinian in 565 AD, and it was not until the revival of trade and commerce in the Middle Ages that the lessons of finance were learnt anew from beginning. Money lending in the middle ages was, however, largely confined to the Jews since Christians were forbidden by the Canon Law to indulge in the sinful act of lending money to others on interest. Banking made its first beginning, as a public enterprise, around middle of twelfth century in Italy and the Bank of Venice, founded in 1157. Bank of Barcelona and Bank of Genoa then established in 1401and 1407 respectively. Later Bank of Venice and the Bank of Genoa continued to operate until eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up number of private banking houses in Europe and slowly it spread throughout the world.

The development of banking sector in Nepal is relatively recent. Some crude banking operations were in practice even the ancient times. During 11 the century, of *Malla* regime professional money lenders were popular to finance the trade with Tibet. In 1877 A.D., government established *Tejarath Adda,* which distributed credit facility to public on collateral of gold and silver. The increasing trade with India and Tibet, and the need of finance for the reconstruction works for 1934 A.D. earthquake, the *Udyog Parishad* (Industrial Development Board) was constituted in 1936 A.D... Finally in the year 1937 A.D. Company Act and Nepal Bank Act were formulated, as a result the first bank in Nepal was established, the Nepal Bank Ltd. by the Government with joint venture with public sectors. As of February 2008, the Nepalese financial sector consists of; 23 Commercial Banks, 72 Finance Companies, 33 Development Banks, 11 Micro-Credit Financial Institutions. Besides these, there are large numbers of Credit Cooperatives, Non Government Organization, Insurance Companies and Postal Saving Offices mobilizing financial resources.

Banks perform various types of services; deposit collection from the public; providing credit and loans to investors, industries and other sectors; overdraft provision; letter of credit; agency function task etc. Today banks are providing technical assistance as well and improving in the field to be client friendly and supportive.

The task of the Banks have became very dynamic, complex and more risky. Many research and empirical studies have revealed that Banks and the economic rate of advancement are two sides of a coin or two wheels of a chariot.

1.1   FOCUS OF THE STUDY

The society is aware that modern economic growth stands on the sound banking environment. Banking in this era has a new meaning and dimension which is now offering many extra services rather than just accepting deposits and granting loans. We see banks as a profit earning organization but we hardly scrutinize the financial highlights of the bank. A bank is successful if it has adequate/average financial performance. Moreover our local market is still un-functional as compare to international banking system. Hence as discussed above Government of Nepal under Commercial Bank Act 1974, allowed foreign investment to flow in banking sector, to import funds and technologies essentials for modern banking techniques. Foreign investment plays a significant role in economic development of developing countries by providing capital, technology, skills, managerial efficiency and others. Hence foreign joint investments have been considered very important. Though Joint Ventures have lots of advantages, today some of joint ventures aren't performing to the expected level. Some of the ventures had withdrawn their investment, and sold their share to Nepali Promoters. There might be many reasons for the ventures to come to the decision to sale their share, while lots of rumors go around to the concern of general public, about the banks. Hence this thesis has been initiated to study the performance of Joint Venture banks, during foreign investment and after handover to Nepali management team, with special reference to **Bank of Kathmandu Ltd. (BOKL)**, and **Nepal Investment Bank Ltd. (NIBL).** The thesis tries to evaluate especially financial highlights of the banks relating their overall performance, capital structure, interest earning, earning on shareholding, assets mobilization, net worth, and evaluations as per Nepal Rastra Bank's norms. The thesis primarily put spotlight on the financial statements of Bank of Kathmandu and Nepal Investment Bank and simply focuses on other aspects such as management, profit functions, banks performance etc. The commercial banks still running under joint venture with foreign banks are:

a.   Nabil Bank Ltd.
b.   Standard Chartered Bank Nepal Ltd.
c.   Himalayan Bank Ltd.
d.   Nepal SBI Bank Ltd.
e.   Nepal Bangladesh Bank Ltd.
f.   Everest Bank Ltd.

And the commercial banks having handover the shares of foreign joint ventures to Nepalese management are:

a.   Bank of Kathmandu Ltd.
b.   Nepal Investment Bank Ltd.
c.   Nepal Credit and Commerce Bank Ltd.

1.2 STATEMENT OF THE PROBLEM

Most commercial banks in Nepal are operated as Joint-venture, serving the general public through its limited outlets. Today there are about 23 commercial banks operating around the country. We have a very small market and the competition in the market is growing intensely. To perform in the sound and proper stipulation according to the guidance of the Central Bank is another challenge faced by the commercial banks. The security situation of the country in last few years has put another barrier in the performance of commercial banks. Looking at these circumstances we can say that the commercial banks has being successful in maintaining sound financials. Among commercial banks, joint venture banks are seen operationally more efficient and high performer in the sense of service and earning return to the stakeholders. Their profitability and the stock prices are generally known but the real and comparative evaluations reflecting overall performance are inadequate in the market.

Although the performances of Joint Venture banks are satisfactory, the statement of problem will be concerned with the financial performance. The development in joint venture banks after handover to Nepalese management shows that Nepalese team are now effective and efficient as foreign bankers,

and that they can perform and compete locally and internationally. Does the statement like these can be accepted? Does the banks like Bank of Kathmandu and Nepal Investment Bank, have performed better after cutting off joint ventures? These can be evaluated with a comparative study of financial performance, which provides information on the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, funding and mobilization of resources, financial achievement, and return to the stakeholders, market capitalization, and status of the company and market worth of company. This information will help to determine the extent of the efficiency and effectiveness of the banks in respect of deploying financial resources in a well managed profitable manner. Due to the efficiency in managerial, operational, financial, technical and overall banking function Nepal Investment Bank has been honored by the prestigious title of "BANK OF THE YEAR 2003 & 2005" for Nepal by The Banker, a publication of the Financial Times Group, London. Whereas both the banks, NIBL and BOKL, has been successful for prompt and consistent services according to the diverse needs of the customers, and have sustained good image among its stakeholders.

The commercial banks are basically focused on the profit making obsession and they generally follows those methods which will increase their profit making capacity. Existing banks in Nepal are facing various problems. Among internal and external problems, the external problem can't be solved by the bankers as the whole nation is bearing the same problem but internal problem countenanced by the commercial banks must be overlook. Most of the commercial banks also lack the skilled personnel who are capable of taking right decisions at the right time frame. In contrast, some personnel who bear such responsibility are found to be corrupted and they despoiled the decision which increases their own wealth rather than that of the bank, which used to cover headlines usually from Government owned banks.

Thus this thesis has been commenced, analyzing different aspect of joint venture banks' financial performance which is done by taking Bank of Kathmandu Ltd. and Nepal Investment Bank Ltd as reference and has been tried to map out the following questions:-

✓ *How are Joint Venture Banks more efficient?*
✓ *Does their performance indicate any strength or weakness?*
✓ *Do they manage and utilize their assets satisfactorily?*
✓ *Do the capital rise effective in profit generation?*
✓ *Are the banks proficient in minimizing risk?*
✓ *Do they maintain sufficient liquidity position?*
✓ *What are the bank's capital and liabilities and its analysis?*
✓ *Various deposits analysis of the banks such as saving deposit, current deposits and fixed deposits.*
✓ *Shareholder's equity analysis, debt to equity analysis, debt to total capital ratio, capital adequacy analysis, debt capacity analysis, capital structure position analysis and overall capitalization rate analysis.*

The present study shall elaborate overall analysis as per above and other related dimensions of Bank of Kathmandu and Nepal Investment Bank during Joint Venture and after handover to Nepali management team.

1.3 OBJECTIVE OF THE STUDY

The main objective of this study is to evaluate the performance of BOKL and NIBL with and without foreign joint venture investment and management. The bank's main objective is to maximize profit by maximizing shareholders wealth and minimizing the risk. Therefore, the objective of the study is to assess and analysis the financial performance of these two banks which shall be specify as follows:

1) To analyze total performance of the banks and its growth with and without joint venture, in terms of their:

a)   Liquidity

b)   Activity (Turnover or solvency)

c)   Leverage Ratio

d)   Profitability Ratio

e)   Analysis of their EPS, DPS, BVPS, RoE ratio, etc..

2) To analyze the trend of banks' total deposits collected and total loan and advances flow, along with their proportion over the capital.

3) To analyze and compare the performance of these two banks among themselves regarding the position before and after handover of management.

To suggest measures to improve future financial performance of these banks.

1.4 SIGNIFICANCE OF THE STUDY

The study has been done in reference to the periodical performance in respect of the handover period of both the Banks respectively. The study has tried to focus on performance of the banks so the study could be significant in revising the works of national management team after the handover from foreign joint venture. The study could be beneficial to the stakeholders of the bank as well to the various sectors such as general public, bank personals, management committee, investors, promoters, shareholders, stock-brokers because they can analyze the bank's performance and can get adequate information about the bank for their investment decision. Further, this study should be useful to the parties like:

A.   **The Shareholders:** The study can help them by creating awareness regarding the financial performance of their bank, as of appropriate utilization of their funds.

B.   **The Management:** The study can help them evaluate their performance with their competitor, and management gaps considered short can be corrected.

C.   **The Outsiders:** These actually refer to the stakeholders of the company, who will be benefited with the information regarding the performance of the company.

D.   **The Policy Makers:** Policy Makers refers to those authorities that formulate and determine rules, regulations and policies concerning smooth run of banking institutions, hence the study might provide them some data to their concern.

1.5   LIMITATION OF THE STUDY

The study has been prepared by the help of the financial reports and publications of the banks. Further, the study has been initiated by the student rather than by some economic or financial experts so the study has some of its own limitations as stated below:-

✓ The study is restricted to BOKL and NIBL.

✓ As mentioned earlier, this thesis is based on secondary data (published annual reports of commercial banks), journals, newspapers, magazines etc and unpublished thesis.

✓ The study covers only certain period's data.

✓ The study focuses on financial aspects of banking performance only. only the capital structure of the bank and ignores other aspects of banks.

✓ To some extent, the data published on the websites may vary sometimes, with that of the annual reports of commercial banks. So, the data from the websites are considered as authentic one.

The study is meant for academic purpose i.e. partial fulfillment of the requirement of the Masters of Business Studies (M.B.S.) course for a prescribed time.

1.6 ORGANIZATION OF THE STUDY (CHAPTER PLAN)

The entire study is divided into five chapters. Brief information of what each chapter contains is given below.

Chapter 1: Introduction – This is an introductory chapter, which includes general background of bank. It also discusses about focus and significance of study, statement of problem, objective and limitation of the study and research methodology.

Chapter 2: Review of the Literature - This chapter deals with the review of literature. It reviews the relevant and pertinent literature and various studies, and includes the conceptual setting in the subject matter of the study.

Chapter 3: Research Methodology – This chapter is concerned with research methodology. It includes research design, sources of data, population and sample and method of analysis and financial tools to measure financial performance.

Chapter 4: Presentation and Analysis – This chapter is concerned with presentation and analysis of relevant data and information through a definite course of research design. This chapter is concerned with the findings of the bank and also presents the results relating to financial performance.

Chapter 5: Summary, Suggestions and Conclusion - This chapter is concerned with the interpretation of the results and findings of the study. It summarizes the overall picture of the study, draws conclusions, and offers suggestions and recommendations for improving future performance of the Banks.

An extensive bibliography and appendixes are presented as far as possible to collaborate with the study, at the end of this thesis.

CHAPTER II

2.   REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related areas of study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work.

The world of today is the corporate world, and the country whether it be a developed or a developing nation needs themselves to phase up with emerging markets. Industrialization today covers broad sense and the overall development of the nation depends on the growth of industries, while rapid industrialization is possible due to the good government policy, capital funds, skilled man power etc.

The capital fund generates due to financial inter-mediation, hence financial institutions are as a catalyst in the growth of economy. Financial institutions make the flow of investment easier. It pools the funds scattered in the economy and mobilizes them to the productive sectors.

Bank came into existence mainly with the objective of collecting the idle funds, mobilizing them into productive sector; helping in overall economic development. But the word Bank as today has a very long history, hence to answer as **What a Bank is?** some sources of literatures regarding bank are reviewed as through: books, journals, Annual Reports, Publications, Unpublished dissertations, Legislation related to commercial banks, directives prescribed by Nepal Rastra Bank, etc.

2.1 REVIEW OF CONCEPT

Bank can be described as financial intermediary between the depositor and credit seekers. The intermediation takes place when bank accepts deposits from general public, corporate bodies, private organization etc. and deploys these deposits for the profitable purpose in the form of loans and advances. Simply bank is an institution which performs financial, economic and monetary activities.

The Oxford dictionary defines bank as "establishment for keeping money, valuables, etc safely, the money being paid out on customer's order (by means of checks)."[1]

The simple traditional definition is incomplete, as the modern banking has been introducing new instruments regularly apart from keeping valuables and making payments. In this context it is define as "Banking means accepting, for the purpose of lending or investing the deposits of money, repayable by checks, drafts, Order or otherwise."[2]

The American Institute of Banking defines 'commercial bank' as " A Commercial Bank is a corporation, which accepts deposits subjected to checks and makes short term loans to business enterprises, regardless of the scope of its other services."[3]

The institution emphasis on the four functions of a commercial bank as " Receiving and handling deposits of money (Deposit Function) handling payment of money (Payment Function), making loans and investments (Loan Function) and creating money by extension of credit."[4]

E.S. Klise defines a bank by emphasizing the bank's function as the creation of money. A bank's business is basically to buy and sell credit. Credit instruments

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[1] Oxford Advanced Learner's Dictionary- Oxford University Press.
[2] Currency and Banking- Dr. Mali Ram, Agra Book Store-1969
[3] American Institute of Banking, Principle of Bank Operation, USA-1972-P.345
[4] IBID

are its stock in trade. Also, on the basis of its own credit a bank creates money by transferring the credit instruments."[1]

Brigham, Gapenski & Ehrhardt defines commercial banks as the "Traditional department stores of finance which serves a wide variety of savers and borrowers, historically they were the major institutions which handled checking accounts and through which the federal reserve system expanded or contracted the money supply".

2.2 REVIEW OF LEGISLATION RELATING TO COMMERCIAL BANKS

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders, and facilitate in overall development of economy, with major thrust in industrial development.

The Commercial Bank Act in 1974 A.D., which facilitate the smooth running of the commercial banks. All commercial banks are functioning under this Commercial Bank Act 1974. This act defines: "A commercial bank is one which exchanges money, deposits money, accepts deposits, grants loan and performs commercial banking function and which is not a bank meant for co-operative, agriculture, industries or for a specific purpose."[2]

The preamble of Nepal Bank Act 1937 clearly states the need for commercial banks in the country, - "in the absence of any bank in Nepal the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing services to the people and for the benefit of the country, this law is hereby promulgated for the establishment of the bank and its operation…"[3]

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[1] Money and Banking- E.S.Klise, South-western Publication Co 1972
[2] Commercial Bank Act 1974, Article 3 Govt. of Nepal- MOLJP
[3] Nepal Bank Act 1937

Commercial banks are established as companies of limited liability on recommendation from Nepal Rastra Bank. Foreign commercial banks can also be established under the Company Act on recommendation from Nepal Rastra Bank and with the consent of Government of Nepal.[1]

The capital of a bank must constitute of equity capital alone but a commercial bank can issue preference share (un-conditional) on approval from Nepal Rastra Bank and with the consent of Govt. of Nepal.

2.2.1 JOINT VENTURE BANK – CONCEPT

Resource mobilization is assumed to be vital and challenging work in the present day world economy. In this era of financial, economic and political liberalization, the task is more complicated than before. The economic reforms undergone in developed countries are possible due to joint ventures, and they have very long history of joint venture banking and simultaneous development in other fields. Joint ventures minimize the central risk and elaborate opportunities beyond the normal range of the business. In the developing countries like Nepal, have very less experience and short history of joint ventures, and moreover in banking sectors only. And in today's liberalized economy, joint ventures are the mechanism through which resources are mobilized and flow from non-productive sectors to productive sectors.

Joint Venture means "a business contract of management effort between two persons, companies or organizations involving risk and benefit sharing."[2]

In developing countries foreign investments plays a significant role in economic development by providing capital, technology, skills, managerial efficiency and others, so foreign joint investments have been considered very important. Joint venture banks in Nepal can be considered having these kinds of investments.

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[1] IBID

[2] B.N.AHUJA, Dictionary of Management IInd edition, Academic Publishers, India.

2.2.2 ROLE OF JOINT VENTURE BANK IN NEPAL

Joint venture Banks (JVBs) are important for the economic development of a mixed economy follower like Nepal. The Nepalese economic situation and investment necessity provide a significant incentive to joint venture banks which bring foreign capital, experience, technology, skills, etc. The domestic banking practice was too old, and improvement along with modern updates with information technique was urgently needed. Nepal Bank Ltd. and Rastriya Banijya Bank were only commercial banks at banking service, where lack of proper management, upgrade, update of new banking tools and technique were pointing towards irregular banking practice and negative effect to the economy as a whole. In this position modern banking system were imported in form of foreign joint venture banks, which not only flow capital investment but also furnish Nepalese banking sector with hi-tech software, system, latest banking instrument, and customer oriented services.

Broadly the Role of Joint Venture Banks in Nepal are:

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                    ┌──────────────────┐
                    │  Role of Joint   │
                    │  Venture Bank    │
                    └──────────────────┘
         ┌───────────────┬────────┴──────────┬──────────────────┐
┌───────────────┐ ┌───────────────┐ ┌───────────────┐ ┌───────────────┐
│    Modern     │ │ Information to │ │  Creation to  │ │ Contribution  │
│  Management   │ │Foreign Investor│ │  Competitive  │ │  to National  │
│Banking Techniques│ │               │ │  Environment  │ │    Economy    │
└───────────────┘ └───────────────┘ └───────────────┘ └───────────────┘
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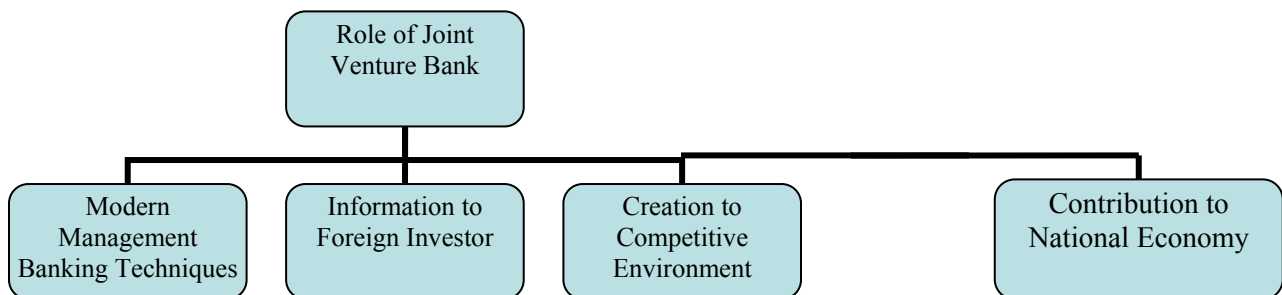
2.3 A Brief Profile of: Bank of Kathmandu Ltd. & Nepal Investment Bank Ltd.

BANK OF KATHMANDU LIMITED

Bank of Kathmandu Ltd. was established in the Nepalese banking market in the year 28 Fagun 2051 B.S. (March 12, 1995 A.D.), under the joint venture with Siam Commercial Bank Ltd., Thailand. Bank of Kathmandu became the then public bank having highest numbers of individual shareholders (23,232 shareholders) on initial public issue holding 25% of bank's equity capital. Among the rest 75 % was then held by the promoters, while 30% of the equity investment was from Siam Commercial. The joint ventures with international bank, set expectation to experience excellent management service, hi-tech facilities and overall growth of the bank. However through some years after operation of the bank, the output or the performance experience was not desirable and also was not able to compete effectively in the Nepalese market. The clear picture of conflict in the management was seen. Also the bank was paying high technical assistance service charge to Siam Commercial than other venture banks, despite the low productivity of the bank. On the other hand, Siam Commercial did not find plenty space and enough financial market locally. Finally in the year Bhadra 2055 B.S. (August 1998), with the approval from Nepal Rastra Bank, the 30% shareholding of Siam Commercial Bank was treated as general public share equity of which 24.5% was sold. Thus Bank of Kathmandu became first joint venture to handover the foreign investment to Nepalese management and believed the internal human resources can show their experience and capability in the market. The present position of the bank shows itself as one the leading local bank of Nepal.

NEPAL INVESTMENT BANK LIMITED

Nepal Investment Bank Ltd. formerly known as Nepal Indosuez Bank Ltd. was established in the year 1986 A.D. (Fagun 26, 2042 B.S.) under the joint venture between Nepalese and French partners. The French partner (holding 50% of the capital) was Credit Agricole Indosuez, a subsidiary of one of the largest banking groups in the world, Rastriya Banijya Bank, Rastriya Beema Sansthan and general public. The capital structure was as follows:

	Stockholders	Percentage Holding
A.	Credit Agricole Indosuez	50.00%
B.	Rastriya Banijya Bank	15.00%
C.	Rastriya Beema Sansthan	15.00%
D.	General Public	20.00%

NIBL was established after Nabil Bank Ltd., hence became second public bank under foreign venture investment. NIBL introduced the international banking system services to Nepalese market and provided quality services to local market linking the global market in most prominent way. The bank was successful in its operation and generating profit but still they couldn't provide banking services to rural areas. Further the analysis and report of Credit Agricole indicates small local market, less business opportunity and re-allocation from Credit Agricole corporate, conclude in releasing the venture holding. The bank had limited outlets and branches were mostly established in urban areas. In the year 2002 Credit Agricole Indosuez made decision to divest. Hence in April 25, 2002 (Baisakh 12, 2059 B.S.) the 50% shareholding of Indosuez was transfer to the Nepalese team lead by Mr. Prithvi Bahadur Pande and the group consisting bankers, professionals, industrialists and businessmen. The operation of the bank after handover to Nepalese management has been satisfactorily and considering the past years observation, Nepal Investment Bank have been growing very fast in all aspects. Also the banking branches are been rapidly established which indicates the bank is broadening its services to wide range of general public.

2.4 REVIEW OF PREVIOUS THESIS

Various theses have been written on different aspects of commercial banks especially joint ventures. The most common studies made are in financial analysis, interest rate structure, lending policy, investment policy, resource mobilization, etc. The conclusion drawn on different aspects of the Nepalese banking sector will be relevant to justify the study. Thus, some previous theses are reviewed.

A study undertaken by V.K. Gurung entitled, "A Financial Study of Joint Venture Banks in Nepal with reference to NABIL and NBL"[1] concludes that the liquidity position of NABIL is below the normal standard of current ratio i.e.2:1, indicating an unsatisfactory position. But the bank is efficient in utilizing most of its assets. Profitability of the bank has assumed as increasing trend but has yet to be fully satisfactory.

A study by Keshav Raj Joshi entitled "A study of Financial Performance of Commercial Bank"[2] concludes that the liquidity position of commercial banks is satisfactory, NABIL being more efficient in this regards.

In another study carried out by Pramesh KC entitled "Dividend Policy of Joint Venture Banks in Nepal"[3] had concluded that the DPS and EPS of these banks are correlated and price earnings ratio and earning yield ratios are not consistent. These banks are found to have declared higher dividend, which made the market value of the share higher than the face value.

"A comparative study of NBL and SCBN" conducted by Manan Bhandari have got findings as:

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[1] V.K Gurung "A Financial Study of Joint Venture Banks in Nepal with reference to NABIL and NBL." An unpublished Master Degree Dissertation T.U.

[2] Keshav Raj Raj Joshi entitled "A study of Financial Performance of Commercial Bank" An unpublished Master Degree Dissertation T.U.

[3] Pramesh KC entitled "Dividend Policy of Joint Venture Banks in Nepal" An unpublished Master Degree Dissertation T.U.

- Liquidity position of both banks is adequate to meet the short term obligations
- Total investments to Total deposits ratio of SCBN is better than that of NBL
- Turnover ratio of SCBN is better than of NBL
- Profitability of SCBN is satisfactory than NBL
- DPS of SCBN is higher than NBL
- Operating Expenses of NBL is greater than of SCBN

Shrestha (1997) conducted a study on role of commercial banks in Nepal. The study has pointed out some important activities and its present scenario. In his words, these activities are to be studied and revised as soon as possible; otherwise these may be disaster for the sound and effective banking system. The article is written in Nepali language. The major findings of the study were:

• Possibility of capital flight: In Nepalese perspective, capital flight became a major problem. Whatever capitals were constructed in Rana regime, were already flowed outside the country. Due to the mis-implementation of "Bhumi Sudhar" most of the constructed capital was also flowed away outside the country. Due to the unstable political situation, the possibilities of capital flight seem to be developed in high scale. In this controversial situation joint venture banks become the main source or medium of capital flight. Therefore this problem and situation should be seriously studied and analyzed so that corrective action can be taken as soon as possible.

• Minimum Deposit amount: In these years, it can be sent that most of the commercial banks and other financial institutions have increased the minimum deposit amount (threshold). This policy may harass the lower level depositors. It also affects the banking habits of lower level depositors negatively. That is why this must also be analyzed and implemented after doing long homework.

• Debt recovery and its effectiveness: In these years, it can also have seen that effective debt recovery is also a great problem of banks due to the misinterpretation of use of loan more than this, a gap between banks and debtors (i.e. effective supervision). Therefore banks should use a team of experts for effective evaluation of collateral and effective use of loan from the debtors' side.

This must be said an effective and crucial step towards the debt recovery from the government side that "Debt Recovery Act" is announced to be implemented during 9th five year plan.

Bharati Khatri, conducted a study for an Analysis of Financial Performance of Bank of Kathmandu Limited and Kumari Bank Limited. The study was conducted to identify the overall financial performance of these two banks and amongst themselves also. The major findings points that; in term of Liquidity Analysis both banks' liquidity position lies under the standard while BOKL has better liquidity as compare to KBL. The Activity ratio indicates satisfactory to both banks whereas BOKL utilized its assets more efficiently than that of KBL. The profitability ratio is more consistent in BOKL and was capable to generate higher profit in compare to KBL. Total deposits, loan & advances, performing assets, net worth and net profit shows increasing trend for both banks. However average total deposits, net worth & net profit are higher in BOKL while loan & advances, performing assets are higher in KBL.

The research study concludes that the financial performances of medium commercial banks are in increasing trend, while bank like BOKL whose foreign partner was withdrawn and transferred to Nepalese entrepreneur had shown improved financials. Further the financial indicator in both banks shows positive trend.

A study undertaken by Trailokya Khatiwada (2007) entitled, "Analysis of Financial Performance of listed Commercial Banks"[1] , put forward the issue of globalization and WTO context of Nepal. Considering that fact the study was to observe/analyze and compare the top five commercial banks (SCBN, NABIL, HBL, EBL, & NIBL). The major findings indicate; liquidity position of these banks were satisfactorily except of EBL. Likewise Profitability analyses show these banks quite profitable and utilize their funds but comparing amongst EBL reflects

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[1] Trailokya Kahatiwada(2007) entitled, "Analysis of Financial Performance of listed Commercial Banks" an unpublished Master Degree Dissertation T.U.

least ratio. SCBN showed least Credit Deposit ratio amongst other sample banks, while NIBL and EBL have the higher. SCBN and NABIL were able for higher earnings and distributing higher dividends to the shareholders. SCBN have been maintaining lower capital adequacy ratio while is successful to generate cheaper fund in regard to other sample banks in the study. The researcher has recommended the banks to increase non-interest bearing or low interest bearing deposit in their deposit mix. It pointed out that the marketing efforts of commercial banks should increase its facilities on credit. Maintaining efficient liquidity as per norms and requirement was strongly recommended to EBL, while it was recommend to utilize total assets effectively to banks: HBL, NIBL & EBL.

A research on "A comparative study of Financial Performance of Joint Venture banks in Nepal (A case study of NBB & EBL Banks)" was undertaken by Mr. Bikram Chand (2009)[1]. The main objective of the research was to make a comparative study between the sample banks. The major findings of the study show that; NBBL maintained higher liquidity than EBL. EBL on compare to NBBL have utilized its deposit collection in profit generating investments. EBL is capable to make more ROE than NBBL and hence able to raise its EPS whereas NBBL's trend was in decreasing phase. Hence some major points, the researcher recommends' are to NBBL to invest in various profit generating sectors. EBL's office expenses to total income are higher so the bank should try to optimize it.

"A comparative study on the Financial Performance of Nepal Investment Bank Limited and Laxmi Bank Limited" was conducted by Ms. Neera Tamrakar (2010). The main objective of the study was to find out which bank have faced more financial risk, in regards to their ability to mobilize the funds, raise their profitability, and efficiency in managing their liquidity, assets and capital

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[1] Bikram Chand (2009) entitled, A comparative study of Financial Performance of Joint Venture banks in Nepal (A case study of NBB & EBL Banks)" an unpublished Master Degree Dissertation T.U.

structure. Some of the major findings of the research shows; that both banks' are below the normal liquidity position, while LXBL's mean ratio are higher than NIBL. Both banks have been skillfully utilizing the assets, while Credit Deposit ratio of LXBL is higher than that of NIBL. NIBL is more successful in generating profit than LXBL with inconsistency on those ratios.

2.5 RESEARCH GAP

Various research studies regarding the financial performances of commercial banks in Nepal were reviewed. Almost every reviewed research was based on comparative studies between commercial banks itself. Whence recent Nepalese banking sector have experience a boost from internal source. These sources do continuous challenge previously acclaimed belief on foreign ventures. Likewise there been number of cases where due to various reasons foreign ventures were drop out and takeover by Nepalese management. Since there had been no research based on the comparative study of any bank before and after handover/takeover of the venture, this research is initiated to fill this gap of industry research design basically to analyze the financial performance before and after handover of venture/management.

The research forwarded is believed to support and help to draw a picture of financial performance of sample banks to them, along with to the concern stakeholder, investors, data collectors, and researchers.

CHAPTER III

3   RESEARCH METHODOLOGY

3.1   METHODOLOGY

Research methodology may be defined as a systematic process applied by the researcher in studying research problem with certain objectives in view. A research methodology helps us to find out accuracy, validity and suitability of our study. The justification in the present study cannot be obtained without the help of proper methodology.

This chapter aims to present and reflect the methods and techniques adapted and followed during the research study. It includes the research design, population and sample, sources of data, data collection techniques, data analysis tools and limitations of the methodology.

According to C.R Kothari (1989) "Research Methodology refers to the various sequential steps to adapt by a researcher in studying a problem with certain objectives in view."

The present study has used descriptive as well as analytical methodology. Information is gathered through personal visitation. The information is then used to analyze the data and make recommendation for improvement. Analytical methodology is used by gathering data from various institutions to present and analyze according to the objective of the study.

Thus, this chapter highlights the research methodology used in the study for the analysis of the financial performance of NIBL and BOKL in order to draw some potential conclusion.

3.2   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, 1989; p. 86)

Research design is plan, structure and strategy to investigation conceived so as to obtain answer to research question and to control variance. A research design is the specification of methods and procedure for acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from which source by what procedure.

The comparative analyses of the financial performance of two joint venture banks are based on a study of NIBL and BOKL. In order to achieve the purpose of the research, statistical tools have been employed.

3.3   SOURCES OF DATA

The study is based on secondary data collected for regular time intervals and analyzes the trends in the past and uses such trends in order to make future prediction. The data required for the analysis are directly obtained from the balance sheet and profit & loss statement of concerned bank's annual report. Supplementary data and information are collected from number of institutions and regulating authorities like:

•   Historical Financials and Annual Reports of related banks

-        NRB Reports & Bulletins
-        Securities Board of Nepal
-        Nepal Stock Exchange Ltd.
-        Ministry of Finance
-        Economic Survey and National Planning Commission
-        Various publications dealing in the subject matter of the study
-        Published and unpublished articles/reports from various sources
-        Economic journals, periodicals, bulletins, magazines etc.
-        Websites

Formal & informal talks with the concerned authorities of the banks were also helpful to obtain the additional information. Since handover of BOKL was held after four years from its operation, the analysis has been carried out with the four years' sample data only.

3.4   POPULATION AND SAMPLE

The term population for research means all the members of any well defined class of objects or events. It refers to the industries of same nature and its services and product in general (Wolf & Pant 1999; p.75). Similarly, the sample is only the portion or subset of the population. Hence all the groups, individuals and elements under study are the population and unbiased representation of the population is sample. In this research study, Total commercial banks are the population of the data and bank under study (NIB and BOKL) constitutes the sample.

<u>Population</u>
-        Nepal Bank Ltd.
-        Rastriya Banijya Bank
-        Nabil Bank Ltd.
-        Nepal Investment Bank Ltd.
-        Standard Chartered Bank Ltd.

- Himalayan Bank Ltd.
- Nepal SBI Bank Ltd.
- Nepal Bangladesh Bank Ltd.
- Everest Bank Ltd.
- Bank of Kathmandu Ltd.
- Nepal Credit & Commerce Bank Ltd.
- Nepal Industrial & Commercial Bank Ltd.
- Siddhartha Bank Ltd.
- Kumari Bank Ltd.
- Laxmi Bank Ltd.
- Lumbini Bank Ltd.
- Machhapuchhre Bank Ltd.
- Global Bank Ltd.
- Citizens Bank International Ltd.
- Sunrise Bank Ltd.
- Prime Commercial Bank Ltd.
- Bank of Asia Nepal Ltd.

Sample

- Nepal Investment Bank Ltd.
- Bank of Kathmandu Ltd.

The study period after handover is taken as the recent years i.e. five years before this report started (i.e. 2002/03-2006/07), while the study period before handover is different to both banks. The study period before handover is normally five years before year of handover hence for NIB the period is from 1997/98 to 2001/02. However BOKL's handover was made in year1997/98 while the bank was commence on 1994/95, hence the study period for BOKL before handover is from 1994/95 to 1997/98.

**3.5	METHODS OF DATA ANALYSIS**

Most of the data and information used in the study is collected from secondary source. The information and data received from different sources in different aspect were firstly arranged for tabulation and analysis. The data were tabulated into different tables, formats and conditions according to the required subject matter. Then, the financial tools and statistical tools have been applied in the way of analysis to create the actual and clear findings.

Beside these, some graph charts and tables have been presented to analyze and interpret the findings of the study. The major tools applied during this study are discussed in the ensuing section.

**3.5.1	FINANCIAL TOOLS**

Financial tools are widely applicable methods for the analysis of financial statements. The focus of financial analysis is on key figures contained in the financial statements and the significant relationship that exists between them.

According to I.M Pandey, "Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account."

According to Metcalf and Titard, "Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance."

Ratio Analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things." In financial analysis, a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. A ratio

helps the analyst to make qualitative judgment about the firm's financial performance and position. Standards of comparison may consist of:

- Ratios calculated from the past financial statements of the same firm.
- Ratios developed using the projected or pro forma financial statement of the same firm.
- Ratios of some selected firms, especially the most progressive and successful, at the same point in time.
- Ratios of the industry to which the firm belongs.

The easiest way to evaluate the performance of a firm is to compare its present ratios with the past ratios. When financial ratios over a period of time are compared, it gives an indication of the direction of change and reflects whether the firm's financial position and performance has improved, deteriorated or remained constant over time. Even though there are many ratios, only following ratios which are the determinants of financial analysis, have been used in this research study.

3.5.2   STATISTICAL TOOLS

Some important statistical tools are used to achieve the objective of the study. In this study, statistical tools such as standard deviation, least square method and hypothesis t-testing have been used. The basic analyses are:

1.   Trend analysis of important variables
This tool analyzes the trend of deposits, loan and advances, investment and net profit of BOKL & NIB through the study period before and after handover of management. Under this following tools have been presented.

a.   Trend analysis of total deposits
b.   Trend analysis of loan and advances
c.   Trend analysis of net profit after tax (NPAT)

2.   Test of t-test of important variables

The objective of this test is to test the significance regarding the parameters of the population on the basis of sample drawn from the population. This test has been conducted on the various ratios related to the banking business.

a.   Test of hypothesis on loan and advances to total deposit ratio of BOKL & NIB before and after handover of management.

b.   Test of hypothesis on Earning per Share of BOKL & NIB before and after handover of management.

c.   Test of hypothesis on performing assets to total assets ratio of BOKL & NIB before and after handover of management.

d.   Test of hypothesis on loan and advances to current assets ratio of BOKL & NIB before and after handover of management.

e.   Test of hypothesis on mean ratio of Return on loan and advances of BOKL & NIB before and after handover of management.

CHAPTER IV

4   PRESENTATION AND ANALYSIS OF DATA

The purpose of this chapter is to study, evaluate and analyze the major financial performances of BOKL and NIBL in comparison to themselves before and after the handover of management. Since handover of BOKL was held after four years of its operation, the sample data before handover are based on four years only. To make the analysis better, the calculated financial ratios and statistical figures are evaluated, analyzed and interpreted from the results outcome. For this purpose, analysis and interpretations are categorized into 3 headings:

- Financial Analysis
- Statistical Analysis
- Major findings of the study.

4.1 FINANCIAL ANALYSIS

Financial analysis means: A general term referring to the process of extracting and studying information in a Financial Statement for the use in management decision making. Financial Analysis typically involves the use of ratios, comparisons with prior periods and with the budget, and other such procedures.[1] Under this heading, financial ratios are evaluated and analyzed and then interpretations are made. It is notable that all types of financial ratios are not studied here. Only those ratios are calculated and analyzed which are very much important in the point of view of performance evaluation of a commercial bank.

In Financial Analysis, Financial Statements such as Balance Sheet and Profit & Loss Accounts are primarily analyzed through different tools and techniques.

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[1] B.N. Ahuja, Academic's Dictionary of Management 2nd edition Pg 120.

Balance Sheets, Profit & Loss Account, and Funds Flow Statements give some information but do not give the complete picture. Hence it becomes necessary to analyze the Financial Statement in order to obtain the information required for the study.

4.2 RATIO ANALYSIS

This is a method of analyzing accounting statements through the calculation of ratios. It is a powerful financial tool in the measurement of financial performance.

According to C.R Kothari; "Ratio Analysis is a powerful tool of Financial Analysis through which the economic and financial portion of a business unit can be fully X-rayed."[1]

Under ratio analysis various ratios such as Liquidity, Activity, Profitability, Leverage and other ratios have been analyzed as follows:

4.2.1 LIQUIDITY ANALYSIS

The difference between the Current Assets and Current Liabilities is known as Working Capital, which provides the liquidity of a business organization. "Liquidity Ratios are used to judge the ability of the business organization to meet its maturing short term obligations."[2]

Liquidity reflects the short term financial strength and weakness of the firm. A high degree of liquidity reverse inability in the proper utilization funds whereas a lack of liquidity demonstrates poor credit worthiness. This may result in the loss of creditor's confidence or even in legal tangles brining about the closure of the company. So the firm should maintain appropriate liquidity over the immediate future to meet its short-term liabilities as they fail due.

[1] C.R.Kothari. Quantitative Techniques 3rd Edition, Vikash Puiblishing House-Pg.187.
[2] Weston & Brigham. Managerial Finance, 7th edition Holt Saunders International Editions.

To measure the liquidity of BOKL and NIBL the following Liquidity Ratios are calculated.

a.   Current Ratio:

Current Ratio shows the firm's short term (current) solvency. It is the ratio of Total Current Assets and Total Current Liabilities, higher the Current Ratio betters the liquidity position, and vice-versa. The ratio can be computed by applying the formula:

Current Ratio= Current Assets / Current Liabilities

Here, Current Assets normally include Cash, Marketable Securities, Accounts Receivable, Inventories and other Assets, which can be converted into cash within a year. Similarly, Current Liabilities refer to Current Deposits, Saving Deposits, Bills Payable, Borrowing, Provisions, Accrued Expenses, and Bills for collection and   Customer Acceptances.

A proportion of 2:1 or more is considered satisfactory although many firms below this standard also seems sound and to be meeting their obligations efficiently. It is the trend over time rather than the absolute value that gives the most valuable information.

The following tables show the Current Ratio comparing the financial performance of BOKL and NIBL before and after handover of foreign management:

Table 1: Current ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before   Amount in NPR. '000

Fiscal Year	Current Assets	Current Liabilities	RATIO (%)
1994/95	362,937	362,412	1.00
1995/96	1,391,486	1,357,061	1.03
1996/97	1,858,612	1,799,151	1.03
1997/98	1,933,005	1,961,995	0.99
		AVERAGE	**1.01**

After   Amount in NPR. '000

Fiscal Year	Current Assets	Current Liabilities	RATIO (%)
2002/03	7,351,175	6,865,684	1.07
2003/04	9,412,720	8,845,599	1.06
2004/05	9,761,900	9,136,393	1.07
2005/06	12,160,228	11,139,884	1.09
2006/07	14,245,627	13,252,545	1.07
		AVERAGE	**1.07**

Figure 1: Chart for BOKL's current ratio

Current Ratio of BOKL Before & After Handover
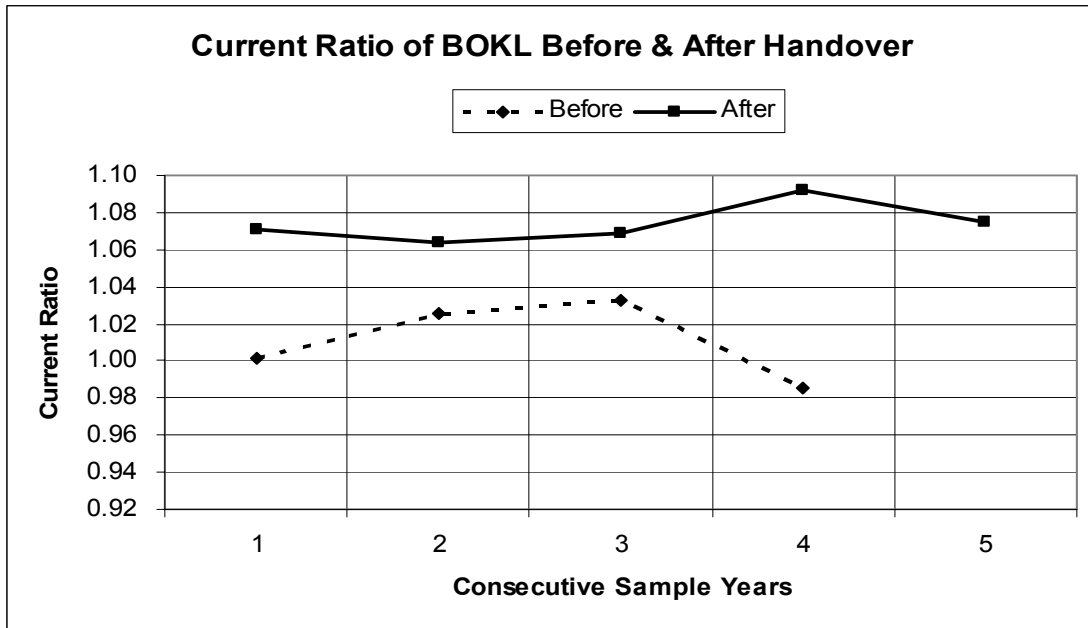
The table clearly states that the Current Ratios over both time of BOKL are below the standard of 2:1. The current ratio of BOKL before and after handover ranged from 0.99 to 1.03 and 1.06 to 1.09 respectively. This gives the average ratios of 1.01 and 1.07 respectively which are below normal standard; however ratio of 1.33:1 is taken satisfactory in banking sector. Also it cannot be said that BOKL's liquidity position is poor, because this ratio is only the ratio of quantity and not a test of quality. Further BOKL's average current ratio shows a slight improvement after handover of management.

Table 2: Current ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Before			Amount in NPR. '000
Fiscal Year	Current Assets	Current Liabilities	RATIO (%)
1997/98	3,293,512	2,732,420	1.21
1998/99	3,069,934	2,655,585	1.16
1999/2000	3,818,552	3,450,730	1.11
2000/01	4,983,195	4,548,077	1.10
2001/02	4,938,007	4,450,421	1.11
		AVERAGE	**1.13**

After			Amount in NPR. '000
Fiscal Year	Current Assets	Current Liabilities	RATIO (%)
2002/03	8,823,133	8,375,707	1.05
2003/04	13,005,708	12,002,259	1.08
2004/05	15,953,472	15,093,891	1.06
2005/06	20,986,688	19,233,752	1.09
2006/07	26,830,263	24,868,776	1.08
		AVERAGE	**1.07**

Figure 2: Chart for NIBL's current ratio
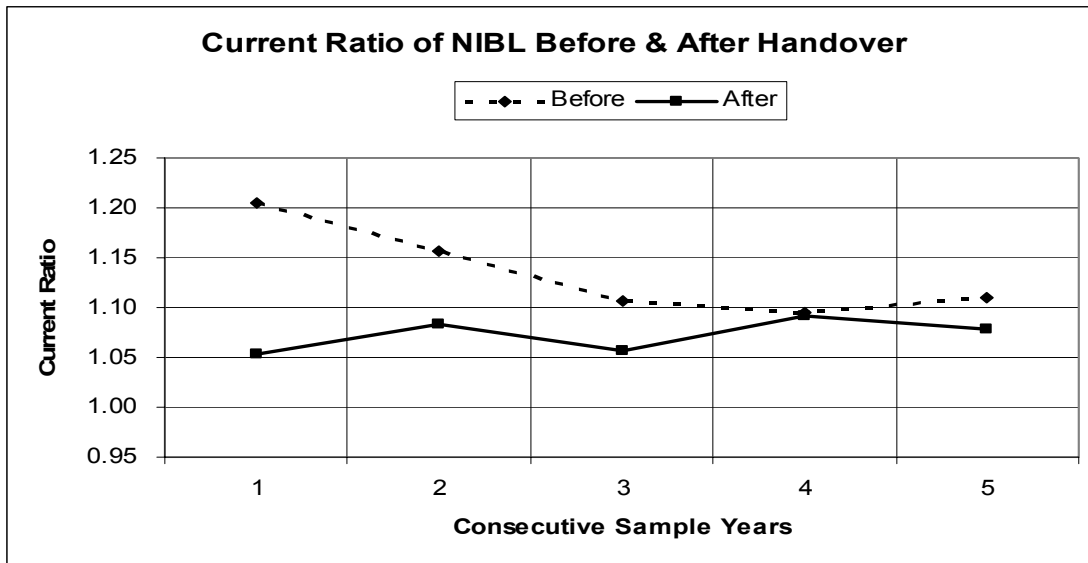
The table shows the Current Ratios over both time of NIBL before and after handover ranged from 1.10 to 1.21 and 1.05 to 1.09 respectively. This gives the average ratios of 1.13 and 1.07 respectively which are below normal standard; however ratio of 1.33:1 is taken satisfactory in banking sector. Also it cannot be said that NIBL's liquidity position is poor, because this ratio is only the ratio of quantity and not a test of quality. Moreover the average figure defines NIBL's current ratio was stronger before handover of management.

b.   Cash & Bank Balance to Total Deposit Ratio:

This ratio measures the ability of the bank to meet the unanticipated cash and all types of deposits. Cash and bank balance is said to be the first defense of every cash transaction. Higher the ratio, the greater will be the ability to meet sudden demand of deposit but it is notable that every high ratio is not desirable since bank has to pay interest on deposits as it maximizes the cost of fund to the bank. The ratio is calculated by applying the following formula:

Cash & Bank Balance to Total Deposit Ratio = Cash and Bank Balance / Total Deposit

In this study, Cash & Bank Balances include total cash in hand and total cash at banks. Similarly deposits include all type of deposits.

The following tables show the Cash and Bank balance to total deposit Ratio comparing the financial performance of BOKL and NIBL before and after handover of foreign management:

Table 3: Cash & Bank balance to total deposit ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before   Amount in NPR. '000

Fiscal Year	Cash Bal	Bank Bal	Total of Cash & Bank	Total Deposits	RATIO (%)
1994/95	10,555	122,313	**132,869**	**329,985**	40.27
1995/96	61,675	200,489	**262,164**	**1,281,754**	20.45
1996/97	109,229	187,654	**296,883**	**1,714,372**	17.32
1997/98	106,078	395,212	**501,290**	**1,773,871**	28.26
				AVERAGE	**26.57**

After   Amount in NPR. '000

Fiscal Year	Cash Bal	Bank Bal	Total of Cash & Bank	Total Deposits	RATIO (%)
2002/03	157,400	535,312	**692,712**	**6,170,712**	11.23
2003/04	139,221	643,662	**782,883**	**7,741,645**	10.11
2004/05	161,470	579,051	**740,520**	**8,975,781**	8.25
2005/06	184,020	544,677	**728,697**	**10,485,359**	6.95
2006/07	219,043	1,096,861	**1,315,904**	**12,388,927**	10.62
				AVERAGE	**9.43**

Figure 3: Chart for BOKL's Cash & Bank balance to total deposit ratio
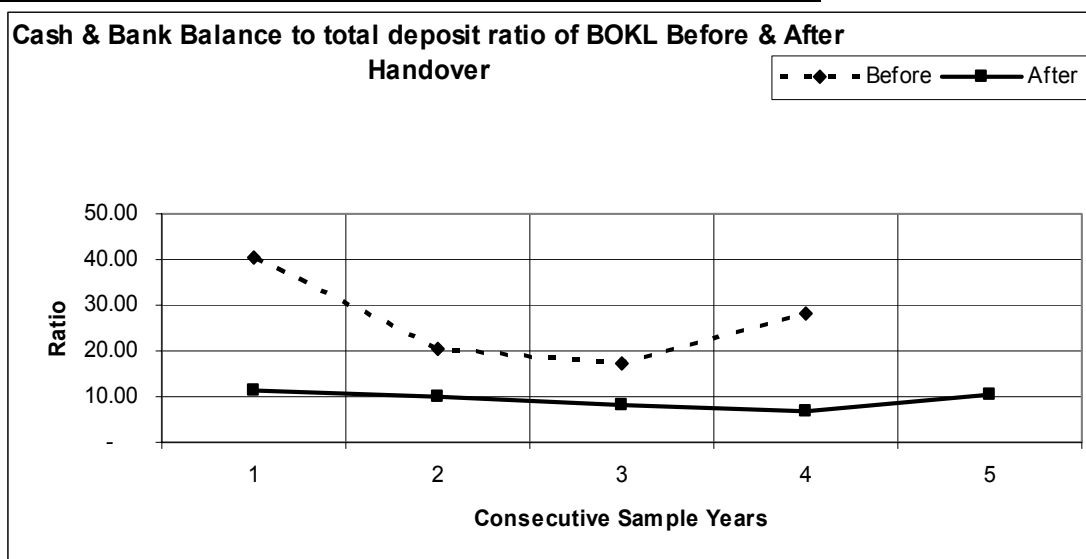
Table 4: Cash & Bank balance to total deposit ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Before			Amount in NPR. '000
Fiscal Year	Total of Cash & Bank	Total Deposits	RATIO (%)
1997/98	437,910	2,582,209	16.96
1998/99	263,704	2,438,893	10.81
1999/2000	383,736	2,983,282	12.86
2000/01	446,692	4,256,211	10.50
2001/02	338,925	4,174,762	8.12
		AVERAGE	11.85
After			Amount in NPR. '000
Fiscal Year	Total of Cash & Bank	Total Deposits	RATIO (%)
2002/03	926,536	7,922,766	11.69
2003/04	1,226,923	11,524,680	10.65
2004/05	1,340,481	14,254,574	9.40
2005/06	2,088,627	18,927,306	11.03
2006/07	2,145,336	24,488,856	8.76
		AVERAGE	10.31

Figure 4: Chart for NIBL's Cash & Bank balance to total deposit ratio
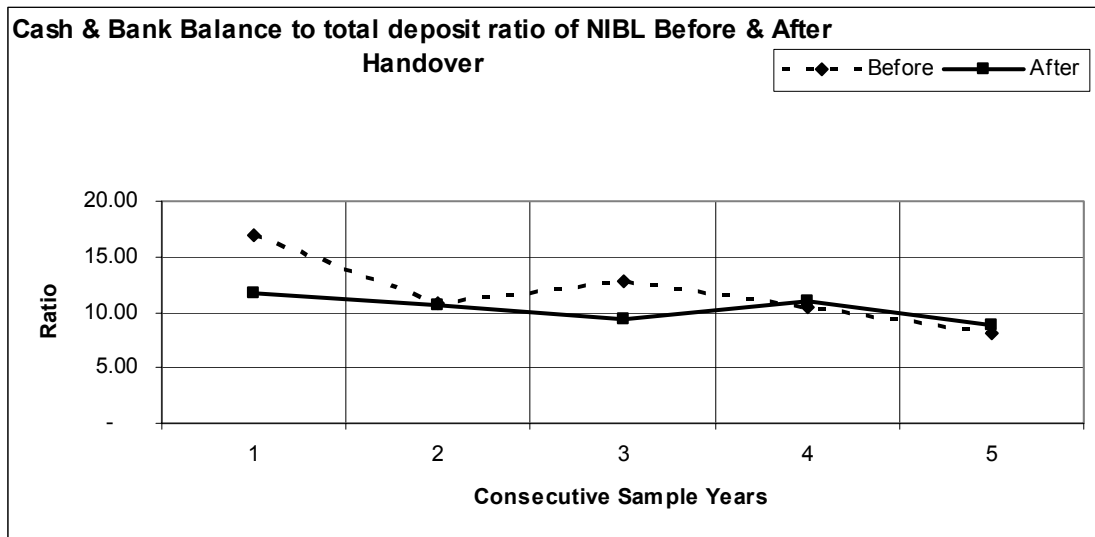
The above tables and findings show that the ratio was higher to both banks before handover. However for BOKL being a just started bank it can be termed obvious to hold high cash to deposit ratio, of which trend shows decline in following years. Further after handover BOKL seems to have undergone intensive investment strategy and maintaining optimal liquidity position at an average of 9.43%.

On the other hand, NIBL's data shows the consistency in the cash and bank balance ratio both before and after handover. The average ratio 11.85% and 10.31% facilitate NIBL to serve its depositors with comfort and readiness. But maintaining optimum position of ratio can lead to higher return, however the bank

might have frequent withdrawing depositors which require them to hold high cash. This in term of service is positive view.

c.   Cash & Bank Balance to Current Assets Ratio:

The Cash and Bank balance to Current Assets Ratio reflects the portion of cash and bank balances in the total assets. Cash and Bank balances are highly liquid assets compared with other Current assets.

The ratio can be calculated by applying the formula:

Cash & Bank Balance to Current Assets Ratio

= (Cash and Bank Balance) / (Total Current Assets)

Table 5: Cash & Bank balance to Current assets ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before   Amount in NPR. '000

Fiscal Year	Total of Cash & Bank	Current Assets	RATIO (%)
1994/95	132,869	362,937	36.61
1995/96	262,164	1,391,486	18.84
1996/97	296,883	1,858,612	15.97
1997/98	501,290	1,933,005	25.93
	AVERAGE		**24.34**

After   Amount in NPR. '000

Fiscal Year	Total of Cash & Bank	Current Assets	RATIO (%)
2002/03	692,712	7,351,175	9.42
2003/04	782,883	9,412,720	8.32
2004/05	740,520	9,761,900	7.59
2005/06	728,697	12,160,228	5.99
2006/07	1,315,904	14,245,627	9.24
	AVERAGE		**8.11**

Figure 5: Chart for BOKL's Cash & Bank balance to Current Assets ratio

Cash & Bank Balance to Current Assets ratio of BOKL Before & After Handover
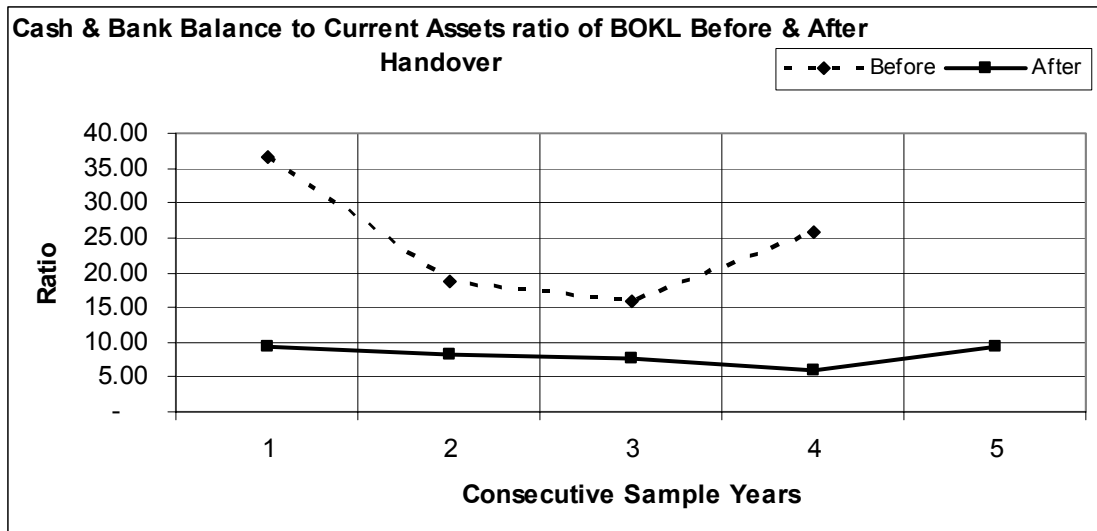
Table 6: Cash & Bank balance to Current assets ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Before — Amount in NPR. '000

Fiscal Year	Total of Cash & Bank	Current Assets	RATIO (%)
1997/98	437,910	3,293,512	13.30
1998/99	263,704	3,069,934	8.59
1999/2000	383,736	3,818,552	10.05
2000/01	446,692	4,983,195	8.96
2001/02	338,925	4,938,007	6.86
		AVERAGE	**9.55**

After — Amount in NPR. '000

Fiscal Year	Total of Cash & Bank	Current Assets	RATIO (%)
2002/03	926,536	8,823,133	10.50
2003/04	1,226,923	13,005,708	9.43
2004/05	1,340,481	15,953,472	8.40
2005/06	2,088,627	20,986,688	9.95
2006/07	2,145,336	26,830,263	8.00
		AVERAGE	**9.26**

Figure 6: Chart for NIBL's Cash & Bank balance to Current Assets ratio
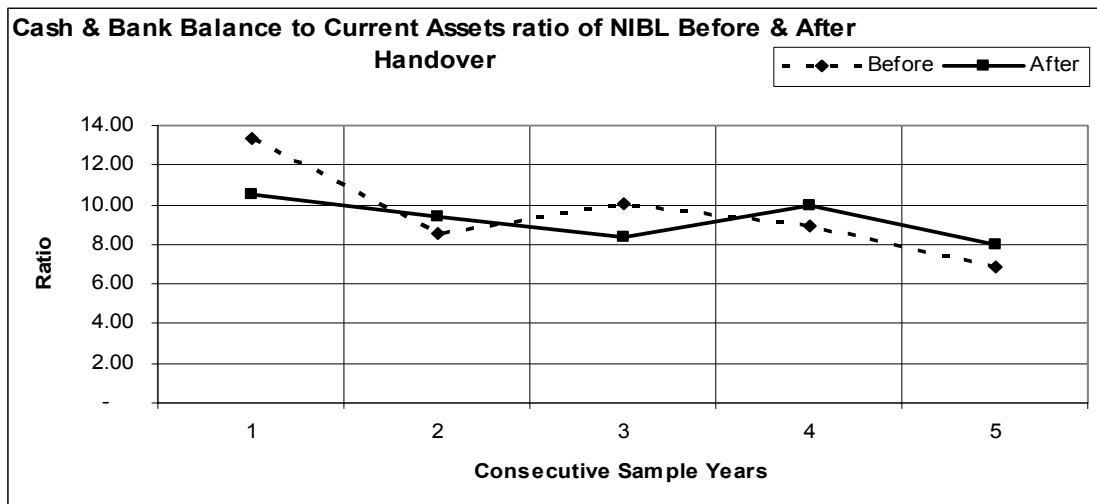
The above data shows the fluctuations in the ratio of both banks before and after handover. However for BOKL being in its early stage showed high ratios before handover, but this is just a theoretical belief, hence BOKL maintained high cash & bank balance. On the other hand, BOKL showed an optimum ratio of cash and bank balance at an average of 8.11% from average of 24.34%. This change can be assumed as utilization of funds more efficiently.

NIBL's data presents much constant ratio than BOKL. NIBL's cash and bank balance to current assets at early stage of study was high but it averaged at 9.55%. Following this the ratio after handover averaged at 9.26%, which can be termed stable and optimum liquid. Hence NIBL seems able to maintain good

balance before and after management handover time, with maximum utilization of funds.

d.   Loan and Advances to Current Assets Ratio:

A commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers to make more profit by mobilizing its fund in the best way. Loan and advances are the Current Assets which generate the income. Loans & advances include bills purchased and discounted, Overdrafts, other short-term loans etc. In other words, Loans & advances to Current assets ratio shows the bank's liquid capacity of discounting and purchasing bills and loans and giving cash credit and overdraft facilities to the customers.

In present study Loans & Advances represent local and foreign bills discounted and purchased on loans, cash credit and overdraft in local currency as well as inconvertible foreign currency. The ratio can be computed by using the formula:

Loan & Advance to Current Assets Ratio

= (Loan & Advances) / (Total Current Assets)

Table 7: Loan & Advances to Current assets ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before			Amount in NPR. '000
Fiscal Year	LOANS & ADVANCES	Current Assets	RATIO (%)
1994/95	171,549	362,937	47.27
1995/96	972,552	1,391,486	69.89
1996/97	1,177,356	1,858,612	63.35
1997/98	1,145,505	1,933,005	59.26
After	AVERAGE		59.94
Fiscal Year	LOANS & ADVANCES	Current Assets	RATIO (%)
2002/03	4,542,700	7,351,175	61.80
2003/04	5,646,698	9,412,720	59.99
2004/05	5,912,579	9,761,900	60.57
2005/06	7,259,083	12,160,228	59.70
2006/07	9,399,328	14,245,627	65.98
	AVERAGE		61.61

Figure 7: Chart for BOKL's Loan & Advances to Current Assets

Loan & Advance to Current Assets ratio of BOKL Before & After Handover
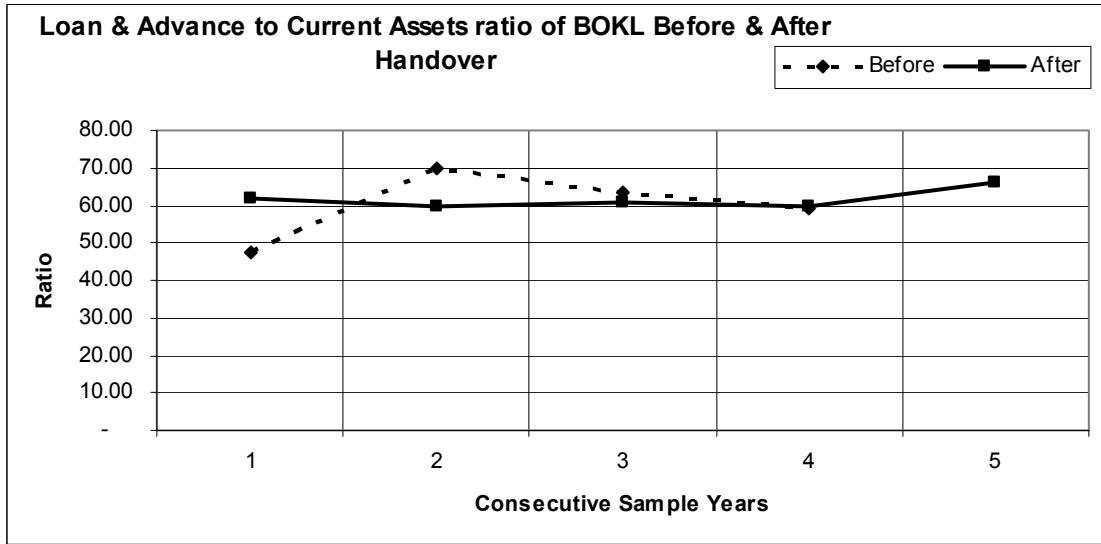
Table 8: Loan & Advances to Current assets ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Before Amount in NPR. '000

Fiscal Year	Loan & Advances	Current Assets	RATIO (%)
1997/98	1,673,472	3,293,512	50.81
1998/99	1,411,233	3,069,934	45.97
1999/2000	1,984,239	3,818,552	51.96
2000/01	2,318,907	4,983,195	46.53
2001/02	2,564,423	4,938,007	51.93
After	**AVERAGE**		**49.44**
Fiscal Year	Loan & Advances	Current Assets	RATIO (%)
2002/03	5,772,140	8,823,133	65.42
2003/04	7,130,126	13,005,708	54.82
2004/05	10,126,056	15,953,472	63.47
2005/06	12,776,208	20,986,688	60.88
2006/07	17,286,427	26,830,263	64.43
		AVERAGE	**61.80**

Figure 8: Chart for NIBL's Loan & Advances to Current Assets

Loan & Advance to Current Assets ratio of NIBL Before & After Handover
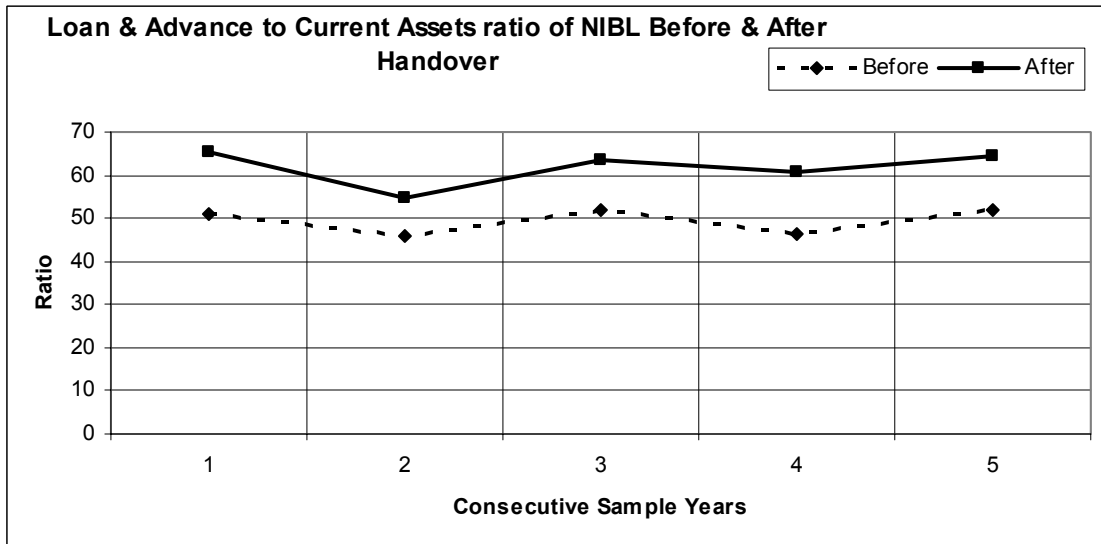
The above table clearly indicates that the loans and advances to current assets ratio have fluctuated over the study period. BOKL's volumes have quite increased after handover, but the ratio of loan & advances to current assets have very small change. The average ratio before handover was 59.94%, while the ratio rouses to 61.61% after handover.

On the other hand, NIBL's ratios have drastically risen after handover. The average ratio before was at 49.44%, which averaged at 61.80% after handover of management. Comparative study shows that BOKL have improved its liquidity for loan & advances customers, i.e. increased its loan position with respect to current assets after handover. NIBL however enhanced its volume of both loan and current assets, along with the ratio of loan position to current assets after handover which indeed is better performance in credit flow.

4.2.2 ACTIVITY RATIO

The funds of creditors and owners are invested in various assets to generate income or profit. Better the management of assets, larger the amount of income. Activity Ratio, also known as "Turnover Ratio" as well as Assets Management Ratio, measures the degree of effectiveness in the use of resources or funds by an enterprise.

The efficiency with which assets are used is in the speed and rapidity with which the assets are converted into sales. So, a proper balance between Sales and Assets generally reflects the fact that assets are managed well.

Under this ratio, the following ratios are calculated:

a.   Loans and Advances to Total Deposit Ratio (Credit Deposit Ratio)

The credit deposit ratio (CD ratio) is one of the major tools to measure the strength and liquidity of any bank and financial institutions. Banks are financial institutions, which deal with money. Dealing with money mainly includes purchase and sale of money i.e. purchase means accepting deposits and sale means granting loans. Banks utilize the outsider's fund for the profit generating purposes. Hence, Loans and Advances to Total Deposit measures the extent to

which the banks are successful to mobilize their total deposits on loan and advances for profit generating purpose. Any bank must be well prepare to liquidate the deposit incase called by the depositors. While bank must invest the deposit collection for smooth running, hence it is very important to maintain the optimum level of CD ratio to meet the demands of both depositors and borrowers. A high ratio of loan and advances indicates better mobilization of collected deposits and vice versa. But it should be noted that too high ratio may not be better from its liquidity point of view.

The ratio can be calculated by applying the formula:

Loan & Advance to Total Deposits Ratio (Credit Deposit Ratio)

= (Loan & Advances) / (Total Deposits)

Generally, a high ratio reflects higher efficiency in utilizing outsiders' fund (total deposits) and vice-versa.

In the present study, Loans & Advances refer to the total of loans, advances and overdrafts (local currency plus convertible foreign currencies) and Total Deposits refer to the total of all kinds of deposits.

Table 9: Loan & Advances to Total Deposits ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before			Amount in NPR. '000
Fiscal Year	Loans & Advances	Total Deposits	RATIO (%)
1994/95	171,549	329,985	51.99
1995/96	972,552	1,281,754	75.88
1996/97	1,177,356	1,714,372	68.68
1997/98	1,145,505	1,773,871	64.58
After		**AVERAGE**	**65.28**
Fiscal Year	Loans & Advances	Total Deposits	RATIO (%)
2002/03	4,542,700	6,170,712	73.62
2003/04	5,646,698	7,741,645	72.94
2004/05	5,912,579	8,975,781	65.87
2005/06	7,259,083	10,485,359	69.23
2006/07	9,399,328	12,388,927	75.87
		AVERAGE	**71.51**

Figure 9: Chart for BOKL's Loan & Advances to Total Deposits
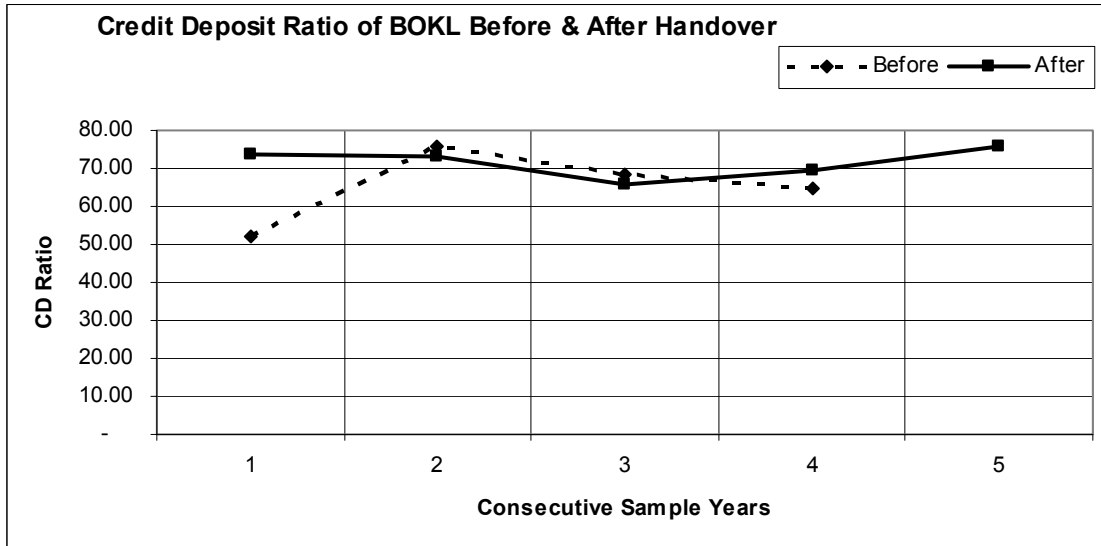

Table 10: Loan & Advances to Total Deposits ratio calculation for NIBL
FOR NEPAL INVESTMENT BANK

Before   Amount in NPR. '000

Fiscal Year	Loans & Advances	Total Deposits	RATIO (%)
1997/98	1,673,472	2,582,209	64.81
1998/99	1,411,233	2,438,893	57.86
1999/2000	1,984,239	2,983,282	66.51
2000/01	2,318,907	4,256,211	54.48
2001/02	2,564,423	4,174,762	61.43
		AVERAGE	61.02

After

Fiscal Year	Loans & Advances	Total Deposits	RATIO (%)
2002/03	5,772,140	7,922,766	72.86
2003/04	7,130,126	11,524,680	61.87
2004/05	10,126,056	14,254,574	71.04
2005/06	12,776,208	18,927,306	67.50
2006/07	17,286,427	24,488,856	70.59
		AVERAGE	68.77

Figure 10: Chart for NIBL's Loan & Advances to Total Deposits
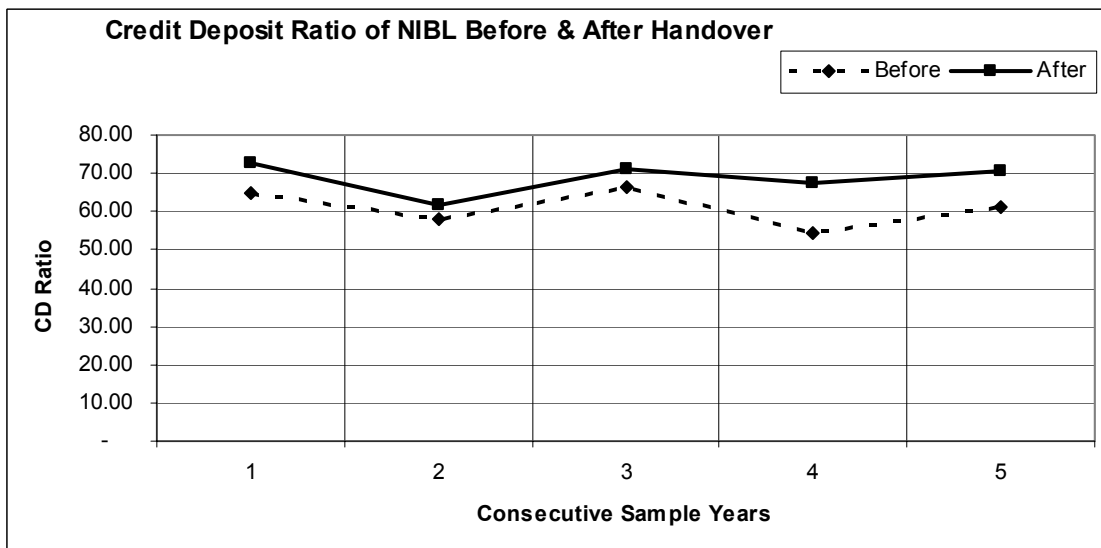
The above table shows that both the banks are able to increase their loan and advance percent to their total deposits. Moreover these banks showed their capability in increasing the portfolio for their deposits correspondingly rising up their lending's.

BOKL's average ratio for loan & advance to total deposits was 65.28% which averaged at 71.51% after handover. The ratio of lending to collection of deposit rose allowing maximum investment, resulting high net interest earnings. Along with this the Nepalese management showed competency in the trend of collecting deposits and lending after handover coming all way through this study period.

On the other hand the average ratio for loan & advance to total deposits rose from 61.02 % to 68.77% before and after handover respectively during study period. Along with the increase in ratio the new management raised the volume of deposit collection and lending.

b.   Performing Assets to Total Assets Ratio:

Performing assets to total assets ratio shows how much the banks are successful in utilizing their assets for profit generating purpose. Generally, a higher ratio reveals higher efficiency in utilization of their total assets.

The performing assets to total assets ratio can be computed by applying:

Performing Assets to Total Assets Ratio
= (Performing Assets) / (Total Assets)

In this study, Performing assets represent total assets that are invested in loans and advances, bills purchased and discounted investments and money on short-call.

Table 11: Performing Assets to Total Assets ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before			Amount in NPR. '000
Fiscal Year	Performing Assets	Total Assets	RATIO (%)
1994/95	219,537	404,483	54.28
1995/96	1,056,557	1,428,092	73.98
1996/97	1,499,299	1,902,536	78.81
1997/98	1,337,942	2,059,224	64.97
After		AVERAGE	**68.01**
Fiscal Year	Performing Assets	Total Assets	RATIO (%)
2002/03	6,389,199	7,444,817	85.82
2003/04	8,396,429	9,496,345	88.42
2004/05	8,839,707	9,888,533	89.39
2005/06	11,227,842	12,278,329	91.44
2006/07	12,651,040	14,570,099	86.83
		AVERAGE	**88.38**

Figure 11: Chart for BOKL's Performing Assets to Total Assets

Performing Assets to Total Assets Ratio of BOKL Before & After Handover
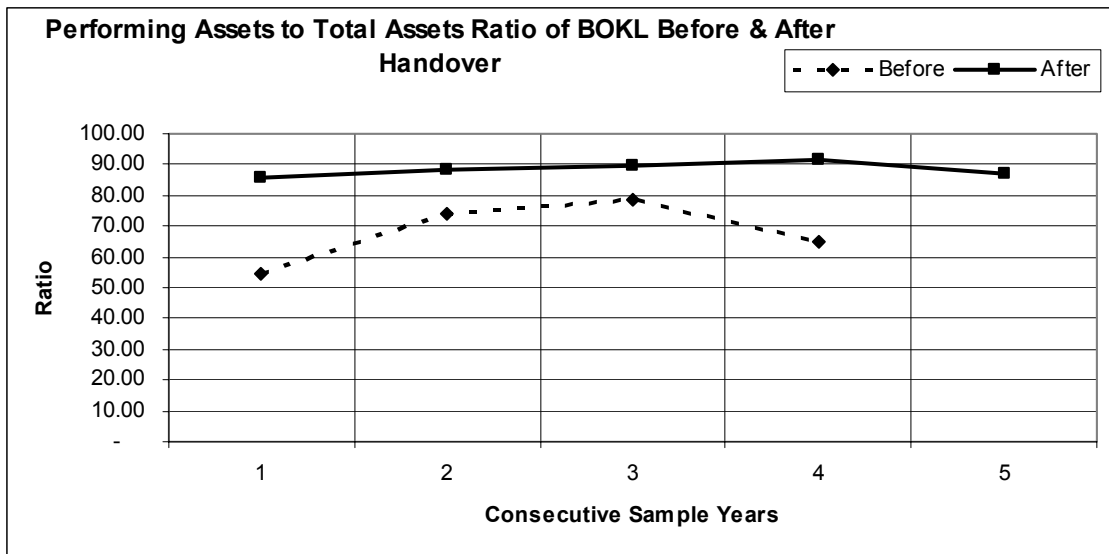
Table 12: Performing Assets to Total Assets ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Before			Amount in NPR. '000
Fiscal Year	Performing Assets	Total Assets	RATIO (%)
1997/98	2,772,572	3,322,266	83.45
1998/99	2,723,368	3,106,155	87.68
1999/2000	3,254,093	3,796,705	85.71
2000/01	4,289,108	5,127,366	83.65
2001/02	4,386,586	5,123,456	85.62
		AVERAGE	**85.22**

After			
Fiscal Year	Performing Assets	Total Assets	RATIO (%)
2002/03	7,517,381	9,014,250	83.39
2003/04	11,302,609	13,255,496	85.27
2004/05	14,200,244	16,274,064	87.26
2005/06	18,449,077	21,330,138	86.49
2006/07	24,155,077	27,590,845	87.55
		AVERAGE	**85.99**
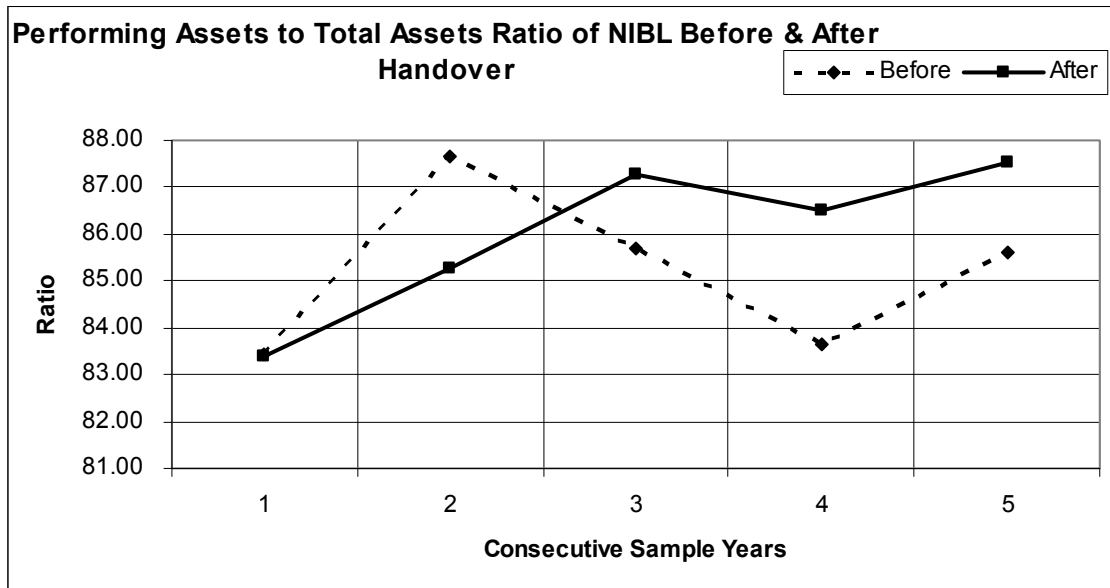
The above tables demonstrate the range of ratios observed during study period of BOKL and NIBL. The observation of BOKL shows the drastic change in average ratio of performing assets to total assets from 68.01% to 88.38% respectively before and after handover. Similarly the volumes of assets have also increased after handover to Nepalese management, indicating the progress on market niche and investment policy with maximum utilization of assets.

NIBL on other hand observe almost constant ratio of performing assets to total assets, with average of 85.22% to 85.99% before and after handover respectively. Moreover the new management performed well enough to raise the size of their assets to new level of heights which is more than 100% increment. In the mean time kept their investment performing at very optimum ratio as before.

4.2.3 PROFITABILITY RATIO

Profit is the difference between revenues and expenses over a period. A firm should earn profit to survive and grow over a long period of time. It is the ultimate output of a company which will have no future if it fails to make sufficient profit. Profit is used to evaluate a firm's efficiency. Thus, efficiency of a firm can be

measured by its Profitability Ratios and these ratios indicate degree of success in achieving the desired profit levels.

Generally, Profitability Ratios are designed to provide answers to such questions as:

- Is the profit earned by the firm adequate?
- What rate of return does it represent?
- What is the rate of profit for various divisions of the firm?
- What are the earnings per share?
- What is the rate of return (ROR) to shareholders?

A bank acquires profit by providing different services to its customer or by making different kinds of investment. Profitability ratios measure the efficiency of a bank. Higher the ratio, greater will be the efficiency. In the present study, the Profitability Ratios are computed by relating the profits of a bank to its investment. Here, profit on investment refers to Return on Assets, Return on Capital Employed, Return on Shareholder's Equity etc.

The following ratios have been calculated to reflect the degree success in achieving desired profit level of BOKL and NIBL.

a. Return on Net-worth Ratio:

Return on Net-worth Ratio is also known as total equity ratio. This ratio measures the degree of effective utilization of shareholders' fund. The objective of a Joint Venture Bank is to earn maximum profit to provide reasonable return to its owners.

The basic formula for calculating the Return on Net-worth Ratio is:

Return on Net-worth Ratio = (Net Profit after Tax) / (Net Worth)

Here, Net Profit after Tax refers to net profit after taxation of the Profit & Loss account and Net Worth refers to paid capital, reserve & surplus and undistributed profits.

Generally a higher ratio implies greater efficiency and satisfactory return for its equity shareholders. It also indicates a positive and favorable horizon of wealth maximization in the bank.

Table 13: Return on Net-worth ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before   Amount in NPR. '000

Fiscal Year	NPAT	Net Worth	RATIO (%)
1994/95	(7,927)	42,071	(18.84)
1995/96	10,329	71,031	14.54
1996/97	(5,143)	93,385	(5.51)
1997/98	(19,526)	96,660	(20.20)
		AVERAGE	(7.50)

After

Fiscal Year	NPAT	Net Worth	RATIO (%)
2002/03	82,128	579,133	14.18
2003/04	127,473	650,745	19.59
2004/05	139,530	720,738	19.36
2005/06	202,441	839,734	24.11
2006/07	262,387	981,979	26.72
		AVERAGE	20.79

Figure 13: Chart for BOKL's Return on Net-worth Ratio

Return on Net Worth Ratio of BOKL Before & After Handover
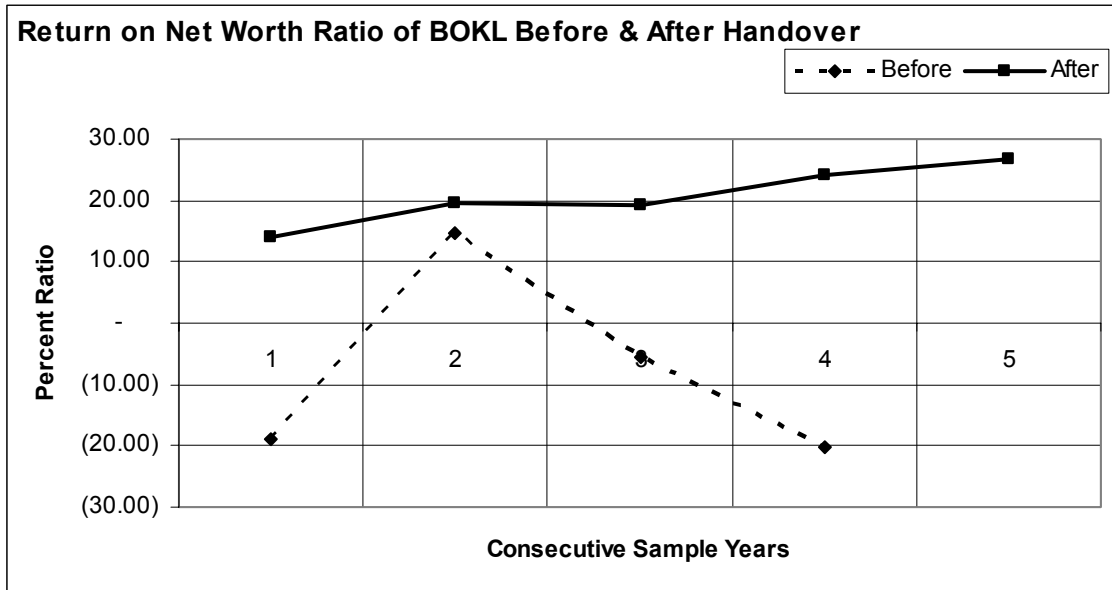
Table 14: Return on Net-worth ratio calculation for NIBL
FOR NEPAL INVESTMENT BANK

Before			Amount in NPR. '000
Fiscal Year	NPAT (Rs)	Net Worth (Rs)	RATIO (%)
1997/98	93,838	368,203	25.49
1998/99	45,694	370,359	12.34
1999/2000	72,659	410,243	17.71
2000/01	56,409	469,093	12.03
2001/02	57,105	523,469	10.91
		AVERAGE	**15.69**

After			
Fiscal Year	NPAT (Rs)	Net Worth (Rs)	RATIO (%)
2002/03	116,818	638,543	18.29
2003/04	152,671	729,048	20.94
2004/05	232,147	1,180,173	19.67
2005/06	350,536	1,415,440	24.77
2006/07	501,399	1,878,124	26.70
		AVERAGE	**22.07**

Figure 14: Chart for NIBL's Return on Net-worth Ratio
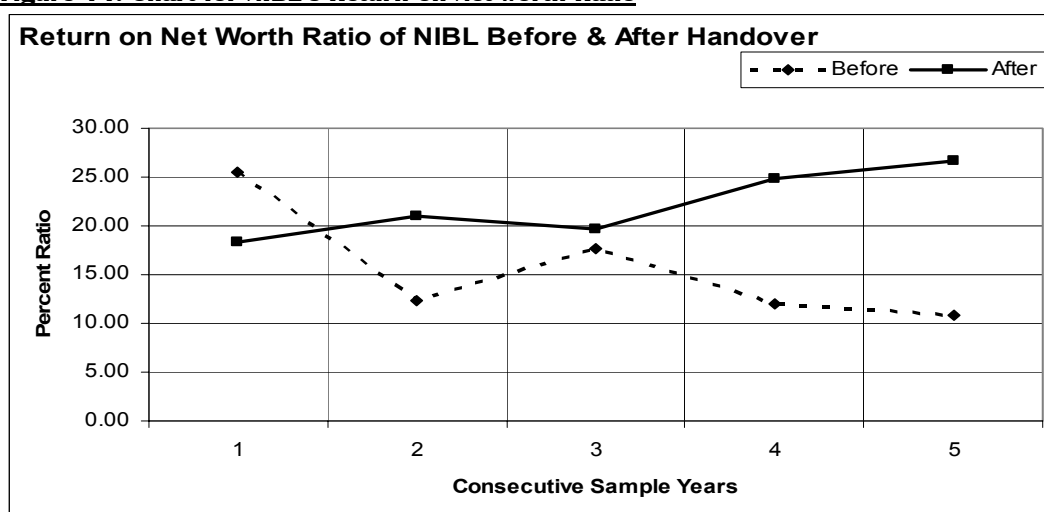
The return on net-worth of BOKL at the beginning years went negative i.e. (18.84) % as on F.Y.1994/95. This year was the business commencement year hence the negative return can be considered. However BOKL's return on net worth did not improved in its following years before handover i.e. 1997/98 showing (20.20) % return. But this trend broke after handover and hence in our study period after handover from 2002/03 to 2006/07 the returns on net worth climb steadily from 14.18% to 26.72% respectively.

On the other hand NIBL's Return on net-worth showed somewhat declining trend before handover i.e. from F.Y.1997/98 to 2001/02 with return of 25.49% to 10.9% respectively. While after handover during study period the return on net worth

showed some improvement climb back to 26.70% from 18.29% through fiscal years 2002/03 to 2006/07.

b.   Return on Capital Employed Ratio:

The Return on Capital Employed Ratio provides a test for profitability related to the sources of long –term funds. It also reveals how well the creditors' and owners' fund have been utilized.

The Return on Capital Employed ratio can be calculated by applying the formula:

Return on Capital Employed Ratio =

(Net Profit after Tax before Interest) / (Capital Employed)

Here, Net Profit after Tax (NPAT) before interest is the profit for Capital employed after tax but before payment of interest to debtors / depositors, while Capital Employed refers to long term funds supplied by the creditors and owners of the firm. A high ratio implies greater efficiency in utilizing the Capital employed and vice-versa.

Comparisons of the ratios of BOKL and NIBL before and after handover are tabulated below:

Table 15: Return on Capital Employed ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before		Amount in NPR. '000	
Fiscal Year	NPAT before Interest	Capital Employed	RATIO (%)
1994/95	(4,229)	371,985	(1.14)
1995/96	93,253	1,349,254	6.91
1996/97	137,390	1,804,372	7.61
1997/98	143,742	1,863,871	7.71
		AVERAGE	**5.28**

After			
Fiscal Year	NPAT before Interest	Capital Employed	RATIO (%)
2002/03	358,833	6,634,292	5.41
2003/04	413,770	8,205,226	5.04
2004/05	381,169	9,439,362	4.04
2005/06	510,596	10,948,940	4.66
2006/07	601,568	12,992,069	4.63
		AVERAGE	**4.76**

Figure 15: Chart for BOKL's Return on Capital Employed Ratio

Return on Capital Employed Ratio of BOKL Before & After Handover
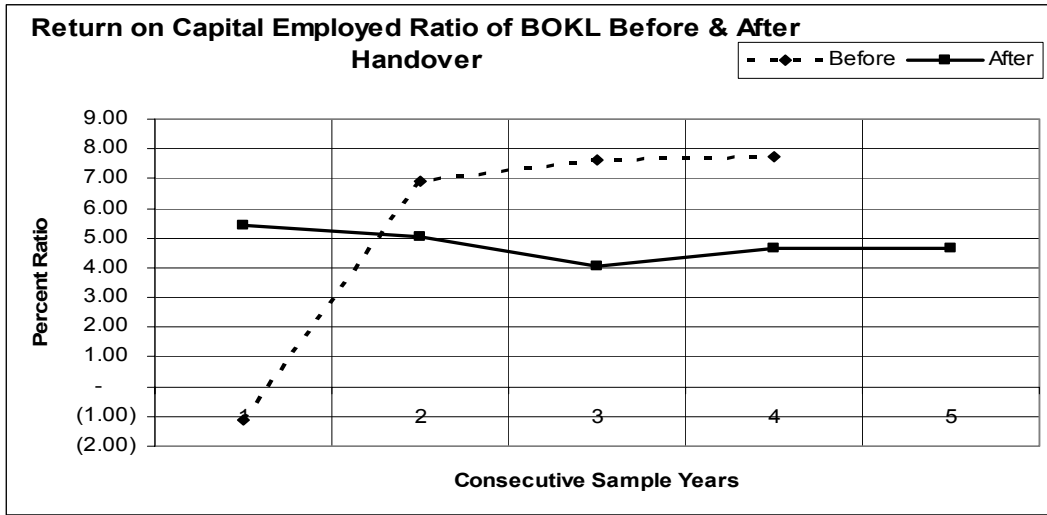
Table 16: Return on Capital Employed ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK LTD.

Before   Amount in NPR. '000

Fiscal Year	NPAT before Interest	Capital Employed	RATIO (%)
1997/98	238,423	2,717,560	8.77
1998/99	183,578	2,574,244	7.13
1999/2000	193,447	3,118,633	6.20
2000/01	224,020	4,426,195	5.06
2001/02	187,542	4,344,747	4.32
		AVERAGE	**6.30**

After

Fiscal Year	NPAT before Interest	Capital Employed	RATIO (%)
2002/03	306,032	8,218,059	3.72
2003/04	478,873	11,819,973	4.05
2004/05	586,696	14,842,312	3.95
2005/06	841,483	19,517,892	4.31
2006/07	1,186,929	25,290,208	4.69
		AVERAGE	**4.15**

Figure 16: Chart for NIBL's Return on Capital Employed Ratio

Return on Capital Employed Ratio of NIBL Before & After Handover
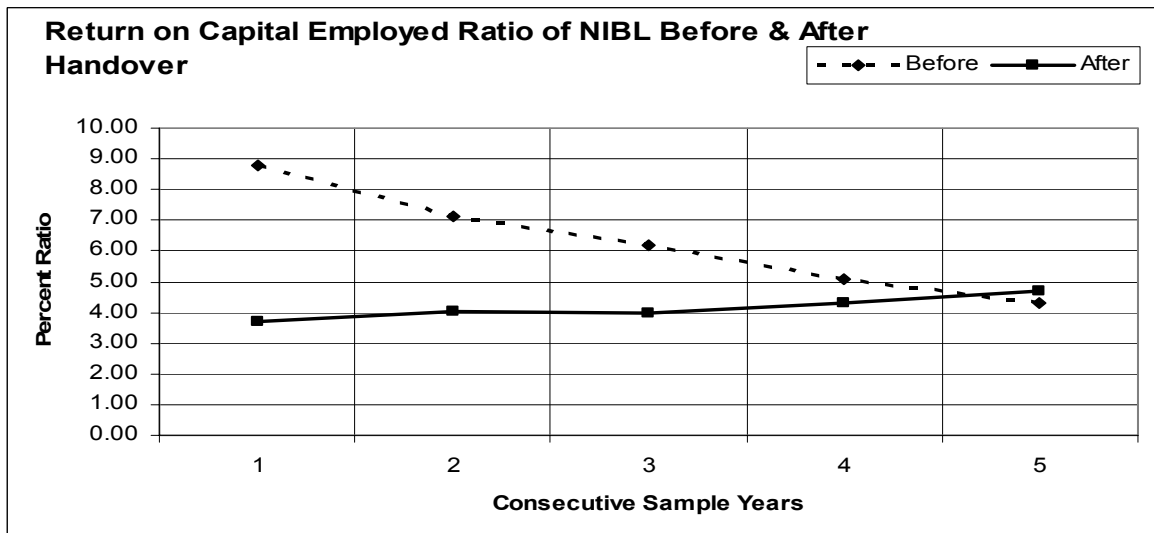
The above data's presented and the graph explains the clear picture of the return of two different banks before and after handover of management respectively during related study period. BOKL on its first year showed negative return of (1.14) % as on 1994/95, however rise subsequently at 7.71% as on1997/98 right before handover.

But after handover, during the study period of 2002/03 to 2006/07 the rate of return on capital employed fluctuate around 5.41% to 4.63% respectively giving average yield of 4.76%. This average rate however is lower than the average rate before handover i.e.5.28%, which pictures deficiency in maintaining return rate. But there are some factors like capital injections during these years which affect the rate quantitatively.

NIBL's rate of return on Capital employed was picking high at 8.77% on 1997/98 during study period before handover. Whereas the rate of return turns out to show declining trend dropping at 4.32% as on 2001/02, averaging the return at 6.30% before handover. Moreover the trend carries on to decline after handover during study period of 2002/03 at 3.72%. At the F.Y. 20067/07 the rate hit 4.69% which showed some sign of upward trend. The data whatsoever explains quantitative figures where directly associated factors like capital increase during short period slows the drastic investment of injected funds.

c.   Return on Total Deposits Ratio:

The major source of a bank's finance is deposit collection. Deposits are mobilized for Loan and Advances, Investments, etc. to earn profit. This ratio measures the degree of NPAT earned by using Total Deposits. This is a mirror of the bank overall financial performance as well as its success in profit generation. The formula used for calculation of this ratio is:

Return on Total Deposits Ratio =

(Net Profit after Tax) / (Total Deposits)

A high ratio signifies the bank's efficiency in utilization of its deposits collection.

Table 17: Return on Total Deposit ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before			Amount in NPR. '000
Fiscal Year	NPAT	Total Deposits	RATIO (%)
1994/95	(7,927)	329,985	(2.40)
1995/96	10,329	1,281,754	0.81
1996/97	(5,143)	1,714,372	(0.30)
1997/98	(19,526)	1,773,871	(1.10)
		AVERAGE	(0.75)

After			
Fiscal Year	NPAT	Total Deposits	RATIO (%)
2002/03	82,128	6,170,712	1.33
2003/04	127,473	7,741,645	1.65
2004/05	139,530	8,975,781	1.55
2005/06	202,441	10,485,359	1.93
2006/07	262,387	12,388,927	2.12
		AVERAGE	1.72

Figure 17: Chart for BOKL's Return on Total Deposit Ratio
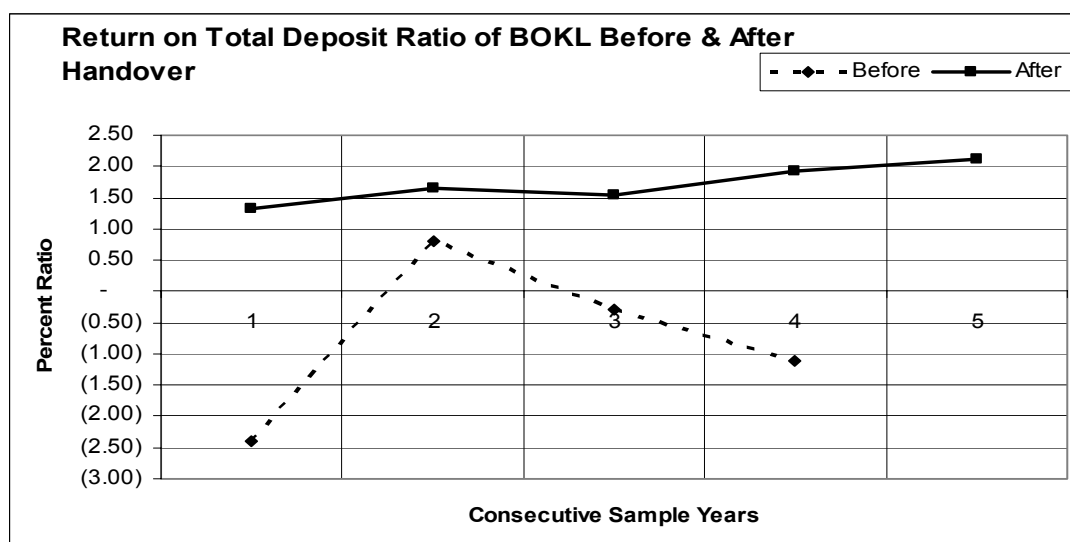
Table 18: Return on Total Deposit ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Before			Amount in NPR. '000
Fiscal Year	NPAT	Total Deposits	RATIO (%)
1997/98	93,838	2,582,209	3.63
1998/99	45,694	2,438,893	1.87
1999/2000	72,659	2,983,282	2.44
2000/01	56,409	4,256,211	1.33
2001/02	57,105	4,174,762	1.37
		AVERAGE	2.13

After			
Fiscal Year	NPAT	Total Deposits	RATIO (%)
2002/03	116,818	7,922,766	1.47
2003/04	152,671	11,524,680	1.32
2004/05	232,147	14,254,574	1.63
2005/06	350,536	18,927,306	1.85
2006/07	501,399	24,488,856	2.05
		AVERAGE	1.67
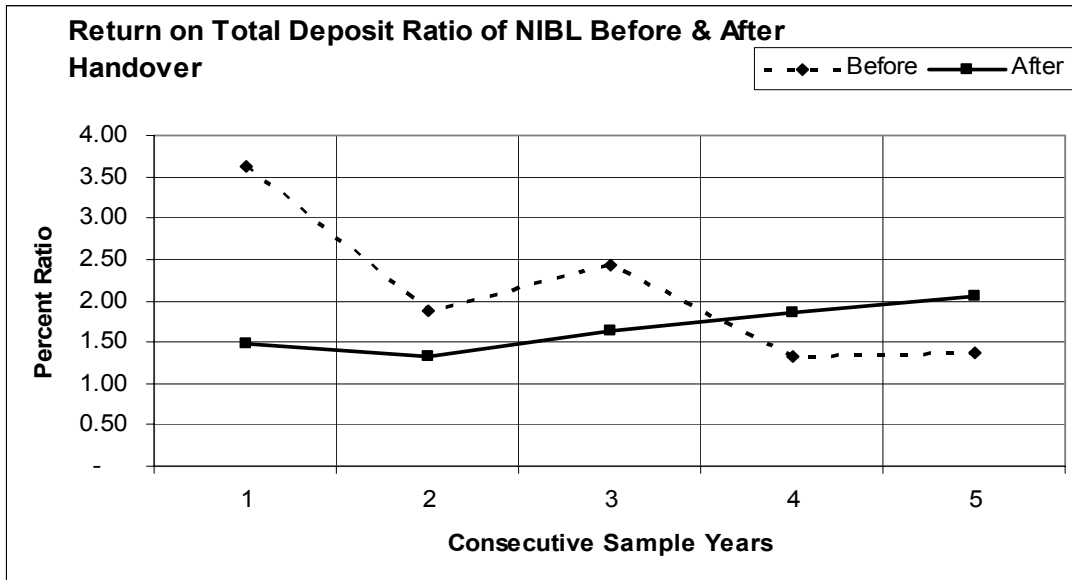
The above table of BOKL shows high fluctuation through the year 1994/95 to 1997/98 presenting negative return of (2.40) % to (1.10) % respectively. The average return before handover during study period was (0.75) %. These years being early years of commencement, BOKL seems not ready to make profit out of deposit collection. However during the study period after handover, BOKL have recovered its return rate with an average of 1.72%, which catch up with the industry average.

On other hand, NIBL's return on total deposit rate seems quite good at 3.63% as on 1997/98 while the rate drop at 1.37% on 2001/02 averaging 2.13%. After handover of management the average return was 1.67%. The quantitative data shows some recession on the return on total deposit but here we haven't studied the qualitative strategy and results. Moreover at the end of study period i.e. on 2006/07 the rate points at 2.05%.

d.   Return on Total Assets Ratio:

Return on Total Assets is also known as ROA, which provides the necessary foundation for a firm to deliver a good return on Equity. It measures how well management uses all the assets in the business to generate a surplus. A firm

without good Return on Assets finds it almost impossible to generate a satisfactory Return on Equity (ROE).

A high ROA indicates the high efficiency in the utilization of assets and vice-versa. The Return on Total Assets can be calculated by using:

Return on Total Assets Ratio =

(Net Profit after Tax) / (Total Assets)

Here, NPAT represent total profit earned after deducting tax and Total Assets represent all type of assets owned by bank. Using above formula, insights on ROA of BOKL and NIBL are tabulated below.

Table 19: Return on Total Assets ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before   Amount in NPR. '000

Fiscal Year	NPAT	Total Assets	RATIO (%)
1994/95	(7,927)	404,483	(1.96)
1995/96	10,329	1,428,092	0.72
1996/97	(5,143)	1,902,536	(0.27)
1997/98	(19,526)	2,059,224	(0.95)
		AVERAGE	**(0.61)**

After

Fiscal Year	NPAT	Total Assets	RATIO (%)
2002/03	82,128	7,444,817	1.10
2003/04	127,473	9,496,345	1.34
2004/05	139,530	9,888,533	1.41
2005/06	202,441	12,278,329	1.65
2006/07	262,387	14,570,099	1.80
		AVERAGE	**1.46**

Figure 19: Chart for BOKL's Return on Total Assets Ratio
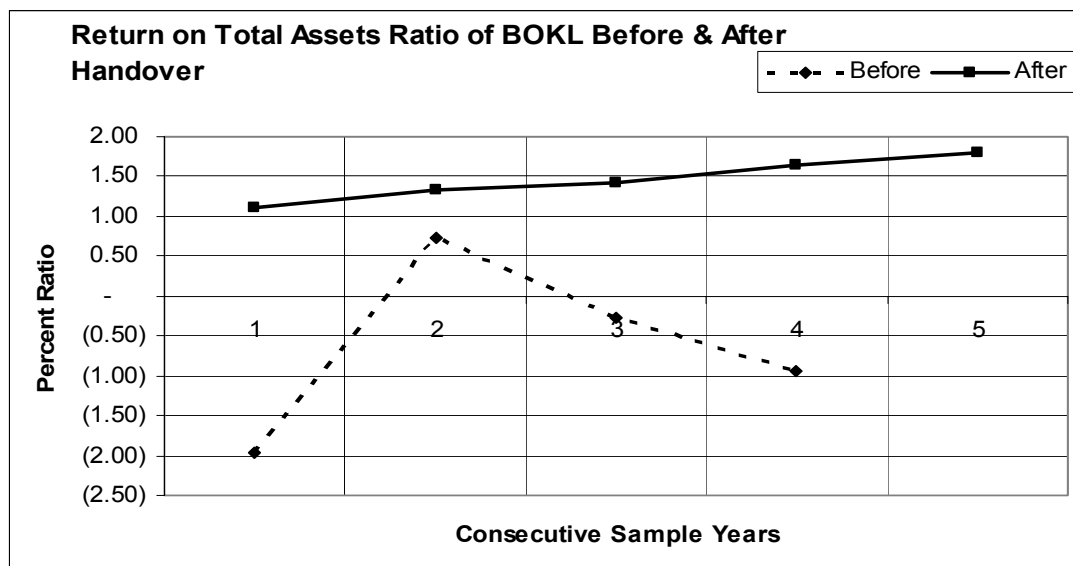
Table 20: Return on Total Assets ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Before   Amount in NPR. '000

Fiscal Year	NPAT	Total Assets	RATIO (%)
1997/98	93,838	3,322,266	2.82
1998/99	45,694	3,106,155	1.47
1999/2000	72,659	3,796,705	1.91
2000/01	56,409	5,127,366	1.10
2001/02	57,105	5,123,456	1.11
		AVERAGE	**1.68**

After

Fiscal Year	NPAT	Total Assets	RATIO (%)
2002/03	116,818	9,014,250	1.30
2003/04	152,671	13,255,496	1.15
2004/05	232,147	16,063,543	1.45
2005/06	350,536	21,330,138	1.64
2006/07	501,399	27,590,845	1.82
		AVERAGE	**1.47**

Figure 20: Chart for NIBL's Return on Total Assets Ratio
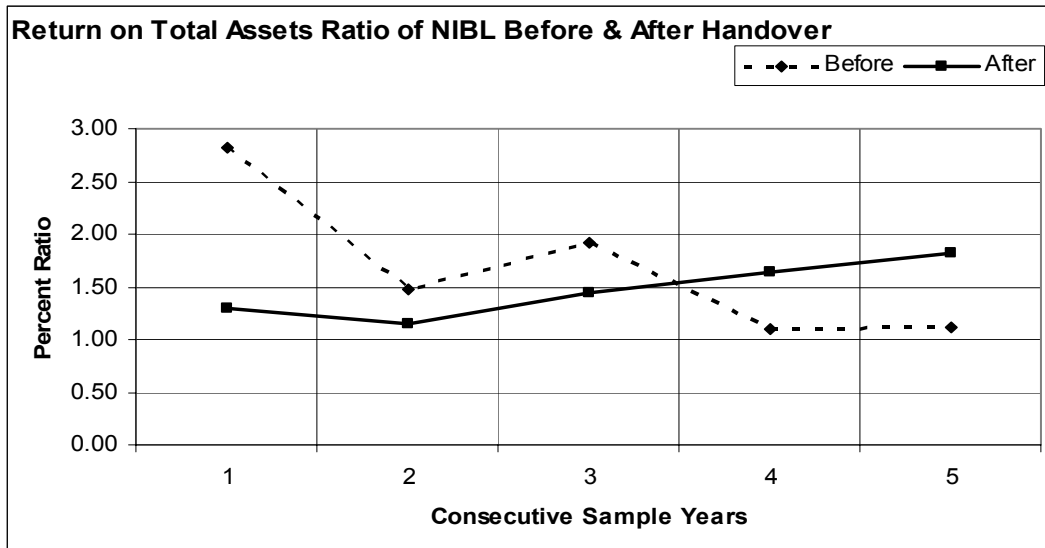
The above table presents the range of rate of return data pictured in different time. BOKL being on its first years showed negative return. In year 1994/95 the rate of return on total assets was (1.96) % which tends to improve at (0.95) % as on 1997/98 averaging (0.61) %. But after handover, over the study period from 2002/03 to 2006/07 the rate assembled from 1.10% to 1.80% respectively.

NIBL, before handover during study period in year 1997/98 was high at 2.82% but decline at 1.11% in 2001/02, averaging rate of return on total assets 1.68%. After handover, this rate inclined ranging from 1.30% to 1.82% through years 2002/03 to 2006/07 respectively, but average at 1.47%. From previous data both banks however showed somewhat improvements in their return on total assets

after handover to Nepalese management. Moreover both banks have utilized their assets properly.

e.   <u>Interest Earn to Total Assets Ratio:</u>

Interest occupies a significant place in the income of the banks. Generally banks earn interest through the provision of loans and advances, overdrafts and investment in securities. The ratio, Interest Earned to Total Assets shows how much interest has been generated by mobilizing the assets of the banks.

A high ratio indicates high efficiency in the mobilization of resources and interest earning ability and hence vice-versa.

The ratio can be derived by calculating as per follows:

Interest Earned to Total Assets Ratio =

(Interest Earned) / (Total Assets)

Here, Interest Earned represents the total interest earned by the banks from Profit and Loss Account and Total Assets include all the assets possessed by the banks. This ratio for BOKL & NIBL is tabulated below:

Table 21: Interest Earned to Total Assets ratio calculation for BOKL

FOR BANK OF KATHMANDU

Before   Amount in NPR. '000

Fiscal Year	Interest Earned	Total Assets	RATIO (%)
1994/95	4,615	404,483	1.14
1995/96	118,664	1,428,092	8.31
1996/97	199,219	1,902,536	10.47
1997/98	205,972	2,059,224	10.00
		AVERAGE	**7.48**

After

Fiscal Year	Interest Earned	Total Assets	RATIO (%)
2002/03	493,809	7,444,817	6.63
2003/04	567,096	9,496,345	5.97
2004/05	607,096	9,888,533	6.14
2005/06	718,121	12,278,329	5.85
2006/07	819,004	14,570,099	5.62
		AVERAGE	**6.04**

Figure 21: Chart for BOKL's Interest Earned to Total Assets Ratio

Interest Earned on Total Assets Ratio of BOKL Before & After Handover
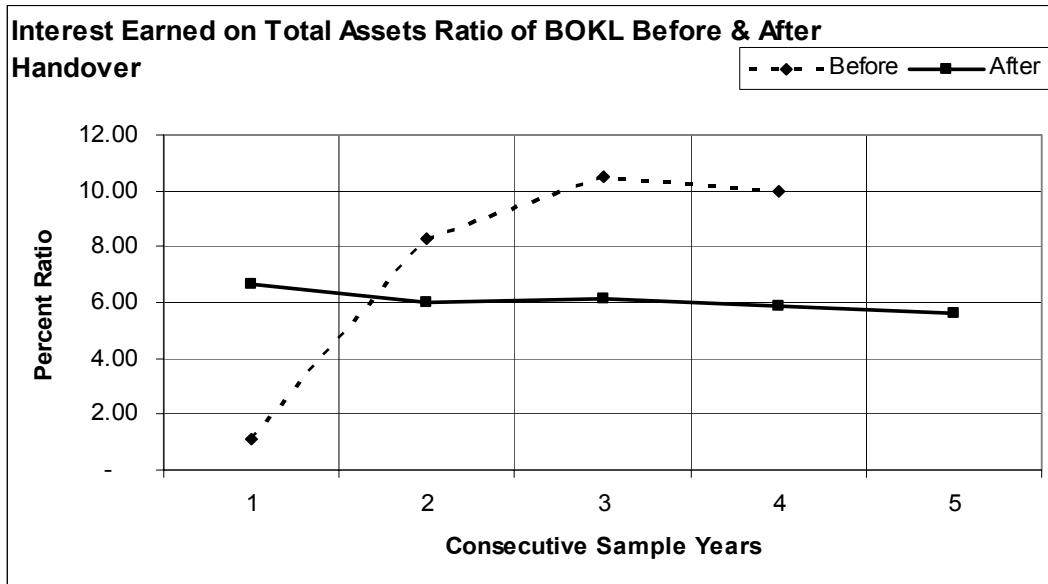
Table 22: Interest Earned to Total Assets ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Before   Amount in NPR. '000

Fiscal Year	Interest Earned	Total Assets	RATIO (%)
1997/98	322,375	3,322,266	9.70
1998/99	296,173	3,106,155	9.54
1999/2000	279,864	3,796,705	7.37
2000/01	349,755	5,127,366	6.82
2001/02	326,224	5,123,456	6.37
		AVERAGE	**7.96**

After

Fiscal Year	Interest Earned	Total Assets	RATIO (%)
2002/03	459,510	9,014,250	5.10
2003/04	731,403	13,255,496	5.52
2004/05	886,800	16,063,543	5.52
2005/06	1,172,742	21,330,138	5.50
2006/07	1,584,987	27,590,845	5.74
		AVERAGE	**5.48**

Figure 22: Chart for NIBL's Interest Earned to Total Assets Ratio

Interest Earned on Total Assets Ratio of NIBL Before & After Handover
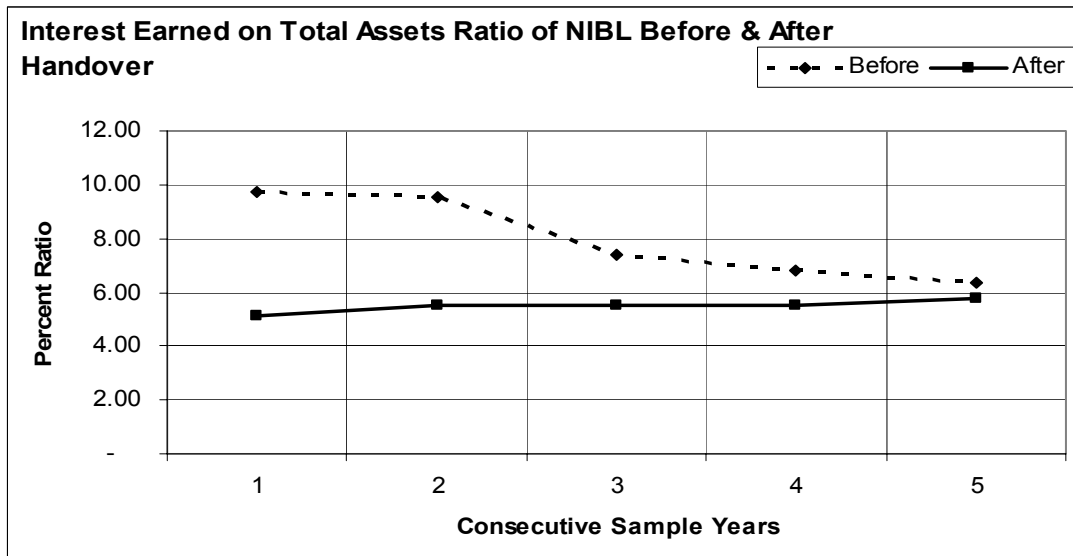
The above table shows that the interest earned to total assets ratio of the both banks have fluctuated over the study period.

BOKL's data before handover averaged at 7.48% with low interest earn rate at beginning years followed by remarkable interest earned rate at later years. However the data after handover reflects the average return of 6.04%.

NIBL's average interest earned to total assets before handover during study period was tabulated at 7.96% while the rate averaged at 5.48% after handover of management. But considering the average return of both banks during later study period, they were well off at almost average rate which can term industry average at that particular time period.

4.2.4 OTHER RATIO

There are several other widely used ratios relating to financial aspects of the companies. For the sake of completeness these indicators have also been considered.

a.   Leverage Ratio:

An institution should have short-term liquidity as well as long term solvency. The short-term creditors are interested in the liquidity or short term financial position of the firm and the long term creditors are interested in the long term financial position of the firm. This is reflected through Leverage Ratio or Capital Structure Ratio. Leverage Ratio reflects the long term financial health, debt servicing capacity and strength and weaknesses of the firm. So Leverage is a conscious risk assumption of the company. It is a practice of the company to use debt capital in their Capital Structure. Since investors in the company's stock are the residual recipient of the company's earning and assets. They are generally conscious about the leverage position of the company.

Here, in this study. Leverage has been determined as follows:

Leverage= (Total Debts/ Total Assets)

Conventionally a ratio of 1:2 is considered to be satisfactory although no hard and fast rules are defined.

In this study, Total Debts include all deposits, bills payable, borrowing from other banks and other liabilities. Similarly, Total Assets includes all the assets shown on the assets side of the balance sheet.

The following table presents the comparison of the leverage for BOKL an NIBL before and after handover of management.

Table 23: Leverage ratio calculation for BOKL

FOR BANK OF KATHMANDU

Amount in NPR. '000

Before

Fiscal Year	Total Debts	Total Assets	RATIO (%)
1994/95	359,799	404,483	88.95
1995/96	1,309,119	1,428,092	91.67
1996/97	1,787,931	1,902,536	93.98
1997/98	1,906,672	2,059,224	92.59
		AVERAGE	**91.80**

After

Fiscal Year	Total Debts	Total Assets	RATIO (%)
2002/03	6,865,684	7,444,817	92.22
2003/04	8,845,599	9,496,345	93.15
2004/05	9,136,393	9,888,533	92.39
2005/06	11,139,884	12,278,329	90.73
2006/07	13,252,545	14,570,099	90.96
		AVERAGE	**91.89**

Figure 23: Chart for BOKL's Leverage Ratio with volumes of Total Assets and Debts.
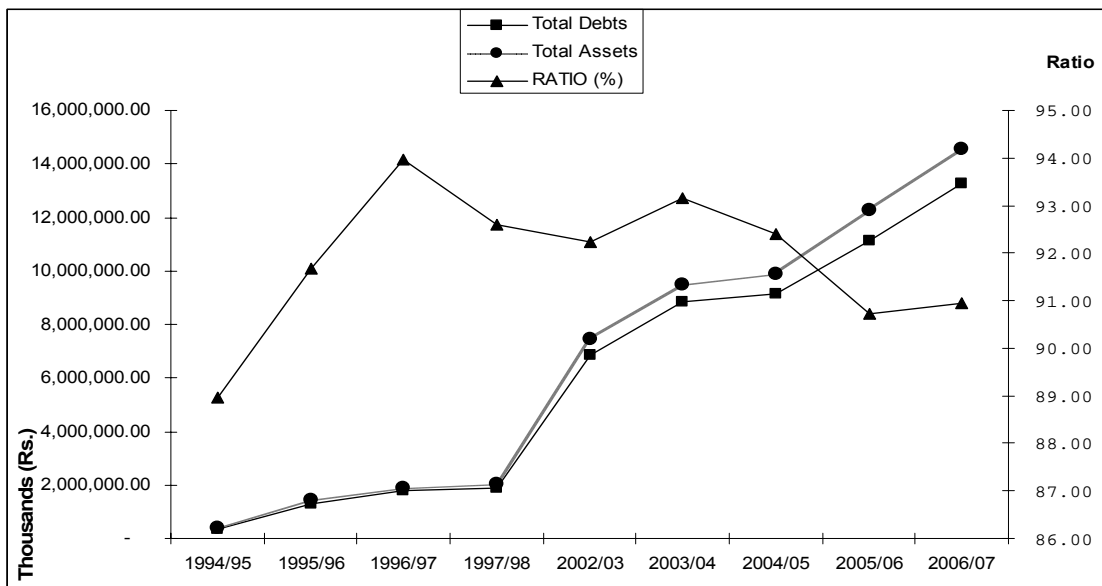
Table 24: Leverage ratio calculation for NIBL

FOR NEPAL INVESTMENT BANK

Amount in NPR. '000

Before

Fiscal Year	Total Debts	Total Assets	RATIO (%)
1997/98	2,682,209	3,322,266	80.73
1998/99	2,488,893	3,106,155	80.13
1999/2000	3,123,282	3,796,705	82.26
2000/01	4,376,211	5,127,366	85.35
2001/02	4,273,262	5,123,456	83.41
		AVERAGE	**82.38**

After

Fiscal Year	Total Debts	Total Assets	RATIO (%)
2002/03	8,375,707	9,014,250	92.92
2003/04	12,002,259	13,255,496	90.55
2004/05	15,093,891	16,063,543	93.96
2005/06	19,233,752	21,330,138	90.17
2006/07	24,868,776	27,590,845	90.13
		AVERAGE	**91.55**

Figure 24: Chart for NIBL's Leverage Ratio with volumes of Total Assets and Debts.
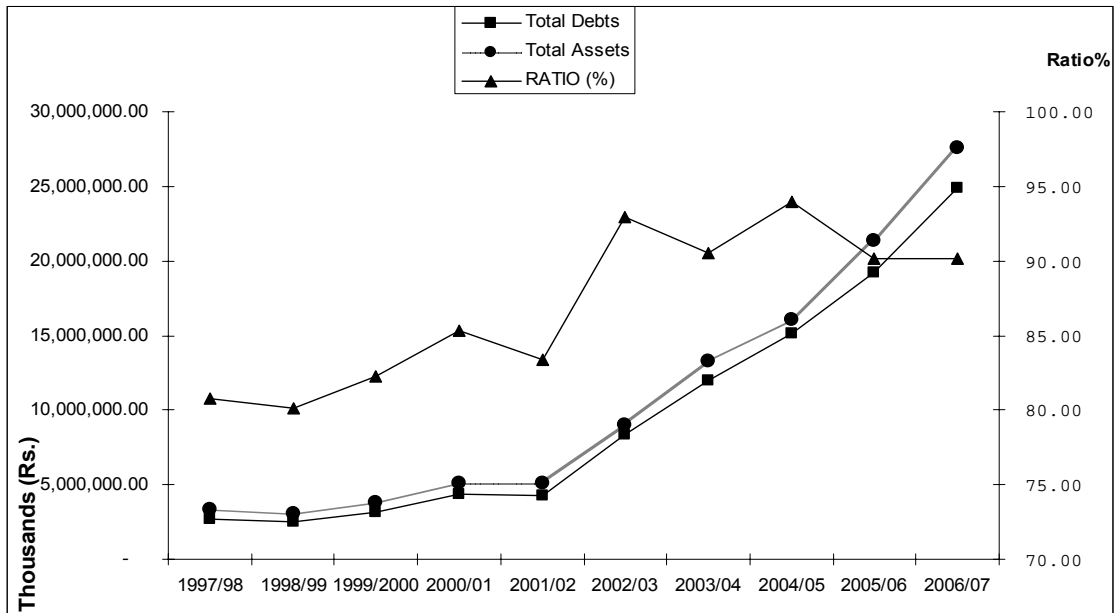
The above table reveals the maximum utilization of debt financing in terms of their total assets, by both banks before and after handover of management.

BOKL's average leverage ratio during study period before handover maintained at 91.80% which after handover averaged at 91.89%, showing almost same management policy rather aggressive than before.

NIBL's average leverage ratio during study period before handover was 82.38% which took up to 91.55% after handover during study period.

b.   Earnings Per Share:

Earnings per share are one of the most widely quoted statistics when there is a discussion of a company's performance. It is the profit after tax divided by number of common (ordinary) shares. It tells us how much profit has been earned by the common shareholders for every share held by them. The face value per share is Rs.100.00 as per practice in Nepal.

Earnings per Share (EPS) is calculated by applying following formula:

EPS= (Net Profit after Tax / Ordinary Share Outstanding)

EPS for BOKL and NIBL bank has been presented in tables below:

Table 25: Earning per Share for BOKL

FOR BANK OF KATHMANDU

Amount in Rs.'000

Before

Fiscal Year	NPAT*	No. of Shares O/s	EPS(Rs)
1994/95	(7,927)	840,000	(9.44)
1995/96	10,329	1,350,000	7.65
1996/97	(5,143)	1,800,000	(2.86)
1997/98	(19,526)	1,800,000	(10.85)
		AVERAGE	**(3.87)**

After

Fiscal Year	NPAT*	No. of Shares O/s	EPS(Rs)
2002/03	82,128	4,635,809	17.72
2003/04	127,473	4,635,809	27.50
2004/05	139,530	4,635,809	30.10
2005/06	202,441	4,635,809	43.67
2006/07	262,387	6,031,413	43.50
		AVERAGE	**32.50**

Figure 25: Chart for BOKL's Earning per Share
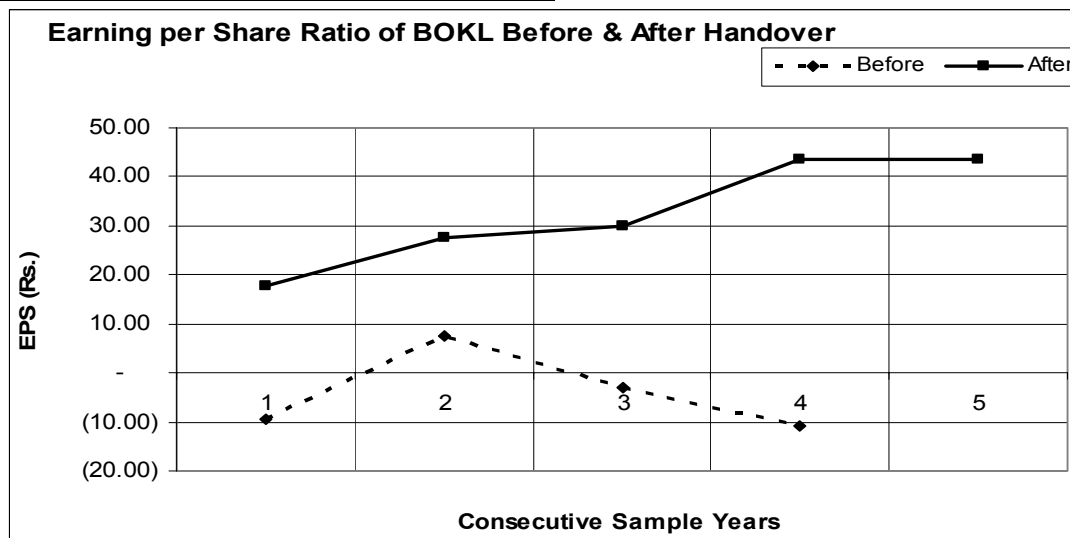
Table 26: Earning per Share for NIBL

*Amount in '000

Before

Fiscal Year	NPAT*	No. of Shares	EPS(Rs)
1997/98	93,838	1,353,506	69.33
1998/99	45,694	1,353,506	33.76
1999/2000	72,659	1,353,506	53.68
2000/01	56,409	1,699,845	33.18
2001/02	57,105	1,699,845	33.59
		AVERAGE	**44.71**

After

Fiscal Year	NPAT*	No. of Shares	EPS(Rs)
2002/03	116,818	2,952,930	39.56
2003/04	152,671	2,952,930	51.70
2004/05	232,147	5,877,385	39.50
2005/06	350,536	5,905,860	59.35
2006/07	501,399	8,013,526	62.57
		AVERAGE	**50.54**

Figure 26: Chart for NIBL's Earning per Share
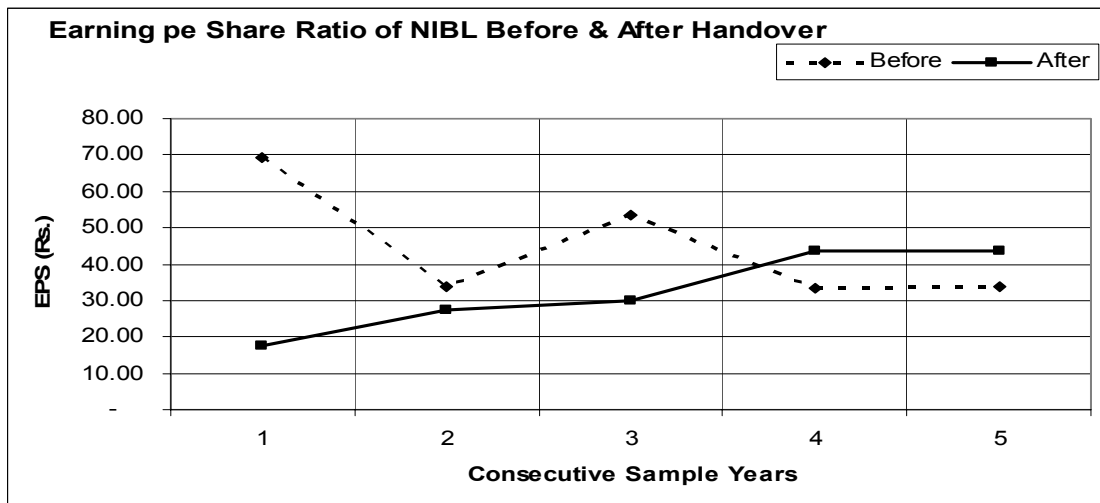
The above tables and charts illustrate the fluctuation on EPS of both banks over the years of study period. The EPS of BOKL averaged negative at (7.75) % presenting worst performance before handover of management. However, after handover during study period the EPS averaged at 32.50% which can be term remarkable on comparison. Further the EPS trend through years 2002/03 to 2006/07 showed upward trend ranging from 17.72% to 43.50%, elaborating positive earnings trend.

NIBL's EPS is better than of BOKL. Through study period, before handover from FY1997/98 to 2001/02, its EPS averaged at 44.71%. Further after handover during study period of FY 2002/03 through 2006/07, NIBL's EPS averaged at 50.54, which was quite impressive within the industry.

4.3 STATISICAL ANALYSIS

Under Statistical Analysis various tools and methods can be used to achieve the objective of the study. This is the method of using statistical tools for the measurement of financial performance. Following statistical tools are used for the purpose:

a. Test of Hypothesis
b. Trend Analysis

4.3.1 TEST OF HYPOTHESIS

This topic, an effort has been made to test the significance regarding the parameter of the population on the basis of sample drawn from the population. Generally, following steps are followed for the test of hypothesis:

a. Formulating Hypothesis
- Null Hypothesis and
- Alternative hypothesis
  i. Computing the test statistic
b. Fixing the level of significance
c. Finding criteria region
d. Deciding two tailed or one tailed test
e. Making decision

Some of the main hypothesis test is calculated and decisions are made as follows:

Test of Hypothesis on Loan and Advances to Total Deposit Ratio of Bank of Kathmandu and Nepal Investment Bank, before and after handover of management

For Bank of Kathmandu Ltd.,

Let, Loan and advances to total deposit ratios of BOKL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference between ratios of loan and advances to total deposit of BOKL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between ratios of loan and advances to total deposit of BOKL before and after handover of management.

Table 27; Test of Hypothesis on Loan and Advances to Total Deposit Ratio for BOKL

		BEFORE			AFTER	
n	**x**	$\mathbf{d_1 = x - 65}$	$\mathbf{d_1^2}$	**y**	$\mathbf{d_2 = y - 71}$	$\mathbf{d_2^2}$
1	51.99	(13.01)	169.34	72.94	1.94	3.76
2	75.88	10.88	118.30	65.87	(5.13)	26.29
3	68.68	3.68	13.51	69.23	(1.77)	3.13
4	64.58	(0.42)	0.18	75.87	4.87	23.70
n=4	**261.12**	**1.12**	**301.33**	**283.91**	**(0.09)**	**56.89**
	$=\sum x$	$=\sum d_1$	$=\sum d_1^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{261.12}{4} = 65.28 \qquad \bar{y} = \frac{\sum Y}{n_2} = \frac{283.91}{4} = 70.98$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1^2 - (\sum d_1)^2/n_1\}] + [\{\sum d_2^2 - (\sum d_2)^2/n_2\}]$$

$$S^2 = 59.65$$

Hence,
Under H_0, the test statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}} \qquad \text{with -------- degree of freedom} = n_1 + n_2 - 2 = 4+4-2=6$$

$$=(1.04)$$

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 6 degree of freedom is 2.447

Decision: Since calculated value of /t/ i.e. 1.04 is less than tabulated values t i.e. 2.447, the null hypothesis H_0 is accepted. That is, there is no significant change in the ratio of loan and advance to total deposit before and after handover of management.

For Nepal Investment Bank Ltd.,

Let, Loan and advances to total deposit ratios of NIBL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference between ratios of loan and advances to total deposit of NIBL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between ratios of loan and advances to total deposit of NIBL before and after handover of management.

Table 28; Test of Hypothesis on Loan and Advances to Total Deposit Ratio for NIBL

	BEFORE			AFTER		
n	x	$d_1 = x - 61$	$d_1{}^2$	y	$d_2 = y - 69$	$d_2{}^2$
1	64.81	3.81	14.50	72.86	3.86	14.86
2	57.86	(3.14)	9.84	61.87	(7.13)	50.86
3	66.51	5.51	30.38	71.04	2.04	4.15
4	54.48	(6.52)	42.47	67.50	(1.50)	2.25
5	61.43	0.43	0.18	70.59	1.59	2.52
n=4	**305.09**	**0.09**	**97.37**	**343.85**	**(1.15)**	**74.64**
	$=\sum x$	$=\sum d_1$	$=\sum d_1{}^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2{}^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{305.09}{5} = 61.02 \qquad \bar{y} = \frac{\sum Y}{n_2} = \frac{343.85}{5} = 68.77$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1{}^2 - (\sum d_1)^2/n_1\}] + [\{\sum d_2{}^2 - (\sum d_2)^2/n_2\}]$$

$S^2 = 21.47$
Hence,

Under H_0, the test statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}}$$ with -------- degree of freedom = $n_1 + n_2 - 2 = 5+5-2=8$

t = (2.65)

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 8 degree of freedom is 2.306

Decision: Since calculated value of /t/ i.e. 2.65 is more than tabulated values t i.e. 2.306, the null hypothesis H_0 is rejected and hence alternative hypothesis H_1 is accepted. That is, there is significant change in the ratio of loan and advance to total deposit before and after handover of management of NIBL.

Test of Hypothesis on Performing Assets to Total Assets ratio of Bank of Kathmandu and Nepal Investment Bank, before and after handover of management

For Bank of Kathmandu Ltd.,
Let, Performing assets to Total assets ratio of BOKL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0):　　$\mu_x = \mu_y$
i.e. there is no significant difference between performing assets to total assets of BOKL before and after handover management.

Alternative Hypothesis (H_1):　　$\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between performing assets to total assets of BOKL before and after handover of management.

Table 31; Test of Hypothesis on Performing Assets to Total Assets Ratio for BOKL

n	BEFORE			AFTER		
	x	$d_1 = x - 68$	d_1^2	Y	$d_2 = y - 89$	d_2^2
1	54.28	(13.72)	188.35	88.42	(0.58)	0.34
2	73.98	5.98	35.81	89.39	0.39	0.15
3	78.81	10.81	116.75	91.44	2.44	5.97
4	64.97	(3.03)	9.16	86.83	(2.17)	4.71
n=4	272.04	0.04	350.07	356.08	0.08	11.18
	$=\sum x$	$=\sum d_1$	$=\sum d_1^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{272.04}{4} = 68.01 \qquad \bar{y} = \frac{\sum Y}{n_2} = \frac{356.08}{4} = 89.02$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1^2 - (\sum d_1)^2/n_1\}] + [\{\sum d_2^2 - (\sum d_2)^2/n_2\}]$$

$$S^2 = 60.21$$

Hence,
Under H_0, the test statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}} \qquad \text{with -------- degree of freedom} = n_1 + n_2 - 2 = 4+4-2=6$$

$$t = (3.83)$$

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 6 degree of freedom is 2.447

Decision: Since calculated value of /t/ i.e. 3.83 is more than tabulated values t i.e. 2.447, the null hypothesis H_0 is rejected, and hence alternative hypothesis H_1 is accepted. That is, there is significant change in the mean ratio of performing assets to total assets before and after handover of management.

For Nepal Investment Bank Ltd.,

Let, Performing Assets to Total Assets of NIBL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference in the ratio of performing assets to total assets of NIBL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between ratios of performing assets to total assets of NIBL before and after handover of management.

Table 32; Test of Hypothesis on Performing Assets to Total Assets Ratio for NIBL

n		BEFORE			AFTER	
	X	$d_1 = x - 85$	$d_1{}^2$	**y**	$d_2 = y - 86$	$d_2{}^2$
1	83.45	(1.55)	2.39	83.39	(2.61)	6.79
2	87.68	2.68	7.16	85.27	(0.73)	0.54
3	85.71	0.71	0.50	87.26	1.26	1.58
4	83.65	(1.35)	1.82	86.49	0.49	0.24
5	85.62	0.62	0.38	87.55	1.55	2.39
n=5	**426.11**	**1.11**	**12.26**	**429.96**	**(0.04)**	**11.54**
	$=\sum x$	$=\sum d_1$	$=\sum d_1{}^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2{}^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{426.11}{5} = 85.22 \qquad \bar{y} = \frac{\sum Y}{n_2} = \frac{429.96}{5} = 85.99$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1{}^2 - (\sum d_1)^2/n_1\}] + [\{\sum d_2{}^2 - (\sum d_2)^2/n_2\}]$$

$$S^2 = 2.94$$

Hence,
Under H_0, the test statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}} \qquad \text{with -------- degree of freedom} = n_1 + n_2 - 2 = 5+5-2=8$$

$$t = (0.71)$$

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 8 degree of freedom is 2.306

Decision: Since calculated value of /t/ i.e. 0.71 is less than tabulated values t i.e.2.306, the null hypothesis H_0 is accepted. That is, there is no significant change in the mean ratio of performing assets to total assets before and after handover of management. The mean ratio figure also shows that there is not quite change in the ratio, and hence nonperforming assets level remains almost same after handover also.

Test of Hypothesis on Cash & Bank Balance to Total Deposit ratio in percent of Bank of Kathmandu and Nepal Investment Bank, before and after handover of management

For Bank of Kathmandu Ltd.,

Let, Cash & Bank Balance to Total Deposits ratio of BOKL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference between cash & bank balance to total deposit of BOKL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between cash & bank balance to total deposit of BOKL before and after handover of management.

Table 31; Test of Hypothesis on cash & bank balance to total deposit ratio for BOKL

n	BEFORE			AFTER		
	x	$d_1 = x - 27$	d_1^2	y	$d_2 = y - 9$	d_2^2
1	40.27	13.27	175.96	10.11	1.11	1.24
2	20.45	(6.55)	42.86	8.25	(0.75)	0.56
3	17.32	(9.68)	93.76	6.95	(2.05)	4.20
4	28.26	1.26	1.59	10.62	1.62	2.63
n=4	**106.30**	**(1.70)**	**314.16**	**35.93**	**(0.07)**	**8.63**
	$=\sum x$	$=\sum d_1$	$=\sum d_1^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{106.30}{4} = 26.57 \qquad \bar{y} = \frac{\sum Y}{n_2} = \frac{35.93}{4} = 8.98$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1{}^2 - (\sum d_1)^2/n_1\}] + [\{\sum d_2{}^2 - (\sum d_2)^2/n_2\}]$$

$$S^2 = 53.68$$

Hence,
Under H_0, the test statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2\,(1/n_1 + 1/n_2)}} \qquad \text{with -------- degree of freedom} = n_1 + n_2 - 2 = 4+4-2=6$$

$$t = 3.40$$

Level of significance $(\alpha)=5\%$

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 6 degree of freedom is 2.447

Decision: Since calculated value of /t/ i.e. 3.40 is more than tabulated values t i.e. 2.447, the null hypothesis H_0 is rejected, and hence alternative hypothesis H_1 is accepted. That is, there is significant change in the mean ratio of cash & bank balance to total deposits before and after handover of management.

For Nepal Investment Bank Ltd.,

Let, Cash & Bank balance to Total Deposits of NIBL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference in the mean ratio of cash & bank balance to total deposits of NIBL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between mean ratios of cash & bank balance to total deposits of NIBL before and after handover of management.

Table 32; Test of Hypothesis on Cash Bank balance to Total Deposits Ratio for NIBL

		BEFORE			AFTER	
n	x	$d_1 = x - 11.85$	d_1^2	Y	$d_2 = y - 10$	d_2^2
1	16.96	4.96	24.59	11.69	1.69	2.87
2	10.81	(1.19)	1.41	10.65	0.65	0.42
3	12.86	0.86	0.74	9.40	(0.60)	0.36
4	10.50	(1.50)	2.26	11.03	1.03	1.07
5	8.12	(3.88)	15.07	8.76	(1.24)	1.54
n=5	**59.25**	**(0.75)**	**44.08**	**51.54**	**1.54**	**6.25**
	$=\sum x$	$=\sum d_1$	$=\sum d_1^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{59.25}{5} = 11.85 \qquad \bar{y} = \frac{\sum Y}{n_2} = \frac{51.54}{5} = 10.31$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1^2 - (\sum d_1)^2/n_1\}] + [\{\sum d_2^2 - (\sum d_2)^2/n_2\}]$$

$$S^2 = 6.22$$

Hence,
Under H_0, the test statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}} \qquad \text{with -------- degree of freedom} = n_1 + n_2 - 2 = 5+5-2=8$$

$$t = 0.98$$

Level of significance $(\alpha)=5\%$

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 8 degree of freedom is 2.306

Decision: Since calculated value of /t/ i.e. 0.98 is less than tabulated values t i.e.2.306, the null hypothesis H_0 is accepted. That is, there is no significant change in the mean ratio of cash & bank balance to total deposits before and after handover of management. The mean ratio figure also shows that there is not quite change in the ratio, and hence the level remains almost same after handover also.

Test of Hypothesis on Loan & Advances to Current Assets ratio in percent of Bank of Kathmandu and Nepal Investment Bank, before and after handover of management

For Bank of Kathmandu Ltd.,

Let, Loan & Advances to Current Assets' mean ratio of BOKL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference between loan & advances to current assets of BOKL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between loan & advances to current assets of BOKL before and after handover of management.

Table 31; Test of Hypothesis on loan & advances to current assets ratio for BOKL

n	BEFORE			AFTER		
	x	$d_1 = x - 60$	$d_1{}^2$	Y	$d_2 = y - 62$	$d_2{}^2$
1	47.27	(12.73)	162.13	59.99	(2.01)	4.04
2	69.89	9.89	97.87	60.57	(1.43)	2.05
3	63.35	3.35	11.20	59.70	(2.30)	5.31
4	59.26	(0.74)	0.55	65.98	3.98	15.84
n=4	**239.77**	**(0.23)**	**271.75**	**246.23**	**(1.77)**	**27.25**
	$=\sum x$	$=\sum d_1$	$=\sum d_1{}^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2{}^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{239.77}{4} = 59.94, \quad \bar{y} = \frac{\sum Y}{n_2} = \frac{246.23}{4} = 61.56$$

$S^2 = [1/ (n_1 + n_2 - 2)] * [\{\sum d_1{}^2 - (\sum d_1)^2/ n_1\}] + [\{\sum d_2{}^2 - (\sum d_2)^2/ n_2\}]$

$S^2 = 49.70$

Hence,
Under H_0, the test statistic is:

$\bar{\quad} \quad \bar{\quad}$

$$t = \frac{x - y}{\sqrt{S^2 \, (1/n_1 + 1/n_2)}}$$ with -------- degree of freedom $= n_1 + n_2 - 2 = 4+4-2=6$

t = (0.32)

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 6 degree of freedom is 2.447

Decision: Since calculated value of /t/ i.e. 0.32 is less than tabulated values t i.e. 2.447, the null hypothesis H_0 is accepted. That is, there is no significant difference in the mean ratio of loan & advance to current assets before and after handover of management.

For Nepal Investment Bank Ltd.,

Let, the mean ratio of loan & advance to current assets of NIBL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference in the mean ratio of loan & advance to current assets of NIBL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between mean ratio of loan & advance to current assets of NIBL before and after handover of management.

Table 32; Test of Hypothesis on Loan & advance to Current assets Ratio for NIBL

n	BEFORE			AFTER		
	X	$d_1 = x - 49$	d_1^2	y	$d_2 = y - 62$	d_2^2
1	50.81	1.81	3.28	65.42	3.42	11.70
2	45.97	(3.03)	9.18	54.82	(7.18)	51.51
3	51.96	2.96	8.78	63.47	1.47	2.17
4	46.53	(2.47)	6.08	60.88	(1.12)	1.26
5	51.93	2.93	8.60	64.43	2.43	5.90
n=5	**247.21**	**2.21**	**35.92**	**309.02**	**(0.98)**	**72.54**
	$=\sum x$	$=\sum d_1$	$=\sum d_1^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{247.21}{5} = 49.44 \, , \quad \bar{y} = \frac{\sum Y}{n_2} = \frac{309.02}{5} = 61.80$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1^2 - (\sum d_1)^2/ n_1\}] + [\{\sum d_2^2 - (\sum d_2)^2/ n_2\}]$$

$$S^2 = 13.41$$

Hence,
Under H_0, the test statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}} \quad \text{with -------- degree of freedom} = n_1 + n_2 - 2 = 5+5-2=8$$

$$t = (5.34)$$

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 8 degree of freedom is 2.306

Decision: Since calculated value of /t/ i.e. 5.34 is more than tabulated values t i.e.2.306, the null hypothesis H_0 is rejected and hence alternative hypothesis H_1 is accepted. That is, there is significant change in the mean ratio of loan & advances to current assets before and after handover of management.

Test of Hypothesis on Earning per Share (EPS) of Bank of Kathmandu and Nepal Investment Bank, before and after handover of management

For Bank of Kathmandu Ltd.,
Let, Earning per Share (EPS) of BOKL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference between earning per share (EPS) of BOKL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)

i.e. there is significant difference between EPS of BOKL before and after handover of management.

Table 29; Test of Hypothesis on Earning per Share (EPS) for BOKL

Calculation of đ and S_d

SN	EPS BEFORE HANDOVER (x)	RECENT EPS AFTER HANDOVER (y)	d=y-x	d-đ	(d-đ)²
1	(18.87)	27.50	46.37	2.43	5.92
2	15.30	30.10	14.80	(29.14)	849.19
3	(5.71)	43.67	49.38	5.45	29.66
4	(21.70)	43.50	65.20	21.26	452.06
n=4			**∑d=175.75**		**∑(d-đ)²=1,336.83**

we have,

đ=∑d/n= 175.75/4=43.94

and,

$S_d = \sqrt{[1/(n-1)]\sum(d-đ)^2} = \sqrt{[1/(4-1)]1336.83} = 21.11$

Hence,
Under H_0, the test statistic is:

$t = đ/[(Sd/\sqrt{n})] = 43.94/[(21.11/\sqrt{4})] = 4.1628$

Degree of Freedom = n-1 = (4-1)=3

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 3 degree of freedom is 3.182

Decision: Since calculated value of t is more than tabulated values t, the null hypothesis H_0 is rejected and hence alternative hypothesis H_1 is accepted. That is, there is significant change in the earning per share (EPS) before and after handover of management of BOKL, and hence the new management is somehow effective to raise EPS.

For Nepal Investment Bank Ltd.,

Let, Earning per share (EPS) of NIBL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference earning per share (EPS) of NIBL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between ratios of loan and advances to total deposit of NIBL before and after handover of management.

Table 30; Test of Hypothesis on Earning per Share (EPS) for NIBL

Calculation of đ and S_d

SN	EPS BEFORE HANDOVER (x)	RECENT EPS AFTER HANDOVER (y)	d=y-x	d-đ	(d-đ)²
1	69.33	39.56	(29.77)	(35.60)	1,267.22
2	33.76	51.7	17.94	12.11	146.70
3	53.68	39.5	(14.18)	(20.01)	400.32
4	33.18	59.35	26.17	20.34	413.80
5	33.59	62.57	28.98	23.15	536.02
n=5			**∑d=29.14**		**∑(d-đ)²=2,764.05**

we have,

đ=∑d/n=29.14/4=5.83

and,
$S_d = \sqrt{[1/(n-1)]\sum(d-đ)^2} = \sqrt{[1/(5-1)]2764.05} = 26.29$

Hence,
Under H_0, the test statistic is:

t= đ/[(Sd/√n)] = 5.83/[(26.29/√5)]= 0.4957

Degree of Freedom = n-1 = (5-1)=4

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 4 degree of freedom is 2.776

Decision: Since calculated value of t is less than tabulated values t, the null hypothesis H_0 is accepted. That is, there is no significant change in the earning per share (EPS) before and after handover of management, so the handover of management cannot bring out significant growth on EPS.

Test of Hypothesis for the Return on Loan & Advances mean ratio in percent of Bank of Kathmandu and Nepal Investment Bank, before and after handover of management

For Bank of Kathmandu Ltd.,

Let, Return on Loan & Advances' mean ratio of BOKL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference between return on loan & advances ratio of BOKL before and after handover management.

Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between return on loan & advances ratio of BOKL before and after handover of management.

Table 31; Test of Hypothesis on return on loan & advances ratio ratio for BOKL

		BEFORE			AFTER	
n	x	$d_1 = x - 1$	d_1^2	y	$d_2 = y - 3$	d_2^2
1	(4.62)	(3.62)	13.11	2.26	(0.74)	0.55
2	1.06	2.06	4.25	2.36	(0.64)	0.41
3	(0.44)	0.56	0.32	2.79	(0.21)	0.04
4	(1.70)	(0.70)	0.50	2.79	(0.21)	0.04
n=4	**(5.70)**	**(1.70)**	**18.18**	**10.20**	**(1.80)**	**1.05**
	$=\sum x$	$=\sum d_1$	$=\sum d_1^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{(5.70)}{4} = (1.43), \quad \bar{y} = \frac{\sum Y}{n_2} = \frac{10.20}{4} = 2.55$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1^2 - (\sum d_1)^2/n_1\}] + [\{\sum d_2^2 - (\sum d_2)^2/n_2\}] = 2.95$$

Hence,
Under H_0, the test statistic is:

$$t = \frac{\overline{x} - \overline{y}}{\sqrt{S^2 \, (1/n_1 + 1/n_2)}} \quad \text{with -------- degree of freedom} = n_1 + n_2 - 2 = 4+4-2=6$$

t = (3.27)

Level of significance (α)=5%

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 6 degree of freedom is 2.447

Decision: Since calculated value of /t/ i.e. 3.27, which is more than tabulated values t i.e. 2.447, the null hypothesis H_0 is rejected and hence alternative hypothesis H_1 is accepted. That is, there is significant difference in the mean return on loan & advances ratio before and after handover of management.

For Nepal Investment Bank Ltd.,

Let, the return on loan & advances ratio of NIBL before and after handover be denoted by x and y respectively,

Null Hypothesis (H_0): $\mu_x = \mu_y$
i.e. there is no significant difference in the return on loan & advances ratio of NIBL before and after handover management.
Alternative Hypothesis (H_1): $\mu_x \neq \mu_y$ (Two tailed)
i.e. there is significant difference between mean return on loan & advances ratio of NIBL before and after handover of management.

Table 32; Test of Hypothesis on return on loan & advances ratio for NIBL

-		BEFORE			AFTER	
n	x	$d_1 = x - 3$	d_1^2	y	$d_2 = y - 2$	d_2^2
1	5.61	2.61	6.80	2.02	0.02	0.00
2	3.24	0.24	0.06	2.14	0.14	0.02
3	3.66	0.66	0.44	2.29	0.29	0.09
4	2.43	(0.57)	0.32	2.74	0.74	0.55
5	2.23	(0.77)	0.60	2.90	0.90	0.81
n=4	17.17	2.17	8.21	12.10	2.10	1.47
	$=\sum x$	$=\sum d_1$	$=\sum d_1^2$	$=\sum y$	$=\sum d_2$	$=\sum d_2^2$

we have,

$$\bar{x} = \frac{\sum X}{n_1} = \frac{17.17}{5} = 3.43 \,, \qquad \bar{y} = \frac{\sum Y}{n_2} = \frac{12.10}{5} = 2.42$$

$$S^2 = [1/(n_1 + n_2 - 2)] * [\{\sum d_1{}^2 - (\sum d_1)^2 / n_1\}] + [\{\sum d_2{}^2 - (\sum d_2)^2 / n_2\}] = 0.98$$

Hence,
Under H_0, the test statistic is:

$$t = \frac{\bar{x} - \bar{y}}{\sqrt{S^2 (1/n_1 + 1/n_2)}} \qquad \text{with -------- degree of freedom} = n_1 + n_2 - 2 = 5+5-2=8$$

$$t = 1.62$$

Level of significance $(\alpha) = 5\%$

Critical value: The tabulated value of t at 5% level of significance for two tailed test and for 8 degree of freedom is 2.306

Decision: Since calculated value of /t/ i.e. 1.68 is less than tabulated values t i.e.2.306, the null hypothesis H_0 is accepted. That is, there is no significant change in the mean ratio of return on loan & advances before and after handover of management.

4.3.2 TREND ANALYSIS (The method of Least Square)

The purpose of this topic is to analyze the trend on financial performance of BOKL and NIBL before and after handover of management. To utilize deposits collected, commercial banks outflows loan and advances and investment in various financial instruments to generate interest spread. This trend analysis is carried here to measure the trend of BOKL and NIBL before and after handover of management from foreign venture to Nepalese.

i.   Total Deposit Trend

An effort to analyze the trend of deposit collections of BOKL and NIBL before and after handover of management is presented below. Since handover of BOKL was held after four years of its operation, the sample data before handover are based on four years only.

For Bank of Kathmandu Ltd.,

Table 33; Deposit Trend analysis Table for BOKL before handover

		Before			(Rs.in millions)
n	Fiscal Year	Total deposit Rs.(y)	Deviation from X: (2.5)	X^2	Xy
1	1994/95	329.98	(1.50)	2.25	(494.98)
2	1995/96	1,281.75	(0.50)	0.25	(640.88)
3	1996/97	1,714.37	0.50	0.25	857.19
4	1997/98	1,773.87	1.50	2.25	2,660.81
	n=4	**∑y=5,099.98**	**∑X=0**	**∑X²=5.00**	**∑Xy=2,382.14**

we have,

a=∑**y**/n=1274.99

b=∑**Xy**/∑**X²** =476.43

Thus, the Average Total Deposit, **a**=Rs.1274.99 million, and the rate of change on total deposit, **b**= 476.43.

Hence the equation of straight line trend is;

Y_c= 1274.99+ 476.43(**x**)

Again, after handover for BOKL,

Table 34; Deposit Trend analysis Table for BOKL after handover

		After			(Rs. In millions)
n	Fiscal Year	Total deposit Rs.(y)	Deviation from X: (3)	X^2	Xy
1	2002/03	6,170.71	(2)	4	(12,341.42)
2	2003/04	7,741.65	(1)	1	(7,741.65)
3	2004/05	8,975.78	-	-	-
4	2005/06	10,485.36	1	1	10,485.36
5	2006/07	12,388.93	2	4	24,777.85
n=5		**∑y=45,762.42**	**∑X=0**	**∑X²=10.00**	**∑Xy=15,180.15**

we have,

$a = \sum \mathbf{y}/n = 9152.48$

$b = \sum \mathbf{Xy}/\sum \mathbf{X}^2 = 1518.01$

Thus, the Average Total Deposit, **a**=Rs.9152.48 million, and the rate of change on total deposit, **b**= 1518.01.

Hence the equation of straight line trend is;

$Y_c = 9152.48 + 1518.01(\mathbf{x})$

Regarding the calculations made above, the average deposit before handover was Rs.1274.99 millions while Rs.9152.84 millions after handover. Further the change in deposit or the growth rate before and after handover were 476.43 and 1518.01 respectively. The data shows the remarkable increment in deposit, likewise the trend of growth rate have been increased showing positive direction towards handover.

For Nepal Investment Bank Ltd.,

Table 35; Deposit Trend analysis Table for NIBL before handover

					Rs. In million
Before					
n	Fiscal Year	Total deposit Rs.(y)	Deviation from X: (3)	X^2	Xy
1	1997/98	2,582.21	(2)	4	(5,164.42)
2	1998/99	2,438.89	(1)	1	(2,438.89)
3	1999/2000	2,983.28	-	-	-
4	2000/01	4,256.21	1	1	4,256.21
5	2001/02	4,174.76	2	4	8,349.52
	n=5	**∑y=16,435.36**	**∑X=0**	**∑X²=10.00**	**∑Xy=5,002.42**

we have,

$a = \sum \mathbf{y}/n = 3,287.07$

$b = \sum \mathbf{Xy}/\sum \mathbf{X}^2 = 500.24$

Thus, the Average Total Deposit, **a**=Rs.3287.07 million, and the rate of change on total deposit, **b**= 500.24.

Hence the equation of straight line trend is;

$Y_c = 3287.07 + 500.24(\mathbf{x})$

Again, trend after handover for NIBL

Table 36; Deposit Trend analysis Table for NIBL after handover

After — Rs. In million

n	Fiscal Year	Total deposit Rs.(y)	Deviation from X: (3)	X^2	Xy
1	2002/03	7,922.77	(2)	4	(15,845.53)
2	2003/04	11,524.68	(1)	1	(11,524.68)
3	2004/05	14,254.57	-	-	-
4	2005/06	18,927.31	1	1	18,927.31
5	2006/07	24,488.86	2	4	48,977.71
	n=5	∑y=77,118.18	∑X=0	∑X²=10.00	∑Xy=40,534.80

we have,

a=∑**y**/n= 15,423.64

b=∑**Xy**/∑**X²** = 4,053.48

Thus, the Average Total Deposit, **a**=Rs.15,423.64 million, and the rate of change on total deposit, **b**= 4,053.48.

Hence the equation of straight line trend is;

Y_c= 15423.64 + 4053.48 (**x**)

Regarding the calculations made above, the average deposit before handover was Rs.3287.07 millions while Rs.15423.64 millions after handover. Further the change in deposit or the growth rate before and after handover were 500.24 and 4053.48 respectively. The data shows the remarkable increment in deposit, likewise the trend of growth rate have been increased outstandingly showing positive direction towards handover.

ii.   Loan and Advances Trend

Under this part of study, an analysis on trend value of loan and advances of BOKL and NIBL have been carried on before and after handover of management.

For Bank of Kathmandu,

Table 37; Loan & Advances Trend analysis Table for BOKL before handover

	Before				Rs.in millions
n	Fiscal Year	Loan & Advance Rs.(y)	Deviation from X: 2.5	X^2	Xy
1	1994/95	171.55	(1.50)	2.25	(257.32)
2	1995/96	972.55	(0.50)	0.25	(486.28)
3	1996/97	1,177.36	0.50	0.25	588.68
4	1997/98	1,145.51	1.50	2.25	1,718.26
	n=4	**∑y=3,466.96**	**∑X=0**	**∑X²=5.00**	**∑Xy=1,563.34**

we have,

a=∑**y**/n= 866.74

b=∑**Xy**/∑**X²** = 312.67

Thus, the average loan & advance, **a**=Rs.866.74 million, and the rate of change on loan & advance, **b**= 312.67.

Hence the equation of straight line trend is;

Y_c= 866.74+312.67(**x**)

Again, after handover for BOKL,

Table 38; Loan & Advances Trend analysis Table for BOKL after handover

	After				Rs.in millions
n	Fiscal Year	Loan & Advance Rs.(y)	Deviation from X: 3	X^2	Xy
1	2002/03	4,542.70	(2)	4	(9,085.40)
2	2003/04	5,646.70	(1)	1	(5,646.70)
3	2004/05	5,912.58	-	-	-
4	2005/06	7,259.08	1	1	7,259.08
5	2006/07	9,399.33	2	4	18,798.66
	n=5	**∑y=32,760.39**	**∑X=0**	**∑X²=10.00**	**∑Xy=11,325.64**

we have,

a=∑**y**/n= 6,552.08

b=∑**Xy**/∑**X²** = 1,132.56

Thus, the average loan & advance, **a**=Rs.6,552.08 million, and the rate of change on loan & advances, **b**= 1,132.56.

Hence the equation of straight line trend is;

Y_c= 6,552.08 + 1,132.56 (**x**)

Regarding the calculations made above, the average loan & advances before handover was Rs. 866.74 millions while Rs.6552.08 millions after handover.

Further the change in loan & advances or the growth rate before and after handover were 312.67 and 1132.56 respectively. The data shows that the growth rate trend of loan & advances have been increased significantly showing positive direction towards handover.

For Nepal Investment Bank Ltd.,

Table 39; Loan & Advances Trend analysis Table for NIBL before handover

		Before			Rs. In million
n	Fiscal Year	Loan & Advance Rs.(y)	Deviation from X: 3	X^2	Xy
1	1997/98	1,673.47	(2)	4	(3,346.94)
2	1998/99	1,411.23	(1)	1	(1,411.23)
3	1999/2000	1,984.24	-	-	-
4	2000/01	2,318.91	1	1	2,318.91
5	2001/02	2,564.42	2	4	5,128.85
	n=5	**∑y=9,952.27**	**∑X=0**	**∑X^2=10.00**	**∑Xy=2,689.58**

we have,

a=∑**y**/n= 1,990.45

b=∑**Xy**/∑**X²** = 268.96

Thus, the average loan & advances, **a**=Rs.1990.45 million, and the rate of change on loan & advances, **b**= 268.96.

Hence the equation of straight line trend is;

Y_c= 1990.45+ 268.96(**x**)

Again, trend after handover for NIBL

Table 40; Loan & advance Trend analysis Table for NIBL after handover

		After			Rs. In million
n	Fiscal Year	Loan & Advance Rs.(y)	Deviation from X: 3	X^2	Xy
1	2002/03	5,772.14	(2)	4	(11,544.28)
2	2003/04	7,130.13	(1)	1	(7,130.13)
3	2004/05	10,126.06	-	-	-
4	2005/06	12,776.21	1	1	12,776.21
5	2006/07	17,286.43	2	4	34,572.85
	n=5	**∑y=53,090.96**	**∑X=0**	**∑X^2=10.00**	**∑Xy=28,674.66**

we have,

a=∑**y**/n= 10,618.19

b=∑**Xy**/∑**X²** = 2,867.47

Thus, the average loan & advance, **a**=Rs. 10,618.19 million, and the rate of change on loan & advances, **b**= 2,867.47.

Hence the equation of straight line trend is;

Y_c= 6,552.08 + 1,132.56 (**x**)

Regarding the calculations made above, the average loan & advances before handover was Rs.1,990.45 millions while Rs.10,618.19 millions after handover. Further the change in loan & advances or the growth rate before and after handover were 268.96 and 2,867.47 respectively. The data shows that the growth rate trend of loan & advances have been increased significantly showing positive direction due to handover of management.

iii.   Net Profit after Tax (NPAT) Trend

Under this part of study, an analysis on trend value of NPAT of BOKL and NIBL has been carried on before and after handover of management.

For Bank of Kathmandu,

Table 41; NPAT Trend analysis Table for BOKL before handover

Before				Rs.in millions
n	Fiscal Year	NPAT Rs.(y)	Deviation from X: 2.5	X^2	Xy
1	1994/95	(7.93)	(1.50)	2.25	11.89
2	1995/96	10.33	(0.50)	0.25	(5.16)
3	1996/97	(5.14)	0.50	0.25	(2.57)
4	1997/98	(19.53)	1.50	2.25	(29.29)
	n=4	**(22.27)**	**-**	**5.00**	**(25.13)**

we have,

a=∑**y**/n= (5.57)

b=∑**Xy**/∑**X²** = (5.03)

Thus, the average NPAT, **a**=Rs.(5.57) million, and the rate of change on NPAT, **b**= (5.03).

Hence the equation of straight line trend is;

Y_c= -5.57 - 5.03 (**x**)

Again, after handover for BOKL,

Table 42; NPAT Trend analysis Table for BOKL after handover

				After	Rs.in millions
n	Fiscal Year	NPAT Rs.(y)	Deviation from X: 3	X²	Xy
1	2002/03	82.13	(2)	4	(164.26)
2	2003/04	127.47	(1)	1	(127.47)
3	2004/05	139.53	-	-	-
4	2005/06	202.44	1	1	202.44
5	2006/07	262.39	2	4	524.77
	n=5	**813.96**	**-**	**10.00**	**435.49**

we have,

a=∑**y**/n= 162.79

b=∑**Xy**/∑**X²** = 43.55

Thus, the NPAT, **a**=Rs.162.79 million, and the rate of change on NPAT, **b**= 43.55.

Hence the equation of straight line trend is;

Y_c= 162.79 + 43.55 (**x**)

Regarding the calculations made above, the NPAT before handover was Rs. (5.57) millions while Rs.162.79 millions after handover. Further the change in NPAT or the growth rate before and after handover were (5.03) and 43.55 respectively. The data shows that the growth rate trend of NPAT which was in negative trend have been improved significantly showing positive growth trend, and hence a welcome towards handover of management.

For Nepal Investment Bank Ltd.,

Table 42; NPAT Trend analysis Table for NIBL before handover

				Before	Rs. In million
n	Fiscal Year	NPAT Rs.(y)	Deviation from X: 3	X²	Xy
1	1997/98	93.84	(2)	4	(187.68)
2	1998/99	45.69	(1)	1	(45.69)
3	1999/2000	72.66	-	-	-
4	2000/01	56.41	1	1	56.41
5	2001/02	57.11	2	4	114.21
		325.71	**-**	**10.00**	**(62.75)**

we have,

a=∑**y**/n= 65.14

$b = \sum Xy / \sum X^2 = (6.28)$

Thus, the average NPAT, **a**=Rs.65.14 million, and the rate of change on NPAT, **b**= (6.28).

Hence the equation of straight line trend is;

$Y_c = 65.14 - 6.28\ (\mathbf{x})$

Again, trend after handover for NIBL

Table 43; NPAT Trend analysis Table for NIBL after handover

After				Rs. In million
n	Fiscal Year	Loan & Advance Rs.(y)	Deviation from X: 3	X^2	Xy
1	2002/03	116.82	(2)	4	(233.64)
2	2003/04	152.67	(1)	1	(152.67)
3	2004/05	232.15	-	-	-
4	2005/06	350.54	1	1	350.54
5	2006/07	501.40	2	4	1,002.80
		1,353.57	**-**	**10.00**	**967.03**

we have,

$a = \sum y / n = 270.71$

$b = \sum Xy / \sum X^2 = 96.70$

Thus, the average NPAT, **a**=Rs. 270.71 million, and the rate of change on NPAT, **b**= 96.70.

Hence the equation of straight line trend is;

$Y_c = 270.71 + 96.70\ (\mathbf{x})$

Regarding the calculations made above, the average NPAT before handover was Rs.65.14 while Rs.270.71 millions after handover. Further the change in NPAT or the growth rate before and after handover were (6.28) and 96.70 respectively. The data shows that the growth rate trend of NPAT which negative have been improved significantly showing positive growth rate direction of net profit, due to handover of management.

4.4 MAJOR FINDINGS OF THE STUDY

The major findings of the study are derived from the analysis of financial data's of BOKL & NIBL, which are given below:

i.   Liquidity Analysis

The liquidity position of BOKL & NIBL reveals that:

➢   The mean current ratio of BOKL after handover is higher than before handover i.e.1.07 from 1.01. It denotes that BOKL tend to maintained high liquidity after handover in compare to historical provision. Likewise, NIBL maintained low mean current ratio after handover of management i.e.1.07 which was 1.13. Though the satisfactory current ratio is 2 to 1, the domestic banking sector's average the ratio maintained by these banks. BOKL's ratio after handover is more consistent than before, while this test of quantity denotes optimum utilization of assets.

➢   The mean cash & bank balance to total deposit ratio of BOKL before handover was quite high (26.57%) as compare to ratio after handover (9.43%), this may be due to the starting years of its operation. BOKL improved the proportion after handover and utilized the funds at its optimum level. On the other hand, NIBL's ratio (11.85%) decreases slightly after handover (10.31%). BOKL's mean ratio after handover seems inadequate if high withdrawals are called, while NIBL seems to maintain consistent ratio before and after handover.

➢   The mean cash & bank balance to current assets ratio (24.34%) measured considerably high before handover which after handover reduced to around industry average (8.11%). This directs BOKL's ineffectively managed cash and bank balance before handover which could have been utilized to generate revenue. Meanwhile NIBL's mean ratio before (9.55%) and after

(9.26%) handover shows similar results directing towards consistency of its ratio.

➢ The mean ratio of loan and advances to current assets ratio of BOKL increases slightly after handover (from 59.94% to 61.61%), the findings shows satisfactory performance utilizing maximum funds after handover. Likewise NIBL's mean ratio (49.44%) before handover was quite low as compare to its ratio (61.80%) after handover; this shows NIBL's increased utility of funds and hence increases in performance.

ii. Activity Ratio

The analysis of activity ratio reveals that;

➢ The mean ratio of loan and advances to total deposit ratio of BOKL was low before handover (65.28%) as compare to after handover (71.51%). NIBL on other hand has also low mean ratio before handover (61.02%), but the ratio after handover (68.77%) seems still lower than the industry average in spite of some increment. BOKL tends to invest at its optimum Credit Deposit ratio.

➢ The mean ratio of performing assets to total assets for BOKL before handover (68.01%) was quite low as that after handover (88.38%), pointing towards much effective utilization of assets after handover. The ratio for NIBL shows consistent data before and after handover (from 85.22% to 85.99%), and that NIBL tends to remain moderate with industry level at both periods.

iii. Profitability Ratio

The analysis of Profitability ratios of BOKL and NIBL varies significantly after handover as compare to before, the findings are as;

➢ The analysis of average return on net worth ratio of BOKL was negative (-7.50%), which gradually and steadily showed a positive value after handover (20.79%). Meanwhile NIBL was able to increase the average return on net worth ratio to some extent (from 15.69% to 22.07%).

➢ The mean ratio of return on capital employed decreases after handover of management on both BOKL and NIBL. The banks raised the capital but were unable to maintain the return ratio as per capital employed. The mean ratio for BOKL was 5.28% and 4.76% while for NIBL was 6.30% and 4.15% before and after handover respectively.

➢ The average ratio of return on total deposit of BOKL was negative before handover (-0.75%) which after handover showed positive figure (1.72%). On the other hand NIBL's return on total deposit ratio decreases (from 2.13% to 1.67%) somehow after handover of management indicating narrowed spread between deposits and lending rates.

➢ The mean ratio of return on total assets for BOKL was in negative value before handover (-0.61%) which averaged positive after handover (1.46%) showing much improvement. NIBL's mean ratio decreases after handover of management (from 1.68% to 1.47%), which shows ineffective utilization of assets after handover.

➢ The mean interest earned to total assets ratio for BOKL drop from 7.48% to 6.04%, while from 7.96% to 5.48% in case of NIBL. Hence both the bank's ratio decreased slightly after handover of management, and that the decreased value of ratios can be term negligible during observation.

Above findings shows that both banks are somehow able to increase their profitability ratio after handover, where BOKL's upgrade rates are much higher than NIBLs'.

iv.   Other Financial Indicators

From an analysis of other relevant financial ratios, the following findings have been extracted;

➢   The mean leverage ratio for BOKL before (91.80%) and after (91.89%) handover shows no significant differences, while the value shows excessive use of debts. NIBL, on other hand increased the debt after handover (91.55%), which before handover (82.38%) was more leverage. But since these are banking sectors, hence excessive use of debts can be considered.

➢   BOKL was experiencing loss before handover; hence the average EPS (Rs.-3.87) reflects negative value before, while after handover average EPS (Rs.32.50) was maintained at industry average. The average EPS of NIBL improve slightly after handover of management (from Rs.44.71 to Rs.50.54). This shows NIBL's ability to maintain the EPS after handover of management and further improve the earnings.

v.   Test of Hypothesis

By analyzing the test of significant difference before and after handover of management, regarding the parameter of the population, it is found that:

➢   There is no significant change in the ratio of loan and advance to total deposit of BOKL before and after handover of management. The increase in loan & advance is due to regular increase in size of the bank. While, for NIBL, there is significant change in the ratio of loan and advance to total deposit before and after handover of management.

➢   There is significant change in the mean ratio of performing assets to total assets for BOKL before and after handover of management. On the other

hand, there is no significant change in the ratio of performing assets to total assets for NIBL before and after handover of management.

➢ The test shows that, there is significant difference in the mean ratio of cash & bank balance to total deposits for BOKL before and after handover of management. On the other hand, there is no significant change in the ratio of cash & bank balance to total deposits for NIBL before and after handover of management.

➢ From the test on mean ratio of loan & advance to current assets, there is no significant change in the mean ratio for BOKL before and after handover of management. While, there is significant change in the mean ratio of loan & advance to current assets for NIBL before and after handover of management.

➢ There is significant change in the earning per share (EPS) before and after handover of management of BOKL, however for NIBL, there is no significant change in the earning per share (EPS) before and after handover of management.

➢ The test study in the mean ratio on Return on loan & advances shows that, there is significant difference for BOKL before and after handover of management. While, there shows no significant difference in the mean ratio on Return on loan & advances for NIBL before and after handover of management.

From the above findings, there is some significant positive change in EPS of BOKL due to handover of management. Moreover BOKL experience significant difference the mean of ratios after handover of management. Likewise the loan and advance ratio of NIBL showed a positive significant change after handover; however other changes in mean ratios are not found quite significant due to handover.

vi.   Trend Analysis

➢   The trend of total deposit collection of BOKL is in increasing trend before and after handover, but the rate of growth of total deposit is higher after handover than before. Likewise NIBL's growth rate of total deposit increased tremendously after handover of management, while the trend of total deposit collection is in increasing trend.

➢   The annual growth ratex of loan and advances for BOKL rise from 312.67 to 1,132.56, with significant rise in lending. NIBL on other hand raise its lending and growth rate from 268.96 to 2,867.47. The findings shows NIBL's growth rate more competitive than BOKLs'.

➢   The average NPAT before handover was negative for BOKL and showed negative growth trend of -5.03, which changes to 43.55 after handover. Similarly, NIBL's growth trends of NPAT showed -6.28, but improve to 96.70 after handover. Hence both banks showed negative, un-consistent trend before handover of management, which gradually upgraded after handover.

CHAPTER V

5   SUMMARY, RECOMMENDATIONS AND CONCLUSION:

The Nepalese financials system, comprising network of institutions, instruments and markets has made rapid progress and acquired a high degree of wide and depth since active involvement from private sectors due to reforms initiated by government. These reforms are fall-out from the general liberalization of the economy, stiff competitive challenges between financial institutions. Through these times some joint venture banks due to various reasons are observed takeover/ handover of management. The domestic market have experience the poor performance of two large government stake banks; Nepal Bank Ltd. and Rastriya Banijya Bank. Meanwhile some foreign joint venture banks were rendering quality service, new technology and high performance, rather it be in urban and semi urban regions. In this scenario banking sector did not showed somewhat confident in core Nepalese management team, but the time was high for Nepalese private sectors to lead the banking sector and hence we observe couple of takeovers and handover of management. So an attempt to evaluate the performance of the banking sector, before and after handover of management from foreign management to Nepalese management. The study made here are basically in quantitative ground whereby qualitative base are also observed. Among the listed commercial banks in Nepal Rastra Bank, only two banks; Bank of Kathmandu Ltd. (BOKL) and Nepal Investment Bank Ltd.(NIBL) are taken as sample to assess their performance in terms of their indicators.

This chapter highlights some selected actionable conclusions and recommendations on the basis of the main findings, which are derived from the analysis of BOKL & NIBL. In order to carry out this study, data have been basically obtained from secondary sources. The analysis is done with the help of financial & statistical tools & analysis is associated with comparison and interpretation.

5.1 Summary

Financial sector today is no doubt a backbone to the economic development the country. It acts as the intermediary within the economic circulation. In this context firmed and capable financial sector is needed, while for the development of country the local resources must be used, and hence capable man power must be developed. This research tries to evaluate the potential of Nepalese management team that takeover the foreign investment. Though the banking sector was uplift due to the open economic policy initiated by the Government to import foreign investment, technology, professionals, etc., foreign ventures were seen dropped off. The prevailing small Nepali market, un-adequate policy and investment opportunity, unstable political ground, etc. were the reasons forwarded by the ventures to drop their investment. However in term of BOKL, the bank was not able to perform as it was expected during the management of foreign venture. Further both BOKL & NIBL were based primarily in very small region and that the customer base was also very low. Likewise the strategy and growth was too stable. In this context the scenario of these banks after handover seems to have changed rapidly, and that both banks are been able to penetrate the ground level of Nepalese market, serving people of every category and economic background. Meanwhile these banks are introducing new products and service in the Nepalese market at the cost that general public can afford. These are some qualitative details extracted from annual report, newsletter and brochure of the banks.

In terms of quantitative study, the financial tools such as; ratio analysis viz. liquidity ratio, activity ratio, profitability ratio, leverage ratio and statistical tools like mean, test of hypothesis and trend analysis have been used for the analysis and interpretation of the data. The data which were employed in the research are secondary in nature. They are obtained from the annual reports of the concerned banks. Likewise, the financial statements of 5 years before handover and recent

5 years after handover were selected for the purpose of evaluation. However for BOKL due to handover carried on fourth year of operation, the data of financials are for 4 years only.

The liquidity position of BOKL though not satisfactory, however it succeed to raise the liquidity after handover. NIBL's liquidity position was tight and maintained moreover alike position after handover also, mobilizing optimal resources. BOKL's loan and advance to total deposit ratio was at average of 65.28% before handover which averaged at 71.51% after handover, indicating improve in optimum utilization of funds. Likewise performing assets to total assets ratio of BOKL also rise simultaneously, whereas NIBL experience same level of ratio before and after handover. The return on net worth increases after handover for both banks. While the return on capital employed for both banks decreased after handover. However in this period both banks tremendously increased their capital amount. The return on total assets was negative for BOKL before handover, while improved at the level of industry average after handover. Likewise the earning per share (EPS) trend for BOKL was negative before handover, showed regular improvement after handover and hence averaged at Rs.32.50, at industry average. Meanwhile, NIBL was also able maintain its EPS level and further increase slightly at the average of Rs. 50.54. Both the banks upgraded the volume of its balance sheet. The primary reason was to meet the mandatory capital raise directives from Central Bank and also as per the provision made in the MoA and AoA. The raise in volume of their business reasonably rise the calculated ratios, but the test of hypothesis shows significant difference in basically on the case of BOKL and limited for NIBL. However the trend of annual growth for both banks must be appreciated as result from the handover of management.

From the analysis, the performance after handover of management in reference to both banks can be termed satisfactory as compare to the performance reflected before handover of management.

5.2 Conclusion

Economic liberalization policy of the government has encouraged the establishment and growth of commercial banks in the country within short span of time. In a situation when the existing financial institutions, government stake commercial banks and foreign venture are capturing market in regard to their own expertise and reach, the smooth and competitive supply of credit on time and carry capital market activities, Nepalese own joint venture banks have highly contributed and gaining belief of the stakeholders.

NIBL, before handover, was operating in a very safe module. Moreover the bank was in the reach of certain urban sectors' fixed customers. The bank's financial position was good and strong but, the size and further growth had been not exercised as per its strength. These were effectively captured after handover of management. The bank turn up to penetrate the local market and create a platform for customers of any category and level. Further the volume of its balance sheet increased tremendously, with high figured of profit. The bank's policy was quite aggressive and that it was using maximum level of its debt for profit generating activities. However the mean return ratios in regard to its profit were a bit lower than that before handover. But the bank is capable to increase the average EPS as compare to its state before handover.

BOKL, before handover, was in its recent years of operation. The returns were in negative figures, and the volume of its deposit and credit shows that it was trying to get niche from the market share. The ratio of utilization of its debt was in optimum level. BOKL was trying to be a general peoples' bank from starting, and after handover BOKL establish itself in the ground level near to the general public. The size and volume of its debts and assets increased to industry average. Further the performing assets mean ratio also increased after handover. However some mean return ratios in account of deposit and capital

employed decreased a bit after handover. Moreover BOKL effectively raise its EPS tremendously after handover, which is the most desirable for handover.

The financial positions of these two banks, from this research, show the positive message towards Nepalese management. The handover from foreign ventures, might that be for any reasons, created a belief in Nepalese society that Nepalese joint stock banks are also equally capable to run, cope and compete effectively in the market. Moreover, these types of banks help to create jobs locally and upgrade the society, and importantly prevent outward remits of its profit share in compare to foreign ventures. The way for both banks are tougher ahead, the worst economic situation of the country, liquidity crisis, emerging banks and financial institutions, limited financial market, etc. shall lead to fierce competition.

Finally, the research initiated here to evaluate the financial performance of Nepal Investment Bank Ltd. and Bank of Kathmandu Ltd., before and after joint venture, concludes more effective financial performance after handover from joint venture. Further the overall quantitative research in spite of some ratios not being satisfactory shows positive trend towards improvement and prosperity of the banks.

5.3 Recommendations

On the basis of analysis and findings of the study, following recommendations can be advised to overcome weakness, inefficiency and to improve fund mobilization and investment of NIBL & BOKL.

• The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply and demand position of loan and advances as well as savings, investment situations, central bank's directives, the lending policies, capability of management, strategic planning and funds flow situations. BOKLs' mean ratios of Cash & Bank Balance to Total Deposit and Current Assets became considerably lower than that

compare to its position prior handover and with industry. BOKL is recommended to increase the cash and bank balance to meet current obligations and loan demand.

• To get the success in competitive banking environment, depositors' money must be utilized as loan and advances. It has been found from the study that BOKL has greater ratio than NIBL after handover, because its large portions of fund invested as loan and advances and negligence to invest in other sectors. NIBL has not properly used their existing funds as loan and advances. NIBL's ratio before handover was also low and after handover it does not significantly increased, hence NIBL is recommended to follow liberal lending policy to the limit prescribed by the directives of NRB. Further both banks must increase their performing assets ratio.

• Apart from the performances, the bottom line of analysis is the profit. They should be careful in increasing profit in real sense to maintain the confidence of shareholder, depositors and its all stakeholders. Both, NIBL and BOKL were capable to increase their profit, as per the increase in their business volume. But, BOKL's return on capital employed decreased after handover; hence it must manage to increase the ratio. NIBL's mean ratio of return on capital employed. Return on total deposits and interest earned on total assets decreased after handover, hence though volume had been increased, it is also recommended to increase the return ratios as well.

• BOKL have quite recovered and improved from its stage before handover to the stage after handover but, comparing with NIBL the volume of its business and EPS are still lower. Hence BOKL must improve its capacity to compete and level with other leading banks.

Share Capital of Bank of Kathmandu Ltd. (July 15, 1996) (*during handover period to Nepalese management*)

I	Authorized Capital	Rs.240, 000,000.00

2,400,000 Ordinary Shares of Rs.100 par

II	Issued Capital	Rs.180, 000,000.00

1,800,000 Ordinary Shares of Rs.100 par

III	Paid Up Capital	Rs. 67,500,000.00

1,350,000 Ordinary Shares of Rs.50 par

Share Capital of Bank of Kathmandu Ltd. (July 16, 2007) (*present structure during preparation of this report*)

I	Authorized Capital	Rs.1, 000,000,000.00

10,000,000 Ordinary Shares of Rs.100 par

II	Issued Capital	Rs. 606,173,300.00

6,061,733 Ordinary Shares of Rs.100 par

III	Paid Up Capital	Rs. 603,141,300.00

6,031,413 Ordinary Shares of Rs.100 par

<u>RECENT SHARE OWNERSHIP OF BANK OF KATHMANDU LTD.</u>

1. PROMOTOR		42%
i. Other Institutions	2%	
ii. Individuals	40%	
2. GENERAL PUBLIC		<u>58%</u>
TOTAL		**<u>100%</u>**

Share Capital of Nepal Investment Bank Ltd. (July 2001) (*during handover period to Nepalese management*)

I	Authorized Capital	Rs.270, 000,000.00
	2,700,000 Ordinary Shares of Rs.100 par	
II	Issued Capital	Rs. 169,984,500.00
	1,699,845 Ordinary Shares of Rs.100 par	
III	Paid Up Capital	Rs. 169,984,500.00
	1,699,845 Ordinary Shares of Rs.100 par	

Share Capital of Nepal Investment Bank Ltd. (July 2007) (*present structure during preparation of this report*)

I	Authorized Capital	Rs.1, 000,000,000.00
	10,000,000 Ordinary Shares of Rs.100 par	
II	Issued Capital	Rs. 801,352,600.00
	8,013,526 Ordinary Shares of Rs.100 par	
III	Paid Up Capital	Rs. 801,352,600.00
	8,013,526 Ordinary Shares of Rs.100 par	

RECENT SHARE OWNERSHIP OF NEPAL INVESTMENT BANK LTD.

1.	PROMOTOR	80%
	i. Rastriya Banijya Bank	15%
	ii. Rastriya Beema Sansthan	15%
	iii. Organized Institution	50%
2.	GENERAL PUBLIC	20%
	TOTAL	**100%**

EXTRACTS FROM THE BOOK OF NEPAL INVESTMENT LTD.

ANNEXURES

Sum Total

Figures in Rs.'000

Fiscal Year	TOTAL OF CURRENT ASSETS	CASH BAL	BANK BAL	MONEY AT CALL	INVESTMENT ON T.B. & SHARES	BILLS PURCHASE & DISCOUNT	LOAN & ADVANCES	BILLS FOR COLLECTIONS	OTHER ASSTES
1997/98	**3,293,512.00**	437,910.00	-	-	1,099,100.00	-	1,673,472.00	-	83,030.00
1998/99	**3,069,934.00**	263,704.00	-	-	1,312,135.00	-	1,411,233.00	-	82,862.00
1999/2000	**3,818,551.60**	53,611.30	330,124.70	-	1,183,413.92	86,439.73	1,984,239.40	70,767.83	109,954.73
2000/01	**4,983,195.12**	71,496.56	375,195.76	-	1,970,277.92	-	2,318,830.01	-	247,394.87
2001/02	**4,938,007.22**	61,523.24	277,401.64	-	1,822,162.12	-	2,564,423.48	-	212,496.74
2002/03	**8,823,133.30**	200,970.76	725,564.94	40,000.00	1,705,240.70	-	5,772,140.25	-	379,216.66
2003/04	**13,005,708.36**	315,382.83	911,540.09	310,000.00	3,862,483.33	-	7,130,125.50	-	476,176.62
2004/05	**15,953,471.54**	374,265.66	966,215.18	140,000.00	3,934,188.71	-	10,126,055.62	-	412,746.36
2005/06	**20,986,687.91**	562,560.62	1,773,960.78	70,000.00	5,602,868.65	-	12,776,208.04	-	201,089.83
2006/07	**26,830,263.43**	763,984.32	1,677,529.88	362,970.00	6,505,679.99	-	17,286,427.39	-	233,671.85

Fiscal Year	TOTAL OF CURRENT LIABILITIES	BORROWINGS	DEPOSITS	BILLS PAYABLE	BILLS FOR COLLECTIONS	OTHER LIABILTIES
1997/98	**2,732,420.00**	100,000.00	2,582,209.00			50,211.00
1998/99	**2,655,585.00**	50,000.00	2,438,893.00			166,692.00
1999/2000	**3,450,729.83**	140,000.00	2,983,281.92	8,851.53	70,767.83	247,828.56
2000/01	**4,548,076.78**	120,000.00	4,256,210.57	5,181.82	-	166,684.39
2001/02	**4,450,421.22**	98,500.00	4,174,762.44	6,822.58	-	170,336.20
2002/03	**8,375,706.88**	6,829.00	7,922,766.42	31,633.75	-	414,477.71
2003/04	**12,002,259.30**	361,500.00	11,524,679.65	57,836.40	-	58,243.26
2004/05	**15,093,890.70**	350,000.00	14,254,573.66	15,008.20	-	474,308.84
2005/06	**19,233,752.31**	-	18,927,305.97	18,820.12	-	287,626.21
2006/07	**24,868,775.82**	-	24,488,855.70	32,401.46	-	347,518.66

EXTRACTS FROM THE BOOK OF NEPAL INVESTMENT LTD.

Fiscal Year	TOTAL OF PERFORMING ASSETS	MONEY AT CALL	INVESTMENT ON T.B. & SHARES	BILLS PURCHASE & DISCOUNT	LOAN & ADVANCES
1997/98	2,772,572.00		1,099,100.00		1,673,472.00
1998/99	2,723,368.00		1,312,135.00		1,411,233.00
1999/2000	3,254,093.04	-	1,183,413.92	86,439.73	1,984,239.40
2000/01	4,289,107.93	-	1,970,277.92	-	2,318,830.01
2001/02	4,386,585.60	-	1,822,162.12	-	2,564,423.48
2002/03	7,517,380.95	40,000.00	1,705,240.70	-	5,772,140.25
2003/04	11,302,608.83	310,000.00	3,862,483.33	-	7,130,125.50
2004/05	14,200,244.33	140,000.00	3,934,188.71	-	10,126,055.62
2005/06	18,449,076.69	70,000.00	5,602,868.65	-	12,776,208.04
2006/07	24,155,077.38	362,970.00	6,505,679.99	-	17,286,427.39

Fiscal Year	NPAT before Interest	Interest Expenses	net profit
1997/98	238,423	144,585	93,838
1998/99	183,578	137,884	45,694
1999/2000	193,447	120,788	72,659
2000/01	224,020	167,611	56,409
2001/02	187,542	130,436	57,105
2002/03	306,032	189,214	116,818
2003/04	478,873	326,202	152,671
2004/05	586,696	354,549	232,147
2005/06	841,483	490,947	350,536
2006/07	1,186,929	685,530	501,399

Capital Emloyed	Paid Up Capital	Deposit Liabilites
2,717,560	135,351	2,582,209
2,574,244	135,351	2,438,893
3,118,633	135,351	2,983,282
4,426,195	169,985	4,256,211
4,344,747	169,985	4,174,762
8,218,059	295,293	7,922,766
11,819,973	295,293	11,524,680
14,842,312	587,739	14,254,574
19,517,892	590,586	18,927,306
25,290,208	801,353	24,488,856

EXTRACTS FROM THE BOOK OF NEPAL INVESTMENT LTD.

Fiscal Year	TOTAL DEBTS	BORROWINGS	DEPOSITS	BILLS PAYABLE	OTHER LIABILTIES
1997/98	**2,682,209.00**	100,000.00	2,582,209.00		
1998/99	**2,488,893.00**	50,000.00	2,438,893.00		
1999/2000	**3,123,281.92**	140,000.00	2,983,281.92	-	-
2000/01	**4,376,210.57**	120,000.00	4,256,210.57	-	-
2001/02	**4,273,262.44**	98,500.00	4,174,762.44	-	-
2002/03	**8,375,706.88**	6,829.00	7,922,766.42	31,633.75	414,477.71
2003/04	**12,002,259.30**	361,500.00	11,524,679.65	57,836.40	58,243.26
2004/05	**15,093,890.70**	350,000.00	14,254,573.66	15,008.20	474,308.84
2005/06	**19,233,752.31**	-	18,927,305.97	18,820.12	287,626.21
2006/07	**24,868,775.82**	-	24,488,855.70	32,401.46	347,518.66

DIVIDEND (INCLUDING BONUS SHARE) ON SHARE CAPITAL
NEPAL INVESTMENT BANK LTD.,

Before Handover

Fiscal Year	PERCENT
1997/98	50.00
1998/99	30.00
1999/2000	50.00
2000/01	-
2001/02	30.00
AVERAGE	**32.00**

After Handover

Fiscal Year	PERCENT
2002/03	20.00
2003/04	15.00
2004/05	12.50
2005/06	55.46
2006/07	30.00
AVERAGE	**26.59**

MARKET VALUE PER SHARE
NEPAL INVESTMENT BANK LTD.,

Before Handover

Fiscal Year	RUPEES
1997/98	600.00
1998/99	822.00
1999/2000	1,401.00
2000/01	1,150.00
2001/02	760.00
AVERAGE	**946.60**

After Handover

Fiscal Year	RUPEES
2002/03	795.00
2003/04	940.00
2004/05	800.00
2005/06	1,260.00
2006/07	1,729.00
AVERAGE	**1,104.80**

EXTRACTS FROM THE BOOK OF BANK OF KATHMANDU LTD.

Sum Total				**Figures in Rs.'000**				

Fiscal Year	TOTAL OF CURRENT ASSETS	CASH BAL	BANK BAL	MONEY AT CALL	INVESTMENT ON T.B. & SHARES	BILLS PURCHASE & DISCOUNT	LOAN & ADVANCES	BILLS FOR COLLECTIONS	CUSTOMER'S LIABITIY	OTHER ASSTES
1994/95	362,936.63	10,555.44	122,313.26	-	-	47,988.47	171,548.62	2,613.31	-	7,917.53
1995/96	1,391,486.40	61,675.44	200,489.05	-	22,370.46	61,634.48	972,552.33	1,010.99	46,930.47	24,823.19
1996/97	1,858,612.26	109,228.56	187,654.05	86,750.00	190,287.44	44,905.21	1,177,356.36	1,311.63	9,908.77	51,210.24
1997/98	1,933,005.37	106,077.89	395,212.20	47,290.00	112,782.25	32,364.17	1,145,505.09	4,604.70	50,718.20	38,450.87

Fiscal Year	TOTAL OF CURRENT LIABILITIES	DEPOSITS	BILLS PAYABLE	BILLS FOR COLLECTIONS	CUSTOMERS' ACCEPTANCES	OTHER LIABILTIES
1994/95	362,412.33	329,984.78	254.26	2,613.31	-	29,559.99
1995/96	1,357,060.80	1,281,754.21	1,264.71	1,010.99	46,930.47	26,100.42
1996/97	1,799,151.49	1,704,371.76	866.22	1,311.63	9,908.77	82,693.10
1997/98	1,961,994.77	1,773,871.39	1,235.00	4,604.70	50,718.20	131,565.48

Fiscal Year	TOTAL OF CURRENT ASSETS	CASH BAL	BANK BAL	MONEY AT CALL	INVESTMENT ON T.B. & SHARES	LOAN & ADVANCES	OTHER ASSTES
2002/03	7,351,175.17	157,400.33	535,311.78	30,350.30	1,816,148.86	4,542,700.20	269,263.70
2003/04	9,412,719.67	139,220.90	643,662.04	272,321.00	2,477,409.63	5,646,698.44	233,407.65
2004/05	9,761,899.52	161,469.65	579,050.83	328,873.86	2,598,253.41	5,912,579.47	181,672.30
2005/06	12,160,227.97	184,019.72	544,677.37	594,047.38	3,374,711.97	7,259,082.58	203,688.95
2006/07	14,245,626.69	219,042.57	1,096,861.37	259,278.63	2,992,433.87	9,399,327.62	278,682.64

Fiscal Year	TOTAL OF CURRENT LIABILITIES	BORROWINGS	DEPOSITS	BILLS PAYABLE	OTHER LIABILTIES
2002/03	6,865,683.71	498,235.86	6,170,711.57	35,144.12	161,592.17
2003/04	8,845,599.44	912,150.00	7,741,645.42	38,709.42	153,094.60
2004/05	9,136,392.65	6,000.00	8,942,748.60	19,873.93	167,770.12
2005/06	11,139,883.90	553,180.00	10,485,359.24	11,621.66	89,723.01
2006/07	13,252,544.84	730,000.00	12,388,927.29	25,776.72	107,840.83

EXTRACTS FROM THE BOOK OF BANK OF KATHMANDU LTD.

Fiscal Year	TOTAL OF PERFORMING ASSETS	MONEY AT CALL	INVESTMENT ON T.B. & SHARES	BILLS PURCHASE & DISCOUNT	LOAN & ADVANCES
1994/95	219,537.09	-	-	47,988.47	171,548.62
1995/96	1,056,557.27	-	22,370.46	61,634.48	972,552.33
1996/97	1,499,299.01	86,750.00	190,287.44	44,905.21	1,177,356.36
1997/98	1,337,941.51	47,290.00	112,782.25	32,364.17	1,145,505.09

Fiscal Year	TOTAL OF PERFORMING ASSETS	MONEY AT CALL	INVESTMENT ON T.B. & SHARES	LOAN & ADVANCES
2002/03	6,389,199.36	30,350.30	1,816,148.86	4,542,700.20
2003/04	8,396,429.07	272,321.00	2,477,409.63	5,646,698.44
2004/05	8,839,706.74	328,873.86	2,598,253.41	5,912,579.47
2005/06	11,227,841.92	594,047.38	3,374,711.97	7,259,082.58
2006/07	12,651,040.11	259,278.63	2,992,433.87	9,399,327.62

Fiscal Year	Net Worth	Paid up capital	Reserve & Surplus	Undistributed Profit
1994/95	42.07	42,000.00	71.01	-
1995/96	71.03	67,500.00	3,266.14	265.06
1996/97	93.38	90,000.00	3,384.75	-
1997/98	96.66	90,000.00	6,660.35	-

Fiscal Year	Net Worth	Paid up capital	Reserve & Surplus
2002/03	579,133.24	463,580.90	115,552.34
2003/04	650,745.23	463,580.90	187,164.33
2004/05	720,737.82	463,580.90	257,156.92
2005/06	839,733.88	463,580.90	376,152.98
2006/07	981,978.73	603,141.30	378,837.43

Fiscal Year	NPAT before Interest	Interest Expenses	Net Profit
1994/95	(4,229)	3,698	(7,927)
1995/96	93,253	82,924	10,329
1996/97	137,390	142,533	(5,143)
1997/98	143,742	163,265	(19,523)

Fiscal Year	NPAT before Interest	Interest Expenses	Net Profit
2002/03	358,833	276,705	82,128
2003/04	413,770	286,297	127,473
2004/05	381,169	241,639	139,530
2005/06	510,596	308,156	202,441
2006/07	601,568	339,181	262,387

Fiscal Year	Capital Emloyed	Paid up Capital	Deposit Liabilites
1994/95	371,985	42,000	329,985
1995/96	1,349,254	67,500	1,281,754
1996/97	1,804,372	90,000	1,714,372
1997/98	1,863,871	90,000	1,773,871

Fiscal Year	Capital Emloyed	Paid up Capital	Deposit Liabilites
2002/03	6,634,292	463,581	6,170,712
2003/04	8,205,226	463,581	7,741,645
2004/05	9,439,362	463,581	8,975,781
2005/06	10,948,940	463,581	10,485,359
2006/07	12,992,069	603,141	12,388,927

EXTRACTS FROM THE BOOK OF BANK OF KATHMANDU LTD.

Fiscal Year	TOTAL DEBTS	BORROWINGS	DEPOSITS	BILLS PAYABLE	OTHER LIABILTIES
1994/95	359,799.02	-	329,984.78	254.26	29,559.99
1995/96	1,309,119.34	-	1,281,754.21	1,264.71	26,100.42
1996/97	1,787,931.08	-	1,704,371.76	866.22	82,693.10
1997/98	1,906,671.87	-	1,773,871.39	1,235.00	131,565.48

Fiscal Year	TOTAL DEBTS	BORROWINGS	DEPOSITS	BILLS PAYABLE	OTHER LIABILTIES
2002/03	6,865,683.71	498,235.86	6,170,711.57	35,144.12	161,592.17
2003/04	8,845,599.44	912,150.00	7,741,645.42	38,709.42	153,094.60
2004/05	9,136,392.65	6,000.00	8,942,748.60	19,873.93	167,770.12
2005/06	11,139,883.90	553,180.00	10,485,359.24	11,621.66	89,723.01
2006/07	13,252,544.84	730,000.00	12,388,927.29	25,776.72	107,840.83

DIVIDEND (INCLUDING BONUS SHARE) ON SHARE CAPITAL
BANK OF KATHMANDU LTD.,

Before Handover

Fiscal Year	PERCENT
1994/95	
1995/96	
1996/97	
1997/98	-
AVG	**-**

After Handover

Fiscal Year	PERCENT
2002/03	5.00
2003/04	10.00
2004/05	15.00
2005/06	48.00
2006/07	20.00
AVERAGE	**19.60**

MARKET VALUE PER SHARE
BANK OF KATHMANDU LTD.,

Before Handover

Fiscal Year	RUPEES	
1994/95	-	N/A
1995/96	-	N/A
1996/97	-	N/A
1997/98	153.00	

After Handover

Fiscal Year	RUPEES
2002/03	198.00
2003/04	295.00
2004/05	430.00
2005/06	850.00
2006/07	1,375.00

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