CHAPTER – 1

INTRODUCTION

1.1 BACKGROUND

Financial institutions, especially the banks are the lifeblood of economy. Without these the operation of an economy cannot be succeeded. Generally banks play vital role in capital formation and proper utilization of collected fund, providing service in domestic and international trade. The commercial and development bank consequently have a specific role to play in the economic development in the long run. A well-functioned banking system is an essential element for economic growth. A good banking system is supposed to mobilize saving from households and business in low cost of financing activities and canalize funds to the most productive investment opportunities.

In the economic development of the country, banks play vital role, so if there is insufficiencies of banking and financial facilities, the growth of the economic development become slow. Banking and financial sectors act, as Mobil in the process of monetization, which is a major backbone of economic development in country, like ours. The main objectives of the commercial banks are to earn profit by proper mobilization of resources. It is fairly safe to say that banks are not the outcome of the economic development but are the courses for it. Specially, commercial banks provide different facilities to the people engaged in trade, commerce and industry. That is why; they are being the means to uplift the society. The functions of Commercial banks are different such as accepting deposit, providing interest. In the formulation of capital performing agency functions, which make business easier and they also, play an important role in credit creation when economy is in boom.

Development bank is an institution to promote enterprises in the private sector. In another word Development banks are those financial institutions, which provide general, medium-term and long-term financial assistance to a developing economy. Development bank is essentially a multi-purpose financial institution with a broad development outlook. A development bank may thus, be defined as a financial institution concerned with providing all type of financial assistance (medium as well as long term) to business units in the form of loan, underwriting services, investment and guarantee operation and promotional activities-economic development and industrial development.

1.2 FOCUS OF THE STUDY

In Nepal many commercial and development bank have been opened with in few years of period. Basically joint venture bank have given a new horizon to the financial sector of Nepal. They have achieved tremendous success in term of market share and profitability due to their prompt service and professionalism. This study focuses on the financial performance of two banks Kumari Bank and Machhapuchchhre Bank.

This study will focus on the comparative financial performance of Kumari Bank and Machhapuchchhre Bank ltd, from the period 2003- 2004 to 2007 - 2008. In this study an attempt will be made to get knowledge about financial performance mobilizing its capital fund, the earning capacity, efficient use of assets and proper utilization of funds, and identifying the financial weakness and strength of the two particular banks.

The main focus of the study is about comparative study of financial performance between Kumari bank and Machhapuchchhre Bank. Similarly, this study forecast the deposit, net-worth, net-profit, loan and advance, Investment, Earning per share, and Market value per

share. The study will try to find out the correlation between specific variable and the causes leading to better performance of the banks. For the purpose of the study evaluation of the banks is made with respect to liquidity, leverage, capital adequacy, turnover and profitability tests the relationship between various variables. The Study assumes the hypothesis that the performance of sample bank doesn't differ significantly and will also involve the presentation, analysis, suggestions, conclusion and recommendations on the specific subject matter.

1.3 INTRODUCTION OF THE COMPANIES UNDER STUDY

1.3.1 Kumari Bank Limited

Kumari Bank Limited, came into existence as the fifteenth commercial bank by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking service in Nepal.

Kumari Bank Ltd has been providing wide- range of modern banking services through 5 points of representation across the country. The bank has adopted Globus Banking Software, developed by Temenos NV, Switzerland, to provide centralized data base system to all branches. The bank has also been providing visa debit card, which has an access on ATMs (including 6 own ATMs) and POS (Point of Sale) terminals both in Nepal and India.

Within 5 years of its establishment, the bank has been able to recognize itself as an innovative and growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

Capital Structure of Kumari Bank Limited is as follows.

- Authorized capital NRs 1600 million

- Issued Capital NRs 1186 million
- Paid Up capital NRs 1186 million

Shareholding Pattern:

1. Financial Institution 69.88 %
2. Other Institution 0.12 %
3. General Public 30 %

1.3.2 Machhapuchchhre Bank Ltd.

Machhapuchchhre Bank Ltd. is 14th commercial bank in Nepal. It has 11 branches at various cities at Nepal. It has introduced many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business. It mobilizes its sources in the form of fixed, saving and other short-term deposits with competitive interest rates. MBL gives priority in prompt and customer oriented services and the bank has a team of young, energetic and committed professionals from different disciplines.

Capital Structure of Machhapuchchhre Bank Ltd is as follows.

- Authorized capital NRs 2000 million
- Issued Capital NRs 1479 million
- Paid Up capital NRs 1479 million

Shareholding Pattern:

Shareholding Pattern:

1. Financial Institution 15 %

2. Other Institution 36 %

3. General Public 49 %

1.4 STATEMENT OF PROBLEMS

The number of joint venture Banks is being increased in response to the economic liberalization policies of the government .Besides joint venture commercial banks are also being registered by the Nepalese promoters.

Most of the business organizations along with Banks are facing different problems due to the lack of political stability and unrest. Bank has being facing the considerable pressure to lower the lending rates, which adversely affects the profitability.

A comparative study of financial performance is basic process which provides information about the profitability, liquidity position, earning capacity, efficiency in operation, creditworthiness, sources and usages of capital, achievements, status of bank and pointing out their strength and weakness.

The problem of study refers comparative study of strength and weakness of KBL and MBL.

This study has aimed to find out the answer to the following question.

- How far KBL and MBL have been able to shift the monetary resources from the savers to users?
- What is the financial growth condition of these two banks?
- Is their a value Maximizing financial position?

- What is the comparative position of two firms in respect of their financial performance?

1.5 OBJECTIVE OF THE STUDY

The primary objective of the study is to make comparative analysis of the financial performance of two banks Kumari Bank and Machhapuchchhre Bank through the help of financial ratio and statistical tool. To attain the mentioned objective, following specific objectives have been set.

a) To evaluate the liquidity, leverage, profitability, activity ratio and position of two banks.
b) To analyze the overall financial performance i.e. the strength and weakness of two banks.
c) To make comparative analysis of other indicators with reference to Earning per share, Dividend per share, Dividend payout ratio.
d) To compare growth trend of banks as regards to investment, loan and advances, total deposit, net profit and earning per share.
e) To recommend suggestion and possible guideline for future improvements.

1.6 SIGNIFICANCE OF THE STUDY

The study of the analysis of financial performance plays vital role in the managerial decision. Every organization has to analyze its financial performance in the every step of its operation, promotion, and expansion.

This study will be helpful to enhance the financial performance of concern organization. This study will be usable and valuable for academicians, students, teachers and practitioners in the

field of accounting and finance. This study enlightens the shareholders, financial agencies, stock exchange, stock trader, customers, depositors and debtors who can objectively identify the better banks to deal with.

1.7 LIMITATIONS OF THE STUDY

This study will be limited by following factors:

1. The study is prepared to fulfill the requirement of Master Degree in Business studies.
2. The study covers data analysis of five fiscal years from 2004 to 2008.
3. This study is limited to the comparative study of two banks only i.e. financial performance of Kumari Bank and Machhapuchchhre Bank.
4. The study is based on the secondary data like annual report of the banks journals, other published articles and works etc collected from central office , KBL and MBL. It focuses only the financial performance and doesn't cover other aspect of activities.
5. Due to the difficulties of data available ordinary and simple technique have been used for the analysis of the data.

1.8 ORGANIZATION OF THE STUDY

This study has been organized into five chapters, each devoted to some aspect of the study of financial performance of Kumari bank and Machhapuchchhre bank in Nepal. The contents of each of theses chapter are as follows:

Chapter I: Includes the introductory part of the study as already mentioned this chapter describes the general background of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

Chapter II: This chapter deals with conceptual framework on financial performance of Commercial and Development banks in the country and also includes major studies related with this study.

Chapter III: It describes the research methodology in the study. This deals with the matter and sources of data, population and sample, the model of analysis, meaning and definition of statistical tools.

Chapter IV: This chapter is the heart of the study. This chapter deals with presentation and analysis of data and information through a definite course of research methodology.

Chapter V: This chapter states summary and conclusions and major finding of the study.

The bibliography, annexes are incorporated at the end of the study.

Chapter II:
Review of Literature

2.1 THEORETICAL REVIEW

2.1.1 Meaning and Concept of Financial Analysis

In the start of human civilization, limited transaction took place for exchanging goods and services, so the numbers of business transaction take place in small amount and places. Due to small transaction and business activities each and every businessman was able to record and check the transaction himself that manifest no need of record and check by accounting system. But the situation today has entirely changed because of increment of business transaction. The increment of business transaction requires the need of accounting

system with the help of financial statement. Application of financial statement helps every businessman to show actual business condition to different parties.

Effective planning and control is the central to enhancing enterprises value. Financial plans may take many firms, but any good plan must be related to the firms existing strengthen and weaknesses. The strength must be understood if they are to be used proper advantage and the weaknesses must be recognized if corrective action to be taken. From this explanation we can conclude that financial statement is systematically collection of financial affairs. The top management of business enterprise needs financial statement to see the actual financial situation of the firm to owners, creditors and concerned parties. In this connection, I.M. Pandey has remarkably pointed out the 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, similarly in the view of S.P. Jain and K.L. Narang: the most important objective of the analysis and interpretation of financial statements are to determine the significance and sense of the financial statements data to know the strengths and weaknesses of a business.

Two basic financial statements prepare for the purpose of external reporting to investors, owners and creditors are balance sheet and profit and loss account. These statements are contained in companies' annual report. A basic limitation of the traditional financial statement comprising the balance sheet and profit and loss account is that they do not give all information related to financial information of a firm. Not only this they also provide some extremely useful information to the extent that the balance sheet mirrors the financial position on a particular day in terms of structure of assets, liabilities and owner's

equity and so on and the profit and loss account exhibits the result of operation during a certain period of time in terms of revenues obtained and cost incurred during the year. Thus financial statement provides a summarize ideas of financial situation and condition of operation of the firms.

Financial analysis is both analytical and judgmental process that helps answer questions that have been properly posed, and therefore it is a means to an end. We can stress enough that financial analysis is an aid that allows those who are responsible for results to make sound decision.[1]

Management of an enterprise is interested in all aspects of financial analysis in order to evaluate its operating performance, to audit its internal financial control system and to develop a strategy of bargaining for funds from external resources.[2]

A provoked by H.K. Clifton and F.G Edward the term financial statement used by itself without qualification refuse three principles statements. The balance sheet, income statement and statement of changes in equity are analyzing changes in the owners' accounts.

Balance sheet communicates information about assets, liabilities and owners' equity for a business firm as a specific data. Thus it is the most significant financial statement. It indicates the financial condition of a business at a particular movement of time. More clearly balance sheet of firm or industry contents information about resource and obligations of a business entity about its owner interest in business at a particular point of time.

[1] Erich, A. H., "Techniques of Financial Analysis", Jaico Publishing House.p.2
[2] Agrawal, R.D. "Organization and Management", Tata Mc Graw-Hill Publishing Co. Ltd.p.25

Balance sheet is considered as a very significant statement by bankers and other lenders because it indicates firm's solvency and liquidity, as measured by its resource and obligation. However, creditors, particularly bankers and financial analyst have recently started paying more attention to the firms earning capacity as a measuring rod of its financial strength. Actually the capacity of earning and potentiality of a firm are reflected by its profit and loss account. The profit and loss account is a scoreboard of the firms' performance during a period of time. As a profit and loss account reflects the result of operation for a period of time, it is a flow statement. Profit and loss account presents the summary of incomes, expenses of a firm. Profit and loss accounts serves as a measure of firms' profitability.

Though balance sheet and profit and loss account are the vital components of financial analysis but they do not give all the required information regarding the financial operation of a firm. If the users can properly and systematically study and analyze the reported statement only then they can have better knowledge and information about the financial strength and weaknesses of the firm.

The financial statements provide a summarized view of the financial position and operations of a firm. Therefore, much can be learnt about a firm from a careful examination of its financial statements as invaluable documents/ performance reports. The analysis of financial statements is thus, an important aid to financial analysis.[3]

The types of analysis vary according to the specific interests of the party involved. Trade creditors are interested primary in the liquidity of firm. Their claims are short term and

[3] M.Y. Khan and P.K. Jain, "Financial Management". Tata McGraw Hill Publishing Co. Ltd. (2004) P. 3.47.

the ability of a firm to pay these claims is best judged by means of a through analysis of its liquidity. The claims of bondholders on, the other hand are long term. Accordingly, they are more interested in the cash flow ability of the company to service debt over the long run. The bondholder may evaluate this ability by analyzing the capital structure of the firm, the major sources and use of funds, its profitability over time and project of future profitability.

Investors in a company's common stock are concerned principally with present and expected future earnings and the stability of these earnings about a trend, as well as their covariance with the earnings of other companies. As a result, investors might concentrate their analysis on a company's profitability. They would be concerned with its financial condition in so far as it affects the ability of the company to pay dividends and to avoid bankruptcy. In order to bargain more effectively for outside funds, the management of a firm should be interested in the aspects of financial analysis that outside suppliers of capital use in evaluating the firm. Management also employs financial analysis for purposes of internal control. In particular, it is concerned with profitability of investment in the various assets of the company and in the efficiency of asset management.

2.1.2 Objective of Financial Analysis

From the concept of financial performance analysis, it has been proved that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of the analysis also differs from one party to other. However, major objectives of the analysis, in broad sense, can be stated as follows.[4]

[4] J.J. Hampton, "Financial Decision Making", Prentice Hall of India, Pvt. Ltd. 1998. p. 99.

- Assessment of past performance & current position
- Assessment of potential & related risks.

Assessment of past performance and current position.

Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return in investment. In addition, an analysis of current position will tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to the business such as:

- Earning capacity for the profitability of the concern.
- Operational efficiency of the concern as a whole of its various departments.
- Long term and short- term solvency of the business for the benefit of debenture holder's and trade credit.
- Real meaning and significance of financial data.

Assessment of potential and related risks.

The part and present information are useful only to the extent that has been bearing on future decisions. Investor judges the potential earning capacity of a company because that will affect the value of the investment or share and the amount of dividend the company will pay. The potentials of the existing company are easier to predict that of others. This means there is a less risk associated with them, the risk of the investment or loan hinges on how

easy it is to predict the future profitability and liquidity. Besides, managers of the business concern will get various information about the potential such as:

- Possibility of development in the near future through forecast and budget allocation.
- Financial stability of the business concern.
- Reforms needed for in the present policies and procedures that will help reduce weaknesses and strengthen performance.

2.1.3 Importance of Financial Analysis

The analysis and interpretation of financial statements is an important accounting activity. The importance of financial analysis can be summarized as under:

- Financial statement analysis provides valuable information on the basis of that information certain decision can be taken.
- This analysis also provides information related to profitability and operating cost, which is importantly needed.
- This analysis is also help to measure the liquidity and solvency position of a concern.
- For assessment of financial performance and operating efficiency of a concern also, the analysis of financial statement is important.[5]

There are different parties interested in it. Their aims and objectives of analysis are also differing significantly. The following are the uses of financial statement analysis to different parties:

- Financial Executives

[5] R.M., Srivastava, "Financial Management" op.cit.pp.58-59.

- Top Management
- Creditors
- Investors and Others

(a) Financial Executives

The first party interested in the financial statement analysis is the finance department. Such analysis provides a deep insight into the financial condition of the enterprises, and a view of the past performance, which helps in future decision making to the financial manager. This means analysis is not only gives vital information concerning the position of the enterprise but also reflects the results of the operations.

(b) Top Management

The top management is also interested in the analysis of financial statements because it helps them in reaching conclusions regarding:

- Performance appraisal of overall business activities.
- Inquiry about the current financial position.
- Questions concerning the relationship of earnings to trend in sales, etc. and Questions concerning the relationship of earnings to investment.

(c) Creditors

The financial analysis is also very useful to the creditors. They are interested to know over all financial position of the firm before giving loan. The financial performance indicates the financial position and it helps to judge the soundness and credit worthiness of the firm.

Moreover, they get all information from the analysis of balance sheet and income statement of the company.

(d) Investors and Others

Investors are also interested in the measurement of earning capacity of the securities. They have been concerned with cash generation capability of an enterprise. For this purpose, cash flow analysis and funds flow analysis have proved to be very useful.

Besides the above mentioned parties, the information provided by the analysis and interpretation of various financial statements are important and useful to these groups who are interested in the working of the business due to one and the other motive. They are employees of the business and their unions, government, consumers and general public.

2.1.4 Limitations of Financial Analysis

Although financial performance analysis is highly significant for financial executive, top management, creditors, investors and others there are certain limitations.[6]

a. The analysis of financial statement is only a means to reach up to conclusions and is not conclusion itself. So, it cannot work as a substitute for sound judgment. The judgment will depend upon the intelligence and skill of the analyst.
b. In case the figure of a year is taken for analysis, it will not provide true financial picture of the firm/ organization.
c. The basic nature of financial statement is historic. Past can never reflect hundred percent impacts in the future.

[6] S.P. Jain, and K.L.,Narayan, op.cit.p b33-b35

d. The result of financial analysis cannot be as an indication of good or bad management because the ratios and other figures explain only probable state of events.
e. Financial statements fail to provide current information or exact value of assets because it records actual cost figures and do not record price level changes.
f. The figures of current period may have no comparability due to change in accounting method and whole exercise of analysis may be become useless.
g. The figures of one firm may not have fully comparable with that of other because there is difference in the nature, accounting procedure and financing pattern, etc. But, analysis generally ignores these facts and makes an objective comparison of two business firms and result may occur misleading.
h. These results may be meaningless if suitable tools will not be used for the analysis. These results may push the future of business toward the hell.

2.1.5 User of Financial Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. Different groups associated with the concern perceive the fact discovered by the analysis differently. The facts and the relationships concerning managerial performance, corporate efficiency financial strengths and weakness and credit worthiness are interpreted on the basis of analysis leads management of an enterprise to take crucial decisions regarding operating policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources.[7]

The parties that are benefited by the results or conclusions drawn from the analysis of financial performance can be enumerated as:

[7] R.D. Agrawal, " Organization and Management" Op.cit.pp 58-59.

- Top Management
- Creditors
- Shareholders
- Economists
- Labour Unions
- Government
- Public society

a) **Top Management:** It is the overall responsibility of top management to see that the resources of the firms are used most effectively and efficiently and that the firm's financial condition is sound, understanding the past is a pre-requisite for anticipating the future. Hence, top management can measure the success. Otherwise, a company's operations determine the relative efficiency of various departments, products and process, appraise the individual's performance and evaluate the system of internal audit.

b) **Creditors**: The creditors can find out the financial strengths and capacity of the borrower to meet their claims. Trade creditors are interested in the firm top meet their claims over a very short period of time. The suppliers of long-term debt, on the other hand, are concerned with the firm's long-term solvency and survival. A leading bank through an analysis of their statements can decide whether the borrower retains the capacity of refunding the principle and paying interest in time or not.

c) **Shareholders:** The investors, who have invested their money in the firm's shares, are most concerned about the firm's earning. They are able to evaluate the efficiency of the management and determine if there is any need of change. In a large company, the shareholder's interest is to decide whether to buy, sell or hold the shares. If performance

of the organization is excellent, investors whish to buy the shares, where as they simply intend to hold the shares is case of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

d) **Economists:** Economists analyze the financial statement with a view to study the prevailing business and economic condition. The government agencies analyze them for he purpose of the price regulation, rate setting and similar other purposes.

e) **Labour Union:** Well- motivated labours are good source of productivity. Labour unions are interested in right and benefits of labours to raise the moral of labours. To motivate the labours they expect to increase in wage, fringe benefit and so on. Therefore the union assess whether the company is in the situation or not to make facilities a variable.

f) **Government:** Science the organization generates the resources and also uses many resources and as the government concern is in the same line, it is also interested in the activity of the organization. The government requires the information to formulate and regulate taxation policy and to determine the economic area needing more focus to achieve the best possible distribution of the resource.

g) **Public society:** In the present age of consumerism and consumer rights with the increasing brand influence over the public. They are also interested in using the products of sustainable and accountable organizations. Also they are interested in confirming whether or not the company is implementing the proper pricing. With the increasing in their awareness of the importance of environment. They are also interested to know whether the activities of the company are environment friendly.

2.1.6 Sources of Judging Financial Performance

The firm communicates financial information to users through financial statements and reports. They are the means to present financial situation or position to owners, creditors and the general public.[8] As these statements are used by investors and financial analysis to examine the firm's performance resource allocation decision. Moreover, the analysis and interpretation of financial statements depend on the nature and type of information available therein.

Basically, there are two financial statements prepared for the purpose of external reporting to owner's investors and creditors, which are main source for judging financial position. They are;

- Income statement
- Balance sheet
- The statement of retained earning

(a) Income Statement:

The second major statement for sources of financial information is income statement. It is also known as profit and loss account. It may be defined as any systematic array of revenues, expenses and other deductions, and net income of a business for a stated period. Furthermore, income statement is an abstract portrayal of the dynamic life of the business

[8] I.M. Pandey, " Element of Management Accounting", Vikash Publishing House Pvt. Ltd. p55

presenting a longitudinal picture of the gains and losses of the business, its fortunes and misfortunes.[9]

In the words of Khan& Jain, " Income statement is of great importance and interest to end-users of financial statements because it enables them to ascertain whether the business operations have been profitable or not during the specific accounting period.[10]

In addition, it shows whether enterprise has eared profit or losses within the particular period, so it is a statement of the profit earned or loss incurred. This statement is extremely useful to analyzer to evaluate financial positions as well as profitability of the business operation.

Hence, an income statement is classified record of the gain and loss to the business for a period of time. It is prepared from the various balances of subsidiary nominal account given in the shape of trail balance.[11]

In conclusion, these two financial statements i.e. balance sheet and income statement or profit and loss account of a business firm contain useful information, so they are very helpful to know the financial strengths and weaknesses by analyzing those statements comparatively. They are not separate and independent statements, but are related to each other. Thus both have vital role in the field of financial performance analysis.

b) Balance Sheet

[9] Pradip Kumar. " Elements of Management Accounting", Kedar Nath Ram Nath, Meerut (U.P.), 1994 p-15
[10] Op. cit., P34
[11] Suvash and Vithal Sharma, M.P. "Financial Accounting of Management" , Macmillan India Ltd., 1998 p-34.

The balance sheet is a document that reports the financial position of a company as of specific point of time.[12] It is one of the most significant financial statements for analysis of financial performance. More, specifically, the balance sheet contains information about the resources and obligations of a business entity and about its owners' interests in the business at the particular point of time. Thus, it is used to prepare in the end of financial year and reveals the firm's financial position on a specific date.[13] In the language of accounting, the balance sheet communicates information about assets, liabilities, and owners' equity for a business firm as on a specific date. It provides a snapshot of financial position of the firm at the close of the firm's accounting period.[14]

According to Mr. Khan & Jain." The balance sheet provides information about the financial position of a firm at a particular point of time, say, as on Dec. 31st. It can be visualized as a snapshot of the financial status of company.[15]

Likewise, balance sheet is a screen picture of financial position of a going business at certain moment. It is also known a statement of financial condition, position statement or statement of resources and liabilities or statement of worth etc.

In this way, it can be said that balance sheet is a summary statement and comparative record of the progress as downfall of the business. It shows the clear picture of the financial position of business as well as the assets and liabilities of business, the relative proportion of borrowed and ownership capital, etc, which are necessary to analyze and evaluation their

[12] Kirkland A. Wilcox & G. San Migual, "Introduction to financial Accounting", Hoper and Row, Newwork-1994,P.18.
[13] Op. Cit. P 18
[14] Surya Rana, "Financial Management " Ratna Pustak Bhandar, Ktm., 2056 B.S. P.11
[15] Khan, M.Y. and Jain, P.K. "Management Accounting", Tata McGraw Hill Publishing Company, Delhi-1993.

financial position of particular period. Hence, this is one of the important resources to examine financial weakness or strengths using different tools of any business firm especially the banks.

(c) The statement of retained earning

The statement tells us the operating result of a particular accounting period, say a month or of year. The statement or retained earning shows how the net income of the periods were aspirated or distributed. The statement shows the change in retained earning between the beginning and end of periods.

2.1.7 Major Steps on Financial Analysis

The basis for financial analysis is financial information obtained from balance sheet and profit and loss account. The analysis of financial statements is completed in three major steps.[16]

a) The first steps involve the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principle elements according to their resemblance and affinities. Thus, the balance sheet and income statement are completely recast and presented in the condensed form entirely different from their original shape.
b) The next step is the establishment of the significant relationship between the individual components of balance sheet and profit and loss account. This is done through the application of tools of financial analysis.

[16] R.M., Srivastava, "Financial Management" op.cit.p-56

c) Ultimately, signification of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared.

2.1.8 Types of Financial Analysis

The nature of financial analysis differs depending on the purpose of financial analysis and differs depending on the purpose of analyst. Financial statement analysis can be categorized into different types on the basis of material used, objectives of the analysis and the modulus operandi of analysis.[17]

a) On the basis of material used:

On the basis of material available and used by analysis, financial analysis can either be external or internal. Persons who don't have access to the detailed records of the company make an external analysis. They have to depend almost entirely in published financial statements. Investors, credit agencies, government agencies and research scholars make such type of analysis. Those persons who have access to the books of accounts and other related information are to the business make an internal analysis. While conducting this analysis, the analyst is a part of enterprise. For example, analysis for managerial purpose is the internal type of analysis.

(b) On the basis of objective:

On the ground of objective or purpose of study, financial analysis can either be long term or short term. Long-term analysis is made to study the financial stability, solvency and

[17] S.P. Jain and K.L., Narayan, "Financial Management accountancy", Kalyani Publishers, India, 1989. pp 23-25

liquidity as well as profitability and earning capacity of a business concern. This analysis helps for long term financial planning, which is essential for continued success of a business.

Short-term analysis is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business concern. This analysis helps for short term financial planning, which is essential for continuation of success of the business.

c) On the basis of modulus operandi analysis:

On the basis of modulus operandi, it can either be horizontal or vertical. Horizontal analysis is conducted to review and analyze financial statements of a number of years and therefore, it is based on data taken from several years. Hence it is also known as dynamic analysis. Vertical analysis is conducted to review and analyze the financial statement of one particular year only. As it is base on data from one year, it is also called static analysis.

2.1.9 Tools of Financial Analysis

To evaluate the financial condition and performance of a company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis and interpretation of various financial data would give experienced and skilled analyst a better understanding of the financial condition and performance of the firm, than they will obtain from analysis of the financial data alone.[18]

The techniques of analysis are employed to ascertain or measure the relation ship among the financial statement items of a single set of statement and changes that have taken place in these items as reflected in successive financial statement. The fundamental of the

[18] J.C., Van Horne, "Financial Management and Policy", Prentice hall of India, Pvt. Ltd. 1999, p 691-692

analytical technique is to simplify or reduce the data under review to the understandable terms.

Out of the various techniques, section of a technique or combination of the techniques can be used for the analysis depending on the purpose and availability or the materials demanded by the technique.

The analysis of financial statements is a process of evaluating relationship between component parts of financial statements to obtain better understanding of the firm's position and performance.[19] In brief, financial analysis is the process of selection, relation and evaluation. In the process of analysis, the financial analyst uses various methods. Most of the tools depend on the nature and characteristics of related statements and available data and information. Generally, there are financial and statistical methods to evaluate and to analyze, which are stated together.

- Funds-flow analysis
- Cash-flow analysis
- Ratio analysis

a) Funds Flow Analysis:

The statements of change in financial position prepared to determine only the sources and uses of fund between two dates of balance sheets is known as funds flow statements. It is prepared to uncover the information that financial statements fail to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put.

[19] W.B. Meigs, and Others, " Intermediate Accounting", M.C. Grew Hill, New York, 1978, P.1049

This statement is prepared to summarize the change in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to change in owners' equity. It is also aimed to depict the way in which the firm used its financial resources during the period.

Method of preparing funds flow statement depends essentially upon the sense in which the term fund is used. There are three concepts of fund: Cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept represents the total assets and resources as fund. The term fund refers only to working capital on working capital concept.

However, the concept of fund as working capital has gained wide acceptance as source of fund while conducting funds flow analysis. Transaction that decreases working capital is treated as application. But any transaction that affects current liabilities or current assets without result any change in working capital is not taken as source or use.

The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these uses were financed. In the light information's so supplied by statement, the outsider can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertake remedial actions. It serves as control device to measure the deviation between actual use of fund and the estimated budget. Analysts can evaluate the financial pattern of the concern (what portion of the growth was financed internally and what portion externally).

In spite of the great significance of funds flow analysis to various parties associated with the business, it is not free from drawbacks its shortcoming can be listed as:

This is not full proof as it depends on conventional financial statements.

- It cannot introduce any new items, which causes changes in financial status of the business.
- It is not much relevant technique as study of change in cash position is more useful rather than fund position.
- It is historical in nature so, cannot estimate source and application of fund in near future.
- It does not reflect the structural and policy changes.

b) Cash Flow Analysis:

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement cash rather than the inflow and outflow of working capital. It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit dates are recognized as the source of cash. Similarly, cash purchases and cash payment to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis. The type of analysis is useful for short- running planning of the firm. The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to

shareholders. The projection of cash flow for near future can be made to determine the need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily.

Thought it is more confidential than funds flow analysis for the decision related to the near future, it is also not free from drawbacks. Its drawbacks can be listed as:

- It is not perfect evident as it depends on conventional statements,
- It is historical in nature
- It does not reflect structural and policy changes.

d) Ratio Analysis:

Ratio analysis is carried out to develop meaningful relationship between individual items or groups of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two interrelated accounting figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operation of a company, when the relationship between two figures in the balance sheet is established. Ratio may be expressed in the form of quotient, percentage or proportion.

Ratio analysis involves two types of comparisons for the useful interpretation of the financial statement. A ratio itself does not indicate the favorable or unfavorable position. Most commonly used standards to evaluate the ratio are:

- Comparison of present ratio with past or expected future ratios.

- Comparison of the ratio of the firm with these similar firms over the period of time or with industry average at the same point of time.

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry average. The ratio helps the analyst to form the judgment whether the performance of the firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditors judge whether the firm is able to meet its obligations and whether the more leading would be beneficial for them or not.

Liquidity ratio measures the ability of the firm to meet its current obligations. Leverage ratio evaluates the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm managers and utilized its assets. Finally, profitability ratios are calculated to measure the operating efficiency of the company. Through ratio analysis is powerful technique of financial analysis; it should be used with extreme care and considered judgment because it suffers from certain drawbacks. The drawbacks of the ratio analysis are listed below.

It is difficult to decide the proper basis of comparison.

- It calls interpretation to certain aspects of the business, which needs detailed investigation before arriving any financial conclusion.
- Unless there is a consistency in adoption of accounting methods, ratio may not prove of greater use in case of inter firm comparison.

In this way, the ratio analysis is widely used techniques to evaluate the financial position and performance of a business. But there are certain problems in using ratios. The analyst should be aware from those problems. The limitations of ratio analysis, basically, are:

- Ratios do not indicate immediately the point where the mistake or error lies.
- The price level changes make the interpretation of ratios invalid.
- Ratios are means not ends of financial analysis. They can be affected with the personal ability of analysis.
- Conclusions drawn with the help of ratios should be verified with other techniques otherwise result may not perfect.
- It generally calculated from past financial statements and, thus is no indicators of futures.
- The number of various ratios is so large that it is very difficult task to select same appropriate ratios for the various business units.

2.2 REVIEW OF PREVIOUS STUDIES

2.2.1 Review of articles (Journals)

Traditionally, banks act as financial intermediaries to channel funds from excess unit to deficit units. Unlike other non-bank financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily

regulate them. Analysis of banks' financial statement is different from that of other companies due to the special nature of assets ad liabilities.[20]

Balance sheet, profit and loss account and the accompanying notes are the most widely aspects of financial statements of the bank. The bank's balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the forms of loans. Fixed assets account for small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission, discount, service charge etc.

Dr. Manohar Krishna shrestha, in his article "Commercial Banks comparative performance evaluation" concluded that JVBs are new operationally more efficient, having superior performance while comparing with local banks. Better performance of JVBs is due to their sophisticated technology, modern banking method and skill. Their better performance is also due to the government's branching policy in rural areas and financing PEs. Local banks are efficient and expertise in rural sectors but having number of deficiencies. So, local banks have face growing constraints of socio-economic, political system on one hand spectrum and that of the issues and challenge of JVBs commanding significant banking business on other spectrum.[21]

Murari Raj Shrma, in his article " JVBs in Nepal: Co-existing or crowing out" pointed out that it would be definitely unwise for Nepal not to let the JVBs to operate in the country

[20]N.P.Paudel,"Financial statement analysis: An approach to evaluate Bank's performance ", NRB Samachar. 50th anniversary, 2053 B.S PP. 64-69

[21] Dr. Manohar Krishna Shrestha,"Commercial Banks Comparative Performance Evaluation" Kosh, Karmachari Sanchaya, Kathmandu, 2057, pp. 44-57.

and not to take advantage of them as additional means of resource mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVBs at the cost of domestic banks. So far, one should admit frankly no differential treatment has been extended to the domestic and JVBs at least from the government's side which is commendable. If the government keeps on the stance of treating the domestic and JVBs equally despite the letter's bargaining strength and if the JVBs also dhow their alacrity to come forward to share the trails and tribulations of this poor country, both types of banks will coalesce and co-exist, complementing each other and contributing to the nation's accelerated development. On the contrary if the JVBs use their strength against treading in to the cumbersome path of development along with the domestic banks and the government, they will eventually crowd out the domestic bank from the more profitable urban areas and lucratic urban sector unless reined in by the determination of the government.[22]

Organizational control is the process whereby an organization ensures that it is pursuing strategies and actions, which will enable it to achieve its goals. The measurement and evaluation of performance are central to control and mean posing 4 basic questions: -

- What has happened?
- Why has it happened?
- Is it going to continue?
- What are we going to do about it?

[22] Shrma, Murari,Raj, "JVBs in Nepal: co-existing or crowding out" Prashasan HMG, Year 19, No. 3, 52nd issue 1988, pp.31-42.

The first question can be answered by performance measurement. Management will then have to hand far more useful information than it would otherwise have in order to answer the other three questions. By finding out what has actually been happening, senior management can determine with considerable certainty which direction the company is going in and, if all is going well, continue with the good work. Or, if the performance measurements indicate that there are difficulties on the horizon, management can then lightly effect a touch on the tiller or even alter course altogether with plenty of time to spare.

As to the selection of a range of performance measures which are appropriate to a particular company, this selection ought to be made in the light of the company's strategic intentions which will have been formed to suit the competitive environment in which it operates and the kind of business that it is.

For example, if technical leadership and product innovation are to be the key source of a manufacturing company's competitive advantage, then it should be measuring its performance in this area relative to its competitors. But if a service company decides to differentiate itself in the marketplace on the basis of quality of service, then, amongst other things, it should be monitoring and controlling the desired level of quality.

Whether the company is in the manufacturing or the service sector, in choosing an appropriate range of performance measures it will be necessary however to balance them, to make sure that one dimension or set of dimensions of performance is not stressed to the detriment of others. The mix chosen will in almost every instance be different. While most companies will tend to organize their accounting systems using common accounting principles, they will differ widely in the choice, or potential choice, of performance indicators.

Authors from differing management disciplines tend to categories the various performance indicators that are available as follows: -

Competitive advantage	Flexibility
Financial performance	Resource utilization
Quality of service	Innovation

These 6 generic performance dimensions fall into two conceptually different categories. Measures of the first two reflect the success of the chosen strategy, i.e. Ends or results. The other four are factors that determine competitive success, i.e. Means or determinants.

Another way of categorizing these sets of indicators is to refer to them either as upstream or as downstream indicators, where, for example, improved quality of service upstream leads to better financial performance downstream.

Table 1: Upstream Determinants and Downstream Results

Performance Dimensions	**Types of Measures**
Competitiveness	Relative market share and position Sales growth, Measures re customer base
Financial Performance	Profitability, Liquidity, Capital Structure,

	Market Rations, etc.
Quality of Service	Reliability, Responsiveness, Appearance, Cleanliness, Comfort, Friendliness, Communication, Courtesy, Competence, Access, Availability, Security etc.
Flexibility	Volume Flexibility, Specification and Speed of Delivery Flexibility
Resource Utilization	Productivity, Efficiency, etc.
Innovation	Performance of the innovation process, Performance of individual innovations, etc.[23]

2.2.2 Review of Related Thesis

There has been a number of thesis done is financial performance of joint venture bank in Nepal. The comparative study of financial performance of Nepal Investment Bank and Everest Bank ltd. added one, more study in this banking sector through which the researcher can analyze the financial performance of these banks.

In this "review of related thesis" section some researcher finding related to joint venture banks are presented.

Joshi in her thesis entitled " A comparative study on financial performance of Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd. (2002)" has set the objective to study the present position and to examine relative financial performance of the two joint venture Banks. The analyst found that the liquidity position of NSBL is in normal standard and NBB is also trying to gain that position (i.e. unsatisfied). NBB is utilizing deposits more efficiently on loans and advances, investment and total outsides assets than NSBL. Similarly EPS of

[23] Performance Measurement in Businesses" by Lin Fitzgerald, Robert Johnston, Stan Brignall, Rhian Silvestro and Christopher Voss.

NBB is slightly better than that of NSBL. Higher EPS of NBB shows the effective use of NBB's owners, equity than NSBL. Divided creates positive attitude of the shareholders towards the enterprise, which consequently helps to increase the market value of the shares. It has found hat DPS of NSBL is for more satisfactory than that of NBB. NBB has more risky and aggressive capital structure than NSBL. Both the banks have riskier debt financing. Thus, it may be concluded that NSBL is in an increasing trend during the study period. The researcher recommends that both the banks should maintain and improve mix of debt on owner's equity by increasing equity base.

Shrestha[24] in her thesis entitled "A comparative analysis of financial performance of the selected joint venture Banks (2003)" has concluded the NB bank has better liquidity position whereas HBL and Nabil Bank have lower. NB bank has efficiently utilizing it deposits on loans and advances however; total investment of Nabil is better than that of NB and HBL. It is found that the common situation in all the JVBs is unbalanced capital structure. Decreasing trend of EPS and unstable policy of dividend is the cause of decreasing trend of market value per share of these banks. The researcher recommends that the selected JVB's should increase their equity capital by issue of shares, expending general reserves and retaining more earning. These JVBs must identify the investment opportunity and assort the risk assets portfolio carefully before accepting higher volume of deposits, especially high cost bearing fixed deposit.

[24] Binda Shrestha " A comparative analysis if financial performance of the selected joint venture banks. Unpublished Master's Degree thesis, Faculty of Management, shankar DEv Campus, Kathmandu 2003.

Dhal [25] is his thesis entitled "A comparative study on financial performance of Nepal SAI Bank limited and Nepal Indosuez Bank Limited (2001)" concluded the different liquidity position of these two banks shown that NIBL has comparatively better than that of SBI. Though income generative assets of NIBL are higher than SBI, is utilizing its deposits more efficiency of loams and advance investment and total outsides assets. NIBL is adopting more aggressive lending investment and borrowing policy to generate profit than SBI the trend analysis clearly shows that SBI is in increasing trend whereas NIBL has a mined trend.

Bista [26] in this thesis entitled "A comparative study on financial performance of Nepal SBI bank limited and Everest bank limited" has concluded that liquidity position of both the banks seems only satisfactory. Due to lacking up more funds in from of current assets has negative impact in profitability. NSBIBL appears more levered in overall capital structure. EBL has remained highest debt assets ratio, which reveals that the greater position of assets was financed through the outsider's cost bearing fund. For income gestation, NSBIBL utilized the resources more efficiently and prudently. Average return on assets is also higher in NSBIBL than in EBL. The profitability position of EBL is weaker in the study period. The researched therefore concluded total deposits, and advance investment and net worth increased with faster rate in NSBIBL whereas the speed of increment of net profit, MVPs and EPS remained greater in EPS. The researcher suggested both banks to review their investment portfolio to see if there is any better mix than present one.

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[25] Tek Nath Dahal, " A comparative study on financial performance of Nepal SBI Bank Limited and Nepal Indosuez Bank limited" Unpublished Master's Degree Thesis, Faculty of Management, Shanker Dev Campus, Kathmandu 2001.

[26] Ganesh Bhadur Bista. " "A comparative study on financial performance of Nepal SBI Bank limited and Everest bank limited" . Unpublished Master's Degree Thesis, faculty of Management, Shanker Dev Campus, Kathmandu, 2002.

The research conducted by Poudel[27] entitled "A comparative financial performance analysis if Nepal SBI Bank Limited and Nepal Grindlays bank limited" has drawn the following conclusions.

1. The liquidity position of NSBL is good enough; it should learn form the experienced banks like NGBL in regards to keeping liquid assets in interest bearing account as money at call.
2. NSBL has very high volume of interest bearing amount i.e. fixed deposit account balance.
3. The profitability ratios of NGBL are higher than of NSBL.
4. The entire leverage ratio, especially, a total debt bank is very high.
5. The capital adequacy ratios of both banks are satisfactory.
6. The deposit utilization ration of NGBL very low.

NGBL has tremendous possibility to utilize more the depositor's money. Attracting and exploring new lending opportunities can do this. Finally this will support national economy. NSBL should avoid further decreasing or its deposit utilization trend.

He also suggests that JVB's should make more effort to uplifting the economic condition of the rural poor. Further more, investment in deprived sector in very nominal now, but still even in present directives honest implementation by these JVB's is needed and the central bank needs to provide clear guidance and proper monitor. This only the activities of JVB's can be instrumental for the overall nation's development.

[27] Bal Ram Poudel., "A comparative financial performance analysis of Nepal SBI Bank Limited and Nepal Grindlays Bank Limited. " Unpublished Master's Degree Thesis, Faculty of Management, Nepal Commerce Campus, Kathmandu, 2000.

The research conducted by *Rimal*[28] entitled "A comparative study on financial performance of Nepal Bangladesh Bank and Nepal SBI Bank Ltd." has drawn following conclusions.

1. The liquidity position of NBBL was stronger than that of NSBIBL, which shows NBBL's readiness to serve its customers more efficiently in comparison with NSBIBL. The assets utilization ratios of both banks seems satisfactory, however, NSBIBL is seem more efficient to utilize its assets in profit generating areas as compared with NBBL.
2. The financial indicators like EPS, DPS, TPS of NSBIBL were found better in comparison to NBBL. NBB and managed more loan loss provision as compared with NSBIBL. This indicates that NBBL was following riskier strategy in advancing its loans to the different sectors.
3. The trend analysis conducted in term of net profit, total deposits total creates and investment clearly showed that the growth rates of NSBIBL were relatively high in terms of total deposits, total credit and investment. Where as profit growth rate of NSBIBL was found lower than NBBL. However the expected profit, total deposit, total credits and investment of NSBIBL.

The research conducted by Ghimire[29] entitled "A comparative case study of Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd." has drawn following conclusions.

[28] Shiva Prasad Rimal. " Comparative study on financial performance of Nepal Bangladesh Bank and Nepal SBI Bank Ltd.. Unpublished Master's Degree, Faculty of Management. Nepal Commerce Campus, Kathmandu-2000

[29] Gopal Prasad Ghimire. " A Comparative case study of Nepal Bangladesh Bank, Himalayan Bank Ltd. and Everest Bank Ltd. " Unpublished Master's Degree, Faculty of Management, Nepal Commerce Campus.- Kathmandu 2003.

To evaluate the financial performance of joint venture bank in Nepal, Ghimire have been undertaken Himalayan Bank Ltd., Bangladesh Bank Ltd. and Everest bank Ltd.

In his study, he found that these banks does not consider seriously about the liquidity position. He suggested all the banks to maintain an appropriate mix of debt and owner's equity. He further suggested that these banks should play proper role of merchant bank as well as financial intermediary i.e. acting as brokers, underwriting securities and other supportive roles in the security exchange.

In comparison of these banks, his conclusion can be traced out, liquidity position of EBL is comparatively better.

1. In terms of liquidity position of cash & bank balance to total deposit EBL has out performed other banks, but still among three banks, no banks has maintain 1:1 proportion.
2. In terms of fixed deposit to total deposit ratio, NB Bank has out performed others.
3. Saving deposit to total deposit ratio of NBBL has been recorded the lowest of all, which shows better liquidity position to meet short- term obligation. In analysis of activities ratio NB Bank has comparatively utilized their resources mush satisfactory.
4. In terms of short-terms investment to total deposit ratio EBL has recorded highest. But loan & advances to total deposit ratio and loan & advances to total assets ratio, the performance of NBL has been mote satisfactory.
5. In case of loan & advances to fixed deposit ratio, HBL has out performed others.

In capital structure ratio, he included total debt to assets ratio, capital adequacy ratio, which seems unsatisfactory.

1. In term of total debt to equity ratio HBL has more levered capital structure.
2. In terms of net worth to total assets ratio EBL has more fluctuation where as HBL has more uniform.
3. In achieving profit all these all these banks has performed better.
4. NPAIT & return on net worth of the HBL is higher. However, ROA & return of total deposit is relatively higher in NBL.

In other ratios he included interest paid to interest income, which is comparatively higher in EBL and DPS, which is comparatively highest in HBL i.e. Rs. 50.

1. In term of operating income HBL has lies between Rs. 729.81m to Rs.1572 during his study, period, which was highest among three banks. Whereas incase of reducing operating expenses, HBL has been more successful.
2. Though EPS of HBL has been decreasing the average EPS ratio of HBL is highest. Therefore, HBL has been able to earn more profit in his study period.

There are various thesis submitted in financial performance analysis of bank.

Mr. Dhurna Kumar Shrestha, in his thesis paper titled, "Analysis of Financial performance of ADB/N" tried to examine the revenue and expenditure position, deposit collection and mobilization of ADB/N. At the end of thesis he concluded that the major sources of revenue is interest on loan and major head of expenditure is interest on deposit. The banks have over staffing & increase in doubtful debt account problem and the loan a procedure requires that the customers have to go through lengthy and complex process to get loan. So, he recommended to the ADB/N to remove unnecessary legal formalities for getting

opportunities by managing over staffing & take stapes to reduce its interest receivable immediately.

Mr. Avaya Raj Shivakoti, in his thesis entitled, "Capital and assets structure of Nepal Industrial Development Corporation (NIDC)" [30] is tried to analyze the capital and assets structure of NIDC. He concluded that the revenue generating power of NIDC is not strong & average debt equity ratiuo is very high. The company must think twice before using any type of capital as well as investing on any type of the assets. He recommended that lots change must be made in its capital structure in order to achieve its very objectives.

The research conducted by Mr. Mukti Nath Sapkota, in his thesis entitled, " A study on loan disbursement and realization of Purbanchal and Sudur Paschimanchal Grameen Bikash Bank should help them economically and technically which they can bear easily.

The study on "The performance of NIDC, as a Development Bank"[31] conducted by Mr. Purshottam Manandhar has revealed that NIDC's total industrial financing was against the loan approval. The average annual industrial finance approval rate has been found the tune. In terms of region wise investment highest portion 74.57% of the disbursement has been in central department region and lows 1.7% at far-western development region. The rest three regions eastern, Western and mid-western development region could receive only 11.31% & 2.2% respectively. He points out that NIDC's efforts to min image its investment in Hotel sector (Especially in Kathmandu valley) has been found successful since last few

[30] Shivakoti, Avaya Raj , "Capital and assets structure of Nepal Industrial Development Corporation (NIDC)' and unpublished Masters' Thesis, T.U. 2003.
[31] Manandhar, Purshottam, A study on the performance of NIDC, as a Development Bank,' Dissertation, submitted to the institute of Humanities & Social Science, T.U. Kritipur, 1987.

years. The corporation is promoting and investing more in Agro- based industries than other sector.

Mr. Sanch Bahadur Dong, in his thesis paper entitled. "Comparative Study on Financial Performance of NIBL & HBL[32], tried to make comparative analysis of the financial performance of two joint venture banks, HBL and NIBL. He concluded that

HBL has been able to gain a higher market share in case of deposits to NIBL in block of amount. But the liquidity position is lower the NIBL. He also recommended that to maintain their short-term solvency position and fulfill some social obligations by extending their resources to rural areas and promoting the development to poor and disadvantage groups.

Mr. Sudan Khadka, in his thesis entitled, "A compared Study on the financial performance of Standard Chartered Bank Ltd. and Nepal SBI Bank Ltd.[33]. In his study, he found that overall liquidity position of deposits debt and assets in performing assets is slightly better in NSBIBL than SCBL, Further more he said comparatively; interest remained more dominant in total income and expenses of ACBL than that of NSBIBL. In the end of his thesis he recommended to invest surplus fund from NRB balance to deposit ratio standard prescribed by NRB in other current assets such as loan & advances, bills purchase and discount, money at call and short notice and to search for profitable sector for investment and utilization of deposits collected to remove poor debt servicing capacity of NSBIBL. He also recommended that to the both of the banks for reviewing their investment portfolio to see if there is any better mix than the present one.

[32] Dong, Sanch Bahadur, ' A comparative study of the financial performance of Nepal investment Bank Ltd. (NIBL) and Himalayan Bank Ltd. (HBL), an unpublished Master's Thesis, T.U. 2003.
[33] Khadka, Mr. Sudan, A comparative study on financial performance of Standard Chartered Bank Ltd. and Nepal SBI Bank Ltd. an unpublished Masters' Thesis, T.U. 2004.

The research conducted by Mr. Krishna Prashad Adhikari, in his thesis entitled, "A comparative study on financial performance of Everest Bank Ltd. and Nepal Bangladesh Bank Ltd.[34] is tried to compare strength & weakness of Everest Bank Ltd. and Nepal Bangladesh Bank Ltd. He concluded that mean of cash balance to current & saving ratio, Dept equity ratio, debt to total capital ratio and return on assets ratio are higher of NBBL than EBL. Debt assets ratio, Net worth to total assets ratio, Net worth to creditor, total assets ratio are greater EBL than NBBL. NBBL has greater EPS than EBL. He recommended that both banks to deposit only prescribed amount in NRB and EBL & NBBL should encourage small, medium and higher level of customers for enjoying deposits, borrowing and other service.

The study conducted by Mr. Debendra Prashad Adhikari, in his thesis entitled, "A study on financial performance with comparison between Nepal Standard Chartered Bank Ltd. and SBI Bank Ltd."[35] , concludes current ratio, cash and Bank balance to total deposit ratio, Loan and advance to total deposit ratio of booth banks seemed fluctuating trends. Total deposit, net worth, investment, loans and advance, net profit, EPS, MVPS seems higher average and rate in NSCB. But NSBIBL seemed lower and decreasing trend. He recommended evaluating the financial of their borrowers more properly to identify the possibilities of risk before granting loans. He also suggested to banks to be active and serious to generate high profit by utilizing the performance assets in the returnable areas i.e. loans and advance.

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[34] Adhikari, Mr. Krishana Prashad, " A comparative study on financial performance of Everest Bank ltd. and Nepal Bangladesh Bank Ltd., an unpublished Masters Thesis. T.U. 2004.

[35] Adhikari, Mr. Debendra Prashad, " A comparative study on financial performance of Nepal Standard Chartered Bank Ltd. and SBI Bank Ltd. an unpublished Masters Thesis. T.U. 2004.

Miss Abina Shrestha, in her thesis entitled, "A comparative financial performance analysis of Nepal Arab Bank Ltd. and Nepal SBI Bank Ltd."[36] It concludes that the trend of investment, loans and advances, total deposit, net profit revealed increasing at higher rate in NABIL than NSBIBL. The ratios of NABIL varied to a greater extent than that of NSBIBIL. She recommended to the banks to deposit only prescribed amount in NRB to get ride of from poor liquidity position and also suggested to NSBIBL to improve their capital adequacy by investing

[36] Shrestha, Miss Abina,' " A comparative financial performance analysis of Nepal Arab Bank Ltd. and Nepal SBI Bank Ltd. , an unpublished Master's Thesis. T.U. 2004.

CHAPTER III
Research Methodology

3.1 INTRODUCTIONS

The research methodology describes methods and process applied in the entire study. Research methodology is a way to solve the research problem systematically. In other words research methodology is the methods, steps and analysis, and it is the way of presenting collected data with meaningful analysis. This study is based on secondary data of Kumari Bank Limited and Machhapuchchhre Bank Limited.

- Research design
- Population and sample
- Sources of data
- Data collection procedure
- Data processing
- Analytical tools

3.2 RESEARCH DESIGN

The research design for the study is descriptive and analytical one. To determine various effects by various variables in financial performance descriptive, analytical as well as historical research design will be adopted.

3.3 POPULATION AND SAMPLE

The population for this study consists of all the commercial and development banks operating within financial system of Nepal. Among them Kumari bank and Machhapuchchhre Bank Limited would be sample of the study.

3.4 SOURCE OF DATA

The research study is would be mainly based on secondary data. Secondary data will collect from publications of the concern Banks. The main source of primary information for this study will be taken as concern persons, financial advisors as well as senior staffs and manager of the banks.

Although, present study is basically conducted based on secondary data. Primary sources have also been used in few cases. Depending on the nature of data and information, following sources have been utilized for the research purpose.

a) Primary Sources

For obtaining the information's about the functions being performed by the banks, facilities made available to the customers, technology used by the banks and other aspects of the banks, primary sources have been used. Basically, observation and interaction with the employees of concern banks have been used as source.

b) Secondary Source

Secondary sources have been used for reference as well analysis and interpretation. Secondary sources used in this research are listed below:

- Profit and Loss Account and Balance Sheet of Kumari Bank Limited and Machhapuchchhre Bank Limited.
- Various reports of the banks
- Books magazines, newspapers journals
- Annual and periodic publications of NRB
- Economic surveys

3.5 DATA COLLECTION PROCEDURE

The problem of the study lies on the issues related to the comparative strengths and weakness of the banks. As a consequence of liberal policy adopted by the government, financial institutions have been emerging in the country. The sampled banks have been facing threats from such institutions. Therefore, the study has been conducted to examine and evaluate the financial performance of the sampled units. This study is also intended to find the weaknesses and strengths so that appropriate suggestion can be provided to enhance the performance of the banks in coming days.

For the purpose, various information has been collected from selected banks, such as annual reports, newspaper, publication published by NRB, unpublished periodicals, magazines, dissertation information from NRB sites have also been used to undertake this study. Most of the data used in this study are from secondary sources of data.

3.6 DATA PROCESSING

Data obtained from the various sources cannot be directly used in their original form. Further, they need to be verified and simplified for the purpose of analysis. Data,

information's figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, which have been shown in annexes. Homogeneous data have been sorted in one table and similarly various tables have been prepared in understandable manner, odd data excluded from the table. Using financial and statistical tools, data have been analyzed and interpreted.

3.7 METHOD OF ANALYSIS AND INTERPRETATION

The collected data from various sources will be managed, analyzed and presented in the table and diagram. The data will be interpreted and explained with the help of different statistical measures and different histogram and graphical representation.

3.8 TOOLS FOR ANALYSIS

The collected data will be analyzed with the help of following financial and statistical analytical tools. Financial statement can provide various information's useful for the parties directly or indirectly involved in the business. Selection of suitable tools and proper analysis makes data effective. The researcher has used two sorts of tools.

1. **Financial tool**

- Ratio analysis

2. **Statistical tools**

- Arithmetic mean
- Coefficient of variation
- Probable error
- Hypothesis

3.8.1 Financial Tool

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, which in turn, are fruitful in exploring the strengths and weaknesses of the financial policies and strategies. In order to meet the purpose of the study, following tools have been used.

Ratio Analysis

As explained earlier in second chapter, ratio analysis is most frequently used tools to evaluate the financial health, operating result and growth of the banks under security. It helps to summarize the large quantities of financial data and to make quantitative judgments about the firm's financial performance.

A ratio is simply a number expressed in terms of another number and it expresses the quantitative relation between any two variables.[37]

Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there are the numbers of items. But under the ratio analysis technique, it is not practical to work out all the ratios. Hence only the required ratios have been worked out.[38]

The calculated ratios have been grouped into following headings:

- Liquidity ratios
- Leverage ratios
- Capital adequacy ratios

[37] C.R. Kothari, "Quantitative Techniques". Vikash Publishing House, Pvt. Ltd. 1994 P 487
[38] IBid P 488

- Turnover Ratios
- Assets quality ratios
- Profitability ratios.

3.8.1.1 Liquidity Ratio

The ratio is also known as solvency ratio or working capital ratio. It is extremely essential for a firm to be able to meet its current obligations as they become due. Liquidity ratios measure the ability of the firm to meet its current obligations. A firm should ensure that it does not suffer from lack of liquidity, and also that is not too much highly liquid. Lack of sufficient liquidity will result on bad credit worthiness & loss of creditor's confidence. In the context of burning competition in banking sector, insufficient liquidity will leave the concerned bank behind. On the other hand, high liquidity is also bad as it results in lower profitability because of underutilized assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity.[39]

Depending on the special nature of current assets and current liabilities of the bank the calculated ratios are given below:

- Current ratio
- Cash and bank balance to current and saving deposit ratio
- Cash and bank balance to total deposit ratio
- NRB balance to fixed deposits ratio
- NRB balance to fixed deposits ratio
- Fixed deposit to total deposit ratio

a) Current ratio:

[39] I.M. Pandey, Financial Management " op. cit., P.101

The ratio is calculated by dividing current assets by current liabilities,

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

Current assets include cash and those assets, which can be converted into cash within a year. These include cash and bank balance, investment in government securities, loans and advances, money at call and short notice, bills for collection, interest receivables etc. All obligations maturing within a year are included in current liabilities. These consist of current, saving and short-term deposits. Fixed deposits maturing in that year, borrowing, accrued expenses, bills for collection dividend payable, customer acceptances etc.

Current ratio is a measure of firm's solvency. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional rule, a current ratio of 2 to 1 in considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In sprite of its shortcoming, it is a crude- and quick measure of the firm's liquidity.[40]

b) Cash and bank balance to current & saving deposit ration:

The ratio is computed by dividing cash and bank balance by current and saving deposits.

Cash and bank balance to current and saving deposits ratio:

$$= \frac{\text{Cash and bank balance}}{\text{Current and saving deposit}}$$

Cash and bank balance comprises cash on hand, foreign cash on hand, cheques and other cash items. Balance with domestic bank and balance held in foreign banks. Current and saving deposit consists of all types of deposits excluding fixed deposits.

[40] Ibid P. 115

The ratio measures the ability of bank meet its immediate obligation. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposits. High ratio indicates sound liquidity position of the bank. However, too high ratio is not good enough as it reveals the under utilization of fund.

c) Cash and Bank balance to Total deposit ratio:

The ratio is calculated using following formula;

Cash and Bank balance to Total deposit ratio $\frac{\text{Cash \& bank balance}}{\text{Total deposits}}$

Total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits.

The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. But too high ratio is not favorable for the bank because it produces adverse effect on profitability due to idleness of high- interest bearing fund.

d) Fixed deposit to Total deposit ratio:

It is calculated as follows:

Fixed deposit to Total deposit ratio = $\frac{FixedDeposit}{TotalDeposit}$

The ratio shows what percentage of total deposit has been collected in form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long-term loans. Low ratio means the bank should invest the fund of low cost in short-term loans.

e) NRB balance to current and saving deposit ratio:

The ratio is computed by dividing the balance held with Nepal Rastra Bank by saving deposits. NRB balance to current and saving deposit ratio $X \frac{\text{NRB balance}}{\text{Current and saving deposit}}$

Commercial banks are required to hold certain portion of current and saving deposits in Nepal Rastra Bank's account. It is to ensure the smooth functioning and sound liquidity position of the bank. As per the directive of Nepal Rastra Bank, the required ratio is 8% therefore, the ratio measures whether the bank is following the direction of NRB or not.

f) NRB balance to fixed deposit ration:

The ratio is computed by dividing the balance held with Nepal Rastra Bank by fixed deposit accepted.

NRB balance to fixed deposit ration $X \frac{\text{NRB balance}}{\text{Fixed deposit}}$

It shows the percentage of amount deposit by the bank in Nepal Rastra Bank as compared to the fixed deposit. According to the direction of NRB, this ratio should be maintained 6%. Hence the ratio so calculated finds whether the bank has obeyed the direction of central bank or not.

3.8.1.2 Leverage Ratio

Leverage or Capital structure is used to judge the long-term financial position of the firm. It evaluates the financial risk of long-term creditors. Grater the proportion of the

owners' capital in the capital structure, lesser will be the financial risk borne by supplier of credit funds.[41]

Debt is more risky from the firm's point of view. The firm has legal obligation to pay interest to deft holders irrespective of the profit made or losses incurred by the firm. But use of debt is advantageous to shareholders in two ways:

- They can retain control on the firm with a limited stake
- Their earning is magnified when rate of return of the firm on total capital is higher than the cost of debt.

However, the earning of shareholders reduces if the cost of debt becomes more than the overall rate of return. In case, there is the threat of insolvency. Thus the debt has two folded impact-increases shareholder earning- increase risk.[42] Therefore a firm shoulder maintains optimal mix of Investors' and outsiders' fund for the benefit of owners and its stability.

Under this group, following ratios are calculated to test the optimality of capital structure:

- Debt-Equity ratio
- Debt-Asset ratio
- Debt to total capital ratio
- Interest coverage ratio

a) Debt-Equity ratio:

The ratio is calculated by dividing total debt by shareholder's equity.

$$\text{Debt-Equity ratio} = \frac{Total Debt}{Shareholder's equity}$$

[41] R.D. Agrawal, op. cit., P. 586
[42] I.M. Pandey, op. cit., P. 104

Total debt consists of all interest-bearing long-term and short-term debts. These include loans and advances taken from other financial institutions, deposits carrying interest etc. Shareholder's equity includes paid-up capital, reserves and surplus and undistributed profit.

The ratio shows the mix of debt and equity in capital. It measures creditors' claims against owners'. A high ratio shows that the creditors' claims are greater than those of owners. Such a situation introduces inflexibility in the firm's operation due to the increasing interference and pressures form creditors. Low ratio implies a greater claim of owners than creditors. In such a situation shareholders are less benefited if economic activities are good enough. Therefore, the ratio should neither be too high not too low.

b) Debt-Asset ratio:

The ratio can be calculated by dividing total debt by total assets.

$$\text{Debt-asset ratio} = \frac{Totaldebt}{Totalassets}$$

The ratio shows the contribution of creditors in financing the assets of the bank. High ratio indicates that the greater portion of the bank's assets has been financed through outsiders' fund. The ratio should neither be too high per too low.

c) Debt to Total Capital ratio:

The ratio is obtained by dividing total debt by total capital of the firm.

$$\text{Debt to Total Capital ratio} = \frac{Totaldebt}{Totalcapital}$$

Total capital refers to the sum of interest-bearing debt and net worth/shareholder's equity.

It shows the proportion of debt in total capital employed by the bank. High ratio indicates greater claim of creditors. Contrary to it, low ratio is the indication of lesser claim of outsiders. For the sound solvency position, the ratio should not e too high or too low.

d) Interest coverage ratio:

The ratio is calculated by dividing net profit before deduction of interest and tax by interest charges.

$$\text{Interest coverage ratio} = \frac{Netprofitbefore\,\text{int}\,eres\,\text{tan}\,dtax}{Interestch\,\text{arg}\,e}$$

The ratio, also known as times interest-earned ratio is used to test the debt servicing capacity of the bank. It shows the number of times the interest charges are covered by funds that are ordinarily available for their payments. It indicates the event to which the earning may fall without causing any embarrassment to the firm regarding the payment of interest. Higher ratio is desirable, but too high a ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation.[43]

3.8.1.3 Capital Adequacy Ratio

Capital adequacy ratio measures whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequate or there is the

[43] Ibid. P. 109

not need of reforms. The ratio is tested to ensure the safety and stability of the firm in long run.

Over capitalization and under capitalization both have adverse affect on profitability of the firm. If the capital is excess, it remain sidle. If the capital is insufficient, the firm will not be able to grasp the opportunity from potential profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. As per the directive, the ratio should be 8% of their total risk weighted assets and total official sheet transitions. Here, capital fund refers to the core capital and supplementary Capital. Commercial banks cannot declare and distribute dividend until they meet capital solvency ratio.

Under this group, following ratios are tested:

- Net worth to total deposit ratio
- Net worth to total assets ratio
- Net worth to total credit ratio

a) Net worth to total deposit ratio:

The ratio is calculated by dividing net worth by total deposits.

$$\text{Net worth to total deposit ratio} = \frac{Networth}{Totaldeposit}$$

The ratio measures the percentage of net worth in relation to the total deposits collected in the bank. The ratio is a yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank.

b) Net worth to total asset ratio:

The ratio is calculated by dividing the net worth by total assets of the bank.

$$\text{Net worth to total assets ratio} = \frac{Networth}{Totalassets}$$

The ratio measure what is the percentage of shareholders' fund is relation to the total assets owned by the bank. High ratio means greater contribution of investors' fund and strong capital adequacy position.

c) Net worth to total credit ratio:

The ratio is obtained when net worth is divided by the total credit of the bank.

$$\text{Net worth to total credit ratio} = \frac{Networth}{Totalcredit}$$

Total credit refers to the total of loans and advances granted, cash credit, overdrafts, bill purchased and discounted.

It measures the relative proportion of the shareholders fund with respect to the credit. High ratio shows that the firm has adequate capital, which is the index of safety. Moreover, a bank with higher ratio is less affected by the instability of the financial market.

3.8.1.4 Turnover Ratio

Turnover ratios, also known as utilization ratios or activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. They measure how effectively the firm uses the investment and economic resources at its command. Investments are made in order to produce profitable sales. Unlike other manufacturing concerns, the bank produces loans, advances and other innovation. So it sells the same.

High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of

resources. However, too high ratio is also not good enough as it may be due to the insufficient liquidity.

Depending upon special nature of assets and sales made by the bank, following ratios are tested:

- Loans and advances to total deposit ratio
- Loans and advances to fixed deposit ratio
- Investment to total deposit ratio
- Performing assets to total assets ratio
- Performing assets to total debt ratio

a) Loans and advances to total deposit ratio:

The ratio is computed by dividing total loans and advances by total deposit liabilities.

$$\text{Loans and advances to total deposit ratio} = \frac{Loans\ \&\ Advances}{Totaldeposit}$$

Loans and advances consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted.

The ratio indicates the proportion of total deposits invested in loans and advances. High ratio means the greater use of deposit for investing in loans and advances. But very high ratio shows poor liquidity position and risk in loans. On the contrary, too low ratio may be the cause of idle cash or use of fund in less productive sector.

b) Loans and advances to fixed deposit ratio:

The ratio is calculated b dividing loans and advances by fixed deposit liabilities.

Loans and advances to fixed deposit ratio = $\frac{Loans\ \&\ Advances}{Fixeddeposit}$

The ratio indicates what proportion of fixed deposit has been used for loans and advances. Since fixed deposits carry high rate of interest, fund so collected need to be invested in such sectors, which yield at least sufficient return to meet the obligation. High ratio means utilization of the fixed deposit in form of loans.

c) Investments to total deposit ratio:

The ratio is obtained by dividing investment by total deposits collected in the bank.

Investment to total deposit ratio = $\frac{Investment}{Totaldeposit}$

Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment.

The ratio shows how efficiently the major resources of the bank have been mobilized. High ratio indicates managerial efficiently regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds.

d) Performing assets to total assets ratio:

It is calculated by dividing performing assets by total assets.

Performing assets to total assets ratio = $\frac{Perfor\min gAssets}{TotalAssets}$

Performing assets to total assets include those assets, which are invested for income generating purpose. Those consist of loans, advances; bills purchased and discounted investment and money as call or short notice.

The ratio measures what percentage of the assets has been funded for income generation. High ratio indicates greater utilization of assets and hence sound profitability position.

e) Performing assets to total debt ratio:

It is calculated as follows:

$$\text{Performing assets to total debt ratio} = \frac{perfor\min g}{TotalDebt}$$

It shows the pattern of use of the fund collected from the outsiders. High ratio represents the success of bank in utilization of creditors' fund in productive areas. Low ratio indicates idleness of the cost-bearing resources.

3.8.1.5. Profitability Ratio

Profitability ratios are designed to highlight the end-result of business activities, which in the imperfect world of ours, is the sole criterion of over all efficiency of business unit.[44]

A company should earn profit to survive & grow over a long period of time. It is a fact that sufficient profit must be earned to sustain the operations of the business; to be able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of the society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment.[45]

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[44] M.M. & S.N. Goyal, "Principles of Management Accounting" Sahitya Bhawan, Agra. 1979. P. 385
[45] I.N. Pandey, op. cit., P. 116

To meet the objectives of study, following ratios are calculated in this group:

- Return on total assets
- Return on net worth
- Return on total deposit
- Total interest expenses to total interest income ratio
- Interest earned to total asset ratio
- Staff expenses to total income ratio
- Office operation expenses to total income ratio

a) Return on total asset:

The ratio is calculated by dividing net profit after tax by total asset of the bank.

$$\text{Return on total asset} = \frac{Net\ \text{Pr}ofitAfterTax}{TotalAssets}$$

Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in asset side of balance sheet.

It measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank.

b) Return on net worth:

The ratio is computed by dividing net profit after tax by net worth.

$$\text{Return on net worth} = \frac{Net\ \text{Pr}ofitAfterTax}{NetWorth}$$

The ratio is tested to see the profitability of the owner's investment. It reflects the extent to which the objective of business is accomplished. The ratio is of great interest to

present as well as prospective shareholders and also of great significance to management, which has the responsibility of maximizing the owner's welfare. So, higher ratio is desirable.

c) Return on total deposit:

The ratio is computed by dividing net profit after tax by total deposit.

$$\text{Return on total deposit} = \frac{Net\ \text{Pr}ofitAfterTax}{TotalDeposit}$$

The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is the index of strong profitability position.

d) Total interest expenses to total interest income ratio:

The ratio is obtained by dividing total interest expenses by total interest income.

$$\text{Total interest expenses to total interest income ratio} = \frac{TotalInterestExpenses}{TotalInterestIncome}$$

Total income expenses consist of interest expenses incurred for deposits; borrowing and loans have taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdrafts, and government securities, inter bank and other investments.

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view.

e) Interest earned to total assets ratio:

The ratio is calculated by dividing interest income by total assets of the bank.

$$\text{Interest earned to total asset ratio} = \frac{InterestEarned}{TotalAssets}$$

The ratio shows the percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of bank's assets for income generating purpose. Low ratio represents unsatisfactory performance.

f) Staff expenses to total income ratio:

The ratio is obtained by dividing the staff expenses by total income.

$$\text{Interest expenses to total income ratio} = \frac{StaffExpenses}{TotalIncome}$$

Staff expenses include the salary and allowances, contribution to the provident find & gratuity fund, staff training expenses and other allowances and expenses made for staff.

The ratio measures the proportion of income spent for the staff, whose contribution is of great significance in the success of the bank. High ratio indicates that the major portion of income used for staff. From the firm's point view, low ratio is advantages. But the staffs prefer high ratio, as it is the result of higher level of facilities and benefits provided to them.

g) Office operation expenses to total income ratio:

The ratio is obtained by dividing office operation expenses by total income.

$$\text{Office operation expenses to total income ratio} = \frac{OfficeOperationExpenses}{TotalIncome}$$

Office operation expenses comprise expenses incurred in house rent, water, electricity, repairs, maintenance, legal expenses, audit expenses and other miscellaneous expenses made in course of operation.

It shows the percentage of income spent for day-to-day operation of the bank. High ratio shows that large amount of income is spent for the operating activities of the bank. Lower ratio is favorable to the bank, as it is the reflection of operational efficiency.

3.8.1.6 Other Financial Indicators

Above stated ratios throw light on various aspects of bank. Management, investors and creditors can get information regarding their interest. Some indicators are dealt here which provide more knowledge about the performance of the bank. They are listed below:

- Earning per share (EPS)
- Dividing per share (DPS)
- Price-earning ratio (P/R/ Ratio)
- Market value per share to book value per share (MVPS/BVPS)

a) Earning per share (EPS):

It is obtained by dividing earning available to common shareholders by number of equity shares outstanding.

$$\text{EPS} = \frac{EarningAvailableToCommonShareholders}{No.OfEquitySharesOuts\tan ding}$$

Earning per share refers to the income available to the common shareholders on per share basis. It enables us to compare whether the earning based on per share basis has changed over past period or not. The investors favor high EPS. It reflects the sound profitability position of the bank.

a. Dividend per share (DPS):

It is obtained by dividing earning paid to shareholder by number of equity shares outstanding.

$$\text{DPS} = \frac{\textit{Earning paid to common shareholder}}{\textit{No.Of Equity Shares Outs}\,\text{tan}\,\textit{ding}}$$

The net profit after the deduction of preference dividend belongs to equity shareholders. But the amount they really receive is the amount of earning distributed as dividend. Dividend may distribute in the form of cash or bonus share. Dividend distribution affects the price of share. The shareholder prefer high dividend. But it may sometimes be wise to distribute less amount of profit if investment opportunities are available.

b. Price –earning ratio:

It is obtained by dividing market value per share by earning per share.

$$\text{Price –earning ratio} = \frac{\textit{Market value per share}}{\textit{Earning per share}}$$

P/E ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors, judgments or expectation about the growth in the bank earning. In other words it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of her market towards the achievement to the firm.

c. Market value per share to book value per share.

It is ratio of market value per share to book value per share.

$$\frac{\textit{Market value per share}}{\text{Book value per share}}$$

Book value per share is net worth divided by the number of shares outstanding. The ratio measures the value that the financial market attaches to the management and organization of the bank as a growing concern. High ratio is the indication of strong management and organization.

3.7.1.7 Income and Expenditure Analysis

This is a tool with the help of which the components of income and expenditure can be compared between two competitive firms. By this analysis, one is able to conclude which sources of income & expenditure are dominant in the related concern. Under income analysis, overall income is split up into major headings – Interest income, commission & discount, foreign exchange income and other income. Under expenditure analysis, entire operating expenses are split up into four major headings – Interest expenses, staff expenses, office operation expenses and bonus facility.

3.7.2 Statistical Tools

Various statistical tools can be used to analyze the data available to the researcher. These tools are used in research in order to draw the reliable conclusion through the analysis of financial data. Following tools are used:

- Arithmetic Mean
- Coefficient of variation
- Student's t-test
- Coefficient of correlation
- Probable error of correlation coefficient

3.7.2.1. Arithmetic mean

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group (Waugh A.E.). Out of various measures of the central tendency, arithmetic mean is one of the useful tools applicable here. It is easy to calculate and understand and based on all observations.[46]

Arithmetic mean of a given set of observations is their sum divided by the number of observation. In general, if X_1, X_2, X_3 ----------X_n are given observations, then arithmetic mean usually denoted by $\overline{X}$ is given by;

$$\overline{X} = \frac{X1 \Gamma X2 \Gamma X3 \Gamma ZZZZZZZZ Xn}{n} = \frac{X}{n}$$

Where, n = number of observation.

3.7.2.2. Coefficient of variation

According to Prof. Karl Pearson, coefficient of variation is the percentage variation in mean, standard deviation being considered as the total variation in the mean. It is one of the relative measures of dispersion that is useful in comparing the amount of variation in data groups with different mean.

Coefficient of variation, denoted by C.V. is given by:

$$\text{C.V.} = \frac{\pm}{X} \times 100$$

Where, ± = Standard Deviation

[46] S.C. Gupta. "Fundamentals of Statistics". Himalayan Publishing House, 2000. P. 238

$$\text{i.e. } \pm = \sqrt{\frac{X^2}{n} Z \frac{X}{n}^2}$$

For comparing the variability of two distributions, we compute the coefficient of variation for each distribution. A distribution with smaller CV is said to be more homogeneous or uniform or less variable than other. Conversely, a series with greater CV is said to be more variable or heterogeneous than the other.[47]

3.7.2.3 Student's t-test

Student's t-test is a useful statistical tool to see the significance of the difference between two sample means, the population variances being equal but unknown (Gupta S.C). Student's t-test is based on the assumption that the present population from which the sample is drawn is normal, the sample observations are independent and the population standard deviation is unknown. The test is applied for the sample less than 30.

If X_1, X_2, X_3 ----------X_n and Y_1, Y_2, Y_3 ----------Y_n be two independent random samples from the given normal population, null hypothesis is set as;

Ho: « $_1$ = « $_2$ i.e. the sample means $\overline{X}$ and $\overline{Y}$ do not differ significantly under the assumption that ± $_1^2$ = ± $_2^2$ = ± ^{2} i.e. population variances are equal but unknown. The test statistic under Ho is;[48]

$$T = \frac{\overline{X} Z \overline{Y}}{S\sqrt{\frac{1}{n_1} \Gamma \frac{1}{n_2}}}$$

Where,

[47] Ibid. P. 415
[48] Ibid. P. 1222

$$\overline{X} = \frac{X}{n_1} \text{ And } \overline{Y} = \frac{X}{n_2}$$

$$S = \sqrt{\frac{(X - \overline{X})^2 + (Y - \overline{Y})^2}{n_1 + n_2 - 2}}$$

i.e. S^2 is in unbiased estimate of the common population variance σ^2 based on both samples. By comparing the value of $|t|$ with the tabulated value of t for n1+n2-2 degree of freedom and at 5% level of significance, null hypothesis is accepted or rejected. If the calculated value of t came to be less than the tabulated value, null hypothesis is accepted, otherwise rejected.

3.7.2.3. Karl Person's coefficient of correlation

It is a statistical tool for measuring the intensity or the magnitude of linear relationship between two series. Karl Pearson's measure known as Pearsonian correlation coefficient between two variables/series X and Y is usually denoted by r and can be obtained as:[49]

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

Where,

n = number of observation in series X and Y

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

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

$\sum X^2$ = Sum of squared observations in series X

$\sum Y^2$ = Sum of squared observations in series Y

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

[49] Ibid. PP. 519-521

Value of r lies between -1 and +1. r = 1 implies that there is a perfect positive correlation between variables. r = -1 implies that there is a perfect negative correlation between the variables. r = 0 means the variables are uncorrelated. But r = 0 does not always mean that the variables are uncorrelated; they may be related in some other form such as logarithm, quadratic, exponential, etc.

3.7.2.4 Probable error of correlation coefficient

Probable error of correlation coefficient is an old measure of testing the reliability of an observed value of correlation coefficient. It is calculated to find the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling. Probable error correlation coefficient denoted by (r) is obtained as: [50]

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

Where, $\frac{1 Z r^2}{\sqrt{n}}$ = Standard error.

Reason for taking 0.6745 is that in a normal distribution 50% of observations lie in the range « ± 0.6745 where, « and ± denote the population mean and standard deviation.

P.E (r) is used to test if an observed value of sample correlation coefficient is significant of any correlation in the population. If r<P.E., correlation is not at all significant. If r>6P.E. r is definitely significant.

[50] Ibid. P. 541

CHAPTER IV
DATA PRESENTATION AND ANALYSIS

4.1 DATA PRESENTATION AND ANALYSIS

This chapter deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In the course of analysis, data gathered the various sources have been inserted in the tabular from according to their homogenous nature. The various tables prepared for the analysis purpose have been analyzed. The result of the analysis has been interpreted keeping in mind the conventional standard with respect to the ratio analysis, directives of NRB and other factors while using other tools. Moreover, financial performance of the sample banks has especially been analyzed in cross-sectional manner. Liner chart and bar diagrams have been presented so as to the actual position of the bank specially, the chapter includes analysis and interpretation of the following.

- Ratio analysis
- Correlation analysis
- Major findings

4.1.1 RATIO ANALYSIS

Ratio analysis has been adopted to evaluate the financial health, operating result and growth of the sampled banks. In order to analyze and interpret the tabled data the following ratios have been used.

- Liquidity ratios
- Leverage ratios
- Turnover ratios
- Profitability ratios
- Other indicators

4.1.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A firm should ensure that it doesn't suffer from lack liquidity and also that it is not too much highly liquid. The failures of company to meet its obligations as they become due, damage the company's image. And on the other word over liquidity results in the idleness of current assets. These include current ratio, cash & bank balance to total deposit, NRB balance to current and surfing ratio, NRB balance to fixed deposit ratio and fixed deposit to total deposit ratio.

a) Current ratio:

Table 1 show that current ratio of KBL for the study period remained 0.74:1, 0.76:1, 0.90:1, 0.89:1 and O.93:1 respectively from the year 061/062 to 065/66 . Mean of the ratios appeared 0.84: 1 and CV came to 0.09. Similarly ratios of MBL for the corresponding period remained 1.04:1, 0.97:1, 0.97:1, 0.93:1 and 0.99:1. Mean of the ratios came O.98:1 and CV came to 0.04.

The above statement shows that the current ratios of KBL and MBL are in fluctuating trend throughout the study period. The mean ratio of MBL is to higher than that of KBL likewise the coefficient of variation in ratios of as compared with MBL is lower than that of KBL i.e. 0.04< 0.09 which means that KBL has more fluctuation in ratios as compared with MBL. Which mean that both of the banks could not maintain the conventional standard of 2:1. The mean ratio of both banks is below 1 so both banks needs to improve their solvency position. The higher mean ratio shows the highly liquid position of MBL, which shows that bank has not proper investment plan. KBL has lower mean ratio than that of the MBL. But the bank may face the problem of working capital if they need to pay the current liabilities at demand. Between two banks KBL seems to be strong in the better position.

Table No. 1
Current Ratio of KBL and MBL

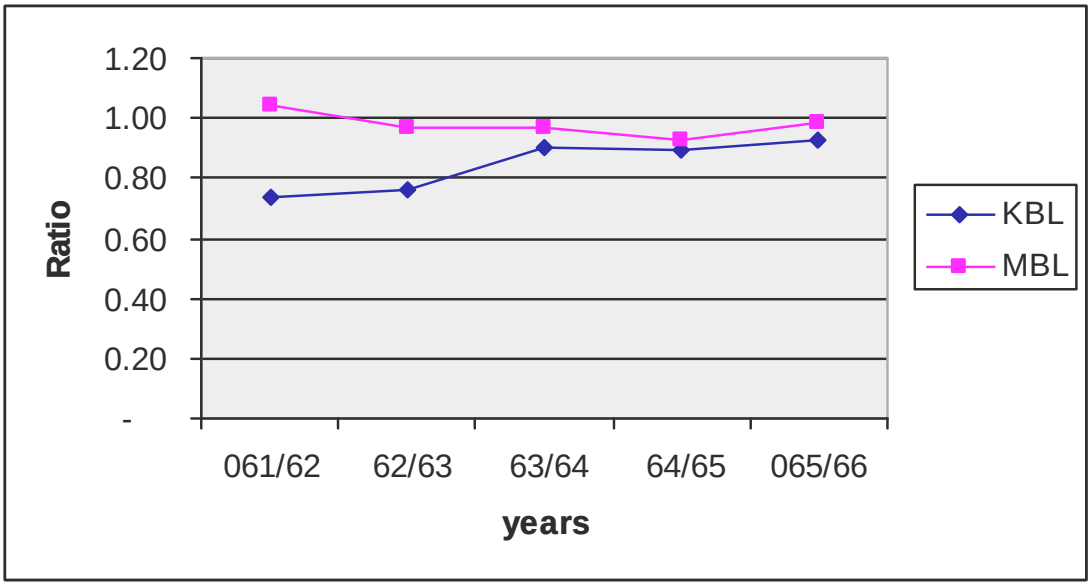
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Current Assets	Current Liabilities	Ratio	Current Assets	Current Liabilities	Ratio
061/62	3423.12	4629.02	0.74	5,890.60	5,653.46	1.04
062/63	3340.25	4410.24	0.76	7,774.06	8,007.06	0.97
063/64	7517.89	8359.46	0.90	9,269.61	9,574.53	0.97
064/65	11144.33	12506.94	0.89	10,430.60	11,246.69	0.93
065/66	13967.79	15078.84	0.93	15,580.46	15,790.58	0.99
MEAN			0.84			0.98
S.D.			0.08			0.04
C.V.			0.09			0.04

Source: Appendix I , II

The calculated current ratio of KBL and MBL is presented in the figure no 1

Figure no – 1



b) Cash and Bank balance to current and saving deposit ratio:

Table 2 shows that the ratio came 22.02%, 16.42%, 27.15%, 19.21% and 16.81% in KBL in the respective years of the period. Mean and CV of the ratio were 20.19% and 0.20 respectively. Similarly the ratios remained 52.49%, 31.52%, 30.55%, 27.62% and 37.41% in the corresponding years of the study period in MBL. Mean and CV of the ratio were 35.92% and 0.25 respectively.

The ratio of both banks revealed fluctuating trend over the period. The mean ratio of KBL is less than that of MBL i.e. 20.19 %< 35.92%, which indicates that the better liquidity position of KBL and highly liquidity position of MBL. Similarly CV of KBL is smaller than MBL i.e. 0.20<0.25 which indicate that higher the CV of ratios in MBL compared to KBL signifies greater variation in the ratio and ideal cash.

Table No. 2
Cash and bank balance to current and saving Deposit Ratio

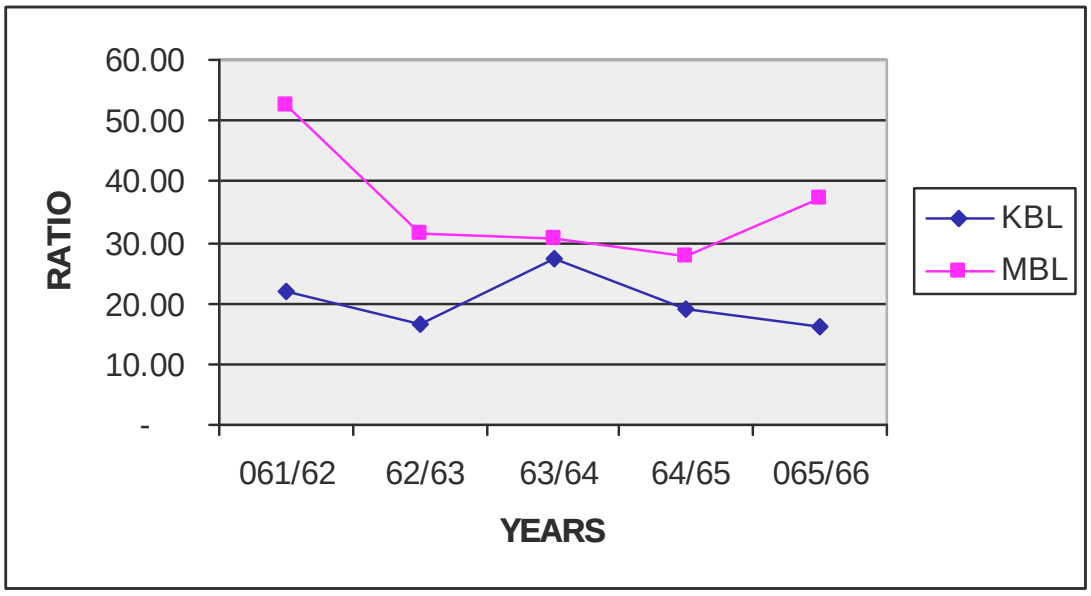
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Cash and bank balance	Current & saving Deposit	Ratio %	Cash and bank balance	Current & saving Deposit	Ratio %
061/62	446.70	2,028.58	22.02	731.13	1,392.87	52.49
062/63	338.92	2,064.19	16.42	813.92	2,582.20	31.52
063/64	926.53	3,413.06	27.15	1,284.08	4,203.51	30.55
064/65	1,226.92	6,386.20	19.21	1,500.05	5,431.82	27.62
065/66	1,340.49	8,286.54	16.18	2,766.65	7,394.62	37.41
MEAN			20.19			35.92
S.D.			4.07			8.88
C.V.			0.20			0.25

Source: Appendix I , II

The calculated cash and bank to current and saving ratio of KBL and MBL is presented in the figure no 2

Figure no – 2



c) Cash and Bank balance to total deposit ratio:

Table 3 shows that the ratios were 10.50%, 8.12%, 11.69%, 10.65% and 9.40% in KBL in the respective years of the study period. Mean and CV of the ratios came 10.47% and 0.42 respectively. Similarly the ratio of MBL came 13.09%, 10.31%, 13.55%, 13.51% and 17.74% in the respective year of the period. Mean and CV of the ratios came 13.64% and 0.17 respectively. The mean ratio of MBL is greater than of KBL, which mean that there is not uniformity in the ratios in CV of the KBL, which signifies greater consistency in it.

Table No. 3
Cash and bank balance to Total deposit Ratio

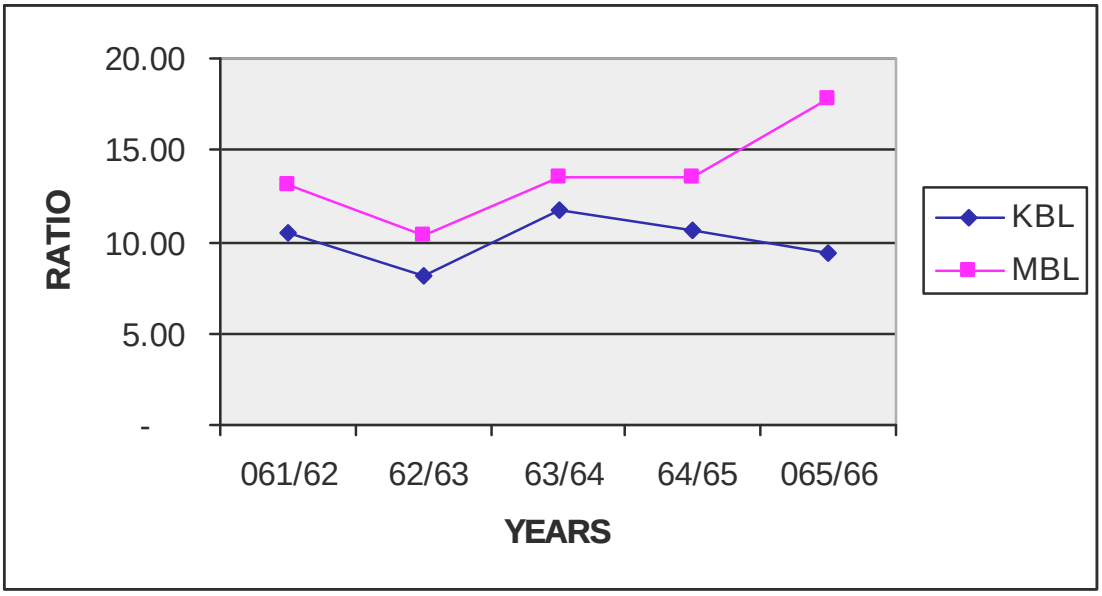
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Cash and bank balance	Total Deposit	Ratio %	Cash and bank balance	Total Deposit	Ratio %
061/62	446.70	4,256.21	10.50	731.13	5,586.80	13.09
062/63	338.92	4,174.76	8.12	813.92	7,893.30	10.31
063/64	926.53	7,922.75	11.69	1,284.08	9,475.45	13.55
064/65	1,226.92	11,524.67	10.65	1,500.05	11,102.24	13.51
065/66	1,340.49	14,254.57	9.40	2,766.65	15,596.79	17.74
MEAN			10.07			13.64
S.D.			4.21			2.38
C.V.			0.42			0.17

Source: Appendix I , II

The calculated cash and bank to total deposit ratio of KBL and MBL is presented in the figure no 3

Figure No. 3



d) NRB balance to current and saving deposit ratio:

Table 4 shows that the ratios were 18.50%, 13.44%, 21.26%, 14.27% and 11.66% in KBL in the respective year of study period. Mean and CV of the ratios came 15.83% and 0.22 respectively. Similarly the ratio in MBL remained 33.26%, 18.94%, 18.69%, 15.78% and 23.75% in the corresponding periods. Mean and CV of the ratios came 22.08% and 0.28 respectively.

The table 4 shows ratios of two banks are in fluctuating trend throughout the study. The mean ratio of MBL is to some extent greater than that of KBL. Likewise, the CV in ratios of KBL is lower than which means MBL has more uniformity in ratios as compared with KBL. The higher mean ratio of balance at NRB to current and saving deposits of MBL reveals that its liquidity position regarding with this ratio is better than that of KBL.

Table No. 4

NRB Balance to Current and Saving Deposit Ratio

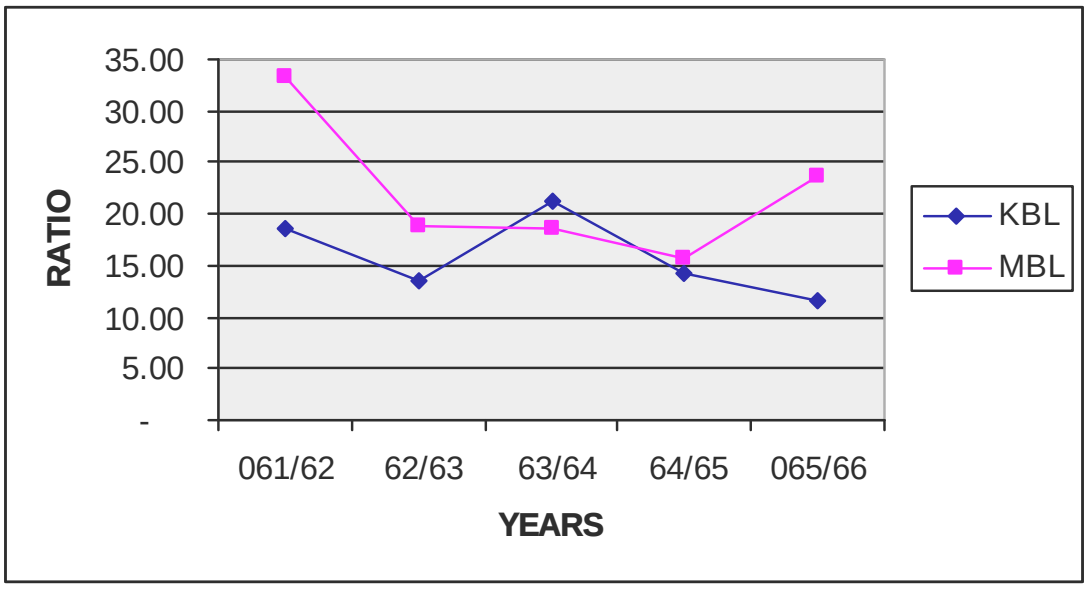
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	NRB Balance	Current & saving Deposit	Ratio %	NRB Balance	Current & saving Deposit	Ratio %
061/62	375.20	2,028.58	18.50	463.23	1,392.87	33.26
062/63	277.40	2,064.19	13.44	489.09	2,582.20	18.94
063/64	725.56	3,413.06	21.26	785.68	4,203.51	18.69
064/65	911.54	6,386.20	14.27	856.94	5,431.82	15.78
065/66	966.22	8,286.54	11.66	1,755.98	7,394.62	23.75
MEAN			15.83			22.08
S.D.			3.52			6.14
C.V.			0.22			0.28

Source: Appendix I ,II

The calculated NRB Balance to current and saving deposit ratio of KBL and MBL is presented in the figure no 4

Figure No. 4



e) NRB balance to fixed deposit ratio:

Table 5 highlights that the ratio of KBL came 22.62%, 29.33%, 43.37%, 39.72% and 30.08% in the respective year of study period. Mean and CV of the ratios were 33.02% and 0.23 respectively. Similarly the ratios of MBL were 24.19%, 18.78%, 28.74%, 28.94% and 47.69% in the corresponding years. Mean and CV of the ratios came 29.67% and 0.33 respectively.

The ratios of two banks were fluctuating every year during the study period. In all of the years, the ratios remained higher than 3% the minimum standard set by NRB. KBL is too greater than standard and MBL has not maintained minimum standard. So, we see only liquidity point of view KBL is better than MBL.

Table No. 5
NRB Balance to Fixed Deposit Ratio

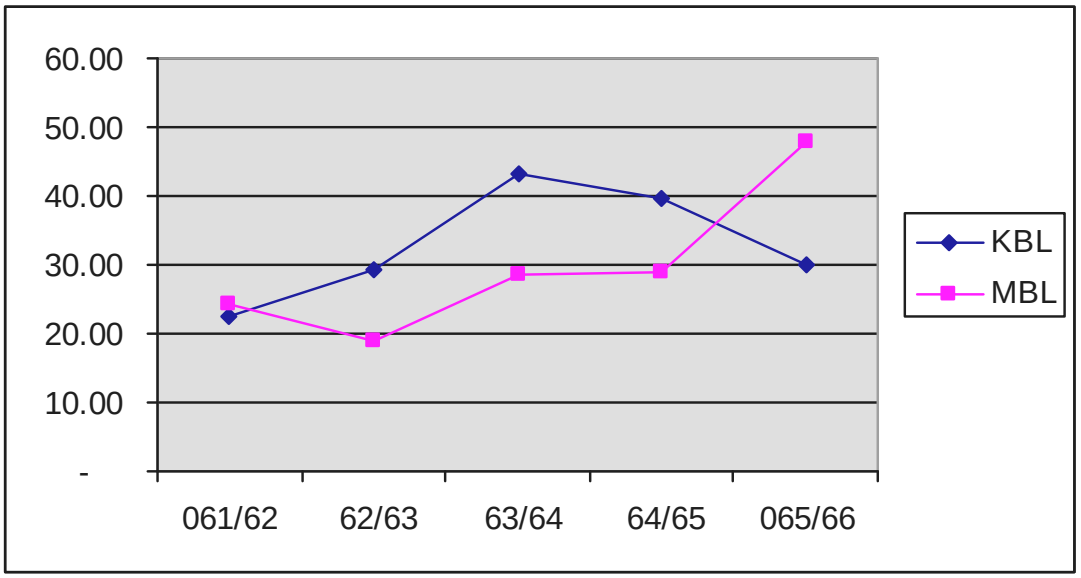
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	NRB Balance	Fixed Deposit Ratio	Ratio %	NRB Balance	Fixed Deposit Ratio	Ratio %
061/62	375.20	1,658.66	22.62	463.23	1,914.76	24.19
062/63	277.40	945.93	29.33	489.09	2,604.89	18.78
063/64	725.56	1,672.82	43.37	785.68	2,733.35	28.74
064/65	911.54	2,294.68	39.72	856.94	2,961.14	28.94
065/66	966.22	3,212.26	30.08	1,755.98	3,681.83	47.69
MEAN			33.02			29.67
S.D.			7.52			9.75
C.V.			0.23			0.33

Source: Appendix I , II

The calculated NRB Balance to fixed deposit ratio of KBL and MBL is presented in the figure no 5

Figure No. 5



f) Fixed deposit to total deposit ratio:

Table 6 depicts that the ratio of KBL reached 38.97%, 22.66%, 21.11%, 19.91% and 22.53% in the respective years. Mean and CV of the ratios were 25.04% and 0.28 respectively. Similarly the ratios of MBL were 34.27%, 33.00%, 28.85%, 26.67% and 23.61% in the corresponding year. Mean and CV of the ratios were 29.28% and 0.13 respectively.

The above figure shows that the fixed deposit ratios were consistence and uniformity of MBL. KBL also consistency the ratio but lower than percentage in comparison with MBL, in comparison to both banks, the MBL is better than KBL ratios.

Table No. 6

Fixed Deposit to Total Deposit Ratio

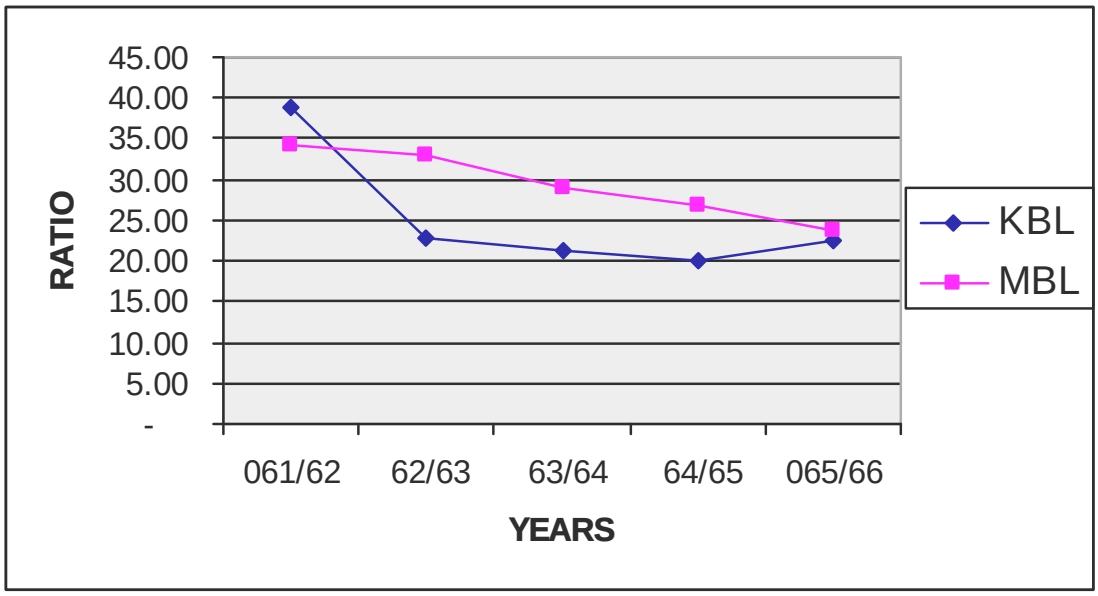
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Fixed Deposit	Total Deposit	Ratio %	Fixed Deposit	Total Deposit	Ratio %
061/62	1,658.66	4,256.21	38.97	1,914.76	5,586.80	34.27
062/63	945.93	4,174.76	22.66	2,604.89	7,893.30	33.00
063/64	1,672.82	7,922.75	21.11	2,733.35	9,475.45	28.85
064/65	2,294.68	11,524.67	19.91	2,961.14	11,102.24	26.67
065/66	3,212.26	14,254.57	22.53	3,681.83	15,596.79	23.61
MEAN			25.04			29.28
S.D.			7.04			3.95
C.V.			0.28			0.13

Source: Appendix I , II

The calculated Fixed Deposit to Total Deposit Ratio of KBL and MBL is presented in the figure no 6

Figure No. 6



4.1.1.2 Leverage Ratio

Leverage ratio is also known as capital structures ratios. These ratios are used to show the proportion of debt and equity in financing in the firm's assets. These ratios measure the contributions of financing by owners compared with financing provided by Creditor. These include debt-equity ratio, debt asset ratio, debt to total capital ratio and interest coverage ratio.

a) Debt-equity ratio:

Table 7 shows that the debt equity ratios of KBL were 993.07%, 850.20%, 1311.72%, 1718.21% and 1278.96% respective in the year. Mean and CV ratios were 1230.43% and 0.24 respectively. Similarly the ratios of MBL were 912.41%, 874.11%, 973.21%, 974.37% and 928.75% corresponding to the study of the year. Mean and CV ratios were 932.57% and 0.04 respectively.

The ratio of KBL revealed rising trend up to the study year. In case of MBL the ratios were raising trend in up to the third year and then declining other study period.

In comparison both of banks capital structure of MBL is less risky than that of KBL. CV of the ratio remained lower in MBL which clarifies that the ratios of KBL were less consistent.

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Table No. 7
Debt Equity Ratio

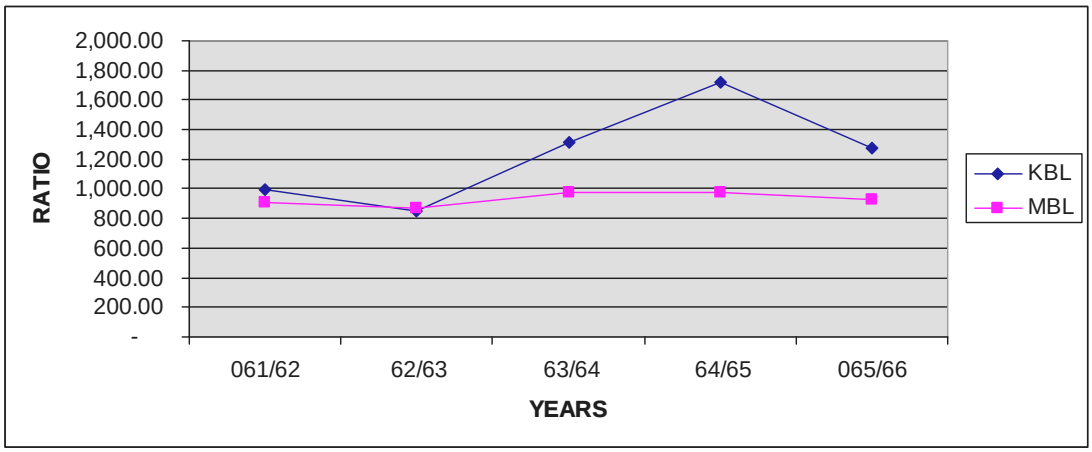
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Totoal Debt	Equity	Ratio %	Totoal Debt	Equity	Ratio %
061/62	4,658.29	469.08	993.07	5,818.72	637.73	912.41
62/63	4,450.44	523.46	850.20	8,138.73	931.09	874.11
63/64	8,375.71	638.53	1,311.72	9,803.03	1,007.29	973.21
64/65	12,526.46	729.04	1,718.21	11,335.20	1,163.34	974.37
065/66	15,093.90	1,180.17	1,278.96	15,790.58	1700.19	928.75
MEAN			1,230.43			932.57
S.D.			299.27			38.05
C.V.			0.24			0.04

Source: Appendix I ,II

The calculated Debt Equity Ratio of KBL and MBL is presented in the figure no 7

Figure No. 7



b) Debt-total assets ratio:

Table 8 shows that the Debt-Total Assets Ratios of KBL are 90.85%, 89.48%, 92.92%, 94.50% and 92.75% in the respective year. Mean and CV ratios are 92.10% and

0.02 respectively. Similarly the ratios of MBL were 90.28%, 89.73%, 90.68%, 90.69% and 90.28% in the corresponding years. Mean and CV ratios were 90.33% and 0.003.

In comparison both of banks employed varying proportion of interest-bearing debt for the purpose. Mean of the ratios came greater in KBL as compared to that in MBL, which signifies that the former followed more aggressive policy in the raising capital. Other side capital structure of KBL seems less risky. From the CV analysis, it can be noticed that the ratio of KBL varied consider throughout the review period.

Table No. 8
Debt Total Assets Ratio

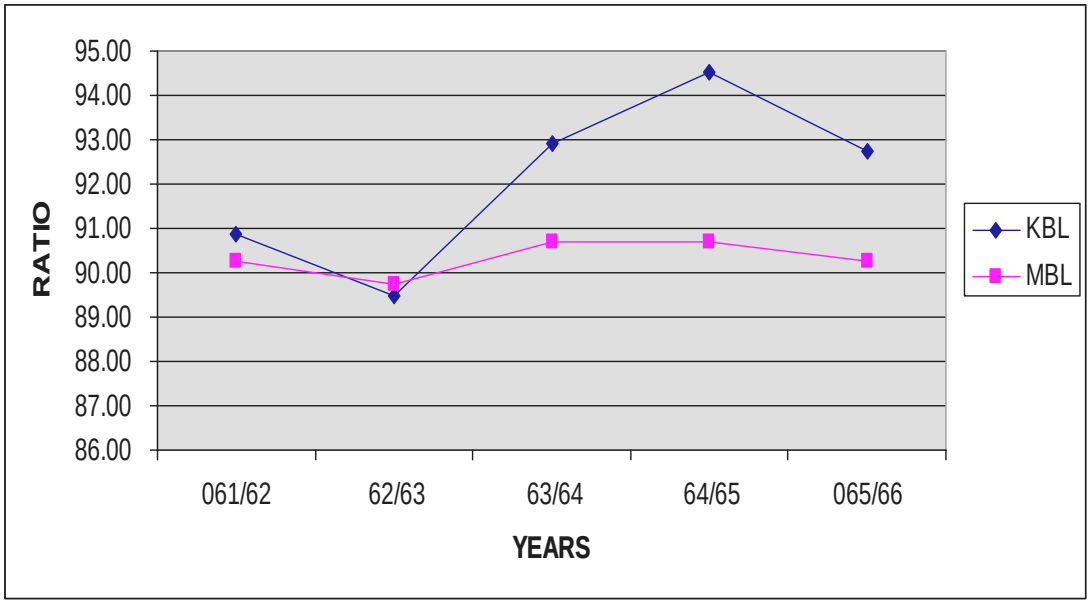
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Totoal Debt	Total assets	Ratio %	Totoal Debt	Total assets	Ratio %
061/62	4,658.29	5,127.37	90.85	5,818.72	6,445.42	90.28
62/63	4,450.44	4,973.90	89.48	8,138.73	9,069.83	89.73
63/64	8,375.71	9,014.24	92.92	9,803.03	10,810.33	90.68
64/65	12,526.46	13,255.50	94.50	11,335.20	12,498.54	90.69
065/66	15,093.90	16,274.07	92.75	15,790.58	17,490.78	90.28
MEAN			92.10			90.33
S.D.			1.75			0.35
C.V.			0.02			0.00

Source: Appendix I ,II

The calculated Debt to total assets Ratio of KBL and MBL is presented in the figure no 8

Figure no – 8



c) Interest Coverage Ratio:

Table 9 reveals that the ratios of KBL remained 1.57%, 1.60%, 1.90%, 1.71% and 1.94% in the respective years of study period. Mean and CV of the ratio seemed 1.74% and 0.09 respectively. Similarly the ratios in MBL were 1.62%, 1.66%, 1.21%, 1.33% and 1.09% in the corresponding years. Mean and CV of the ratios were 1.38% and 0.16 respectively.

The ratio of KBL is in increasing trend in the study period. The ratio has increased all the years of study period except 064/65. The fund available for the payment of interest remained more than the requirement; however the margin was satisfactorily high. Mean ratio of KBL came much higher than that of MBL, which reveals the better debt servicing capacity of KBL. By com paring CV of the ratio, it can be concluded that the ratios of KBL for different five years varied considerably.

Table No. 9
Interest Coverage Ratio

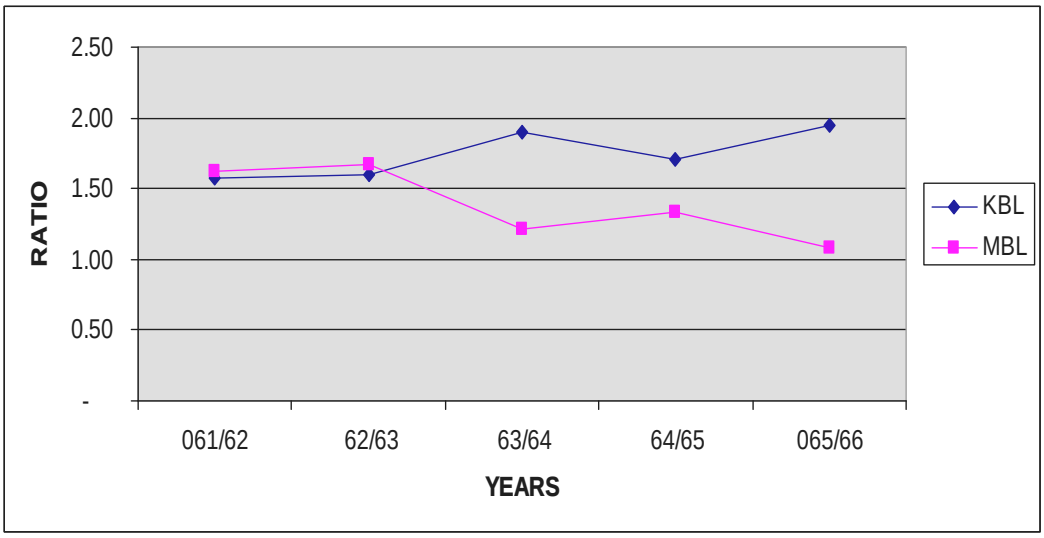
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	EBIT	Interest	Ratio %	EBIT	Interest	Ratio %
061/62	257.27	163.42	1.57	302.84	187.02	1.62
62/63	208.55	130.44	1.60	480.56	288.67	1.66
63/64	359.36	189.21	1.90	514.46	397.72	1.21
64/65	557.68	326.21	1.71	542.78	407.91	1.33
065/66	688.23	354.55	1.94	629.34	580.03	1.09
MEAN			1.74			1.38
S.D.			0.15			0.23
C.V.			0.09			0.16

Source: Appendix I ,II

The calculated Interest coverage ratio of KBL and MBL is presented in the figure 9

Figure No-9



4.1.1.3 Turnover ratios

a) Loans and advances to total deposit ratio:

Table 10 shows that the ratios of KBL remained 54.48%, 60.32%, 71.92%, 60.03% and 69.68% in the respective years of study period. Mean and CV of the ratios appeared 63.29% and 0.10 respectively. Similarly the ratios of MBL were 90.60%, 76.88%, 75.25%, 77.84% and 80.25% respectively. Mean and CV of the ratios came to 80.16% and 0.07 respectively.

The ratio in KBL fluctuated throughout the study period. It depicted decreasing trend in MBL up to the study period. Mean ratio of MBL appeared considerably higher which signifies that MBL is more successful in utilizing the resource in profitable sectors than KBL. CV of the ratios depicted that the ratio remained more consistent in MBL as compared to KBL.

Table No. 10
Loans and advances to total deposit ratio:

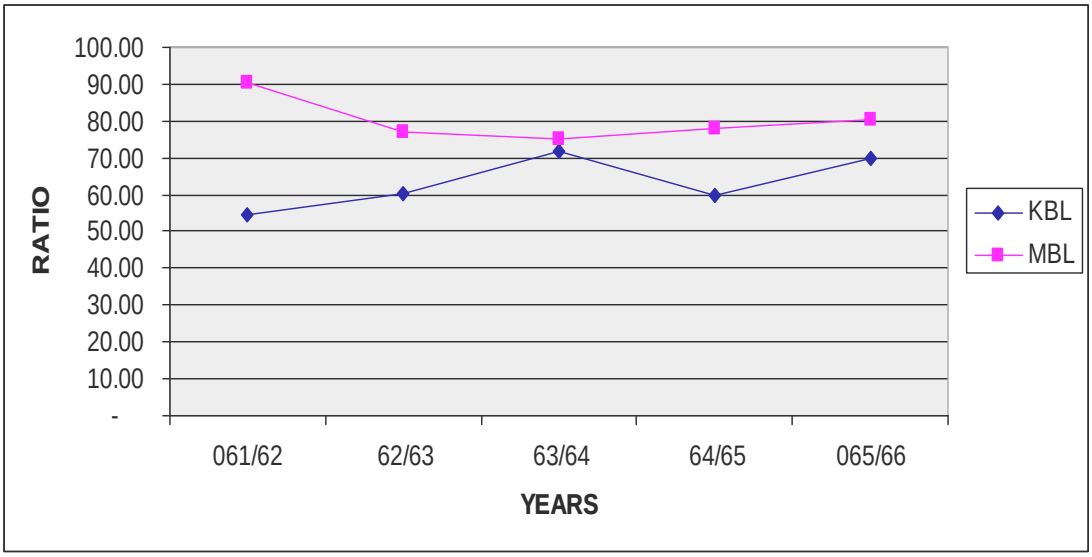
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Loans and advance	Total Deposit	Ratio %	Loans and advance	Total Deposit	Ratio %
061/62	2,318.91	4,256.21	54.48	5,061.43	5,586.80	90.60
62/63	2,518.06	4,174.76	60.32	6,068.42	7,893.30	76.88
63/64	5,698.03	7,922.75	71.92	7,129.90	9,475.45	75.25
64/65	6,917.80	11,524.67	60.03	8,642.32	11,102.24	77.84
065/66	9,933.08	14,254.57	69.68	12,516.01	15,596.79	80.25
MEAN			63.29			80.16
S.D.			6.52			5.46
C.V.			0.10			0.07

Source: Appendix I ,II

The calculated Loan and advances to total deposit of KBL and MBL is presented in the figure 10

Figure no-10



b) Loans and advances to fixed deposit ratio:

Table 11 shows that the ratios of KBL remained 139.81%, 266.20%, 340.62301.47% and 309.22%. Mean and CV of the ratios appeared 271.47% and 0.26. Similarly, the ratios of MBL remained 264.34%, 232.96%, 260.85%, 291.86% and 339.94% in corresponding years. Mean and CV of the ratios appeared 277.99% and 0.13.

The ratio 0F KBL and MBL fluctuated throughout the study period. Average of the ratios in MBL seemed high which indicates that MBL has more successfully utilized the interest bearing deposit in terms of loans and advances. Moreover, turnover position of MBL is better than that of KBL with respect to the ratios. CV also shows MBL is more consistent ratio than that of KBL.

Table No. 11
Loans and advances to fixed deposit ratio:

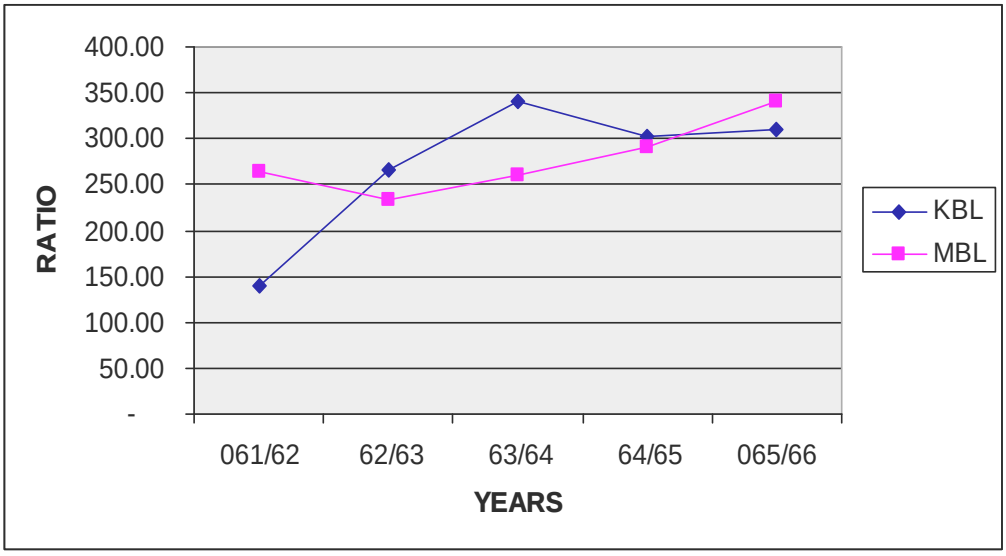
(Rs in Million))

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Loans and advance	Fixed Deposit	Ratio %	Loans and advance	Fixed Deposit	Ratio %
061/62	2,318.91	1,658.66	139.81	5,061.43	1,914.76	264.34
62/63	2,518.06	945.93	266.20	6,068.42	2,604.89	232.96
63/64	5,698.03	1,672.82	340.62	7,129.90	2,733.35	260.85
64/65	6,917.80	2,294.68	301.47	8,642.32	2,961.14	291.86
065/66	9,933.08	3,212.26	309.22	12,516.01	3,681.83	339.94
MEAN			271.47			277.99
S.D.			69.96			36.16
C.V.			0.26			0.13

Source: Appendix I ,II

The calculated Loan and advances to fixed deposit of KBL and MBL is presented in the figure 11

Figure no-11



c) Investment to total deposit:

The ratio is calculated to see how efficiently the bank has mobilized the total deposits on investment.

Table 12 shows that the ratios of KBL remained 46.29%, 43.65%, 21.25%, 33.51% and 27.60% respectively. Mean and CV of the ratios appeared 34.52% and 0.27. In the similar way of the ratios for MBL 8.39%, 15.09%, 113.49%, 13.00% and 7.99% in the corresponding years of the study period. Mean and CV of the ratio appeared 11.59% and CV 0.25 respectively.

The average ratio of investment to total deposit of KBL is considerably greater than of MBL i.e. 34.52%>11.59%. Similarly the coefficient of variation in the ratio of KBL is significantly higher than that of MBL. It means that the variability of the ratios of KBL is less uniform than that of MBL. In conclusion it can be said that KBL has better utilization of its deposits in terms of investment in comparison with MBL.

Table No. 12
Investment to total deposit ratio:

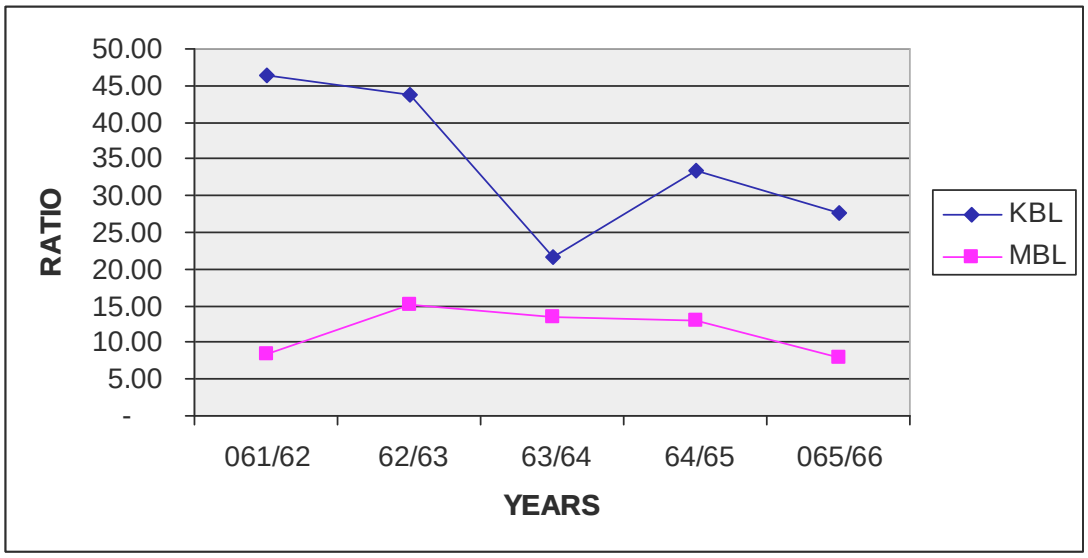
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Investment	Total Deposit	Ratio %	Investment	Total Deposit	Ratio %
061/62	1,970.27	4,256.21	46.29	468.61	5,586.80	8.39
62/63	1,822.16	4,174.76	43.65	1,190.82	7,893.30	15.09
63/64	1,705.24	7,922.75	21.52	1,278.46	9,475.45	13.49
64/65	3,862.48	11,524.67	33.51	1,443.55	11,102.24	13.00
065/66	3,934.19	14,254.57	27.60	1,246.15	15,596.79	7.99
MEAN			34.52			11.59
S.D.			9.38			2.87
C.V.			0.27			0.25

Source: Appendix I ,II

The calculated Loan and advances to fixed deposit of KBL and MBL is presented in the figure 12

Figure no-12



4.1.1.4 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit level. This ratio measures how effectively the company manages its fund to earn profit. Profitability ratio provides ideas to the lenders and investors so that they decide whether to invest or not in a particular business enterprises.

a) Return on Total Assets

Table 13 shows that the ratios of KBL remained 1.10%, 1.15%, 1.30% 1.15% and 1.43% in the study period. Mean and CV of the ratios appeared 1.22% and 0.10

respectively. Accordingly, the ratios of MBL in the corresponding years were 1.32 %, 1.48 %, 0.71 %, 0.68 % and 0.70%. Mean and CV of the ratios came 0.98 % and 0.36 respectively.

The average ratios of KBL is higher than that the ratios of MBL which implies that KBL had more efficient operation or optimum utilization of the resource in comparison with the same period of MBL. Likewise CV of KBL is less than that of MBL, which indicates that the variability of the ratios of KBL is more uniform than that of MBL. The profit of KBL from the first year to fifth year, its profit improved and is increasing to positive way. In the similar way, the profit of MBL is positive from first to fifth year. In the third fourth and fifth year, bank profit in decreased comparison to total assets.

Table No. 13
Return on Total Assets

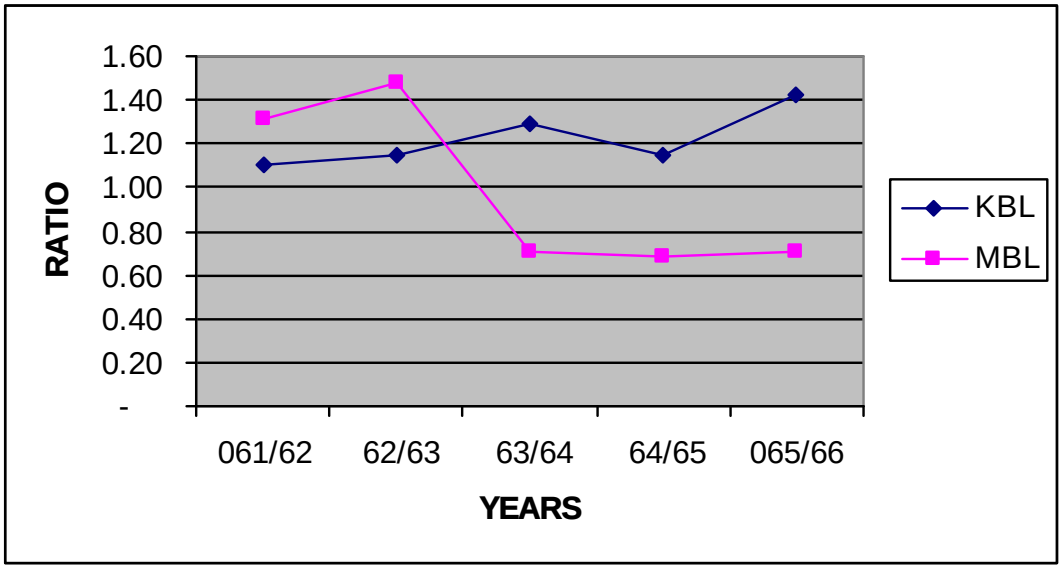
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Net profit after tax	Total assets	Ratio %	Net profit after tax	Total assets	Ratio %
061/62	56.41	5,127.37	1.10	84.87	6,445.42	1.32
62/63	57.10	4,973.90	1.15	133.99	9,069.83	1.48
63/64	116.82	9,014.24	1.30	76.79	10,810.33	0.71
64/65	152.67	13,255.50	1.15	85.01	12,498.54	0.68
065/66	232.15	16,274.07	1.43	123.25	17,490.78	0.70
MEAN			1.22			0.98
S.D.			0.12			0.35
C.V.			0.10			0.36

Source: Appendix I ,II

The calculated Return on total assets KBL and MBL is presented in the figure 13

Figure no-13



b) Return on Net Worth

It is one of the important ratios to judge whether the firm has earned a satisfactory return for its equity shareholders or not. In other words, it shows the utilization of shareholders' fund in the banks in terms of return.

Table 14 shows that the ratios of KBL for the respective years of the study period were 12.03%, 10.91%, and 18.30%, 20.94% and 19.67%. Mean and CV of the ratios came 16.37% and 0.25 respectively. In the similar way, the ratios of MBL remained 18.31%, 14.39%, 7.62%, 7.31 % and 7.25% in the corresponding years. Mean and CV of the ratios came 9.98 % and 0.32 respectively.

It is seen that the return on net worth ratio of KBL is in increasing trend throughout the study period. In case of MBL, the ratio of return on net worth is in fluctuating trend. It is ranged between7.25% to 14.39 %. The average ratio of KBL return on net worth is greater than that of MBL. Likewise the CV is in regard to the ratios of KBL is lower than that the same of MBL. This implies that the ratios of return on net wroth of KBL are more consistent than the same of MBL.

In conclusion, it can be said that profitability position in respect to return on net worth ratio, KBL is better than MBL.

Table No. 14
Return on Net worth

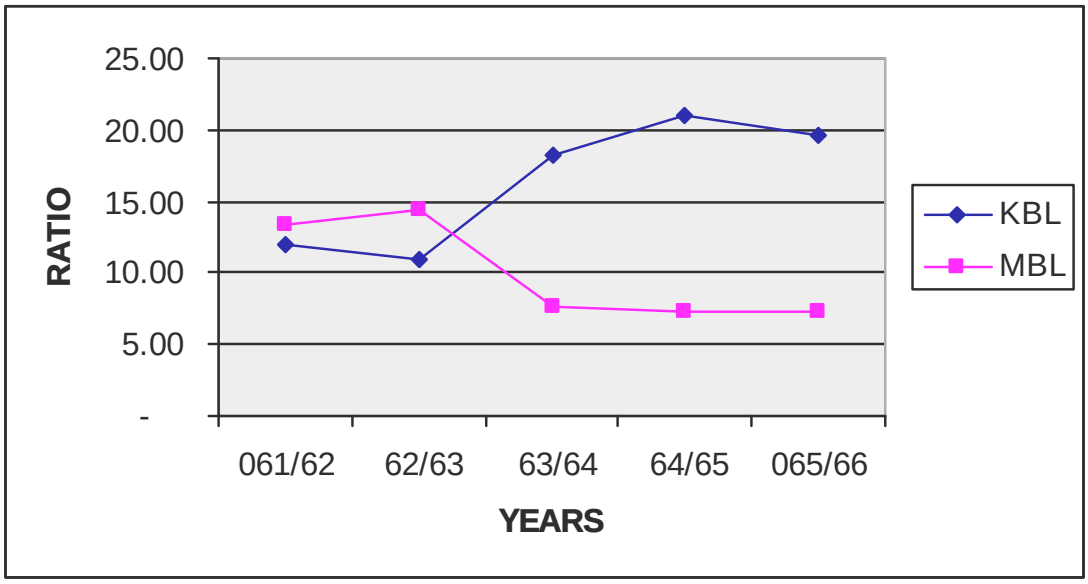
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Net profit after tax	Net worth	Ratio %	Net profit after tax	Net worth	Ratio %
061/62	56.41	469.08	12.03	84.87	637.73	13.31
62/63	57.10	523.46	10.91	133.99	931.09	14.39
63/64	116.82	638.53	18.30	76.79	1,007.29	7.62
64/65	152.67	729.04	20.94	85.01	1,163.33	7.31
065/66	232.15	1,180.17	19.67	123.25	1,700.18	7.25
MEAN			16.37			9.98
S.D.			4.10			3.18
C.V.			0.25			0.32

Source: Appendix I ,II

The calculated Return on Net worth of KBL and MBL is presented in the figure 14

Figure no-14



c) Return on Total Deposit:

Return on total deposit ratio measures the return on deposit. Here Return refers the profit after tax and total deposit means the total amount in various accounts.

Table 15 shows that the ratios in KBL remained 1.33%, 1.37%, 1.47%, 1.32% and 1.63% in the study period. Mean and CV of the ratios came 1.42 and 0.08. In similar way the ratio in MBL remained 1.52%, 1.70%, 0.81%, 0.77% and 0.79% in the corresponding years. Mean and CV of the ratio came 0.12% and 0.13 respectively.

It is seen that the Return to total deposit ratio of KBL is in increasing trend throughout the study period. .In case of MBL the ratios of return to total deposit is in fluctuating trend except.

The average ratio of KBL is greater than that of MBL. Similarly CV in the ratio KBL is lower than that of MBL, which indicates that there is more consistency in the ratio of KBL in respect of return to total deposits. Finally it can be concluded that KBL has utilized its outsiders' fund better way to generate return.

Table No. 15
Return on total deposit ratio:

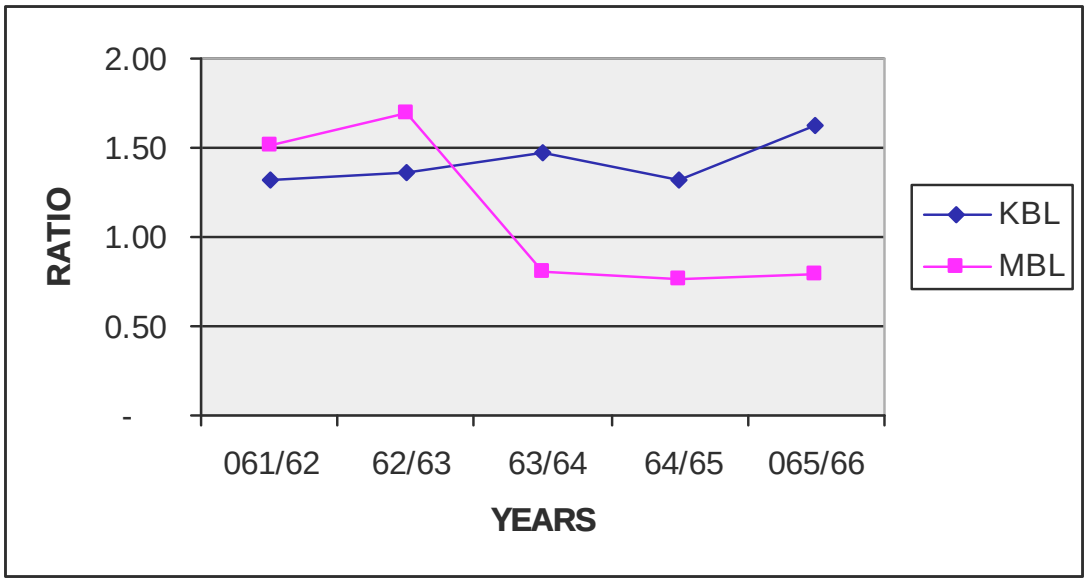
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Net profit after tax	Total Deposit	Ratio %	Net profit after tax	Total Deposit	Ratio %
061/62	56.41	4,256.21	1.33	84.87	5,586.80	1.52
62/63	57.10	4,174.76	1.37	133.99	7,893.30	1.70
63/64	116.82	7,922.75	1.47	76.79	9,475.45	0.81
64/65	152.67	11,524.67	1.32	85.01	11,102.24	0.77
065/66	232.15	14,254.57	1.63	123.25	15,596.79	0.79
MEAN			1.42			1.12
S.D.			0.12			0.41
C.V.			0.08			0.13

Source: Appendix I ,II

The calculated Return on total deposit of KBL and MBL is presented in the figure 15

Figure no-15



d) Total interest expenses to total interest income:

This ratio measures the percentage of total interest expenses against total interest income.

Table 16 shows that the ratio of KBL remained 46.720%, 39.99%, 41.18%, 44.60% and 39.98% in the study period. Mean and CV of the ratio came 42.49 % and 0.06 respectively. In the similar way the ratio of MBL are 48.97%, 51.24%, 57.27%, 51.40% and 55.69% in corresponding years. Mean and CV ratio came 52.91% and 0.05 respectively.

It is seen that the ratio of total interest expenses to total income of sample banks are in fluctuating trend through out the study period. These ratios show that lower percentage of the ratio higher percentage of the return of banks.

The average ratio of KBL is lower than that of MBL. On the other hand CV of KBL is higher than that of MBL. This shows the variability of ratio of MBL is more consistent than that of KBL. It can be concluded that the profitability position of KBL is better than that of MBL.

Table No. 16
Interest Expenses to Interest Income

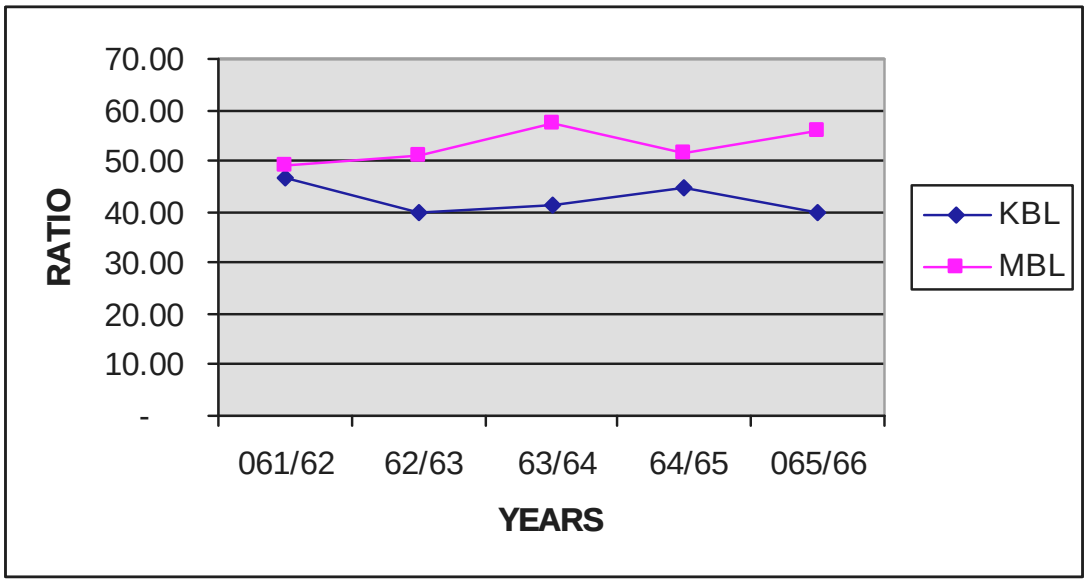
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Interest expenses	Interest income	Ratio %	Interest expenses	Interest income	Ratio %
061/62	163.42	349.76	46.72	187.02	381.93	48.97
62/63	130.44	326.22	39.99	288.66	563.36	51.24
63/64	189.21	459.51	41.18	397.72	694.48	57.27
64/65	326.21	731.40	44.60	407.91	793.59	51.40
065/66	354.55	886.80	39.98	580.03	1,041.47	55.69
MEAN			42.49			52.91
S.D.			2.71			3.08
C.V.			0.06			0.05

Source: Appendix I ,II

The calculated Interest expenses to Interest income ratio of KBL and MBL is presented in the figure 16

Figure no-16



e) Interest earned to total Assets Ratio:

This ratio is used to measure the percentage of interest earned in relation to total assets of the banks. This ratio signifies the mobilization of it's accepts in interest generating purpose. Mainly the banks are concerned with the mobilization of their resources.

Table 17 highlights that the ratio of KBL remained 6.82%, 6.56%, 5.10%, 5.52% and 5.45% in the respective years. Mean and CV of the ratios came 5.89% and 0.11 respectively, In the similar way the ratios of MBL 5.93%, 6.21%, 6.42%, 6.35% and 5.95% in the corresponding years. Mean and CV of the ratio came 6.17% and 0.03 respectively.

The average ratio of the interest earned to total assets KBL is lower than that of MBL. Similarly the CV of the ratios of MBL is lower than that of KBL .It means that the variability of ratio of interest earned to total assets of MBL is more consistent that of KBL.

It can be concluded that MBL has better efficiency in utilizing the resources in interest generating sector in comparison with KBL.

Table No. 17
Interest Earned to Total Assets

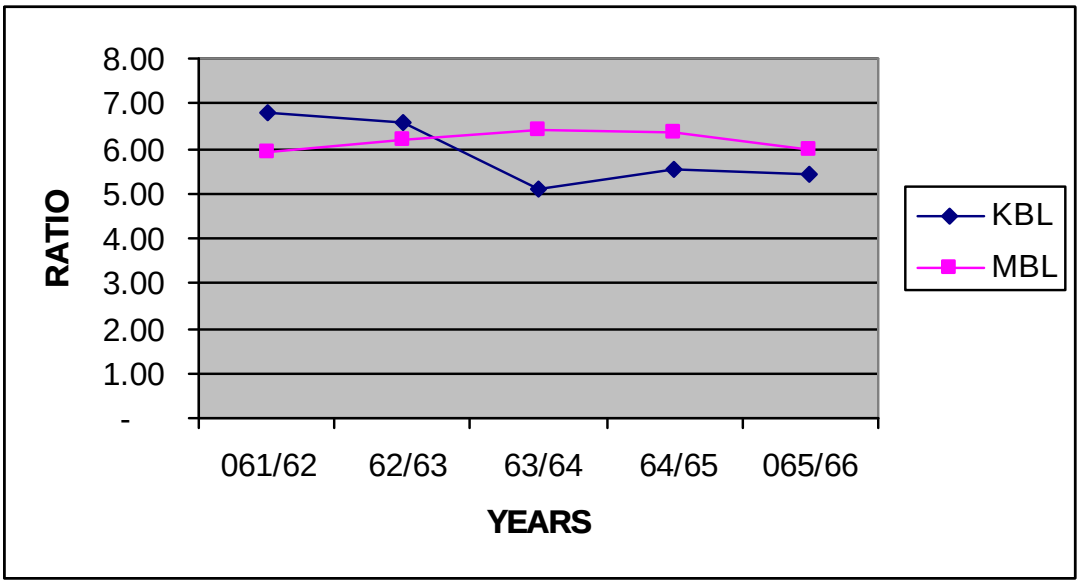
(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Interest earned	Total assets	Ratio %	Interest earned	Total assets	Ratio %
061/62	349.76	5,127.37	6.82	381.93	6,445.42	5.93
62/63	326.22	4,973.90	6.56	563.36	9,069.83	6.21
63/64	459.51	9,014.24	5.10	694.48	10,810.33	6.42
64/65	731.40	13,255.50	5.52	793.59	12,498.54	6.35
065/66	886.80	16,274.07	5.45	1,041.47	17,490.78	5.95
MEAN			5.89			6.17
S.D.			0.67			0.20
C.V.			0.11			0.03

Source: Appendix I ,II

The calculated Interest Earned to Total Assets ratio of KBL and MBL is presented in the figure 17

Figure no-17



4.1.1.5 Other indicator

Besides the above-analyzed ratios, some indicators have been tested to have the broader knowledge of financial performance of the banks for this EPS and TPS.

a) Earning Per Share:

The profitability of a firm from the point of view of the ordinary shareholders is the earning per share (EPS). The earning per share calculations made over years indicates whether or not the bank's earning power on per share basis has changed over that period. It is a widely used ratio, which measures the profit available to the ordinary shareholders on a per share basis.

Table 18 demonstrates that the EPS of KBL 33.19, 33.59, and 51.85, 51.70 and 39.50in the respective years of the study period. Mean and CV of the ratio appeared 41.97 and 0.20 respectively. In the similar way the ratios of MBL remained 15.43, 18.74, 9.35, 9.44 and 8.51 in the corresponding years. Mean and CV of the ratio appeared 12.29 and 0.33 respectively.

The average EPS of KBL is greater than that of MBL, which implies that profitability of KBL from viewpoint of the ordinary shareholders is better than the same of MBL. CV of KBL is lower than that of MBL, which shows that KBL is more consistent than that of MBL.

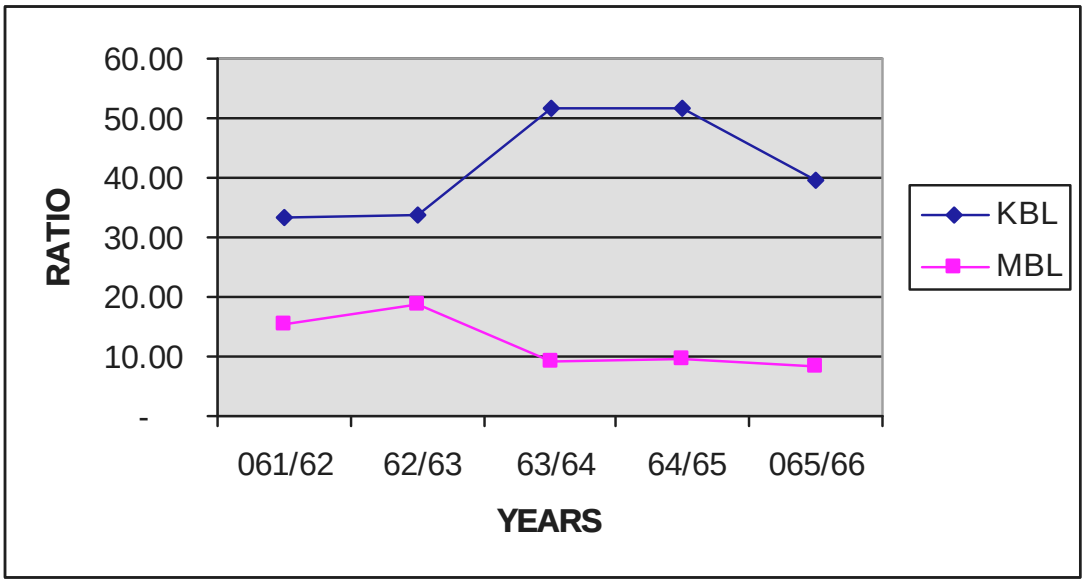
Table No. 18
Earning Per Share

(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Earning availabe to commom shareholders	No of share	EPS	Earning availabe to commom shareholders	No of share	EPS
061/62	56.41	1.70	33.19	84.87	5.50	15.43
62/63	57.10	1.70	33.59	133.99	7.15	18.74
63/64	116.82	2.25	51.85	76.79	8.21	9.35
64/65	152.67	2.95	51.70	85.01	9.01	9.44
065/66	232.15	5.88	39.50	123.25	14.49	8.51
MEAN			41.97			12.29
S.D.			8.32			4.06
C.V.			0.20			0.33

Source: Appendix I ,II

Figure no-18



b) Tax Per Share (TPS):

Tax implies the amount that is paid for government to develop national economy. Tax is the basic source of income of government to spend in the development activity. Tax is paid in the profit earned by the concern. Tax is paid from the amount of profit; the value of each share contains the value of tax paid to the government.

Table 19 shows that the TPS of KBL remained 22.03, 12.36, 23.67, 26.69 and 17.27 in the respective years of the study period. Mean and CV of the ratios came 20.40 and 0.16 respectively. In the similar way the ratio of MBL appeared 5.63, 8.10, 4.86, 5.53 and 3.39 in the corresponding years. Mean and CV of the ratios came 5.50 and 0.28 respectively.

The averages ratios of TPS of MBL are lower than that the same of KBL. But the increasing rate of TPS of KBL higher than that of MBL which implies that there is more uniformity in the rate of tax per share to be paid to the government.

It can be concluded that TPS paid by KBL is higher than that of MBL.

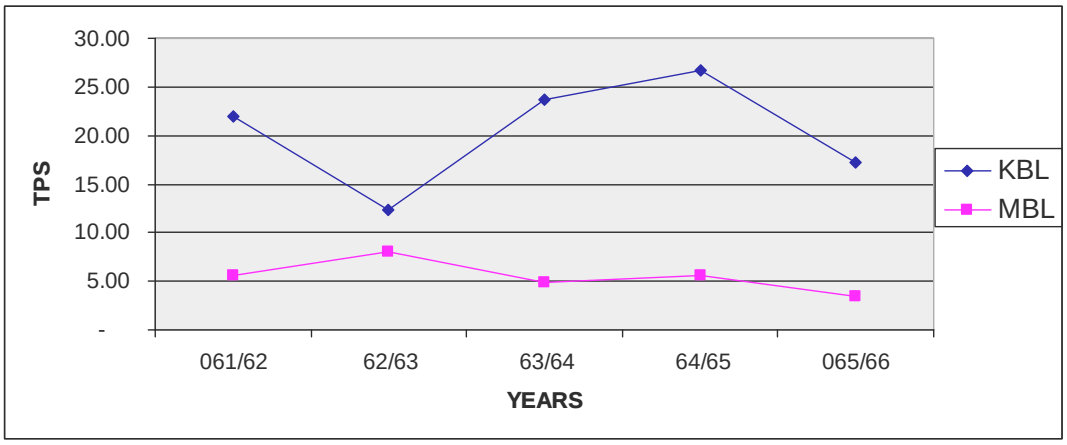
Table No. 19
Tax per share

(Rs in Million)

Bank	Kumari Bank			Machhapuchchhre Bank		
Year	Tax paid to the government	No of share	TPS	Tax paid to the government	No of share	TPS
061/62	37.44	1.70	22.03	30.94	5.50	5.63
62/63	21.01	1.70	12.36	57.91	7.15	8.10
63/64	53.33	2.25	23.67	39.94	8.21	4.86
64/65	78.80	2.95	26.69	49.84	9.01	5.53
065/66	101.53	5.88	17.27	49.17	14.49	3.39
MEAN			20.40			5.50
S.D.			3.17			1.52
C.V.			0.16			0.28

Source: Appendix I ,II

Figure no-19



4.2 CORRELATION ANALYSIS

Correlation analysis is the statistical tool, which is used to describe the degree to which one variable is related to another. “The correlation is a statistical tool which studies the relationship between two variables.” [51] Different methods and techniques are used in correlation analysis for measuring the extent of relationship between the two variables. Karl Pearson’s co-efficient of correlation is a commonly used to measure the linear association of two variables.

4.2.1 Karl Pearson’s Co-efficient of Correlation

It is one of the most commonly used statistical tools in order to measure the nature of relationship between two variables.[52] It is a useful statistical for measuring the intensity of the magnitude of linear relationship between two series. Karl Pearson’s coefficient of correlation is most common and useful tools to measure the relationship between two variables in the bank. The correlation coefficient (r) between two variables X and Y can be obtained by using following formula.

$$R = \frac{n \quad xy \; Z \quad x \quad y}{\sqrt{n \quad x2 \; Z(\quad x)2}\sqrt{\quad y2 \; Z(\quad y)2}}$$

Where,

n = number of observation in series x and y

x = Sum of observation in series x

y = Sum of observation in series y

x^2 = Sum of squared observation in series x

[51] S.C Gupta “Fundamental of statistics”, Himalaya publishing House, 1995, p. 5100.
[52] Ibid, p. 519.

y^2 = Sum of squared observation in series y

xy = Sum of the product of observation in series x and y

Here,
r = +1 implies that two variables are positively and perfectly correlated.

r = -1 implies that two variables are negatively and perfectly correlated.

r = 0 does not necessarily mean that the variables are independent. They may, however be related in some other form such as quadratic, logarithm or exponential.

Under the correlation analysis, the intensity of linear relation between the following various have been measured.

- Total deposit and net profit
- Performing assets and net profit
- Net worth and net profit
- Total deposit and investment
- Total deposit and loan and advance
- Investment and net profit

a) Correlation analysis between total deposit and net profit

The correlation between total deposits and net profit measures the degree of relationship between these two variables. It shows what effect dependent variable (Net profit) bears in time of variation independent variable (Total deposits).

Table 20 shows that the coefficient of correlation between deposits and net profit value of KBL is 0.9848, which signifies the positive relationship between deposits (X) and net profit (Y). Moreover, while considering the probable error since the value if r= 0.9848 is more than six time of P.E (r) = 0.0091 that reveals that the value of r is significant.

TABLE NO 20

CORRELATION BETWEEN TOTAL DEPOSIT AND NET PROFIT

Kumari Bank Limited

Amount in Rs. Million

Year	Total deposit (X)	Net Profit (Y)	XY	x2	y2
061/62	4,256.21	56.41	240,092.81	18,115,323.56	3,182.09
62/63	4,174.76	57.10	238,378.80	17,428,621.06	3,260.41
63/64	7,922.75	116.82	925,535.66	62,769,967.56	13,646.91
64/65	11,524.67	152.67	1,759,471.37	132,818,018.61	23,308.13
065/66	14,254.57	232.15	3,309,198.43	203,192,765.88	53,893.62
n = 5	42,132.96	615.15	6,472,677.05	434,324,696.68	97,291.16

Here, $R = \frac{n \quad xy\,Z \quad x \quad y}{\sqrt{n \quad x2\,Z(\quad x)2}\sqrt{\quad y2\,Z(\quad y)2}}$

n×∑xy	32,363,385.26
∑x×∑y	25,918,090.34
n×∑x2	2,171,623,483.39
(∑x)2	1,775,186,318.36
n×∑y2	486,455.81
(∑y)2	378,409.52
r2	0.9698
√n	2.2361

R = 0.9848

P.E [r] = 0.6745 X [1-r2] / √n

= 0.0091

Table 21 shows that the coefficient of correlation between deposits (x) and net profit (y) of MBL r = 0.3106 which indicates the positive relation between deposits

and net profit. Correlation of coefficient came less than six times the probable error i.e. 0.2725 < 6× 0.3106. It implies that the total deposits and net profit of the bank are negatively correlated but the correlation is not highly significant.

TABLE NO 21

CORRELATION BETWEEN TOTAL DEPOSIT AND NET PROFIT

Machhapuchchhre Bank Limited

Amount in Rs. Million

Year	Total deposit (X)	Net Profit (Y)	XY	x2	y2
061/62	5,586.80	84.87	474,151.72	31,212,334.24	7,202.92
62/63	7,893.30	133.99	1,057,623.27	62,304,184.89	17,953.32
63/64	9,475.45	76.79	727,619.81	89,784,152.70	5,896.70
64/65	11,102.24	85.01	943,801.42	123,259,733.02	7,226.70
065/66	15,596.79	123.25	1,922,304.37	243,259,858.30	15,190.56
n = 5	49,654.58	503.91	5,125,500.58	549,820,263.15	53,470.20

Here, $R = \frac{n \quad xy\,Z \quad x \quad y}{\sqrt{n \quad x2\,Z(\quad x)2}\sqrt{\quad y2\,Z(\quad y)2}}$

n×∑xy	25,627,502.89
∑x×∑y	25,021,439.41
n×∑x2	2,749,101,315.77
(∑x)2	2,465,577,314.98
n×∑y2	267,351.02
(∑y)2	253,925.29
r2	0.0965
√n	2.2361

R = 0.3106

P.E [r] = 0.6745 X [1-r2] / √ n

= 0.2725

b) Correlation analysis between net worth and net profit

Table 22 shows that the correlation coefficient and probable error of correlation coefficient between net-worth and net-profit in KBL seems 0.9829 and

0.0102 respectively. Coefficient of correlation appeared grater than 6 times the probable error i.e. 0.9829 > 6× 0.0102. It implies that the correlation between the stated components is positive at significant level. Net-profit in the bank seems to rise almost to the same degree as rise in the net-worth.

TABLE NO 22

CORRELATION BETWEEN NET WORTH AND NET PROFIT

Kumari Bank Limited

Amount in Rs. Million

Year	Net worth (X)	Net Profit (Y)	XY	x2	y2
057/58	469.08	56.41	26,460.80	220,036.05	3,182.09
058/59	523.46	57.10	29,889.57	274,010.37	3,260.41
059/60	638.53	116.82	74,593.07	407,720.56	13,646.91
060/61	729.04	152.67	111,302.54	531,499.32	23,308.13
061/62	1,180.17	232.15	273,976.47	1,392,801.23	53,893.62
n = 5	3,540.28	615.15	516,222.45	2,826,067.53	97,291.16

Here, $R = \frac{n \quad xy \; Z \quad x \quad y}{\sqrt{n \quad x2 \; Z(\quad x)2}\sqrt{\quad y2 \; Z(\quad y)2}}$

n×∑xy	2,581,112.23
∑x×∑y	2,177,803.24
n×∑x2	14,130,337.65
(∑x)2	12,533,582.48
n×∑y2	486,455.81
(∑y)2	378,409.52
r2	0.9428
√n	2.2361

R = 0.9710

P.E [r] = 0.6745 X [1-r2] / √ n

= 0.2725

From the Table 23 the correlation coefficient and probable error of correlation between net-worth and net- profit in MBL remained 0.4052< 6×0.25219 respectively. Coefficient of correlation appeared less than probable error. Hence it implies that the relation between net-worth and net-profit in the bank is poor i.e. their does not seem specific relation.

TABLE NO 23

CORRELATION BETWEEN NET WORTH AND NET PROFIT
Machhapuchchhre Bank Limited

Amount in Rs. Million

Year	Net worth (X)	Net Profit (Y)	XY	x2	y2
057/58	637.73	84.87	54,124.15	406,699.55	7,202.92
058/59	931.09	133.99	124,756.75	866,928.59	17,953.32
059/60	1,007.29	76.79	77,349.80	1,014,633.14	5,896.70
060/61	1,163.33	85.01	98,894.68	1,353,336.69	7,226.70
061/62	1,700.18	123.25	209,547.19	2,890,612.03	15,190.56
n = 5	5,439.62	503.91	564,672.56	6,532,210.01	53,470.20

Here, $R = \frac{n \quad xy\,Z \quad x \quad y}{\sqrt{n \quad x2\,Z(\quad x)2}\sqrt{\quad y2\,Z(\quad y)2}}$

n×∑xy	2,823,362.81
∑x×∑y	2,741,078.91
n×∑x2	32,661,050.03
(∑x)2	29,589,465.74
n×∑y2	267,351.02
(∑y)2	253,925.29
r2	0.1642
√n	2.2361

R = 0.4052

P.E [r] = 0.6745 X [1-r2] / √n

= 0.2521

On comparing two banks, net profit in KBL seemed to rise continuously with increase in the amount of net worth. In other words, KBL is successful of utilize the investor's fund more prudently and effectively to realize the return. There fore KBL retains the capacity of up lifting the net profit by increasing the net worth. In contrast, poor relation is observed between net worth and net profit in MBL.

c) Correlation analysis between total deposit and Investment

Table 24 shows that the coefficient of correlation and probable error of correlation coefficient between total deposit and investment in KBL remained 0.8935 and 0.0608 in the study period. Correlation of coefficient came greater than six times the probable error i.e. 0.8935>6×0.0608 which indicates that the correlation between total deposit and investment of the bank are correlated at significant level. With increase in the amount of deposit, investment of the bank seems to increase.

TABLE NO 24

CORRELATION BETWEEN TOTAL DEPOSIT AND INVESTMENT

Kumari Bank Limited

Amount in Rs. Million

Year	Total deposit (X)	Investment (Y)	XY	x2	y2
057/58	4,256.21	1,970.27	8,385,882.88	18,115,323.56	3,881,963.87
058/59	4,174.76	1,822.16	7,607,080.68	17,428,621.06	3,320,267.07
059/60	7,922.75	1,705.24	13,510,190.21	62,769,967.56	2,907,843.46
060/61	11,524.67	3,862.48	44,513,807.38	132,818,018.61	14,918,751.75
061/62	14,254.57	3,934.19	56,080,186.75	203,192,765.88	15,477,850.96
n = 5 ∑	42,132.96	13,294.34	130,097,147.90	434,324,696.68	40,506,677.10

Here, $R = \frac{n \quad xy\,Z \quad x \quad y}{\sqrt{n \quad x2\,Z(\quad x)2}\sqrt{\quad y2\,Z(\quad y)2}}$

n×∑xy	650,485,739.49
∑x×∑y	560,129,895.45
n×∑x2	2,171,623,483.39
(∑x)2	1,775,186,318.36
n×∑y2	202,533,385.51
(∑y)2	176,739,476.04
r2	0.7984
√n	2.2361

R = 0.8935

P.E [r] = 0.6745 X [1-r2] / √ n

= 0.0608

Table 25 shows the coefficient of correlation and probable error of correlation coefficient between total deposit and investment in MBL remained 0.6493 and 0.1745 respectively. Correlation of coefficient came greater than six times the probable error i.e. 0.6493>6×0.1745. This indicates that the correlation between total deposit and investment of the bank is correlated at significant level. With increase in the amount of deposit, investment of the bank seems to increase.

Between the two banks, it seems that KBL allocated greater portion of the fund collected from the depositor's investment. In contrast, it seems that investment in MBL increased in slow pace with respect to the increase or decrease in deposit.

TABLE NO 25

CORRELATION BETWEEN TOTAL DEPOSIT AND INVESTMENT
Machhapuchchhre Bank Limited

Amount in Rs. Million

Year	Total deposit (X)	Investment (Y)	XY	x2	y2
057/58	5,586.80	468.61	2,618,030.35	31,212,334.24	219,595.33
058/59	7,893.30	1,190.82	9,399,499.51	62,304,184.89	1,418,052.27
059/60	9,475.45	1,278.46	12,113,983.81	89,784,152.70	1,634,459.97
060/61	11,102.24	1,443.55	16,026,638.55	123,259,733.02	2,083,836.60
061/62	15,596.79	1,246.15	19,435,939.86	243,259,858.30	1,552,889.82
n = 5	49,654.58	5,627.59	59,594,092.07	549,820,263.15	6,908,834.00

Here, $R = \frac{n \quad xy\ Z \quad x \quad y}{\sqrt{n \quad x2\ Z(\quad x)2}\sqrt{\quad y2\ Z(\quad y)2}}$

n×∑xy	297,970,460.36
∑x×∑y	279,435,617.86
n×∑x2	2,749,101,315.77
(∑x)2	2,465,577,314.98
n×∑y2	34,544,170.01
(∑y)2	31,669,769.21
r2	0.4215
√n	2.2361

R = 0.6493

P.E [r] = 0.6745 X [1-r2] / √ n

= 0.1745

4.3 MAJOR FINDINGS

From the above analysis and interpretation of data the fooling major findings have been drawn.

1. Current ratios of banks are in slightly fluctuating trend. Both of the banks could not maintain the conventional standard of 2:1. However the average of the ratios appeared higher in MBL, which signifies that MBL is more capable of meeting immediate liabilities in contrast to KBL. The ratio was found more consistent in KBL.
2. Average cash and bank balance to current and saving deposits ratio of MBL appeared greater than that of KBL. It indicates the solvency position of MBL is better than that of KBL. Likewise MBL seems less successful to utilize the fund raised from the current and saving deposits that may ultimately affect the profitability adversely. The ratio appeared less uniform in MBL.
3. Mean Cash and bank balance remained higher in MBL, which reveals that the greater portion of the deposit was held for immediate payment in MBL. The

ratio remained more consistent in KBL. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.

4. NRB balance to Current and saving deposit ratio remained sufficiently higher above the standard set by NRB. Average ratios appeared higher in MBL, which indicates that KBL has thicker cushioned of liquidity against the possible deposit withdrawal. The ratio remained more consistent in KBL. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.
5. Both of the bank maintained NRB balance to fixed deposits ratio above the standard prescribed by NRB. Mean ratio appeared greater in KBL, which means that KBL has maintained greater portion of fixed deposit at liquid assets. The ratio showed less consistency in KBL. Hypothesis test showed that the sampled banks do differ significantly with respect to this ratio.
6. Average mean ratio of fixed deposit to total deposit came higher in MBL. It means that MBL can grasp the opportunity of investing the fund in more profitable sectors like long-term loan. On the other hand KBL can utilize less cost bearing fund in current assets and hence to strength the liquidity position. The ratio appeared more uniform in KBL than in MBL. Hypothesis test showed that the sampled banks do differ significantly with respect to this ratio.
7. Debt equity ratio of both banks depicted that employment of debt is higher than the capital. Comparatively, capital structure of MBL seemed more levered i.e. more risky. The ratio remained more consistent in MBL. Hypothesis test showed that the sampled banks do differ significantly with respect to this ratio

8. Debt asset ratio remained higher in KBL than in MBL, which reveals that the greater portion of assets in KBL was financed through the outsider cost-bearing fund. The ratio appeared in more uniform in MBL. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.
9. Average Interest coverage ratio in KBL remained greater than MBL, which reveals that interest paying capacity of KBL, is better than that of MBL. The ratio remained more consistent in KBL. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.
10. Loan and Advance to total deposit ratio appeared significantly higher in MBL. It indicates the better utilization of saving deposit in MBL then in KBL. The ratio remained more uniform in KBL. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.
11. Loan and advance to fixed deposit ratio appeared is higher in MBL, which indicates that turnover of fixed deposits in form of loan and advance is better in KBL. The ratio varied less in the same banks. Hypothesis test showed that the sampled banks differ significantly with respect to this ratio.
12. As depicted by higher investment to total deposit ratio in KBL, KBL seems more successful to utilize the depositor's fund in investment. The ratio dispersed slightly to greater extent in MBL. Hypothesis test showed that the sampled banks differ significantly with respect to this ratio.
13. Average return on asset in KBL was much higher than in MBL. It implies that the profitability position of MBL in the study period proved to be weaker in spite of improvement in later one year. The ratio varied less in the KBL. Hypothesis

test showed that the sampled banks do not differ significantly with respect to this ratio.

14. Return on net-worth of KBL was found to be significantly better as portrayed by the higher average ratio. The ratio varied to the great extent in MBL. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.
15. Return at total deposit was considerably higher in KBL which signifies that KBL is more successful to utilize deposit for making profit. The ratio varied less in KBL. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.
16. Interest Expenses to Interest income ratio on an average lower in KBL, which reveals that KBL invested the fund, rose from different sources more successful to earn interest rather than paying interest for the debt. Hypothesis test showed that the sampled banks differ significantly with respect to this ratio.
17. As revealed by higher interest on to total asset ratio in MBL, it seemed to be in better position for income generation. But the CV ratio greater viability in KBL. Which indicates the ratio is less consistent. Hypothesis test showed that the sampled banks differ significantly with respect to this ratio.
18. Greater EPS in KBL shows that earning per share basis is higher in KBL than in MBL. EPS greatly varied in later. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.
19. Tax per share is considerable higher in KBL and hence the shareholders of KBL have contributed more for the welfare of the nation. It has greatly fluctuated in

KBL. Hypothesis test showed that the sampled banks do not differ significantly with respect to this ratio.

20. Total deposit and net profit, performing asset and net profit, net worth to net profit, total deposit and investment and total deposit to loan and advance seemed positively correlated at significant level in KBL through the study period.
21. Net worth to net profit, total deposit and investment and total deposit to loan and advance seemed positively correlated and total deposit to net profit, performing asset to net profit seemed negatively correlated at significant level in MBL through the study period.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

It is seen that banking activities have been growing up very fast for last ten years in Nepal. Many commercial banks, development banks, financial companies, insurance companies, cooperatives and others have been setup within a short period.

Nepal has adopted liberal economic policy since 1990. The basic objective of the policy was to bring healthy competition in financial sector and attract the investment from private sectors. As a result many commercial and development banks have been established. Kumari bank limited was the first bank to be established in Nepal, which is invested by only Nepalese investors. Machhapuchchhre Bank Ltd. was established as 14th commercial bank in Nepal.

As the study is related to fanatical aspect, the financial strengths and weakness of KBL and MBL have been measured on the basis of balance sheet, profit and loss a/c and cash flow statement and different tools have been used. Moreover many efforts have been to maintain accuracy in the study. The various textbooks, published journals and thesis's are also have also been reviewed.

For analyzing financial data, the financial tools like ratio analysis, and statistical tools like arithmetic mean, Karl Pearson's co-efficient of correlation have been extensively used.

In the ratio analysis, different categories have been tested with their sub-divisions. The ratios tested are li1quidity ratios, leverage ratios, turnover ratios, and profitability ratios. According to liquidity ratio, the liquidity position of banks appears

to be almost satisfactory. However, overall liquidity position of KBL seems to be sound. In same way, MBL has high liquidity position, which indicates that the banks have not proper investment plan.

The study suffers different limitation. It covers the two banks only and the financial data of a period 2060/ 061 to 2065/66. Basically the data are of secondary in nature. Time and resource are other constraints of the study. Therefore the study may not bee generalized in all cases.

For this study research methodology i.e. research design, population nature source of data, data collection procedure and statistical tools and techniques have been applied.

Hence the researcher has analyzed data by using financial as sell as statistical tools, which have been described, already in previous chapter. The present study is a conclusion-oriented study of the financial performance of the banks KBL and MBL.

5.2 CONCLUSION

This study aimed at studying the financial performance of two banks KBL and MBL. For the study purpose, financial and static tools were used.

In this study it was clearly found that liquidity position of MBL has stronger than that of KBL, which shows MBL has readiness to serve its customers more efficiently in comparison with KBL for the purpose of meeting current liabilities. However holding higher level of cash and bank balance is also not good from the viewpoint of profit making organization. MBL was also found taking high-risk strategy as it has employed higher proportion of outsider's fund in its capital structure. KBL is more efficient to utilize its resource in profitable sector than that of MBL.

Similarly KBL was found good in matter of creating credit to earn fixed rate of return. The asset utilization ratio of KBL was seems satisfactory than that of MBL. However, KBL is seen more efficient to utilize its assets in profit generating areas as compared with MBL.

The financial indicators like EPS and TPS of KBL were found better in comparison to MBL. MBL had managed more loan loss provision as compared with MBL. This indicates that KBL was following riskier strategy in advancing its loans to the different sectors.

The result of Karl Pearson's coefficient of correlation showed the significant positive relationship between total deposit and net profit, performing assets to net profit, net worth to net profit, total deposit to investment and total deposit to loan and advance of the banks. But the MBL of Karl Pearson's coefficient of correlation showed the significant negative relationship between total deposit and net profit, performing assets to net profit. So in general it can be concluded that KBL has utilized their resource in proper order for generating return than that of MBL.

5.3 RECOMMENDATIONS

This study has reflected that the strengths and weakness of both the banks with respect to financial performance. So, some recommendations have been made for improvement of the weak area of the banks. These recommendations have been made.

- It has found that the banks are suffered from high and low liquidity position. In this context, KBL need to improve their liquidity position. Other wise KBL

may loose their credibility and MBL need to maintain their high liquidity position. Other wise MBL is loosing the chance of profitable investment. The liquidity analysis has showed that KBL has maintained liquidity position by holding more liquid assets but it needs to be increase and MBL also has to prepare investment plan in the returnable sectors.

- It is recommended that KBL can earn more by adding debt in its capital structure of KBL.
- Debt servicing capacity of MBL appears poor. So it is better to search for the profitable sectors for investment and utilizing of the deposits collected.
- Turnover of the fund raised from the outsiders appears less satisfactory in MBL so MBL has challenge to allocate the deposits on income generating sectors. It will be better for both of the banks, especially for MBL to open branches in other cities in rural areas in order to find profitable opportunities.
- The quality of assets owned by MBL seems poorer in comparison to KBL therefore MBL is suggested to advance the loans only after the proper analysis of customers.
- Profitability position of MBL is much weaker than KBL. It should improve overall efficiency by investing assets in more returnable sectors i.e. risky area after proper risk analysis.
- Greater portion of the income has been spent on staffs and office operation to KBL through the use of capacity building programs, seminars, conferences, training etc. Staffs can be made more efficient. It is also suggested to minimize the office operation expenses by searching the loopholes.

- In MBL earning, compared to total deposit accumulated could not grow proportionately. Therefore MBL is suggested to invest in other current asset rather than in the lower yielding treasury bills on which interest rate significantly declining at present. If the liquidity position doesn't appear weaker, it will be better for the banks to increase the investment in long-term loan after analyzing risk.