

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Bank is a resource mobilizing institution, which accepts deposit from various sources, and invest such accumulated resource in different sector like trade, commerce, industry etc. The commercial bank has its own role and contribution and it is an agent of economic development. Banks are the financial mediator of depositor and borrower.

Banking sector plays a vital role for the country's economic development. The developed financial system of the world characteristically falls into three part of bank: the central bank, commercial bank and other financial institution. They are also known as financial intermediaries (Sayer, 1976: 16).

Among the various types of Banks like (Kumari Bank, Nabil Bank, Laxmi Bank e.t.c.) the importance of commercial banks may not be exaggerated for smooth financial development for industries, trade and commerce. Therefore it is said that all the economic activities of a country are greatly influenced by commercial banks of a country. Truly speaking commercial banks have changed the economic structure of the world.

Now financial institutions are mushrooming in our country with the helps of open door policy adapted by the government. They are in keen competition among the financial institution in accepting as much deposits as possible. Nepal has seen the deregulated and expanded financial systems widely participated by the private sector over the years. This has resulted in substantial growth in deposit mobilizations and loan disbursement. The competitiveness among the bank due to

the autonomy given to them in the later years has led to varied activities that increased risk on the part of the depositors. The liberal financial policies pursued after the restoration of democracy in Nepal brought a big change as well as challenges in the financial sector. At present, twenty six commercial banks are run in Nepalese financial sector.

1.1.1 Evolution of Bank in Nepal

The history of Banking system in Nepal in the form of money –lending can be traced back in the reigning period of Gunakam Dev, 'The King of Katmandu (Nepal Bank Ltd., Nepal Bank Patrika, 2007: 31).

Tankadhari's special class of people' was established to deal with the lending activities of money towards the end of 14 century at the ruling period of King Jayasthiti Malla (Nepal Limited, Nepal Bank Patrika, 2037: 32).

During the prime ministerial period of Ranodeep Singh, 'Tejaratha' a financial institution was established to give loan facilities to the government staff & loan facilities to the public in general in the term of 5% interest but it did not accept money from public (Nepal Bank Limited, Nepal Bank Patrika, 2037: 40).

Nepal Bank Ltd. was established on the Kartik, 1994 to provide modern & organized banking facilities. Up to 2012, only Nepal Bank Ltd. Provided services to the public as an organized bank. Later, NRB act 2012 was made to establish NRB as a central bank to manage, control and develop monetary system in Nepal. NRB was formally establish on 14th Baishak, 2013 & its capital at the starting time was 1 Crore. Similarly Rastriya BAnijya Bank was set up in 2022 to fulfill the growing needs of the country. The birth of this bank brought a new landmark in the history of the banking facility in the Nepal. Like other developed countries, Nepal also took the policy of open economy and liberal, to develop good

competition in the banking field. Today, 26 commercial Banks are operating to provide modern banking services & facilities to boost the economic condition of the country.

The financial sector reform was initiated in mid-1980s under the liberal economic policy of HMG / N. Under the policy, HMG / N first opened the banking sector to foreign investors. In July 1985, commercial banks were allowed, for the first time to accept current and fixed deposits on foreign currency (U. S. dollar and sterling pound). On May 26, 1986, NRB deregulated the interest rate regime and authorized commercial banks to fix interest rate at any level above its maximum prescribed levels.

1.1.2 Meaning of Commercial Bank

Commercial Banks are those banks, which perform all kinds of banking function as accepting deposits, advancing credits, credits creation and agency functions etc. They provide short-term credit, medium-term credit and long-term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee bonds, letter of credit, etc.

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as they are considered as the main source of finance.

Without the development of sound commercial banking, underdeveloped countries cannot hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible without the existence of banks to provide the necessary capital.

Industrial development will be impossible without the existence of markets of goods produced. On the other hand, the services of the commercial banks will help to extend the market.

The commercial Banks plays an important role as follows.

- a. Help in business expansion.
- b. Encouragement for the right type of industries.
- c. Necessary for the trade and Industry.
- d. Transfer of surplus Funds to Needy Regions.
- e. Promotion of capital Formation.

Number of Commercial Banks and their Branches

S. N.	Names of Banks	No of branches	Date of Operation	Head Office
1.	Nepal Bank Ltd *	99	1937/11/15	Kathmandu
2.	Rastriya Banijya Bank*	114	1966/01/23	Kathmandu
3.	Nabil Bank Ltd	28	1984/07/16	Kathmandu
4.	Nepal Investment Bank Ltd	14	1986/02/27	Kathmandu
5.	Standard Chartered Bank Ltd	10	1987/01/30	Kathmandu
6.	Himalayan Bank Ltd	18	1993/01/18	Kathmandu
7.	Nepal SBI Bank Ltd	16	1993/07/07	Kathmandu
8.	Nepal Bangladesh Bank Ltd	17	1994/06/05	Kathmandu
9.	Everest Bank Ltd	27	1994/10/18	Kathmandu
10.	Bank of Kathmandu Ltd	12	1995/03/12	Kathmandu
11.	Nepal Credit And Commerce Bank Ltd	16	1996/10/14	Kathmandu
12.	Lumbini Bank Ltd **	5	1998/07/17	Kathmandu
13.	Nepal Ind. And Commercial Bank Ltd**	16	1998/07/21	Kathmandu
14.	Machhapuchhre Bank Ltd **	11	2000/10/03	Kathmandu
15.	Kumari Bank Ltd **	7	2001/04/03	Kathmandu
16.	Laxmi Bank Ltd **	9	2002/04/03	Kathmandu
17.	Siddhartha Bank Ltd **	5	2002/12/24	Kathmandu
18.	Agriculture Development Bank Ltd*	65	2006/03/16	Kathmandu
19.	Global Bank Ltd **	3	2006/12/02	Kathmandu
20.	Citizens Bank International**	1	2006/12/02	Rupendhehi
21.	Prime Commercial Bank Ltd**	1	2007/09/21	Chitwan
22.	Sunrise Bank Limited**	1	2007/10/12	Biratnagar
23.	Bank of Asia**	1		Pokhara
24.	Development Credit Bank Ltd**	1		Kathmandu
25.	NMB Bank Limited**	1		Birjung
26.	Kist Bank Limited			

**Public Banks, **Local Private Banks, Remaining are the joint Venture Banks.*

(Source: Nepal Rastrabank.com.np)

1.1.3 Introduction of Kumari Bank

Commercial Banks are those Banks, which perform all kind of banking functions. Without the development of sound commercial banking, underdeveloped countries cannot hope to join the advanced countries. There are so many commercial banks in Nepal, One of them is Kumari bank Ltd.

The existence of Kumari Bank Ltd. as a commercial bank with an objective of providing competitive and modern banking service in the financial market of Nepal. It is the Fifteenth Commercial Bank operated from 21 Chaitra, 2057 (2001 April, 03).

Kumari Bank has been providing wide -range of modern banking services through 16 points of representation located in various urban and Semi - Urben part of the country, 11 outside the valley and 15 inside the valley.

The Bank's Business philosophy is "We do it"

Mission

-) Provide world class service to our customers at a higher satisfaction.
-) Practice total quality management and embrace good governance.
-) Optimize our assets to achieve sound business growth.

Vision

-) We are customer oriented. Client is always our first priority.
-) Employees have direct input and control over work processes.
-) Employees are treated equitably, with respect and good faith.
-) We are transparent in our dealings and conduct (*www. kumaribank.com.np*)

1.1.4 KBL Organizational Structure

The banks lending approval authority is divided into two distinct units, namely credit and risk assessment. While the credit unit or the business development division concentrates more on optimum utility of assets every lending decision of this division is re-assessed and re-valuated by the risk assessment division for final approval. The risk assessment division applies its objective judgment on risk variable deemed appropriated in each instance of lending decision. For this purpose, the risk assessment division has two distinct units, the risk approval department, which facilitates final lending decision after duly analyzing risk and ensuring that they are at the acceptable level and the credit administration and control department, which evaluates paper work prior to actual sanction of facilities and also after it.

Depending upon the volume of lone and the nature of risk associated lending decision are subject to validation and approval by various levels of the hierarchy, which some lending decision are to be approved by the general manager and other by even the board of director as each case may require.

1.1.5 Capital structure of KBL

) Authorized capital	–	Rs.1,600,000,000.00
) Issued and paid-up Capital	–	Rs. 1,186,099,200.00

1.2 Statement of the Problem

In Nepal Commercial banks have been facing various challenges and problem. The growing competition among these financial institutions recent increase in transactions of security and capital market as well as the taxation lay on higher deposit in banks is affecting the Bank's deposit collection. The performance of the bank seems to be not satisfactory will try to be answered.

- a. Has the Bank been able to earn profits?

- b. Whether the Bank has right to Liquidity?
- c. How far Kumari Bank Ltd. has been able to accumulate deposits and utilize deposit so accumulate?

1.3 Objective of the Study

Management philosophy tells us that the first important thing in business management is to clearly define objectives. The main objective of this study is to evaluate the profitability position of KBL.

The Specific objectives of the study are as follows:

- a. To study the types of deposits collected.
- b. To analyzed the functions, objectives procedures and activities of the Kumari Bank.
- c. To find out the relationship between deposit and profit.
- d. To find out the profitability trend of the bank.

1.4 Significance of the Study

In this changing pace, the number of Commercial banks in Nepal is in an increasing trend. Lending is one of the main function of the commercial Bank where the whole banking business is rested upon. Customers want better, quicker, easier and special facilities from financial institution. The number of commercial bank in Nepal is in an increasing trend. KBL is A -Grade commercial Bank among all of them.

This study will have importance to various groups, which are:

- a. Importance to the management.
- b. Importance to the Share holder.
- c. Importance to outsiders (Customers, Financial agencies, investors ...)
- d. Importance to the policy makers.

1.5 Limitations of the Study

Every study has its own Limitations. Although this study will try its utmost care to career most of the important sector, it is still subject to the following limitations, which are as follows:

- a. This study mainly concentrates only confine to KBL because of time and resource.
- b. This study is associated only to the financial performance of the KBL.
- c. This study based on the published documents such as Balance Sheet, Profit and loss account, which are circulated at the close of the financial year.
- d. This study will base on only the past five years from 2061 / 062 to 2065 / 066.

1.6 Organization of the Study

This study is classified into five chapters and each chapter is divided into sub - headings to describe related subject.

Chapter – I Introduction

This Chapter includes background of the study, Introduction of KBL. , Statement of problem, Objective of study, Importance of the Study, Limitation of Study and Organization of research.

Chapter - II Literature Review

In this chapter review of related banks, Annual report and past research work for find out research gap. For this purpose conceptual review of profit plan and financial analysis and also review of related theories.

Chapter - III Research Methodology

This chapter includes research design, data collection, selection of the bank and methods of analysis or tools and techniques of analysis

Chapter - IV Data Presentation and Analysis

Data processing, Data analysis and interpretation are given in this chapter.

Chapter - V Summery, Conclusion and Recommendations

The last chapter contains the findings of whole study after which major conclusions and recommendations are provided.

CHAPTER – II

LITERATURE REVIEW

Review of Literature is the most important part of this thesis which helps to find out the path of the research work. This study review related books, Newspaper for conceptual review of profit plan and financial analysis and review of related thesis.

2.1 Conceptual Review

Conceptual means to know about the theme of the subject matter. For this purpose we review different books of different writers, Journal, articles and related publications.

2.1.1 Concept of Profit Plan

Profit plan is prediction of all the future operating activities in advance. It needs proper analysis and preparation of the entire functional budgets. Profit is based on effectiveness and efficiency of business activities which is ultimate goal of every business organization. Profit is the primary measure of business in any economy. Before going further managerial process of profit planning, it is important to understand the concept of profit.

Profit planning is the specific process of setting goals and developing ways to reach then another way, planning represents the firm's efforts to predict events and be prepared to deal with them (Hamptom, 1999: 125).

An economist will define that profit is the reward for the entrepreneurship for taking the risk and an accountant will ay the excess of firms profit over the expenditure of producing revenues in given fiscal year (Lynch and Williamson, 1998: 99).

Planning means designing in advanced what is to do in future. It is the most essential things of management. Profit plan refers to the planning of revenue and planning of cost. It is the systematic way to accomplish managerial goal and it is also the method of evaluate profitability position of business organization.

Planning is start from forecasting and predetermination of future event. The primary propose of planning in business is to increase the chance of making profit. The budget is primary operation- planning document. Committed performance budget are called profit plan. Each manager and subordinates has the authority in varying degrees to make the decisions, the result of which will nearly accomplish of better his budgetary targets (Garry and Joston, 1993).

Basically following main plans (or budget) are preparing in manufacturing enterprise for the purpose of profit plan and control.

a. Sales Budget

Sales budget is the most important step of profit plan, which is the foundation for periodic planning of the firm. Sales plan provide based for management decision. If sales plan is not realistic and relevant all the other parts of overall profit plan are not realistic and it is really impossible to assets the future revenue of a business firm. It helps to reduce uncertainty about future revenues and planning process. Every enterprises primary source of cash is sales and all other important operational aspects (I.e. production level, manpower requirement and plan of expenses and need of capital addition) are depends on the volume of sales.

b. Production Budget

Production budget is second initial step in budgeting. Production plan is an important tool of planning, Co- ordination and control in an organization. It is an estimation of quantity of goods to be produced during budget period. Production budget is necessary to meet sales needs and for the desire ending inventory.

c. Overhead Budget

Better utilization of limited resource expenses overhead budget is necessary. It should focus on the relationship between expenditure and benefits from those expenditure. Cost allocation essential for financial accounting and control purpose.

There are three types of overhead cost which are as follows:

i. Variable Cost

Variable cost means, the cost which is vary in direct proportion and same direction to change in some other measures of volume or cost driver. It has proportionate relationship with volume of activity. Variable costs are also known as direct cost. In decision making point of view variable cost are managerial cost and it can be controlled though managerial decision making. This is also relevant cost for decision making.

ii. Fixed Cost

The cost which does not vary in the volume of output or relevant range of activities. In decision making point of view, fixed costs are uncountable cost. It can not be controlled by managerial decision making.

iii. Semi-Variable Cost

The cost which is neither perfectly variable nor absolutely fixed in relation to volume changes are called Semi-variable cost. Semi variable costs are those costs part of which are variable and part of which cost are fixed.

d. Capital Expenditure Budget

It means the process of planning and controlling of above capital expenditure for long term strategic and short term tactical profit plan. Capital expenditure means expenditure for expansion and contraction of investment in the fixed assets like, land, building, furniture and fixture.

e. Cash Budget

Cash is the most essential things and cash management is important functions of an organization. Cash budget is necessarily prepared near the end of annual planning cycle along with planned income-statement and balanced sheet. It is prepared basis of previous year profit and loss, Sales and capital expenditure budget.

2.1.2 Concept of Financial Analysis

Generally, the management of the firm is interested in every aspect of financial analysis because they have responsibility of effective and efficient utilization of scare resources and sound financial position of the firm. Financial analysis is the process to determine the financial strength and weakness of business operation. Financial analysis provides a framework for financial planning and control. Financial manager need the information provided by analyzed both to evaluate the firms past performance and to help future plans.

Financial analysis is the process of determining the significant operating and financial characteristics of firm from accounting data and financial statements (Hampton, 2001).

We find two types of financial analysis that is vertical analysis and horizontal analysis. When a financial statement is like a balance – sheet and profit and loss A/C of certain period are only analyzed that is called vertical analysis. And when a series of statement relating to a numbers of years are reviewed and analyzed that is called horizontal analysis.

This study is mainly based on horizontal analysis and these are different steps of financial analysis.

Ratio Analysis

A ratio is defined as the indicated quotient of two mathematical expressions as the relationship between two or more things. It is a tool of financial analysis. A ratio is simply one number expressed in terms of another, it is an expression of relationship spelt out by dividing one figure into the other. A ratio helps the analyst to make qualitative judgment about the firm's financial position and performance. However quantities relation of the kind represented by ratio analysis are not an end in themselves but are a means to understanding a firm's financial position. Quantities ratio analysis is not capable of providing precise answers to all the problems faced by a financial manager or potential fund suppliers unless several ratios after related to one another, are computed. Ratio analysis seems meaningless if there is no any proper objective defined. Before ratio analysis a clear picturization of objective should be laid down so that purposeful analysis should be conducted.

Ratio analysis assists in identifying the major strengths and weaknesses of the bank. The bank has adequate capital structure to tackle financial risk and overall efficiency of the bank in terms to achieve the goal of maximizing shareholder's wealth.

Six Fundamental types of Ratio (Weston and Brigham, 1984: 38)

-) Leverage ratio
-) Liquidity Ratio
-) Capital structure Ratio
-) Activity Ratio
-) Profitability Ratio
-) Growth Ratio
-) Valuation Ratio

There are many types of ratio, but for our purpose some selected financial ratios are applied which are as follows.

a. Liquidity Ratio

It is regarded as one of the most important ratios. Liquidity ratio measures the ability to meet the short term obligations and reflect the short term financial strength and solvency of any bank.

b. Profitability Ratio

Profit is the difference between total revenue to total expenses over a period of time. The profitability ratio reflects the operating efficiency. The relationship between profit and various assets of the organization is measured to analyzed then operating strength of the company.

c. Leverage Ratio

The relationship between insider's fund and outsider's are firms are evaluated under the leverage ratio in order to evaluate the long term solvency of the bank.

d. Activity Ratio

Activity ratio is calculated to evaluate the efficiency with the bank manager and utilizes the funds. The relationship between the resources and resources of the firm are measured through activity ratio. Activity ratio indicates the degree of efficiency in assets management; hence they are often referred to as efficiency ratios. The ratios, which are relevant and suitable for this study are defined, calculated and analyzed in the fourth chapter.

2.2 Review of Related Studies

2.2.1 Review of Books and Articles

Baye and Jansen (1996), through their Books Money, Banking and Financial markets have tried to analyzed a bank's profitability under an economic approach. They State "To maximize profit, Bank should attract the interest rate paid on deposit"

Rose (1999), in her book commercial bank management, "Achieving superior profitability for a bank depends upon several crucial factors:

-) Careful use of financial leverage (or the proportion of the bank assets financed by debt as opposed by the share holder equity capital)
-) Careful use of operating leverage from fixed assets.
-) Careful control of operating expanses so that more dollar of sales revenue becomes net income.
-) Careful management of assets portfolio to meet liquidity needs while seeking the highest returns from any assets acquired.
-) Careful control of the bank's exposure to risk so that the looses don't overwhelm its income and equity capital.

Pradhan (2004), financial Management is define as the process of financial decision making founds on the principle of maximizing shows wealth.

Walt (2008), in his article, "*Sound practices for Managing Liquidity in Banking Organizations*" attributed Liquidity, or the ability to fund increases in assets and meet obligations as they come due, is crucial to the ongoing viability of any banking organization. Sound liquidity management can reduce the probability of serious problems. Indeed, the importance of liquidity transcends the individual

bank, since a liquidity shortfall at a single institution can have system – wide repercussions. For this reason, the analysis of liquidity requires bank management not only to measure the liquidity position of the bank on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

Mabey (2008) Published an article "*Management Development and Firm performance in German, Norway, Spain and The U.K.*" Where he has explained that management development means development of goal achieving capacity and it lead success of the organization. For this purpose he presents comparative study about multinational companies and domestic companies, Which are located in same countries. But the key difference is that domestic companies are focused exclusively upon the local market place and have no international strategies, where as the multinational companies patently do. In our context our domestic companies are not give emphasized to management development programme and they did not success to captive multinational companies. So management development is most importance for any successful organization and it is a determinant of business performance.

"Analyzing the behavior and future prospects for profitability of a financial institution is a complex task. Many factors affect each institutions profitability. Among the most important factor are the riskness of loans investments made: Liquidity needs and the institution's provision for those needs ; the effectiveness of task management practices; the label of efficiency in utilizing human and non-human resources; and the ability of management to control expenses (particularly interest expenses and employee costs" (Fraser and Ormiston, 2002).

2.3 Review of Related Thesis

Some studies have been undertaken for the analysis of KBL by some Master degree students and some expert who describe the lending policy, deposit

utilization, financial performance of KBL. The following are the presentation of some related studies.

Chhetri (2002), made a study on "*Profitability Position of NABIL Bank*" for the purpose of fulfillment of MBS. A comparative case study between NABIL bank and SCB bank has point out:

-) To evaluate the trend of deposit and loan and advance of Nabil and SCB.
-) To evaluate the liquidity, profitability, capital structure, activity and capital adequacy position of Nabil and SCB.
-) To study the strength and weakness of Nabil and SCB. To study the opportunity and threats in terms of financial tools.
-) To suggest and recommend some measures for the improvement of financial performance of Nabil and SCB in the future.

Major finding of the study:

-) Nabil's deposit utilization rate is higher than that of SVB in all the F/Y's during the period.
-) Nabil's liquidity position is better than that of SBI.
-) On the other hand total income generating assets to Total Debt Ratio and Total Income generating assets to total debt ratio of both banks are in increasing trend.
-) Average return on risky assets ratio and average return to total assets ratio of SCB are higher than those of Nabil.
-) In conclusion, SCB's profitability position is better than the same of Nabil.

Finally, she suggested that provide incentives for attracting new fixed depositors, simplify present complication, and lengthy depositing process. Follow liberal lending policy.

Sharma (2005), entitled "*A Study of Financial Performance of Commercial Bank*

(*Nepal SBI Bank, NBL, EBL*)" Presented at partial fulfillment for the requirement of MBS.

Major findings of research works were as follows:

-)] Current ratio of three banks should slightly fluctuating trend. The average of this ratio appeared higher in NBB, which signifies that NBB is more capable of meeting immediate liabilities in contrast to NSBL and EBL.
-)] Average cash and bank balance to current deposit ratio of EBL appeared greater than NSBL and NBB. Average liquidity position of NBB and EBL is almost same during the study period. It indicates that the solvency position of NBB and EBL is better than NSBL.
-)] The average cash and bank balance to current assets ratio remained higher in NSBL. The higher average ratio of NSBL showed that the bank has held the greater portion of most liquid assets than NBB and EBL.
-)] Loans and advance to total deposits ratio appeared considerably higher in NBB. It indicates that NBB is more successful in utilizing the depositor's fund to earn profit.
-)] The earning per share ratio of three banks seemed fluctuating. The average ratio of NBB remain greater than NSBL remained lower among the banks.

Sharma has provided some recommendation to improve the negative position of the banks:

-)] The sampled Bank should diagnose the root cause of unsatisfactory liquidity.
-)] Debt assets ratio of the sampled banks shows the aggressive use of debt capital by the bank. The banks are recommended to invest such debt in profitable assets.
-)] NSBL should utilized its total deposits for the invest purpose more efficiency as total invest to total deposit ratio of the bank shows lower position among the sampled banks.

-) NSBL and NBB are recommended to decrease their non performing loans position on the hand; they should strictly study the variability of the projects before disbursing the loans. Likewise EBL Should keep non performing loans in the constant position.
-) The sampled banks should go on to install state of the art technologies in order to give quick services to their customer on one hand and to gain comparatives advantage on the other hand.

Adhikari (2006), conducted a comparative study of the “*Profitability of Nepal SBI Bank & Nepal Bangladesh Bank*” for the purpose of fulfillment of MBS. He has find out the following major finding which are summarized as below.

-) The mean ratio of return on equity of NB Bank is nearly too five times of SBI Bank. The variability of return on overall equity of NB Bank is very higher than that of SBI. It shows the inconsistency in return on equity.
-) The mean ratio of return on total assets NB Bank is less than SBI Bank. It shows the inconsistency in return on assets.
-) The ratio of net profit margin of NB Bank is remarkably low compared to SBI Bank. The bank is not able to control operating expenses and other leakage. The mean ratios of the both banks show that SBI Bank has higher mean ratio of net profit margin 7.4 than that of NB Bank 6.09.
-) The C.V of SBI Bank is higher than that of Nepal Bangladesh Bank.
-) It can be concluded that the profitability position of NB Bank is comparatively worse than that of SBI. The bank must maintain its high profit margin for the well being in future.
-) Average cash and bank balance to total deposit ratio of SBI Bank remained greater than that of NB Bank. It indicates the better liquidity position of SBI Bank.

Further Adhikari has recommended that,

-) Both banks should be established after proper diagnosis of the root causes of unsatisfactory liquidity. In this regard, NB Bank should be more serious than SBI Bank.
-) Both banks should attract more non interest bearing amount deposit for increase profit margin. The share of fixed deposit on its total deposit is very high. So it is recommended to reduce its fixed deposit.
-) Both banks must formulate the strategy to control unnecessary expenses using modern technology, computer networks and experts, and well trained personnel which also increase the operating efficiency of the bank.
-) The earning per share and dividend per share attract the investors. So higher cash dividend strategy should be adapted for the better growth of shareholders worth.
-) Need to invest on small entrepreneurs development programs.
-) NB Bank and SBI Bank are suggested to make modern banking technologies accessible to there all kinds of depositors as far as possible.
-) An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

Lama (2008), conducted a study of “*Profitability of Nabil Bank Ltd with comparison to other JV Banks*”. From the analysis of difference financial ratio, the major findings of the ratio are as follows:

-) Profitability reveals the degree of success in achieving desire profit. From Return on Equity of Nabil Bank it is found that the operating efficiency of

the bank is in increasing trend. It is due to increase in income and decrease in non performing loans.

-) The Earning per share of Nabil Bank is very good during the period which shows the better position of bank in the market. It increases the value of the firm.
-) The Net profit Margin ratio has been increasing till FY 2061\62 and then slightly decreased. Though there is low fluctuation, Nabil bank has been able to mobilize the resources generated from the operation.
-) The interest payout ratio of Nabil Bank is lower. The main reason of low ratio is low volume of NPAs and high cost deposit.
-) Nabil Bank has lowest loan loss provision to total income. It means it has low volume of NPAs and is successful in mobilizing the loans.
-) The operating expenses of Nabil bank has been remained comparatively low consistently over the years. The management of the operating expenses in Nabil Bank should be said to be highly efficient.

Further Gita Lama has recommended that:

-) The sincere effort of the management is to be concentrated in the NPA management if the bank is to sustain and perform well in the forthcoming day.
-) The bank seems to be lacking in the conduct of detailed and proper credit appraisal and monitoring process. The bank needs the facilities to make detailed analysis about various aspects.
-) The human resource is the most important component in a service industry. Thus, effective program should be initiated to improve the productivity of the staff. Which should be introduced other commercial bank for the staffs to increase their morale.

-) Bank should try to correct their market prices according to the net worth, earning per share and other profitability indications. The banks are recommended to decrease their price-earning ratios to a reasonable level.
-) Nabil Bank seems to have complied to the directive in literary terms rather than its meaning. So, although it has a negative impact on profit of the bank, it has to assess the real threat of NPAs in a prudential manner and make additional provisions wherever necessary. For a bank that is in dire straits, it would be a good option for the long- term sustainability of the bank rather than looking to maximize the short- term profit.

Gayawali (2009), conducted the study on "*Profitability position of ADBL*" For the purpose of fulfillment of MBS. The main objectives of the study are:

-) To evaluate existing budgeting system.
-) To study the types of deposits collection.
-) To analyzed the use of deposit in various activities.
-) To find out the profitability trend of the bank.
-) To find out the relationship between lending activities and profit.
-) To find out the relationship between deposits and profit.

Following are the major finding of the study:

-) ADB/ N are more active in creating investment opportunity and enhancing business activities.
-) The image and good will of ADB/N in the financial market has created over whelming response of the depositors.
-) The share of fixed deposits and saving deposit is 92.7% on total, so the Bank liquidity position is well and the bank gets more investment opportunity.
-) In this study first two year the bank restructuring than it face huge loss, after then the bank was success to made new identity in financial market. It was

conclude that ADB/N is performing well in last two year.

The recommendations to ADB/N are pointed out as follows:

-) The profitability in terms of return on assets and profit margin of the bank seem to low in comparisons to the huge amount of investment made by the bank. Therefore the bank is recommended to increase it's net income reduced it's operating expenses and try to increase profitability.
-) ADB/N should have an in-depth analysis of the bank's strength and weakness. It should try and overcome its weakness by using its expertise opinion in risk analysis and loan recovery methods.
-) The clear objective and mission to be set and communicated to the middle level staffs which should be implemented in day to day operation.
-) The bank should develop specific schemes for customer as well as investor to face the competition.
-) Effective programs should be initiated to improve the productivity of the staff. Which should be introduced other commercial bank for the staff to increase their morale.
-) The system of periodic performance reports should be followed to be conscious towards poor performance and take correctively action timely.
-) Financial analysis helps to identifying the financial strength and weaknesses and cause of weakness should be diagnosed timely. Controllable weakness should be controlled in time and relevant officers and subordinates should be made responsible and accountable for controllable weakness.
-) The bank should try to correct their market prices according to the net worth, earning per share and other profitability indicators. The bank are recommended to decrease it's price earning ratio to a reasonable level.
-) Finally, a systematic approach should be made towards the increase in

profitability of the bank.

Research Gap

The purpose of the present research work is quite different from the studies made by the previous. In this study covers latest financial data and analysis by using financial as well as statistical tool.

The previous research only focus on management account practices in Nepalese companies mainly service sectors. These studies only defined financial tool and use financial ratio to evaluate the effect on profitability position of the bank. This study has suggested and recommended financial as well as statistical tools are apply to find out financial strength and weakness at right time and improve financial performance in future.

So, this study details analysis of financial performance and position of KBL. This study tries to fulfill the previous research gap on profitability of KBL's financial position.

CHAPTER - III

RESEARCH METHODOLOGY

This section describes the method and process applied in entire study. Research Methodology is a search tool, which is used to test the hypothesis and to come to a factual conclusion. This study basically helps to conclude the real profitability position of KBL. Following research methodology is used to achieve the objective of this research paper.

3.1. Research Design

Research design is the arrangement of conditions for collection and analysis of data. Research design serves as a framework for the study, guiding the collection and analysis of the data, Research tools to be utilized. The research design of this study is analytical as well as descriptive approach. Some financial tools along with statistical tools have been applied to examine facts and techniques have been adopted to evaluate the profitability of Kumari Bank Limited.

3.2 Time Duration

This study covers the time duration of five years financial statement from F/Y 6061/062 to 2065/66 For the purpose of analysis of profitability position.

3.3 Source of Data

This study is conducted on the basis of Secondary data. The data required for the analysis are directly obtained from the balance-Sheet, Profit and loss account and cash flow of the concerned bank's annual report and other publications. Various data and information are collected from the different articles; Journals, bulletins, magazines and others published and unpublished report and documents from

various sources.

3.4 Tool and Techniques of Data collection and analysis:

In this study required information and data are collected from primary and secondary sources which are arranged, analyzed and presented in proper table and formats. Such table and formats are interpreted and explained where necessary. The analyses of data are performed by the help of financial and statistical tools. The financial tools mainly used are ratio analysis, variance analysis and flexible budget. Similarly the statistical tools used are correlation, coefficient and mean etc.

Financial Tools

In this study calculated and interpreted following financial ratio with respective formulas.

Liquidity Ratio

Liquidity ratio is used to measure a firm's ability to meet its current obligations as they came due

Profitability Ratio

Profitability ratios measure the ability of firms to earn profit from proper utilizing available resources in changing environment.

Utilization Ratio

Utilization ratios are used to measure a firm's ability to utilize their resource (deposit, assets etc.) and earn profit. .

Statistical Tool

This study is applied **Karl Pearson's** correlation coefficient method to find out the relation between total deposit and loan & advance and loan & advance and interest income.

Correlation Coefficient

There is several mathematical method of measuring correlation. Among them **Kal Pearson's** method is most widely use in practice. In this method following formula is use to calculate correlation coefficient in direct method.

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

Where,

N= Number of pairs of X and y observed.

X= Value of first variable.

Y= Value of second variable

r= Pearson correlation coefficient.

Average

The quantities which are the representative of the huge mass of quantities are known as average. The most popular mean is Arithmetic mean or average, which is calculating the sum of all observations divided by the number of observations. Arithmetic mean is also known as the arithmetic average.

Formula;

$$\bar{X} = \frac{\sum X}{N}$$

Where,

$\sum X$ = the sum of all observations

N= Number of observations

\bar{X} = Average

Ratio

Ratio tells relation between quantities of the same kind determined by the number of times one is contained in the other.

CHAPTER - IV PRESENTATIONS AND ANALYSIS OF DATA

This chapter mainly related with presentation analysis and interpretation of relevant and available data of KBL for the fulfillment the objective of this study and obtains best result. In this purpose the data have been analyzed according to the research methodology and presenting suitable table and charts.

4.1 Business Operation

Banking business is an integral part of economic development as this has bestowed with many broad based economic development endeavor. In context of Nepal, the endorsement of Bank and financial institution Act (BAFIA) has tried to bring many dimension of banking activities in to a single and steady procedure. While taking a well deserved opportunity following the introduction of BAFIA, KBL's commercialization notices a full range of business prospect in the market.

4.1.1 Deposits of KBL

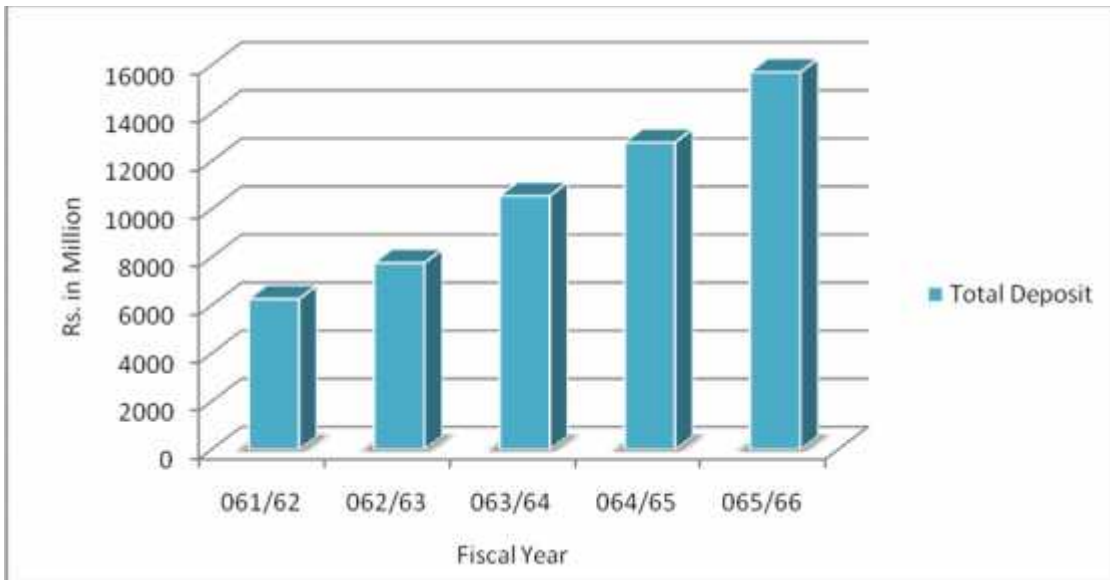
Table 4.1
Total Deposit

(Rs in Million)

Fiscal Year	Total Deposit
061\62	6268
062\63	7768
063\64	10557
064\65	12780
065\66	15710

Source: Annual Report: (061/62 to 065/66)

Figure 4.1
Total Deposit



This figure shows the total deposit of KBL was increasing trend which is better for the bank.

Now an attempt had been to find out the trend analysis of total deposit by using trend analysis method by least square:

Table 4.2
Trend Analysis of Total Deposit

Fiscal Year	Y	X = x - \bar{x}	x²	XY
061\62	6268	-2	4	-12536
062\63	7768	-1	1	-7768
063\64	10557	0	0	0
064\65	12780	1	4	12780
065\66	15710	2	1	31420

Total	53083	0	10	23896
--------------	--------------	----------	-----------	--------------

Source: Annual Report (2061/62 to 065/66)

Hence year 063\64 is taken Mean year.

$$Y_c = a + bx$$

$$\text{Now } a = \frac{\sum Y}{N} = \frac{139463}{5} = 10616.6$$

$$\text{And } b = \frac{\sum XY}{\sum X^2} = \frac{20321}{10} = 2389.6$$

Now substituting the value of a and b

We've

$$Y_c = 10616.6 + 2389.6x$$

Now total deposit for the year 066\67 is calculated as follows:

$$N = 3 \text{ for year } 066\67$$

$$\begin{aligned} Y_c &= 10616.6 + 2389.6 \times 3 \\ &= 17785.4 \end{aligned}$$

Thus the total deposit of KBL will be Rs. 17785.4 million in coming year 066\67. And the following table present the actual loans and advance from fiscal year 061\62 to 065 \66.

Table 4.3
Actual Loan and Advance

(Rs in million)

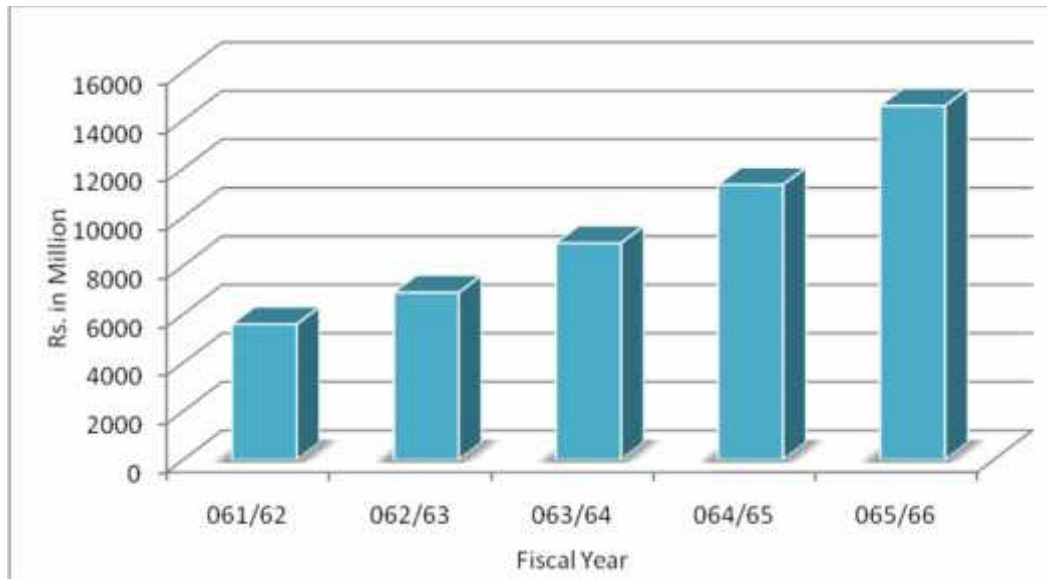
Fiscal Year	Actual Loan & advance
061\62	5584
062\63	6891
063\64	8929
064\65	11335

065\66	14593
--------	-------

Source: Annual Report: (061/62 to 065/66)

The above loan and advance is shown in the figure below:

Figure 4.2
Actual Loan and Advance



The table and figure shows that loan and advance of KBL was increasing trend which is better for the bank to meet lending target properly.

Now an attempt had been to find out the trend analysis of total deposit by using trend analysis method by least square:

Table 4.4
Trend analysis of Loan and advance

Fiscal Year	Y	$X = x - \bar{x}$	x^2	XY
061\62	5584	-2	4	-11168
062\63	6891	-1	1	-6891
063\64	8929	0	0	0
064\65	11335	1	4	11335
065\66	14593	2	1	29186

Total	47332	0	10	22462
--------------	--------------	----------	-----------	--------------

Source: Annual Report (2061/62 to 065/66)

$$Y_c = a + bx$$

$$\text{Now } a = \frac{\sum Y}{N} = \frac{139463}{5} = 9466.4$$

$$\text{And } b = \frac{\sum XY}{\sum X^2} = \frac{20321}{10} = 2246.2$$

Now substituting the value of a and b

We've

$$Y_c = 9466.4 + 2246.2x$$

Now total deposit for the year 066\67 is calculated as follows:

$$N = 3 \text{ for year } 066\67$$

$$Y_c = 9466.4 + 2246.2 \times 3$$

$$= 16205$$

Thus the total Loan and advance of KBL will be Rs. 16205 million in coming year 066\67 as according to trend analysis.

Interest income and interest expenses are the major income and expenditure source of banks thus the income and expenses of these items are present below.

Table 4.5
Actual Interest Income

(Rs in million)

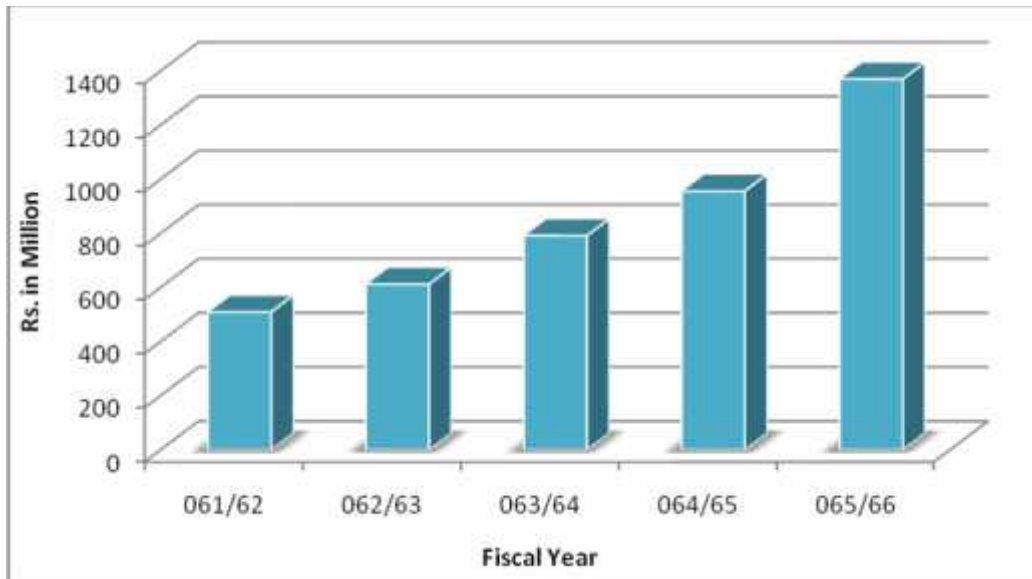
Fiscal Year	Interest Income
061\62	509
062\63	612
063\64	791
064\65	956

065\66	1370
--------	------

Source: Annual Report (061/62 to 065/66)

The interest income is shown in the figure below:

Figure 4.3
Actual Interest Income



The figure shows that the interest income is also increasing trend which is better for the Bank.

Now an attempt had been to find out the trend analysis of total deposit by using trend analysis method by least square:

Table 4.6
Trend Analysis of Interest Income

Fiscal Year	Y	X = x - \bar{x}	x ²	XY
061\62	509	-2	4	-1018
062\63	612	-1	1	-612
063\64	791	0	0	0
064\65	956	1	4	956
065\66	1370	2	4	2740

Total	4238	0	10	2066
--------------	-------------	----------	-----------	-------------

Source: Annual Report (2061/62 to 065/66)

$$Y_c = a + bx$$

$$\text{Now } a = \frac{\sum Y}{N} = \frac{139463}{5} = 847.6$$

$$\text{And } b = \frac{\sum XY}{\sum X^2} = \frac{20321}{10} = 206.6$$

Now substituting the value of a and b

We've

$$Y_c = 847.6 + 206.6x$$

Now total deposit for the year 066\67 is calculated as follows:

$$N = 3 \text{ for year } 066\67$$

$$Y_c = 847.6 + 206.6 \times 3$$

$$= 1467.4$$

Thus the total Interest income of KBL will be Rs. 1467.4 million in coming year 066\67 as according to trend analysis.

Table 4.7

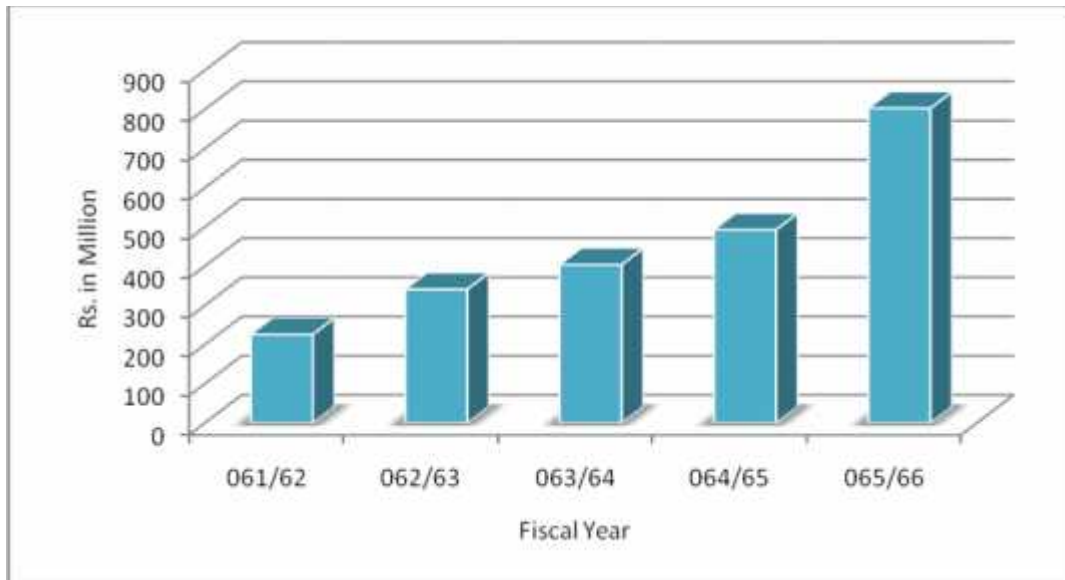
Actual Interest Expenses

(Rs in million)

Fiscal Year	Interest Expenses
061\62	226
062\63	341
063\64	404
064\65	493
065\66	803

Source: Annual Report (061/62 to 065/66)

Figure 4.4
Actual Interest Expenses



Now trend analysis method is used to find out the interest expenses of KBL for the year 066/67.

Table 4.8
Trend Analysis of Interest Expenses

Fiscal Year	Y	X = x - \bar{x}	x ²	XY
061\62	226	-2	4	-452
062\63	341	-1	1	-341
063\64	404	0	0	0
064\65	493	1	4	493
065\66	803	2	1	1606
Total	2267	0	10	1306

Source: Annual Report (2061/62 to 065/66)

$$Y_c = a + bx$$

$$\text{Now } a = \frac{\sum Y}{N} = \frac{139463}{5} = 453.4$$

$$\text{And } b = \frac{\sum XY}{\sum X^2} = \frac{20321}{10} = 130.6$$

Now substituting the value of a and b

We've

$$Y_c = 453.4 + 130.6x$$

Now total deposit for the year 066\67 is calculated as follows:

$$N = 3 \text{ for year } 066\67$$

$$Y_c = 453.4 + 130.6 \times 3$$

$$= 845.2$$

Thus the total Interest expenses of KBL will be Rs. 845.2 million in coming year 066\67.

The strength and weakness position of any commercial bank can't be judged from the basis of the single parameter. I.e. we can't find out the actual performance of the bank only with the help of amount the bank had earned from interest loans and advance total deposit collected and other. The major parameter to find out the strength as well as weaknesses of the bank are total capital employed, total assets held, total deposit mobilized etc. where as performance can be measured with operating profit ratio return to shareholder's equity, earning performance share, interest coverage ratio, growth in bank's advance, deposits operating profit etc.

4.2. Status of Deposit Mix

Public deposit is the main source of fund mobilization for KBL. The image and goodwill of KBL in the financial market has created overwhelming response of the depositors and as such deposit has accounted with continuous growth trend. The Bank mainly accepts three types deposit from the customers.

Table 4.9
Deposit Mix

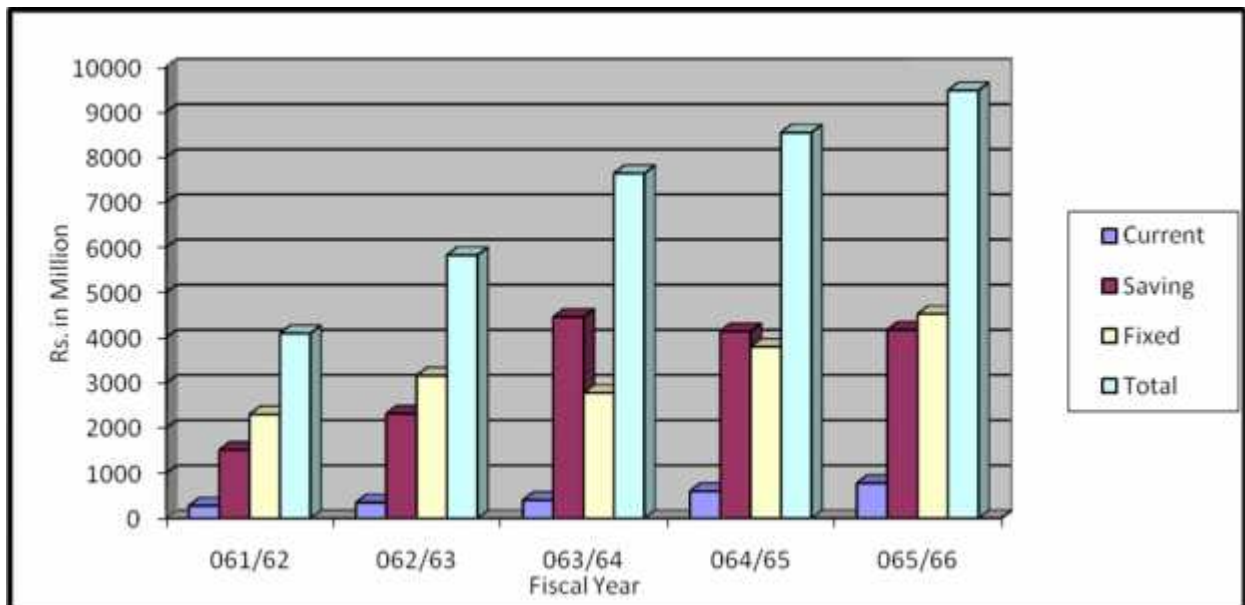
(Rs in Million)

Fiscal Year	Deposit						Total	Growth index	% change
	Current	%	Saving	%	Fixed	%			
061/62	279	6.81	1515	36.98	2302	56.20	4096	1	--
062/63	350	6.0	2317	39.75	3162	54.25	5829	1.42	42.30
063/64	403	5.2	4461	58.39	2776	36.34	7640	1.86	31.06
064/65	601	7.03	4144	48.5	3799	44.46	8544	2.08	11.83
065/66	780	8.23	4170	44.0	4527	47.77	9477	2.31	10.91

In 2062\063, data in that respect also reflects the same line and has changed 42.30% in 060\61, 31.06%in 063\64, 11.83%in 064\65 and 10.91% in FY 065\66. Analyzing the deposit mix, saving and fixed deposit was increasing trend but the percentage of these deposits was slowly fluctuated. Fixed deposit is long term deposit and bank can be mobilize them on investment, and loan & advance and above table shows that the bank's fixed deposit was almost more than 35% which indicates higher liquidity position of the bank. Saving deposits are short term interest bearing deposit and it can be withdrawn with or without prior notice and after analysis this table the bank's saving deposit was also almost more than 35% which is shows that better short term liquidity position of the bank. The current account deposit. Volume is found nominal compare to others.

.After analysis the status of deposit mix, KBL has not been found successful in holding the non interest bearing deposit in the form of current account appropriately. The data strictly aver that only 8.23 percent of total deposit is ascertained to be current account fund where as the rest 91.77percent fund are still relatively higher cost liability fund in the form of saving and fixed deposit.

Figure 4.5
Trend of Deposit Mix



4.2.1 Deposits Utilization on Loan and Advance

“A bank is an institution, which deals with money by collecting various types of deposits, disbursing loan and rendering other financial services.” According to this definition we know, the main function of commercial bank is collection of deposits and mobilizing the deposits efficiently. Deposit collection position measures performance, and reliability & efficient mobilization of deposits are the indicator of success and income generation. Banks have to pay interest on deposits and pay dividends to their shareholder therefore income is necessary through deposits utilization. But it is very difficult task of bank in now comparative environment. Banks are utilizing their deposits in different sector like industry, trade, commerce and service business etc. So banks are the integral part of economic development. Thus deposits collection and its mobilization is the two

side of coin. Below table shows the deposit and its mobilization (on loan and advance) of KBL.

Table 4.10
Deposit Utilization on Loan and Advance

(Rs. in million)

Fiscal Year	Loan & Advance	Growth Index	% Change	Total Deposits	Growth Index	% Change	Deposits Utilization Rate
061/62	.5584	1	-	6268	1	-	89.09
062/63	6891	1.23	23.40	7768	1.24	23.93	88.71
063/64	8929	1.59	29.57	10557	1.68	35.90	84.58
064/65	11335	2.03	26.94	12780	2.04	21.05	88.69
065/66	14593	2.61	28.74	15710	2.51	22.92	92.89
Average							89.16 %

Above table shows the deposit utilization rate of KBL, this rate is decreased as well as in fluctuating trend because, during this period many commercial banks are intern in Nepalese financial market and the bank face unhealthy competition. The rate was highest in F \ Y 065/66 (92.69%) and lowest in 063/64(84.58%). The average rate is 89.16% which is more than 50% and it indicates that the bank deposits utilization position is satisfactory.

The significance relationship between above two variables (total deposits and loan & advance) can be tested by using Karl Pearson's correlation coefficient formula. This is described in statistical tool.

Table 4.11
Calculation of Correlation Coefficient of Loan & Advance and Total Deposit
(Rs. In million)

Fiscal Year	X	X²	Y	Y²	XY
061/62	5584	31181056	6268	39287824	35000512
062\63	6891	47485881	7768	60341824	53529288
063\64	8929	79727041	10557	111450249	94263453
064\65	11335	128482225	12780	163328400	144861300
065\66	14593	212955649	15710	246804100	229256030

N=5	X=47332	X ² =499831852	Y=53083	Y ² =621212397	XY=556910583
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$$N = 5$$

$$\sum X = 110488, \sum X^2 = 2468195084,$$

$$\sum Y = 139463, \sum Y^2 = 3932187083,$$

$$\sum XY = 3110014727$$

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

$$= \frac{5(3110014727) - (110488 \times 139463)}{\sqrt{[5 \times 2468195084 - (110488)^2]} \sqrt{[5 \times 3932187083 - (139463)^2]}}$$

$$= 0.99$$

Calculation probable error

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

$$= 0.6745 \frac{1-(0.84)^2}{\sqrt{5}}$$

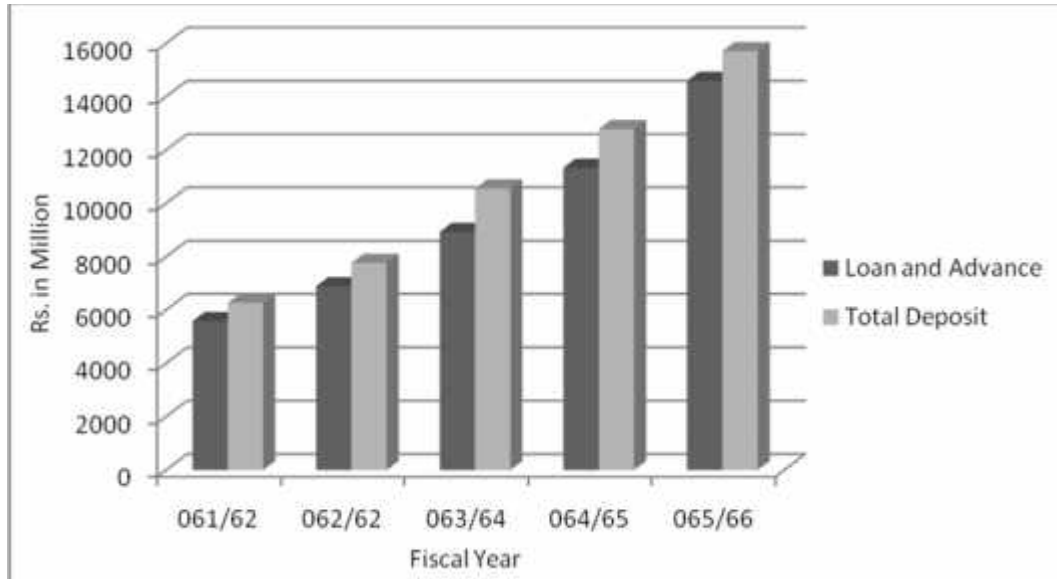
$$= 0.0060$$

Now, above calculation shows that r is more than 0.5 and six time of probable error is also less than r therefore this correlation coefficient is significant and positive correlation between loan & advance and total deposit of KBL.

The chart of loan & advance and deposit utilization of these banks are presenting below. In this chart X-axis shows study years and Y – axis shows Rs. in million.

Figure 4.6

Trend of Loan & Advance and Total Deposit of KBL



Let's Correlation analysis (r): correlation coefficient shows the significance relationship between two variables within certain time period. The formula for the calculation of Karl Pearson's correlation coefficient (r) is:

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}}$$

Table 4.12

Calculation of Correlation Coefficient of Loan & Advance and Interest Income

(Rs. in million)

FY	x	y	x- \bar{X}	y- \bar{Y}	X ²	Y ²	xy
061\62	5584	509	-3882.4	-338.6	15073029.76	114649.96	1314580.64
062\63	6891	612	-2575.4	-235.6	6632685.16	55507.36	606764.24
063\64	8929	791	-537.4	-56.6	288798.76	3203.56	30416.84
064\65	11335	956	1868.6	108.4	3491665.96	11750.56	202556.24
065\66	14593	1370	5126.6	522.4	26282027.56	272901.76	2678135.84
N=5	X= 47332	y= 4238			X ² =51768207.2	Y ² = 458013.2	xy=

Where,

X= Value of loan and advances

Y= value of interest income

r = Correlation coefficient.

$$\text{Also } \bar{X} = \frac{\sum X}{N}$$

$$\bar{X} = \frac{110488}{b} = 9466.4$$

$$\text{And } \bar{Y} = \frac{\sum Y}{N} = \frac{19017}{b} = 847.6$$

$$\text{Now, } r = \frac{\sum XY}{\sqrt{\sum X^2 \sum Y^2}} = \frac{6408646.8}{\sqrt{26675455.2 * 1629765.2}} = \frac{6408646.8}{6593586.87} = 0.99$$

The correlation coefficient of the variable as loans and advance and interest income is 0.99 which is more than 0.5 therefore it shows that there is positive relation in between loan & advance and interest income.

Now calculation of probable error:

$$\begin{aligned} \text{PE} &= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \\ &= 0.6745 \times \frac{1-0.97^2}{\sqrt{5}} = 0.006 \end{aligned}$$

Six time of probable error is not grater than correlation coefficient which is considered significant relation between loan & advance and interest income.

4.3 Financial Analysis

Financial analysis covers wide range of business position, it helps to compute strength or weakness in various sector. Although this study is mainly focus on

some specific components, financial analysis is made covering those sectors, which include revenue, expenditure investment and liquidity etc.

4.3.1 Liquidity Ratio

This ratio uses to measures short term liquidity position of the bank and it is one of the tool of measuring profitability position of the bank, through the calculation of following relevant liquidity ratios for evaluate the liquidity position of the bank:

4.3.1.1 Cash and Bank Balance to Current Deposits Ratio

This ratio measures the ability of bank's to meet immediate funds .This ratio calculation by using following formula:

$$\text{Cash and Bank Balance to Current Deposits} = \frac{\text{Cash and Bank Balance (exc.M/C)}}{\text{Total Current Deposits}}$$

The ratio of the bank is presented in below table.

Table 4.13
Cash and Bank Balance to Current Deposit Ratio

(Rs. in million)

Fiscal Year	C\B Bal.	Current Deposit	Ratio
061\62	111	279	39.78
062\63	135	350	38.57
063\64	190	403	47.14
064\65	565	601	94.01
065\66	545	780	70.38
Total	1550	2413	64.23

Source: Annual Report (2061/62 to 065/66)

Above table shows that, the ratio of the bank is fluctuating trend. From FY 061\62 the bank was able to increase was able to increase current deposit and bank balance for able to meet demand. It is highest in 064/65(94.01%) and lowest in 062/63 (38.57 %) and average ratio of KBL is 64.23 %.

4.3.1.2 Fixed Deposit to Total Deposit Ratio

Fixed deposit is long term deposit and banks are use this types of deposit for investment and loan & advance etc and this ratio measure the efficiency of the bank. The proportion of fixed deposit on total deposit is calculation by using following formula.

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

The ratio of the bank is present in below table.

Table 4.14
Fixed Deposit to Total Deposit Ratio

(Rs. in million)

KBL			
Fiscal Year	Fixed Deposit	Total Deposit	Ratio
061\62	2302	6268	36.72
062\63	3162	7768	40.70
063\64	2776	10557	26.29
064\65	3799	12780	29.72
065\66	4527	15710	28.81
Average			31.20

Above table shows, the ratio of the bank was slowly fluctuating as well as increasing trend. But the fixed deposit increasing trend is lower than total deposit increasing trend because during this period our whole economy had gone down and industrial activities also declined. It is highest in 062\63 (40.70%) and lowest in 063\64 (26.29%). and average ratio was 31.20%.

The above analysis shows that the ratio was always more than 25% and average ratio was 31.20% which indicated that KBL's liquidity position is better because fixed deposit is long term deposit, it can be return after shorten period then more investment opportunity on income generating assets.

4.3.1.3 Saving Deposit to Total Deposit Ratio

Saving deposit is the short term deposit and in this deposit banks are paid certain percentage interest. This ratio is measure the efficiency and effectiveness of the bank. This ratio is calculation by using following formula.

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

The ratio of the bank is presenting below table.

Table 4.15
Saving Deposits to Total Deposit Ratio

(Rs. in million)

KBL			
F\Y	Saving Deposit	Total Deposit	Ratio
061\62	1515	6268	24.17
062\63	2317	7768	29.82
063\64	4416	10557	42.25
064\65	4144	12780	32.42
065\66	4170	15710	26.54
Average			31.28

Above table shows that the ratio of KBL is increasing in first two year and after the ratio is slowly decreasing because during this period many commercial banks intern in Nepalese financial market and the bank face unhealthy competition. It is highest in 063\64 (42.25%) and lowest in 061\62 (24.17%) and average ratio KBL (31.28%).

4.3.1.4 NRB Balance to Total Deposit Ratio

Every commercial bank are deposit certain percentage of their deposit amount in Nepal Rasta Bank because NRB is the bank of the bank and with this NRB rate it control inflation of the money in the market and this ratio measure the capacity to perform of the bank. This ratio is calculation by using this formula.

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

This ratio of the bank is present below table.

Table 4.16
NRB Balance to Total Deposit Ratio

(Rs. in million)

KBL			
F\Y	NRB Balance	Total Deposit	Ratio
061/62	219	6268	3.49
062/63	210	7768	2.70
063/64	384	10557	3.63
064/65	244	12780	1.90
065/66	1120	15710	7.12
Average			4.10

Above table shows that the ratio of KBL is fluctuating trend but this fluctuation is depend on NRB policy. It is highest in 065\66 (7.12%) and lowest in 064\65 (1.90%). and average ratio of KBL is 4.10%.

All above description reflect the liquidity position of banks and with the help of these analyses we found that KBL's liquidity position is better.

4.3.2 Profitability Ratio

Profit is the difference between total revenue to total expenses over a period of time. Profit plays a vital role for their survival and future growth. The profitability ratio reflects the operating efficiency.

4.3.2.1 Interest Coverage Ratio

Bank is that financial institution which is involved in collecting the deposit from the public in small amount and investing the deposit to the needful person. While performing this activity the bank will earn the interest from the borrowers whereas it had to give interest to the depositors. Interest is received as income on investment made loan and advance, government securities etc. interest is paid to deposits liabilities except on the current deposit liabilities. Which means higher volume of deposit comes with higher interest obligation. Therefore the bank should be in position to meet its interest obligation at all times. So the capability to meet the interest obligation should be monitored from time to time.

Table 4.17
Interest Coverage Ratio

(Rs. in million)

FY	EBIT	Interest Expenses	Interest Coverage Ratio
061\62	350	226	1.54
062\63	487	341	1.42
063\64	652	404	1.61
064\65	749	493	1.51
065\66	1169	803	1.45

Source: Annual Reports (061/62 – 065/66)

EBIT= Net profit + Tax provision + Interest Expenses

From the analysis of interest coverage ratio, two years (060\61 and 061\62) the bank didn't able to meet interest obligation because in this year the bank include loan loss excess and other excess in total expenses. After this year the interest coverage ratio is found to be always more than one that means the bank has enough capacity to meet the interest obligation.

4.3.2.2 Earning per Share

Earning per share in this case is the net amount earned for every NPR 100 invested in share, which is fully paid up i.e. NPR 100.

Table 4.18
Earning Per Share

(Rs. In Million)

FY	Net Profit	Number of share	EPS in Percent
2061/062	84	500	16.8
2062/063	103	625	16.48
2063/064	170	750	22.66
2064/065	174	1070	16.26
2065/066	261	1186	22.01

Source: Annual Report (2061/062 to 2065/066)

From the analysis of EPS, we can say that EPS is increasing trend. The highest EPS of the bank is 22.66 percent in the fiscal year 2063/064 and the lowest EPS is 16.08 in the F/y 2061/062. Overly, we can say that the bank's EPS is good.

4.3.2.3 Profitability Trend Analysis

Profit means difference of revenue and expenditure in given fiscal year.

Table 4.19

Profit

(Rs. in million)

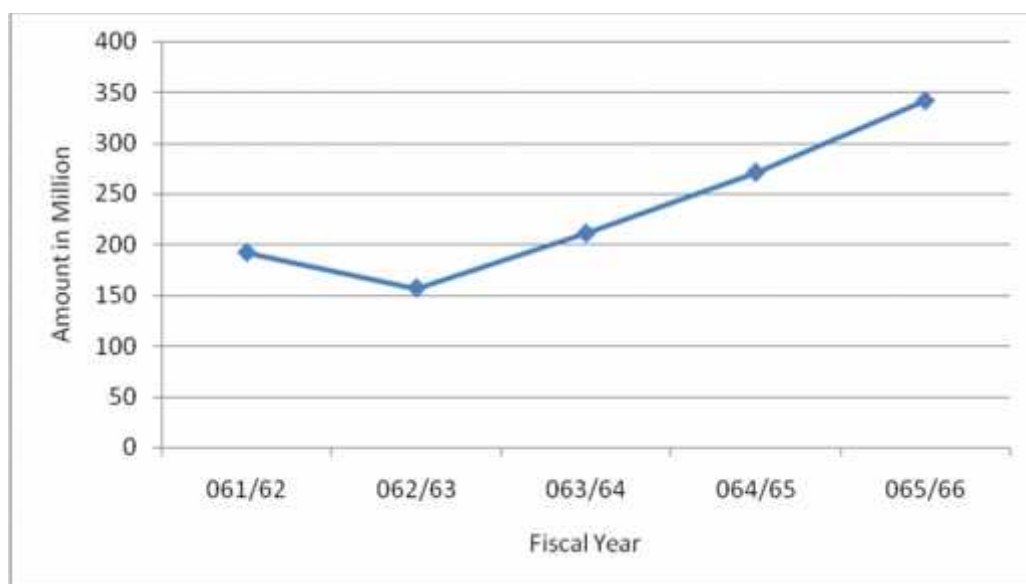
FY	Total Revenue	Total Expenses	Profit
2061/062	549	357	192
2062/063	675	518	157
2063/034	868	657	211
2064/065	1080	809	271
2065/066	1533	1191	342

Source: KBL Annual Report (2061/062 to 2065/066)

Above table shows that the bank earn profit every year. The bank's highest profit is Rs. 342 Million in 2065/066.

Figure 4.7

Profitability Trend



This figure shows the profit passion of KBL. In year 2062/063 bank's profitability position was increasing trend . After then the profit was upward trend because the bank success to reduce staff expenses and increase total income from develop non fund business.

4.3.2.4 Comparing Deposit with Net Profit

Deposit collection from the customers of urban areas and mobilizing it in rural and sub urban sector is the main business of KBL. Therefore public deposit is the main source of fund mobilization for KBL. So the comparing deposit with net profit helps to find out position of the bank.

Table 4.20
Comparing Deposit with Net Profit

(Rs in million)

FY	Deposit	Net Profit	Ratio
2061/062	6268	84	1.34
2062/063	7768	103	1.32
2063/064	10557	170	1.61
2064/065	12780	174	1.36
2065/066	15710	261	1.66

Source; KBL Annual Report(2061/062 to 2065/066)

Above table shows that the net profit ratio of the bank is very low with compare deposit because closely analyzing the deposit mix trend, KBL has not successes in holding the non interest bearing deposit in the form of current account. Above deposit mix data shows that only 8.2% of total deposit is ascertained to be current account fund where as the rest 91.7% fund are still relatively higher cost liability fund. So the bank paid higher interest.

Let's correlation analysis between deposit and net profit.

Table 4.21
Calculation of Correlation Coefficient of Deposit and Net Profit

Fiscal Year	x	y	x- \bar{X}	y- \bar{Y}	X ²	Y ²	XY
2061/062	6268	84	-4348.6	-74.4	18910321.96	5535.36	323535.84
2062/063	7768	103	-2848.6	-55.4	8114521.96	3069.16	157812.44
2063/064	10557	170	-59.6	11.6	3552.16	134.56	-691.36
2064/065	12780	174	2163.4	15.6	4680299.56	243.36	33749.04
2065/066	15710	261	5093.4	102.6	25942723.56	10526.76	522582.84
N=5	$\Sigma X=53083$	$\Sigma Y=792$			$\Sigma X^2=57651419.2$	$\Sigma Y^2=19509.2$	$\Sigma XY=103698.8$

Where,

X= Value of deposit

Y= Value of net profit

r = Correlation coefficient

$$\text{Also } \bar{X} = \frac{\Sigma X}{N} = \frac{53083}{5} = 10616.6$$

$$\text{And } \bar{Y} = 158.4$$

$$\begin{aligned} \text{Now, } r &= \frac{\Sigma XY}{\sqrt{\Sigma X^2 \Sigma Y^2}} = r = \frac{N \Sigma XY - \Sigma X \Sigma Y}{\sqrt{N \Sigma X^2 - (\Sigma X)^2} \sqrt{N \Sigma Y^2 - (\Sigma Y)^2}} \\ &= \frac{1036988.8}{\sqrt{57651419.2} \sqrt{19509.2}} = \frac{1036988.8}{1060534.331} = 0.98 \end{aligned}$$

The correlation coefficient of the variable as deposit and net profit is 0.98 which shows that there is positive relation in between deposit and net profit.

Now calculation of probable Error:

$$\begin{aligned} PE &= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \\ &= 0.6745 \\ &= 0.6745 \times 0.017 \\ &= 0.011 \end{aligned}$$

The probable error also less than r therefore this correlation coefficient is significant and positive correlation between deposit and net profit.

4.4. Major Findings of the Study

Major finding of the above analysis are as follows:

-) After analysis the total deposit total loan and advance and total or actual interest income of KBL, all are increasing trend which is better for the bank.
-) The degree of success in achieving desire profit is determine the profitability position of the companies. In 2061/062 to 2065/066, the bank was able to get profit. Which is increasing trend in every year. To get profit is better for the bank.
-) Loan and advance and total deposit of the bank is fluctuating trend. The highest increment of loan and advance is Rs. 3258 million in 065/066 and the total deposit is Rs. 2930million in 2065/66 .Same way the highest increase percentage of loan and advance in 2065/066 (28.74%) and total deposit is 35.90 % in 2063/064. The average deposit utilization rate is 89.16% which is very nice. There is positive correlation between total deposit and loan and advance of the bank which is 0.99%.

-) After analyzing the status of deposit mix, KBL has not found successful in holding the non interest bearing deposit in the form of current appropriately. The fixed deposit ratio of the bank was always more than 35% which indicates higher liquidity position of the bank and saving deposit ratio also more than 35 % which is shows that better short term liquidity position of the bank .
-) After analyzing interest coverage ratio is found to be more than 1. That means the bank has enough capacity to meet interest expenses.
-) After analyzing profit trend the bank was able to earn profit every year which is increasing trend.
-) The bank's EPS is increasing trend and comparing the bank's deposit with net profit, the correlation of deposit with net profit is 0.98%, which shows positive correlation between deposit with profit.
-) All description helps to conclude that the bank's performance is going on better every year. In profitability aspect bank was able to increase net profit and success to reduce direct expenses.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the last chapter of the study. This chapter is presented shortcut summary of this study and some valuable suggestion & recommendation for improving their performance in coming periods.

5.1 Summary

Nepal is developing country. Industrialization is essential for national development and sound banking system is necessary for industrial development. Banks are an intuition, which collect various deposit from people and mobilize such resource in different income generating sector. These activities of banks help to build industrial environment, which creates employment opportunities and investment opportunities for the people. Therefore overall economic growth is particularly impossible with out considering the contribution of a sound banking system.

Now, twenty Six commercial banks are operating in Nepalese financial market. But this study is concern only KBL to evaluate and types of deposits, liquidity and profitability position, trend of total deposit and loan & advance by using various ratios. Finally with the helps of analysis and major finding gives some useful recommend for improvement their future performance.

Financial analysis is the process of identifying financial strength and weakness of the business firms. It also provides a framework for financial planning and control. Financial analysis is based on financial statements and significant relationship that exist between them. This study is relating to five years financial statement from

F\Y 061\62 to 065\66 for the analyzed. Ratio analysis is most useful tool of financial analysis therefore this study also concerned different financial ratios to evaluate the financial performance of the bank.

First of all, this study present detail about bank and banking system in Nepal. Then this study concerned to objective of the study, problem of the study and limitation of the study. In second chapter, review some relevant materials for identifying gap between past studies and take guideline of this study. In this purpose, some unpublished thesis are studies previously conducted about investment policy of commercial bank in Nepal, profitability position of KBL bank. Bank has successful to maintained sound liquidity position.

This study follows descriptive research design. The population of the study is twenty Six commercial banks, which are operating in Nepalese financial market among them KBL is selected as sample for the evaluation. The study is mainly based on secondary data, which optioned from various sources such as financial statement, annual report of relevant bank, Newspaper, bulletins, academic journal and text books etc. these reviewing materials are collection from central library of T.U, library of Shanker Dev Campus, other public libraries, and personnel of banks etc. This collected data has been arrange in proper form and analyzed & interpreted through various financial and statistical tool such as ratio analysis, Karl Pearson's correlation coefficient and simple average etc.

5.2 Conclusion

On the basis analysis and interpretation of various ratios indicating the performance of KBL following conclusion are derived from the major finding of the study.

KBL's average deposits utilization rate is 89.16% which implies that KBL is more active in creating investment opportunities and enhancing business activities.

The image and goodwill of KBL in the financial market has created overwhelming response of the depositors and as such deposit has accounted with continuous growth trend.

The share of fixed deposit and saving deposit is 91.7 % on total deposit. So the bank liquidity position is well and the bank gets more investment opportunities.

After analysis of profitability ratio the bank had utilize its resource more efficient.

Therefore, it was conclude that KBL is performing well and the bank was success to made new identity in financial market.

5.3 Recommendations

All above presentation shows a clear financial picture of both banks. After this analysis some valuable and timely suggestion and recommendation are forward to identifying weakness and inefficiency and to improving financial performance in coming future.

At present the number of commercial bank as will as finance companies are increasing trend. In this situation more competition for enhancing business activities therefore KBL needs to restructure its banking service. Being one of the largest banks having many branches it should be able to develop its information technology and the bank must be able to increase its internet banking service, ATM services any branch services and online banking service. The bank should be able to get knowledge from newly established commercial banks. Which are able to make a revolutionary any branch banking in which any customer can perform banking transaction from any of the branches present inside the country . Also the bank set a more convenient minimum balance requirement to open an account and simplify present complicated and lengthy depositing process.

Some of the recommendations to KBL are pointed out as follows:

-) KBL should have an in-depth analysis of the bank's strength and weakness. It should try and overcome its weakness by using its expertise opinion in risk analysis and loan recovery methods.
-) The clear objective and mission to be set and communicated to the middle level staffs which should be implemented in day to day operation.
-) The bank should develop specific schemes for customer as well as investor to face the competitions.
-) The human resource is the most important component in a service industry. Thus, effective programs should be initiated to improve the productivity of the staff. Which should be introduced other commercial bank for the staffs to increase their morale.
-) The bank should try to correct their market prices according to the net worth, earning per share and other profitability indicators. The bank are recommended to decrease its price earning ratio to a reasonable level.
-) The bank to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. This study carries a lot of limitation. So a more comprehensive study needs to be carried from the concerned authorities and the further researchers to reach a more authentic conclusion depicting the picture of the bank.

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