CHAPTER-I
INTRODUCTION

1.1. BACKGROUND

The growth of financial sector in Nepal is much better compared to the other sector in the country. The decade long conflict has had its toll on every sector including the financial sector. Despite the conflict and political insurgency, financial sector continued to grow.

The Nepalese financial market is comprised of organized and non-organized sector. The Nepalese organized financial sector is composed of banking sector and non-banking sector. Besides commercial banks, there are development banks, finance companies, micro credit institutions, co-operative and NGOs. Besides, there are other institutions that perform near-bank services like postal savings, employee provident fund, mutual fund and citizen investment trust, insurance companies and Nepal stock exchange etc. Similarly, brokers, security dealers, and moneychanger are other players of financial markets.

Nepal has a reasonably diversified financial sector, as evidence by the number and variety of institutions that play an active role in this sector, relating to Nepal's small and underdeveloped economic base. Over the past 20years, Nepal's financial sector has become deeper and the number and type of financial intermediaries have grown rapidly. Within this period, the Nepalese financial sector has grown significantly both in terms of business volume and size of assets and market.

The financial sector was not opened up for private sector till the early 1980's in Nepal. It was in the year 1984, when the Government, after a lot of deliberation, threw the banking sector openly to the private sector. The first bank then established was M/S Nepal Arab Bank Limited, presently known as Nabil Bank Limited.

Prior to establishment of Nepal Arab Bank, a full state owned bank namely Ratriya Banijaya Bank and the other partly state owned bank namely Nepal Bank Limited was in operation. Nepal Indosuez Bank Limited, a joint venture with Credit Agricole Indosuez, France followed the establishment in the year 1986. The bank is presently recognized as Kumari Bank Limited.

The economic reforms initiated by the Government more then two decade ago have changed the landscape of service sector of the Nepalese economy. As a result of this policy, large number of banks and financial institutions and beneficiaries of the financial services sector mushroomed across the country. After liberalization policy adopted by the government this sector has made a hall mark progress both in-terms of the number of banks and financial institutions.

By mid June 2008, Nepal Rastra Bank (NRB), the central bank of Nepal has already licensed 186 institutions as banking or non banking institutions. Out of them, 28 are full fledged commercial banks, supporting with numbers of other various development bank, finance companies, micro-credit development bank, saving &credit co-operative and NGO's (Bank). There are 28 full fledged commercial Banks operating in this small market with more then 428 branches of the commercial banks operating all over the country.

Sustainable economic growth requires intermediary channels for efficient allocation of funds. Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding to, for example, expand their business or buy a house. The role played by financial institutions and financial markets in this process is referred to as the function of financial intermediation.

To perform this function stably, financial institutions as important financial intermediary channels need to maintain sound business operations. Financial institutions need to better satisfy various financial demands of customers and enhance profitability by continually improving the ways in which they manage risks and their business operations.

1.2. FOCUS OF THE STUDY

The main focus of this study is the financial performance analysis of the common stock investment of listed commercial banks of Nepal. Various kinds of financial decision, deposit, acceptance, enhancing loan and investment decision are most important one. Financial institutions are pillar of nation's economy. They are required as storehouses of country's wealth as well as reservoirs as of source for economic development. In modern day the business firms and industrial organizations are being rapidly established for the purpose of national development. Without development of industry and commerce, the development of nation is unthinkable. The industry and commerce is the fundamental base to make the infrastructure of the developing country like Nepal. These organizations can not survive without financial support. The

financial institutions in Nepal refer to any institution established with the objective of providing loan to agriculture, co-operative industry, any other specific economic sector or accepting deposit from the general public.

Financial analysis is tools for measuring the successes of any business performance. A research work has different dimensions, while making a comparative financial performance of two firms. Here an attempt is made to compare Everest Bank Limited and Kumari Bank Limited with respect to their financial performance. In common parlance profit is regarded as major criteria of measuring financial performance. However, there are other aspects that also should be considered while analyzing the financial performance. The researcher has attempted to analyze the comparative performance of EBL and KBL and their individual strength on the basis of their internal reports and published annual reports. For this purpose different tools and techniques have been applied to judge the performance of these organizations. An attempt is made to draw out the strength and weakness of the firms and try to prescribe remedial measures to improve the performance of these two banks.

Thus it creates curiosity to researcher and other individuals towards the financial performance analysis. Hence, study of the financial performance analysis of commercial bank has great importance and is interesting subject. Financial ratios are evaluated with the help of accounting data and financial statements like balance sheets and profit and loss accounts to find out the financial strength and weakness. The ratio analysis is most powerful tools to analysis the financial performance. Therefore, the focus of this study is to find out the financial performance, financial strength and weakness of concern

Thus, it is cleared that study is focused on financial performance analysis of commercial banks viz. Everest Bank Limited (EBL) and Kumari Bank Limited (KBL).

1.2.1 Brief Introduction of Banks under Study

Two commercial banks Everest Bank Limited (EBL) and Kumari Bank Limited (KBL) have been selected for the study. Since their date of establishment and the size of capital are also quiet similar, these two banks are chosen for study. The brief introductions of these banks are as follows:

a. Everest Bank Limited

Everest Bank Limited (EBL) has been established with the objectives of providing banking services to various regional area of Nepal and thereby contributes in the economic development of the country. As a sequel to the policy of government to open the banking sector for private and foreign participation starting from mid eighties, Everest Bank Limited came into formal operation from 18th October 1994, despite the cut-throat competition in the Nepalese Banking sector. Everest Bank has been able to maintain a lead in the primary banking activities such as loans and deposits. Legacy of Everest lives on in an institution that is known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as premium savings account, EBL proprietary card and millionaire deposit scheme besides services such as ATMs and Tele Banking were first introduced by EBL. Therefore, the bank stands for the innovations that we bring about in this country to help customers besides modernizing the banking sector. Hence, it is celebrating its 15th anniversary successfully in the competitive market.

EBL has one of the largest networks among the private sector banks in Nepal having 15 branches across the country. Anywhere Branch Banking System (ABBS) through which the clients can withdraw and deposit money form any branches connected to ABBS.

The shareholding structure and share subscription of EBL are as follows:

Table No: 1

Subscription	Holding %
Promoter Shareholders	50
Panjab National Bank	20
Nepalese Public Share Holder	30
Total	100

b. Kumari Bank Ltd

Kumari Bank Ltd (KBL) was established in December 10, 1999 as the fifteenth commercial bank in Nepal and started its operation from April 3, 2001. The head office of KBL is located at Putalisadak in Kathmandu. The bank has 5 branches in different urban areas of the country. The main mission of this bank is to provide world-class service to the customer at a higher satisfaction level, practice total quality management, an embrace good governance and optimization of the assets to achieve sound business growth.

Kumari bank Limited (KBL) is the growing bank of Nepal. The bank has the paid up capital of Rs. 1078.272 million of which70% in contributed from promoter and remaining from public. Kumari Bank Limited has been providing wide range of modern banking services in various urban and semi-urban part of the country. The bank has adopted computerized system in banking. The main software of the bank is called Globus and the bank has the Any Branch Banking System (ABBS). The bank also provides different services such as ATM and electronic banking etc.

The bank has been providing loans and advances in various sectors such as agriculture, manufacturing, deprived sector, industry and consumer financing etc.

1.3 STATEMENT OF THE PROBLEM

In the present competitive environment in banking and every sector, it is very difficult to obtain expected earning/profits. Every commercial bank has to follow and obey the rules, regulations and provisions made by Nepal Rastra Bank. They have to maintain specific capital structure, Infrastructure, Cash Reserve Ratio, Credit Creation Limitation, Liquidity ratio etc. Banking and finance companies operate successfully that lead to uplift the nation's economy while unsuccessful operation causes serious problems to the financial condition of the country. Several commercial banks have been established in the country within a short span of time. Due to high competition in the market, these banks are providing more loan and advances against their client's in-sufficient deposit. Unsecured loan and investment may cause the liquidation of the commercial banks. Most of people of Nepal do not know about share debenture and other securities because capital market is not so developed in Nepal. On the other hand there are no any strong commitments or policy made by the government towards increasing public investment. Mainly some private and joint venture commercial banks are main root for many of such investment in financial securities. Limited options exist in financial securities. Stockbroker and financial institutions have no effective program to develop investor's knowledge. Moreover people are unfamiliar with the stock investment. It is believed that people have money for investment but the investment sector is limited except than a bank deposit or real estate. They would rather prefer to invest in unproductive sector e.g. buildings, gold and other unproductive item.

As every business is established with a view to maximize earnings/profits. The attitude and perception of investor play main role in investment decision, which is influenced by the information and access to the data, required for analysis. So lack of information and lean knowledge is chief problem faced by investor. Investor invests their wealth on the basis of guess and hunches because they do not have appropriate information about the financial asset and also lack of idea to reach to ideal decision. Investor purchases stock merely looking past trends of stock prices and sometimes they have to bear heavily loss due to inadequate knowledge and information relating to field of stock investment. They have to maintain specific capital structure, Infrastructure, Cash Reserve Ratio, Credit Creation Limitation, Liquidity ratio etc. The major problems in Nepalese banking sectors are as follows:

- Whose financial performance is better?
- Do they manage and utilize their assets satisfactory?
- Are they maintaining sufficient liquidity position?
- Do they have sound operation result in relation to their profitability?
- Whether or not banking sector is able to maintain different ratios?
- What levels of ratios have to maintain by bank?
- What are the papers hassles in different banking activities?
- Why recruitment of professional is not transparent and fair?
- What type of role a bank has to play for emerging new business?
- To what extents these banks are able to raise and maintain their profitability?

- Whether sample banks are more effective and efficient in mobilization of fund for better financial performance?
- Is there any stability in various ratio policies of the sample banks?
- How far is the current political and economic situation of the country affecting the performance of the sample banks?
- Do financial ratios indicate any strength and weakness of the banks?
- Whether they concentrate their operation only in the urban areas?

Thus in Nepalese context, the investment decision is rarely taken after analyzing the performance of stock. This study attempts to answer such questions and also attempt to give suggestions to a rational investor.

1.4 OBJECTIVE OF THE STUDY

The main objectives of this study are to analyze, examine and interpret the financial position of EBL and KBL with the help of ratio analysis and other portfolios. Study also tries to evaluate the efficiency and progress of the sample banks comparatively. The central objective of this study is to analyze, examine and interpret the status of financial performance of banking and finance companies. Its specific objectives are as follows:

- To examine and compare financial performance.
- To help the investor and shareholders to known how properly there funds are being used.

- To asses the long term financial viability and the long –term solvency of bank by leverage capital structure and profitability ratio, which go on a earning power and operating efficiency.
- To examine relative financial performance of two banks.
- To provide suggestions to overcome the problem and improve the performance.
- To know the degree of correlation between the following relevant variables.
    i. Investment and total deposit,
    ii. Interest earning and profitability.
    iii. Interest earned and interest paid.
- To make comparative analysis of other indicators with reference to earning per share, dividend per share.
- To evaluate the income and expenses pattern.
- To compare the growth trend of bank as regard to other related variables, using trend percentage method.
- To analyze the mobilization of resources into investment of both banks.

1.5 SIGNIFICANCE OF THE STUDY

Every research work or study should be fruitful. It is believed that this work must be fruitful for various people and organizations. Due to lack of sufficient capital, only few commercial banks are opened with domestic investment. The foreign capital is entered our country, through the joint venture commercial banks, which is essential for the development of banking sector and numbers of commercial banks are

established with the foreign investment. So, joint venture banks cover the major portion of Nepalese commercial banking sector.

Through the capital formation and capital mobilization process, commercial banks help in enlistment of the economy. Due to the poor financial performance they can't be success in the capital formation and capital mobilization process. At that time they can't contribute in the economic development of the country. A sound financial performance is important for the growth of business enterprise and financial institutions. The banking sector is gearing up to operate in a more competitive and market oriented system. It is modernizing to operate and moving towards providing a range of financial products and services in an innovative and competitive way.

Numbers of studies have been made to identify the financial performance of different Nepalese companies among them some are comparative study between two or more companies among companies as well as between or among the banks also. But at present there is not made any latest study and but by examining the overall factors of financial performance, by which finding can be obtained about the strength ness and weaknesses. This present study dose not only fulfills this gap but also identities the overall financial performance of related joint venture banks by the help of different financial tools and statistical tools. It could be easier to take corrective actions in the weakness of related banks.

This study also provided valuable information about the banks, which are under this study. This study will also be helpful to find out whether these banks are going to financially sound or not? Some other significances and importance as follows:

a. It helpful to find out the overall financial performance of the concerned joint venture commercial banks.

b. The management of the bank can take crucial decision effectively on the basis of their financial performance.

Hence, the present study will be useful for both the insiders and outsiders of concerned banks i.e. for manger, shareholder, customers, public, government and students as well as to the competitors also.

1.6 LIMITATION OF THE STUDY

It is natural that all types of study have been conducted within certain limitation. A research is a vast study investigatory the subject matter for solving perceived research problems. Although this research study has so much advantages aspect, after all, it is conducted under some limitation; it means that the study has done under certain limitation. Therefore, the following are the main limitation of the study:

1. The research is based on the partial fulfillment of Master of Business Studies.
2. The research has been prepared according to the given format prescribed by the faculty of Management (Tribhuvan University)
3. The study has been completed under allotted time and cost according to the given format by faculty of management.
4. The study is based on the secondary data derived from the annual report provided by concern bank. Those data are assumed to be true and correct.
5. This study is based on only five years data from 2004/05 to 2008/09.
6. The study is based only on the comparative analysis of selected bank i.e. KBL and EBL.

7. Variation in data published from different sources e.g. Figure published by NEPSE and companies differ to some degree.

1.7 ORGANIZATION OF THE STUDY

This research of comparative financial performance of Everest Bank Ltd and Kumari Bank Ltd has been divided into five chapters namely Introduction, Review of Literature, Research Methodology, Presentation of data and analysis and Summary, Conclusion and Recommendation.

Chapter I	:	Introduction of the Study
Chapter II	:	Review of Literature
Chapter III	:	Research Methodology
Chapter IV	:	Presentation and Analysis of Data
Chapter V	:	Summary, Conclusion and Recommendation

Chapter I: It is the initial part of the study. It includes focus of study, statement of the problem, objective of the study, significant of the study, variables of the study, limitation of the study and scheme of the study.

Chapter II: Under the review of the literature, past finding, theoretical framework and review of related studies are presented.

Chapter III: this part of research includes research design, population and sample, nature of type of data, sources of data, data collection procedure, technique of analysis and analytical tools applied in the study.

Chapter IV: This chapter is the main part of the study. Under this chapter the obtain data are presented, analyzed and interpreted about the financial position of banks and finance companies in brief with the help of various financial and statistical tools.

Chapter V: It includes the summary, conclusion and recommendations of the research and finally suggestion and recommendations are given. In this chapter summary of whole chapter and different results find in data analysis and recommendations to bank for nation development are included.

The bibliography and appendices are given at the end of the study.

CHAPTER-II
REVIEW OF LITERATURE

2.1 INTRODUCTION

Review of literature is one of the most significant parts of research. It will be better to review some fundamental aspects of relevant literature before doing analysis. Review means thinking again, studying the documents published or un-published related to the field of research is a review. Review of literature is the process of reading related documents and writing comments about the subject matter. The review of literature is a crucial aspect of planning of the study. Basically it is a stock taking of available literature is one's field of research. "The purpose of reviewing the literature is to develop some expertise in one's area to see what new contribution can be made, and to receive some ideas for developing a research designs. The previous study cannot be ignored because they provide the foundation to the present study. The present study is simply the continuity in the research design". (Wolf and Panta; 1999) The purpose of literature review is to familiarize one with the previous methodologies, to prevent from duplication of previous work, to assist in the refining of the statement of the problems.

Financial institutions are the life hood of the economy and serve as the barometer of the economy prosperity. However in order to serve as a barometer of economic prosperity, the financial condition of these institutions needs to be in proper condition. The risk and return aspect of institutions needs to be evaluated properly. In this context, the study attempts to review the literature. The review of literature is most important

part of all study. Review of literature is the chapter where a researcher reviews the books, journals, magazines or any other types of studies, which are related to his/her field of study. Research is the continuous process in never ends. The review of literature is a way to discover what other research in the area of our problem has uncovered. It provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing. “The purpose of review of literature is to find out what the research studies have been conducted in ones chosen field of study and what remains to be deserve” (Wolf and Panta ; 2003). Thus the previous study cannot be ignored because they provide foundation to the present study. Review of literature is basically concerned with conceptual framework and review of literature relevant to be the financial performance of commercial banks based on past knowledge and information that is available from libraries, document collection centers, magazines and concerned commercial banks.

The relevant literature and articles are reviewed from international journals; national publication, annual report and security board availed from various libraries and institutions. As the human civilization has been growing, human activities have also been increasing remarkably. Scientific technology has been keeping close relation in the field of business as well as in the service enterprises by the help of financial performance. Every businessperson could show actual business condition to the different members and shareholders. The financial performance analysis has been done but comparison study is done very few. So the study will be helpful to know the NBBL and KBL financial position and their major differences. The study sources are books, journals, and internet etc.

2.2 Conceptual Review of Commercial Banks

According to Commercial Bank Act.2031B.S.of Nepal "A commercial bank is one which exchange money, deposits money, accepts deposits, grants loans and performs commercial banking services and which is not a bank meant for cooperative agriculture, industries or for such specific purposes."

Commercial bank also provides short-term debts necessary for trade and commerce. They take purchase and discount bills for exchange, promissory on the behalf of their currency. They discharge various functions on the behalf of their customers provided that they are paid for their services.

In past, bank generally used just accept deposits from the savers of money also known as surplus unit of society, and granted loan to the uses of money, deficit unit of society, savers of money are those units whose earning exceeds expenditure on real assets and user on real assets exceed their earnings. In such a situation deficit sell their securities to surplus units. These securities are financial assets. If entire income of a unit matches with investment on real assets no financial assets are created .The evolution of banking can be traced back to the era when the use of metallic coins as the media of exchange of goods services began. Shortage of metallic coins was a serious problem for the common people because of danger of theft and robbery. People started leaving gold and silver and metallic coins aim the custodian of some reputed person a wealth merchant or a money change .The custodian had a strong box and other means of safe keeping. They offered this service as a favor for his friends or made a charge for it. The depositor had to go personally to custodian for the withdrawal of his money. But this practice was found to be inconvenient. How did the use of word Bancus become more

popular? Then origin of Bank is traced to a Latin work “Bancus" which means a bench. European moneylender and moneychanger used to transact their business at bench at benches or table. They follow of receiving gold and other metals as deposits and issuing of the business of Banking or dealing in money .the success or failure in trading was association with this bench. When a banker failed, this bench used to be destroyed by the people.

Now it is obvious that when did the first bank appearing this case the science of language and suggest an interesting story about baking’s origins both the old French word banque and the Italian word Banca were used centuries ago to mean a “bench” or “money changer’s table”. This describe quite well what than 2000 years ago. They were money changer, situated usually at a table or in a small shop in the commercial district, aiding travelers who came to town by exchanging foreign coins for local money or discounting notes for a fee in order to supply merchants with working capital.

In this way the first banker used their own capital to fund activities, but if wasn’t long before the idea of attracting deposits and securing temporary loans from wealthy customers become an important source of and funding loans were then made to merchant, shippers and landowner at rates of interest as low to very high a month for the riskiest ventures. Most of the early banks of any size were Greek in origin.

The word bank has been derived from the Latin word Bancus or from Bancque which means a bench in English .The early bankers transact their business at benches in market place when a banker failed, his bench was broken up by the people. According to some derived form the German word bank meaning a join stock fund which was Italianated into Banco when the Germans were masters of

great parts of Italy. In Indian the Hilton young commission recommendation that a word bank or banker should be interpreted as meaning every person, from or company accepting deposits of money subject to withdrawal by cheque draft or order. (Banking Theory & Practice, Dr P. K. Srivastava –1980)

In view of American Institute of Banking "Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services". The institution also laid down the four functions of commercial bank and handlings deposits, handling payees of money, making loan and investments, creating money by extension of credit.

In this way the commercial bank, however, the pool together the saving of the community, which means they help in the capital formation. Such savings are distributed to public in the form of credit for productive use. Generally, commercial banks finance short-term needs of trade, to industry and even to agriculture. Commercial banks of developing country finance small and cottage industries under priority sector investment scheme .The main purpose of this scheme are to uplift the backward sector of the economy.

Commercial bank are controlled and regulated by central bank .In Nepal, Nepal Rastra Bank is the central bank that controls and regulate the commercial bank.

2.3 Functions of Commercial Bank

Commercial Banks perform different types of functions to attract more and more customer and they also use modern technology to facilitate its customers. Some of the functions are discussed below.

2.3.1 Accepting Deposits

One of the most important functions of the bank is to collect the deposits from the customer who has little savings. Bank always collects those deposits, which are scattered in our surrounding in a small volume but collectively large. They are also unaware about its profitable use. Banks collects deposits under different types of accounts:

1 Fixed Deposit Account

Depositors use this account to keep their money in bank for certain duration. Depositors can't withdraw their money before the expiry of stipulated time. Usually rate of interest on this account is always high. Longer the period, higher the interest will be fixed deposits can be classified as cumulative fixed deposit, unfixed deposits, and recurring fixed deposits.

2 Current Deposits

It is another heading under which banks collects deposits. Traders and businessmen generally maintain this type of accounts. Depositors have no limitation on withdrawal under this account. Because traders have to make payment more often, the bank doesn't provide interest on this heading.

3 Saving Deposits

The saving deposit bears some interest and is the most preferred ones among the people because it is easy to operate and the account opening balance ranges from NPR 1000 to 5000 depending on the bank's strategy. Banks pay some interest on this account but the interest is lower compared to that of fixed deposits. Further, the bank may impose some restrictions on the withdrawal.

4 Call Deposits

This deposits scheme is for those depositors who deposit large volume of balance in their account. The bank provides higher interest rates as per the negotiation with the depositors. The interest is provided on the daily balance so as to attract huge deposits.

2.3.2 Advancing of Loans

The function of the bank is to provide the loans to business houses, people and traders. Bank in order to mobilize its deposits usually invest its deposits in those areas of the business field where the interest and the principal is secured to be obtained. For this, they charge interest, which is comparatively higher than the various deposit accounts. Thus, the bank is able to sustain with the income it earns from the interest of the loan provided. The loans provided have both short-term and long-term durations depending upon the nature of the loans.

a. Money at Call

This type of loan is usually provided to another bank or financial institution for very short period and the bank can call its money back at a very short notice of one day to fourteen days.

b. Cash Credit

These loans are issued to the borrowers against their current assets like shares, stocks, bonds etc. Bank opens an account depending upon the policy of the bank and credits the entire loan account (as per the sanction limit) to the account. The borrower is allowed to with draw money as per his requirement from the limit provide to him. The ban charges the interest on the withdrawal amount.

c. Overdraft

These loans are provided to those that have credibility in the business and depending upon their business volume and relationship with the bank, banks provide overdraft facility where by the borrower can withdraw the amount to certain limit beyond its deposits. The banks charge interest on the over drawn amount.

d. Demand Loan/Short-term Loan

These loans are provided to the borrowers for the purchase of raw materials depending upon the situation and the need of the borrower. The loan is provided once the borrower put forward a request letter and depending upon the need the loan is sanctioned for a period of ranging maximum from 90 to 120 days. The borrower is allowed to utilize the loan for the stipulated time period with interest rate after which the borrower has to settle the dues including the principal amount.

e. Trust Receipt Loan

The loan is provided against the LC to the borrowers to bring the goods imported from third countries to their go downs. The time period ranges from 90 to 120 days and the amount of the document value of the LC. The bank charges certain interest rates to the loan provide.

f. Term Loans

This kind of loan is provided to the borrowers for the purchase of plant and machines and it is usually provided for more than one year. The interest is the highest among all the loans because of longer durations and the risk. The loan is repaid on the monthly, quarterly, half yearly or yearly basis depending upon the term and conditions of the banks.

2.3.3 Agency Function

Banks also perform certain functions for and on behalf of their customers, some of which are as follows;

a. Remittance of Funds

Banks help customers in transferring their funds from one place to another by drafts, fax transfers and T.T. Similarly, it also provides them the facility of withdrawing the amount transferred by their relatives from abroad through different sources like Western Union Money Transfer and Nostro banks.

b. Collection of Dividends on Shares

Bank collects dividends, interest on shares and debentures of their customers.

c. Collection and Payment of Credit Instruments

Bank collects and pays various credit instruments like cheque, bills of exchange, promissory notes etc.

d. Acting as Trustee and Executor

Bank preserves the wills of their customers and executes them after their death.

e. Purchase and sale of Share and Securities for the Customers

The bank buys and sells stocks and shares of private companies as well as government securities on behalf of its customers.

f. Payment of Insurance Premium

The bank pays premium of the insurance company on behalf of its customers.

2.3.4 Other Utility Functions

In addition to the above mentioned function banks provide other utility function as given below;

iii. Banks provide locker facility to its customers to keep their valuables and important documents. For this, the bank charges some fee for the service provided.

iv. Bank issues travelers cheque to the customers.

v. Banks issues letter of credit on behalf of their customers certifying their credit worthiness, which is very useful in foreign trade.

vi. Banks also issue credit and debit card to highly credit worthy customers.

vii. Banks provides ABBS facility for the customers so as to facilitate them to withdraw the amount from different branches of the related bank.

viii. Bank also provides ATM facility, which provides services round the clock.

2.4 Development of Commercial Banks in Nepal

The evolution of the organized financial sector in Nepal has a more recent history compared to that in other developing south Asian countries. The first commercial bank who had provided industrial loan was Nepal bank Ltd. This bank had started its activities from 1997 A.D. and up to present it has been working in financial field. After establishment of NBL, it replaced Tejrath Adda by taking over its operation and over its limitation. To manage and control banking system development, monetary policy development and to mobilize capital for economic development "Nepal Rastra Bank" came into existence as central bank of Nepal in 1956 under Nepal Rastra Bank act 2012 B.S. After that to fulfill the growing credit requirement of the country the commercial bank "Rastriya Bankijya Bank" was established in 1966 under RBB Act, 1964 with fully government equity. In 1980, the government introduced "Financial Sector Reforms". Government allowed the

entry of foreign banks in Nepal as joint venture bank entered to accelerate the economic development of nation and to service high banking system. About the history of foreign joint venture banks in Nepal, Nepal Arab Bank Ltd. was the 1st joint venture bank established in Nepal in 29th Ashad, 2041. Joint venture banks are working under commercial bank act 2031 B.S., which is the backbone for the economic development of the country. More over, the economic liberalization process initiated by the government after 2043 B.S. resulted in the flow of private and joint venture banks in the country. During the past two decades, Nepalese financial sector, especially banking sector has undergone a drastic change. The opening up of financial market to foreign joint venture banks, ending monopoly of two state owned banks is really a notable step, after which a number of private foreign affiliated joint venture banks operating in Nepal with foreign collaboration. Until June 2010 number of banks and financial institutions establish in Nepal are as follows.

Banks/ Financial Institutions	No
Class A Commercial Banks	28
Class B Development Banks	42
Class C Finance Companies	77
Class D Micro Credit Development Banks	13
Saving and Credit Co-operatives (Licensed by NRB)	16
Non- Government Organization (NGOs) (Licensed by NRB)	45

2.5 Need of Financial Statement

In a business various stakeholders involved in the business such as shareholders, creditors, depositors, employees, trade associations, manger,

investors and other persons who are directly or indirectly involved in the business. They are interested in the performance or financial conditions of the firm for their own purpose. Financial statement analysis is very helpful in assessing the financial position, profitability and information on processing system designated to provide data for decision making. "The process of analysis of financial statement involves the compilation and study financial and operating data and the preparation and interpretation with measuring devices such as ratios trend and percentages."(Agarwal,1981)

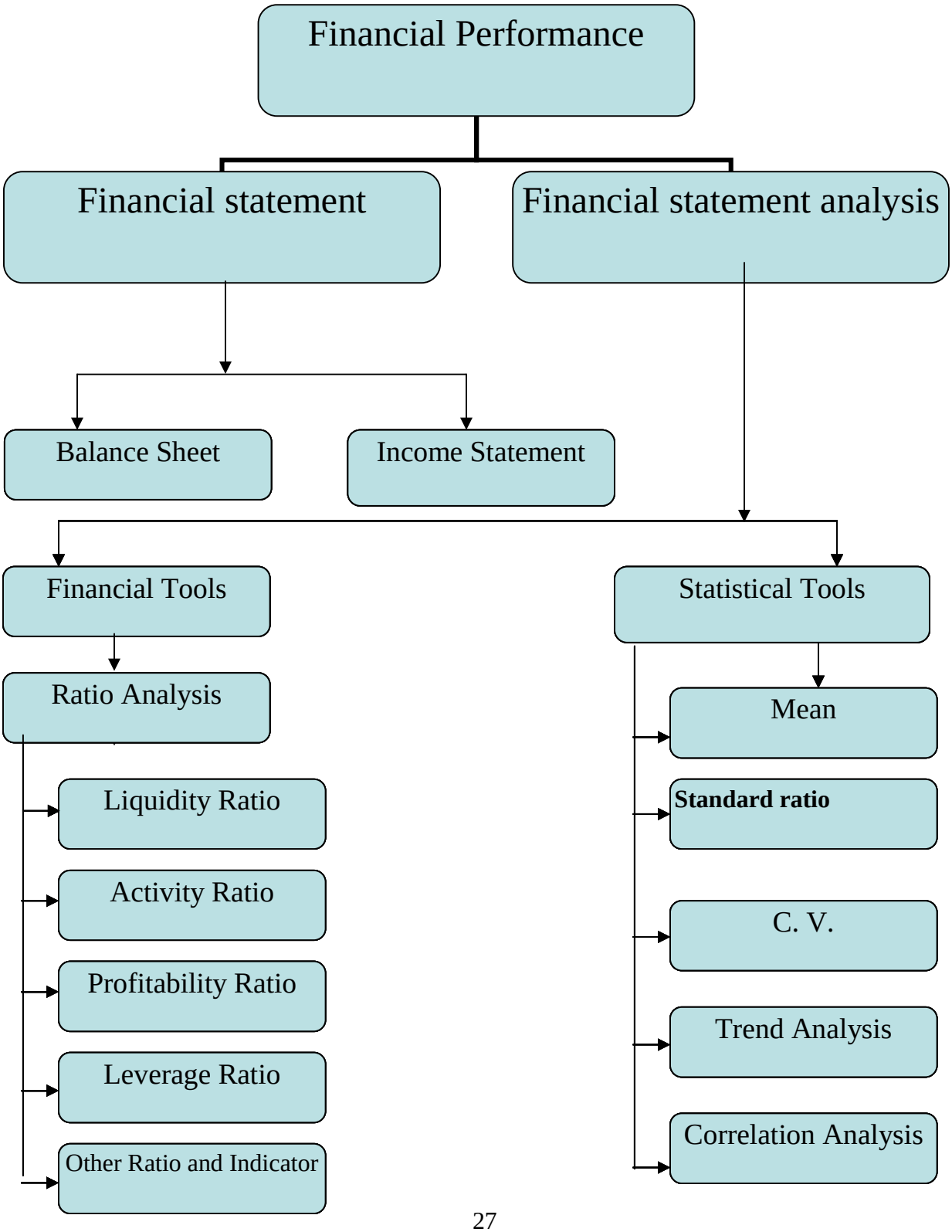
N.P. Agrawal state on the significance of financial statement analysis, "In the interest of goods health, medical authorities advice every individuals to have a periodically examination of his body and similarly in the interest of sound financial policy, every company should also analyzed its accounts periodically."(Agrawal,1981)

Financial appraisal deals with numeric values. The actual and projected financial spread ids analyzed through numerous indicators. The financial analysis is done to ascertain the liquidity, profitability, leverage, debt servicing and interest servicing ability of the firm. Financial statement analysis thus assists the management to take benefit of the strategic management technique by providing the management with the information regarding the strength &weakness of the enterprise to exploit the opportunity lying in the environment and overcome the threats posted by the environment.

So, the financial statements analysis plays significant role decision making for the management for finding out favorable and unfavorable situation of business firm. Likewise, financial statement analysis is exceptionally useful to firm's stakeholder. The analysis is for different of their interest.

2.6 Components of Financial Performance

Financial performance components are presented below:



2.6.1 Financial Statement

Financial statement are prepared form the accounting record maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these statements. The basic objective of financial statement is to assist in decision making.

Financial statements are prepared for the purpose of presenting a periodical review or report on progress of presenting a periodical review or report on progress by the management and deal with the status of the investment in the business and result achieved during the period under review. They reflect a combination of record facts. Accounting conventions and personal judgment and the judgment conventions applied affect them materially. The soundness of the judgment necessarily depends on the competence and integrity of those who make them and in their adherence to generally accepted accounting principle and conventions.

"Financial statement refers to the two summarized financial report which the accounting prepare usually at the end of the fiscal year of firm. They are balance sheet or statement of financial position and the income statement or profit and loss account" (pandey,1993)

Financial statement means balance sheet, profit &loss account each country has different regulation regarding the publication of financial information.

I. Balance sheet

Balance sheet is a accounting of the assets, liabilities and capital of a business. It is the statement, which depicts the financial position of the business at the particular date of an accounting period. It is a sheet of ledger account, which was not closed by closing entries.

"A balance sheet may be defined as statement prepared with a view to measure the exact financial position of a business on a certain date. In other words, it represents assets or liabilities existing on the date of closing of accounts"(juneja,chawala&sexens,1994)

II. Income statement / profit & loss account

Profit & loss account is prepared to ascertain net profit or net loss at the end of an accounting period. It contains all the items of revenue gain, losses and operating expenses of accounting period. Therefore, it can be defined as an account which summaries period. Therefore, it can be defined as an account which summarizes the annual revenue and expenses. The profit and loss measures net income or losses by matching revenue and expenses according to the accounting principle. it ids an account, which collects all expense, losses, income and gain of an accounting period in order to ascertain the net profit or net loss.

The determination of the net income of the net income of a business enterprise for a certain period of time is the central feature of accounting. Business is primarily conducted for earning income and therefore, the net income is the most significant figure produced by the accounting process to measure the degree of attainment of the objective.

The income statement provides a review of the factors directly convened with the determination of the net income. The revenue realized from the sales of goods or services and the cost incurred in the process of producing the revenue. These costs are cost of sales and selling, general and administrative expenses. They are deducted from the revenue to determine the income from regular operations. They may be income from other sources and other deduction from income.

2.6.2 Financial statement analysis

Analyzing financial statement is process of evaluating relationship between components parts of financial statement to obtain a better understanding of firm's position and performance.

"Financial statement analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and profit & loss account." (pandey,1993.)

"It is also the analytical and judgment process that helps answer questions that have been posed. Therefore, it is means to end. A part forms the specific analytical answer, the solution to financial problem and issues of the parties involve in the relative issues and on the nature and reliability of the information available."(Helfert,1992.)

"Financial statement analysis involves a comparison of firm's performance with that of other firm's in the same line of business. Which is often identifies the firm's industry classification."(Waston, Besley & Eugene,1996)

"Analysis and interpretation of financial statement are attempts to determine the significance and meaning of financial statements data, so that a forecast may be made of the prospects for future earning, ability to pay interest, debt maturities both current as well as long tern and profitability."(Mohan & Goyal,1977)

The tools of financial statement analysis, which are applied on this thesis work, are:

A. Financial tools
B. Statistical tools

A. Financial tools

It is undertaken of various parties engaged such as trade creditors, bondholders, investor and management in the firm according to their specific purpose. It is defined as a systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Among the various financial tools, only the ratio analysis has been used in this study. So, brief introduction of ratio analysis is mentioned below.

1) Ratio Analysis

Financial performance analysis is such process of knowing the financial strength and weakness of the company by properly establishing relationships between the items and titles of balance sheet and the profit and loss accounts. Ratio analysis is the universally used technique.

Simply, ratio refers to the numerical or quantitative relationship between two items or variables. In simple language ratio is one number expressed in terms of another and can be worked out by dividing the number to the other. Therefore ratio is the expression of one figure in terms of another. It is an expression of the relationship between mutually independent figures. It is a

simple mathematical expression of the relationship of one item to another. Ratio is the expression of one figure in terms of another. In financial management ratio analysis is the process of establishing a proper meaningful relationship between two or more figures mostly taken from profit & loss account (i.e. income statement) and balance sheet for identifying and analyzing the financial strengths and weakness of an enterprise for particular period of time.

The word 'percent' means out of hundred or per hundred. It is simple and most widely used tools. In this research work, ratio & percentage are frequently used to analyze the data. These tools are used in order to analyze the liquidity position, deposit structure, investment structure, fund structure, income etc. Ratio is the relationship between two figures. They provide two important facts about the management, the return on investment and the soundness of the company's financial position. "Ratio analysis provides guides and clues especially in supporting trends towards better or poor performance and in finding out significant deviation form any average applicable standard." (Helferh, 1957, P.57)

However, there are a large number of ratios and its types. Our study will be confined within the scope of bank's financial analysis. Our study will be limited to liquidity ratio, leverage ratio, profitability ratio and activity ratio. There are mainly statement ratios and functional ratios as indicated below. Among the large number of financial ratio existing they have been categorized into following group:

i. Liquidity ratio
ii. Activity ratio
iii. Profitability ratio
iv. Leverage ratio

i. Liquidity ratio

Liquidity ratio refers to the ability of a when they fall due for payment. Liquidity refers to nearness to cash. There are two types of liquidity ratio: Current ratio and quick ratio. The analyst has to observe borrowing unit's ability to meet its current obligation through liquidity ratios. "Liquidity refers to nearness to cash. The nearer an investment is to cash the lower is to its rate of return. The larger size of current assets is associated with high liquidity and low profitability and vice-versa, inadequate liquidity may lead a corporation to delay payments sell assets or obtain temporary financing on unfavorable terms."(Pradhan, 1986, P.13)

In terms of Banking sector liquidity refers net cash that bank have in the consideration of the deposits. Liquidity means cash and bank balance to total deposits. The analyst has to observe the borrowing unit's ability to meets its current obligation through liquidity ratio. Banks can experience lack of liquidity when cash outflows (due to deposit withdraws, loans etc.) exceed cash inflows (new deposits loan repayments etc.).They can resolve any cash deficiency either by creating additional liabilities or by selling assets. [Madhura, 1989] To analyze the ability of banks, the following ratios are calculated:

A. Current ratio
B. Cash and bank balance to Total deposit ratio
C. Cash and bank balance to Current ratio

In this study cash and bank balance required to maintain and cash and balance and maintained by banks are calculated. According

to NRB directives 2000, bank is required to maintain the minimum cash & bank balance as under.

Cash in hand	3% of total deposit.
Cash balance at NRB	6% of fixed deposit.

Symbolically-

Cash and bank balance required to maintain > cash and bank balance maintained by banks = Not liquid.

Cash and bank balance required to maintain > cash and bank balance maintained by banks= liquid.

ii. <u>Activity Ratio/Assets and Investment Management:</u>

The activities ratio represents the intensity with the uses its assets in generating sales. It is related with measuring the efficiency in assets management as well as the effectiveness of the investment of resources in the business concern with the help of the ratio. we can easily know whether the funds have been effectively or not. Traditionally, assets and investment management ratios have been called activity ratios or turnover ratios. Whatever designation, the idea is to measure how effectively the firm utilizes the investments and the economic resources at its command. Investments are made in order to produce profitable sales. Achieving profitable sales, therefore, involves making sound investments. At the practical level, this involves comparisons between the sales and the investment in various assets accounts. The methodology postulates an optimal

relationship between sales and the various types of asset investment. [Weston & Copland, Ninth Edition: 199]

This ratio evaluates the efficiency with which the firm manages and utilizes its assets. They indicate the speed with which assets are being converted or turned over. Thus, these ratios are used to measure the banks ability to utilize their available resources. Various activity ratios are used to predict the effectiveness of asset utilization. Some selected ratios for this research can be illustrated as follows:

i. Loan and advances to Total deposit ratio
ii. Loans and advances to Fixed deposit ratio
iii. Loans and advances to Total working fund ratio
iv. Total investment to Total deposit ratio
v. Investment on government securities to Total working fund ratio
vi. Investment to Shares and debenture to Total working fund ratio

In conclusion activity ratios are employed to evaluate the efficiency with which the firm manages and utilities the available resources put by enterprises. Among the various activity ratios devised to judge the effectiveness of assets utilization, fund structure, deposit structure, investment structure, total investment to total deposit loan and loan and advances to total deposit ratios.

iii. Profitability ratio

Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's

overall effectiveness as shown by the returns generated on investment. The financial analyst must attempt to understand whether the firm's profit is in the rising trend. In the initial years of establishment of a firm, the profit will be in the lower side, but slowly, year by year, profit gradually starts to rise. 'The profitability ratio is calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm.'(Pandey, 1993, P.116)

The future stream of cash flows is the result of a large number of policies and decisions. We start with historical data about cash flow and profitability but emphasize that these represent only the starting point. Further strategic and operating analysis is required to make meaningful projections for the future. [Weston & Copland., Ninth Edition:193]

Some major profitability identifying ratios used in this study are as follows:

- Net profit to Total assets ratio
- Net profit to Total deposit ratio
- Net profit to Net Worth Ratio
- Total Interest Earned to Total Working Fund Ratio
- Total Interest Paid to Total Working Fund Ratio

The analyst must make an attempt to find the answers of the following questions.

- Is the firm earning adequate profit?
- What is the rate of return?
- What is the earning per share?

- What is the return on investment?
- What is the return on equity?

in conclusion, it can be said that profitability ratio measure the success of the firm in earning a net return on sales or on investment since profit is the ultimate objective of the firm, connected over too long time, would probably result in the firm going out of business. Various profitability ratios are calculated to measure the operating efficiency of a business enterprise.

iv. <u>Leverage Ratio:</u>

Leverage ratio has a number of implications. First, creditors look at equity, or owner supplied funds, as cushion or base for the use of debt. If owners provide only a small proportion of total financing, the risks of the enterprise are borne mainly by the creditors. Second, by raising funds through debt the owners of the firm with limited commitment. Third, the use of debt with a fixed interest rate magnifies both the gains and losses to the owners. Fourth, the use of debt with fixed interest cost and with a specified maturity increases the risks that the firm may both be able to meet its obligations.

In practice, leverage is approached in two ways. One approach examines balance sheet ratios and determines the extent to which borrowed funds have been used to finance the firm. The other approach measures the risks of debt by income statement ratios designed to determine the number of times fixed charges are covered by operating profits. These sets of ratio are complementary, and most analysts examine both. [Weston & Copland., Ninth Edition: 203]

Following are ratios, which are used in this study:

- Debt Asset Ratio
- Debt Equity Ratio

B. <u>Statistical Tools:</u>

Some statistical tools are also been used for the analysis of data. The statistical tools used in this study are mean, standard deviation, coefficient of determination and trend analysis.

Statistical tools are accepted to provide valuable, information about variation, correlation growth trend etc. while analyzing financial performance, such analysis helps to draw conclusion which of the organization is better managed. If statistical tools indicate that there is some loose aspect than its help management to take corrective actions.

A brief mentioned of such tools used in this research are as follows.

A. Average and Variation.

The averages are the measures which condense a huge unwieldy set of numerical data into single numerical data into single numerical values which are representative of the entire distribution. In the words of A.E. Waugh, "an average value is a single value selected from a group of values to represent them in some way, a value which is supposed to stand for whole group of which it is past, as typical of all the values in the group". (Gupta, S.P. 1981, P: 237). An average provides us the gist and gives a bird's eye view of the huge mass of unwieldy numerical data.

There are various types of averages, such as arithmetic mean, geometric mean, harmonic mean, median, mode etc. Of these averages, the researcher uses only arithmetic mean to calculate the average throughout the whole study period.

The measurement of the scatter ness of the mass figures in a series about an average is called measures of variation or simply variation. Measures of dispersion (variation) may be either absolute or relative. The measures of variation which are expressed in terms of the original units of a series are termed as absolute variation, such as standard deviation (S.D.). Such measures are not suitable for comparing the variability of the two distributions which are expressed in different units of measurement. On the other hand, relative measures of variation are obtained as ratios or percentage and are thus pure numbers independent of the units of measurement. For comparing the variability of the two distributions (even if they are measured in the same units), we compute the relative measures of variation. There are various types of variations also, such as quartile deviation mean deviation, standard deviation, Lorenz curve etc. Of these, in this research work, the researcher uses only standard deviation and coefficient of variation (C.V.) almost all the study period to measure the scatter ness of the mass of figures.

a) <u>Correlation Analysis.</u>

Correlation analysis indicates degree of relationship between two or more than two variables. The measure of correlation called the correlation coefficient. It is a statistical device, which help in analyzing the co variation of two or more variables. It is calculated

when it is believe that there is cause & effect relationship one of the variable will be casual variable and another will be its effect. Casual variable is also called dependent variable. When there is change in dependent variable, there will be corresponding change in independent variable.

Interpreting coefficient of correlation.

The coefficient of correlation measures the degree of relationships between two sets of figures. While interpreting coefficient of correlation, the following general rules are applied:

When r = + 1, it means there is perfect positive relationship between the variables.

When r = -1, it means there is a perfect negative relationship between the variable.

When r = 0, it means that the variables are uncorrelated.

There are many methods used for studying the correlation between the two variables. Of these methods, Karl Pearson's coefficient of correlation is concern for our study between the two variables. Symbolically, Karl Pearson's coefficient is denoted by 'r'.

The formula for computing 'r' is

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

Where,

r = *The Correlation Coefficient*

$x = (X - \bar{X})$ *and* $y = (Y - \bar{Y})$

X = *Independent Variable*

Y = *Dependent Variable*

b) Coefficient of Variation

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation. As it is not appropriate through standard deviation, the comparison of the variability of two or more distributions is made easy by coefficient of variation. It reflects the risk per unit and provides a quick summary of the relative trade-off between risk and return. It is computed by dividing the standard deviation by arithmetic mean. Mathematically,

$$CV = \frac{\pm ||||}{\bar{X}}$$

Where,

CV = Coefficient of Variation

σ = Standard deviation

$\bar{X}$ = Arithmetic mean

The series for which the coefficient of variation is greater is said to be more variable or less consistent or less uniform or less homogenous and vice versa.

B. Trend index

An index number is a statistical measure designed to show changes in a variable or group of related variables with respect to time, geographic location or other characteristics. It is the ratio of two index numbers expressed as percent, moreover, index is a relative number, which expresses the relationship between two figures, where one of the figures is used as a base.

According to Morris Hamburg, "In its simplest form, an index number is nothing more than a relative number, or a 'relative' which expressed the relationship between two figures is used as a base".

There are number of methods of constructing index numbers. Here, simple number is concerned for the study. In order to determine the trend, the first year is taken as base year thus, the formula for computing trend percentage is:

$$Trend\ \mathrm{X}\frac{Amount\ of\ the\ Concerned\ Year}{Base\ Year\ Amount}\ |100$$

The index percentage can be plotted on group either in arithmetic

Scale chart or semi logarithmic or ratio chart to facilitate the study of trends in a firm.

2.7 Review of Related Literature

Review of literature means reviewing research studies or other relevant proposition in the related area of the study. In this section review of books, review of thesis work is included.

2.7.1 Review of Book

In this section different view expressed by different person's authors, profession, executives in their publication regarding the operation, function activities, financial position, performance etc. of Nepalese commercial banks.

A hand books of banking, written by Sarita and Bhuwan Dahal. A readable introductory hand books with a general overview of banking business dividing in to different topics such as, introduction of banking, banking operation liquidity,

profitability loan and capital management of bank. It is designed for an introductory course for students, bankers, businessman and others. This book presents a gradual development of banking businessman in Nepal, the current position of the banking business in Nepal, current operation, financial and management strength and weakness of banking business in Nepal.

The author expresses their view on the financial position of the commercial banks in Nepal as under.

All the joint venture banks are running at profit but two major banks i.e. Nepal bank ltd. and Rastriya Banijya Bank are incurring huge losses. Moreover, all the joint venture banks do not have strong financial base in respect of capital adequacy and EPS. Non operating assets and interest suspense of all the banks including the best bank like NBBL and SCB are also increasing. This is a serious problem of banking in Nepal because bad quality of assets leads bankruptcy of many banking in South-East-Asia.

There is rumor that some banks are manipulating in the classification of credit and loss provision is being made. If the rumor is trod, their balance sheet is not presenting the true picture. In the long run, this will be proved to be very costly for depositors in particulars.

"Portfolio behavior of commercial banks in Nepal" is written by Sunita Shrestha, a useful readable book prepared on the thesis version of PhD degree. This book is useful to all students, researchers, bankers, general public etc. This book covers all the aspects of the commercial bank in Nepal. Such as introduction of banking system, historical background of banking system, financial performance of commercial bank in Nepal, investment operation of commercial banks portfolio behavior of commercial bank in Nepal as under.

"Capital adequacy ratio reveals that Nepalese banks are below the standers set by Government foreign have higher capital adequacy ratio but have been declining every year."

"Debt equity ratio of commercial banks is more then 100%in most of the time period under study. it leads to conclude that the commercial banks are highly leveraged and highly risky."

"Return ratios of all banks show that most of the time, foreign banks have higher return then Nepalese banks."

The performance evaluation of different commercial banks shows that the local banks have very poor performance and both banks i.e. Nepal banks ltd and Rastriaya Banijya Bank have low capital base and a heavy amount of non performing assets. But one the other hand, newly opened foreign based commercial banks has better financial performance then the domestic banks operating under same environment. The reason behind it lie not only in their financial decision making system, but main other internal factor namely the organization, staffing work technology, work culture and the attitude of staff. It has been found that human resources management has been the main problem of the Nepalese banks their deficiencies are obviously reflected in their financial performance.

In the book of Weston and Brigham, they desirable if management is to maximize the value of this firm's stock price; it must analysis the weak and strength of the firm which is possible from the ratio analysis which help to access the financial performance in comparing with the firm and other firm. Financial statement analysis involves a comparison of firm's performance with that of other firm in the same line business. The analysis is used to determine the firm's

financial position in order to find out strength and weakness and to suggestion that might useful to firm to take advantages to its strength and correction to its weakness. Financial statement analysis is to evaluate the attractiveness of the firm as an investment by examining its ability to meet its current obligation and expected financial obligation. However, financial analysis is done to predict the firm's financial position in future and determining earning and dividend. So, financial analysis is useful in both way to anticipate future condition and more important as a starting point for planning action that will influence the future course of event. But most important and most difficult input to successful ratio analysis is the judgment used when interpreting the result to reach an overall conclusion about the firm's financial position. So, ratio analysis is used but analysis should be aware of these problems and make adjustment as necessary.

2.7.2 Review of Thesis Work

In this section different types of related research studies have been review because chance of duplication will be avoided form present study and some new and change can be created for achieving the objective. Some of the relevant research studies have been mentioned below:

Mr. Keshab Raj Joshi in this unpublished master's thesis, "A study on financial performance of commercial banks." Review that the liquidity position of commercial bank is satisfactory. He found that comparatively the local commercial banks have been found relatively highly leveraged compare to the join venture banks. Loans and advanced have been the main form of investment. Two third of assets have been used for earning purpose. Profitability position of NBBL bank is stranger then the other commercial bank.

Radha Bir Kapadia, "A comparative study on financial performance of NBBL and SCB." In this study he found that interest coverage ratio of both the bank is not

satisfactory over the finding period. Price earning ratio of NBBL bank is on average, higher with consistency then that of SCBL which reflects that NBBL bank better performance for the growth in earning that SCBL. The study shows efficiency in utilizing the resources is satisfactory comparatively NBBL bank has good and higher liquidity position and higher leverage then SCBL.

A research study made by M.P. Khatiwada in his unpublished master's thesis, "A comparative study of financial performance of NABIL and NSBL" Concluded on their deposit utilized that the cash and bank balance to total deposit of NSBL has higher proportion then that of NABIL. It means NSBL keeps more amounts of cash in order to meet its cash requirement of its depositors and for other contingency then that of NABIL keeping more idle cash balance is unprofitable.

Manoj Bhakta Acharya has done research on "dividend policy and practices in commercial banks, a comparative study of Nepal SBI bank HBL." In 2005 and focuses on the dividend policy and practices adopted by the sample banks with a view to provide work able suggestion which may be helpful to formulation of optional dividend policy and maximize the stock price and to take some other appropriate dividend strategic and the specific objectives set by the research is to highlighted the dividend practice of the banks to reflects (identifying) the relationship between dividend per share and other financial indicator such as earning per share, net profit, net worth and market price of stock, to know if their is any uniformity among dividend per share, earning per share and dividend pay out ratio of the commercial banks sampled to examine whether or not dividend influence the liquidity position and share prices of sample banks, to provide a possible guideline and a package of suggestion on the basis of finding and analysis to overcome various issues and gaps.

Gynendra Acharya's study entitled, "A comparative study of financial performance of joint venture banks in Nepal especially on the NABIL and NIBL." pointed out that the liquidity position of both banks were below the standard of 2:1. The study further found that the banks are utilizing their assets more efficiency. Capital structure was highly leveraged. Capital adequacy ratio of NIBL as better then that NABIL and profitability position of both banks was recorded a satisfactory.

CHAPTER-III

RESEARCH METHDOLOGY

3.1. Introduction:

Research methodology is a step by step attempt to solve the research problem. It shows the way to solve the research problem systematically. To acquire the research objective, a good research methodology has to be followed. Research methodology basically describes method, process, tool and technique applied in the entire process of a scientific research. “Research methodology is a way to systematically solve the research problem”. The basic objective of the study is to gain an insight a comparative analysis of financial performance of there selected commercial bank namely Everest Bank Limited(EBL) and Kumari Bank Limited(KBL) to recommend necessary suggestion for the improvement on their weakness. The prime objective of this study is to evaluate and assess the financial performance between two venture banks i.e. Everest Bank Limited and Kumari Bank Limited.

The research methodology adopted in this study, to accomplished the objective of the study on the analysis of selected bank constitutes of research design, population and sample, nature and type of data (source of data, data collection procedures, data processing procedure),technique of analysis, analytical tools and limitations of research methodology.

3.2. Research Design

The research design is to the strategy to accomplish the research, which gives a framework to collected and analyze the data for the study. The research design focuses on the data collection method, the tools utilized for the research and the sampling plan to be followed. After identification what the researcher wants to know and what has to be dealt with in order to obtain the required information,

research design describes the general plan for collecting, analyzing and evaluating the data. It is also an integrated system that guides the researcher in formulating, implementation and controlling the study. “A research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research questions and control variance”.

The research design is thus an integrated frame that guides that researcher to plan and execute the research work. The research design is the plan and structure supported by the strategy of investigation conceived in order to obtain answers to the research questions and to control the variance.

The research study attempts the comparative financial performance of selected bank. For the analysis, data are obtained from NSE website www.eblbank.com. and www.kumaribank.com. The trend of return of both bank are also studied. More than that, the relationship between the mean return standard deviation and the coefficient of variance is examined to find whether the relationship between these variable in the study is positive or negative. The test of correlation and analysis of variance are also done in this study. Therefore, the research design used in the study is basically descriptive cum analytical in nature.

Basically, the research has two purpose , the first purpose is to answer the research questions or test the research hypothesis and the second purpose of a research design is to control variance.

There are three types of variance, which can be controlled.

. Maximization of experimental variance

. Control of extraneous variance

. Minimize the error variance

3.3. Population and Sample:

Population is the combination of each unit. The world population as used in the study denotes the aggregate from which the sample is to be taken. Population is the universe about which the study aims to inquire. Population may be finite or infinite. A finite population is one in which the number of the items is determinable. An infinite is that in which the number of items cannot be determined. Our study has finite population. In many cases, the study of the whole population is neither feasible nor desirable. In this case, samples are taken for the study. Sample is the representative of the population. It is that part of universe which the researcher selects for the purpose of investigation.

The sample should exhibit the characteristics of the population. It should be a small population. Sample is a subject of population units and the process of choosing a sample from the population to learn about the population on the basis of sample is known as sampling.

For our purpose, the financial statements of all both banks selected banks are regarded as population. There are twenty five selected banks till the research work. Among those twenty five institutions KBL & EBL are taken for study.

3.4 Nature and Type of Data

In this data on which the analysis is done, evaluate and the result are obtained. Data is the foundation on which the research is performed. One of the most difficult problems in research is obtaining the desire data.

3.5 Sources of Data

There are two sources from which the data can be collected, namely, the primary source of data. A primary source is one that itself collect the data; primary data are those, which are collected at fresh and for the first time and those happen to be original in character. The researcher directly goes to the field and collects

necessary information for the study by observation, interview with the concerned one.

Secondary source is one that makes available data that were collected by some other agency. Secondary data are those, which have already been passed through the statistical process. They are collected from various published and unpublished sources and were used by other researcher earlier.

The study is namely based on the data tabulated from financial statement of the selected banks for the study for the period of five years i.e.2004/05 to 2005/09which have been derived from NSE website www.nepalstock.com, following with the website of KBL www.kumaribank.com.np also the annual report of the concern bank, trading reports by NSE, magazine, related websites are consulted. Therefore, the data for the study have been primarily secondary nature.

3.6 Data Processing Procedure

After collecting the data, researcher has to process the data in order to make it easily for the presentation and analysis of the study. In this context, the data have been processed and re-caste in condensed form. Thereafter, they have been tabulated and presented using financial statistical tools. All the profitability ratios used for the study have been calculated by the using the financial tools. After that the calculation of risk and return were also carried out. Portfolio analysis have also presented in the work. The trend equation and the trend value were also computed. After this, the relationship between the risk and return are also worked out. Finally, applying the student's t-test tested the relevancy of correlation ship and analysis of variance.

3.7 Techniques of Analysis

For this study descriptive and inferential techniques are applied as techniques of analysis. Descriptive analysis is based on the various profitability ratios, which are arranged in the tabular form. The standard deviation and coefficient of variation have been used to analyze the variability of these ratios. Portfolio analysis is also done for the investors who are in the nature of risk averter. The trends of return, trend equation with their predicted values are also computed.

For the inferential analysis, Karl's Pearson's of coefficient is also calculated to describe the nature of relationship between risk and return. A part form this null and alternative hypothesis were formulated and tested in student's t-test. If the calculated t-value were less then the tabulated value of "t" at 5% level of significance with (n-2) degree of freedom, the null hypothesis will be accepted and alternative hypothesis will be rejected.

3.8 Analytical Tools:

For the analysis of data, appropriate tools are to be unutilized in order to secure the required findings of the study. All those tools, which are used for the analysis and interpretation of the data's knows as analytical tools, there are two types of analytical tools applied in the study. They are:

- Statistical tools
- Financial tools

3.8.1 Statistical tools:

Statistical tools include Arithmetic mean (Return on common stock), standard deviation and coefficient of variation, Karl person's trend analysis, coefficient of variation, correlation regression and (ANOVA).

(A) Arithmetic Mean

The most popular and widely used measure of central tendency is the arithmetic mean. It is also called simply 'the mean'. The sum of all the observations divided by the number of observations is called arithmetic mean. In such cases, all the items are equally important. Mean is used in this study to find out the average of the different probability ratios applied. The arithmetic mean is symbolically represented as below:

$$\bar{X} \text{ X} \frac{X_1 \Gamma X_2 \Gamma X_3 \Gamma \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \Gamma X_n}{N}$$

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

Where,

$\bar{X}$ = Arithmetic Mean

X1+X2+X3+ ..... + Xn = Values of Variables

X = Sum of the values of variables X

N = Number of observations

(B) Standard Deviation

Standard deviation is the best measure of dispersion. It is an improvement over the mean deviation and is free from the defects of other measures of dispersion. The standard deviation is defined as the positive square root of the arithmetic mean of the squared deviations from their arithmetic mean of asset of values. It is also known as

'Root Mean-Square Deviation'. It is usually denoted by the Greek letter 'σ' (Sigma). Symbolically,

$$\sigma = \sqrt{\frac{(X \; Z \bar{X})^2}{N \; Z1}}$$

Where,

$(X \; Z \bar{X})^2$ = Sum of the square of mean deviation

σ = Standard deviation

N = Number of observations

(C) Coefficient of Variation

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation. As it is not appropriate through standard deviation, the comparison of the variability of two or more distributions is made easy by coefficient of variation. It reflects the risk per unit and provides a quick summary of the relative trade-off between risk and return. It is computed by dividing the standard deviation by arithmetic mean. Mathematically,

$$CV = \frac{\pm ||||}{\bar{X}}$$

Where,

CV = Coefficient of Variation

σ = Standard deviation

$\bar{X}$ = Arithmetic mean

The series for which the coefficient of variation is greater is said to be more variable or less consistent or less uniform or less homogenous and vice versa.

Karl Person's coefficient of correlation (r)

Karl Person's coefficient measures the relationship between two variables. In this context, the coefficient of correlation is calculated in under to examine the relationship between deposit and investment, interest earned and profitability and interest earned and interest paid or both the commercial banks. Symbolically this coefficient correlation is denoted by 'r'.

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

The coefficient of correlation, as obtained by the above formula shall always lies between ±1.

(D) Trend Analysis

It is useful express balance sheet and income statement items in percentage. Trend analysis is important, because it reveals whether the firm's ratios are improving or deteriorating over item. Trend is general terms, signifies a tendency. It helps in forecasting and planning future operation.

In this analysis, the tendency of

- Trend of deposit
- Trend of investment
- Trend of operating income
- Trend of operating expenses
- Trend of interest earning
- Trend of interest paid
- Trend of net profit

- The formula of trend analysis of as follows

Yc = a + bx

Where, a = $\frac{Y}{n}$ B = $\frac{xy}{X^2}$

Where, x = X- $\bar{X} = \frac{\Sigma X}{N}$

Y= Y- $\overline{Y}$

Yc is used to designate the trend values to distinguished form the actual Y values, a is the y variable, when, X=0, b represents the slope of the trend line of the amount of change in y variable that is associated with change of one unit in X variable.

3.8.2 Financial Tools

Financial tools are designed to determine the relative strengths and weakness of business operations. Financial tools are utilized to find out the financial position. Among the different financial tools, we have and extensively used into analysis method. The following ratios have been used.

- Liquidity ratio
- Current ratio
- Quick ratio
- Profitability ratio
- Net profit margin
- Gross profit margin
- Operating expenses ratio

- Return on total assets
- Earning power ratio
- Return on equity
- Payout ratio
- Leverage ratio
- Debt-equity ratio
- Debt to total capital ratio
- Coverage ratio
- Activity ratio
- Inventory turnover ratio
- Debtor turnover ratio
- Average collection period
- Fixed assets turnover ratio
- Total assets turnover ratio
- Capital employed turnover ratio

A. <u>Liquidity ratio</u>

There are two types of liquidity ratio: Current ratio and quick ratio. The analyst has to observe borrowing unit's ability to meet its current obligation through liquidity ratios. "Liquidity refers to nearness to cash. The nearer an investment is to cash the lower is to its rate of return. The larger size of current assets is associated with high liquidity and low profitability and vice-versa, inadequate liquidity may lead a corporation to delay payments sell assets or obtain temporary financing on unfavorable terms."(Pradhan, 1986, P.13)

In terms of Banking sector liquidity refers net cash that bank have in the consideration of the deposits. Liquidity means cash and bank balance to total deposits. The analyst has to observe the borrowing unit's ability to meets its current obligation through liquidity ratio.

1. Current Ratio

The current ratio is the ration of total current assets to total current liabilities. It is calculated by dividing current assets by current liabilities, which is presented as follows

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

Current assets those assets which can be converted into cash and bank balance within analysis accounting period such as cash and bank balance, investment in treasury bill, money at call or placement, loans and advances, bills purchased and discount, inter branch account, other short term loans, receivable and prepaid expenses. Etc.

Current liabilities refer to the short-term maturing obligations. This includes all deposit liabilities; inter bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions and accrued expenses.

2. Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balances are the most liquid current assets. This ration measures percentage of most liquid fund with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balances by total deposit. This can be presented as follows:

$$\frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Cash and Bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks, balance held in foreign banks and other financial institutions. The total deposits encompass current deposits, fixed deposits, investment in other financial institution, money at call and short deposit and other deposits. A high ration indicates the greater ability to meet their deposits liability and vice versa. Moreover, too high ratio is unfit, as capital will be tied - up and opportunity cast will be higher.

3. Cash and Bank Balances to Current Assets

Since cash and bank balances are the most liquid assets, a financial analyst may examine the ratio of cash and balance to current assets. This ratio shows the percentage of readily available fund with in the banks. It is calculated by dividing cash and bank balances by current assets, which is as follows:

Current and Bank Balance
Current Assets

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice versa. Both higher and lower ratio is not desirable. The reason is that if a bank maintain higher ratio of cash, it has to pay interest on deposits but couldn't invest its cash or current assets in a profitable are so it may lost opportunity to earn something. In the opposites, if a bank maintain low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

B. Assets Management Ratio (Activity Ratio)

Activity ratio evaluates the efficiency with which the firm manages and utilizes its assets. This ratio is also known as turnover ratio. It measures how effectively the company employees the resources at its command. Funds are creates by the collection of share as debt from the owner, creditors and outside parties. Those funds are invested in various kinds of assets to generate profits or income. Activity ratios are the creditors of a concern with regard to its efficiency in assets management, hence they often referred to as efficiency ratio are computed to assess finance companies in utilizing available resources.

1. Loan and Advances to Total Deposit Ratio:

This ratio measures the extent to which the banks are successful to successful to utilize the outsiders' fund (Total deposit) for the profit

generating purpose on the loans and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund and vice-versa. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given as below:

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

Here loan and advances refers to total of loan, advances and overdraft and total deposits refer to total of all kinds of deposits.

2. Loans and Advances to Fixed Deposit Ratio

This ratio indicates how many times the amount is used in loans and advances in comparison to fixed deposits. Fixed Deposits are the main source of deposit of bank and are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposits that are given below.

$$\frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

3. Loans and Advances to Total Working Fund Ratio

Loan and advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loan and advances on the working fund ratio for the purpose of

income generation. This ratio is computed by dividing loan and advance by total working fund. This is sated as below:

$$\frac{\text{Loans and Advances}}{\text{Total Working Fund}}$$

Here Total working fund includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bonds and other investment in share, debenture and other etc. A high ratio indicates a better mobilization of fund as loan and advances and vice – versa.

4. Total investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit of investment in government securities and share, debenture of the other companies and banks. This ratio measure the extent to which the bank are successful in mobilizing total investment on the total deposits, the amount of deposits should be soundly investment as the bank has to put only provide interest on its deposits but also has to declare a handsome divided to its owners and shareholders. This ratio can be calculated by dividing total investment by total deposit. This ratio is mention as below:

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

Investment consists of investment of government securities, investment on debenture and bonds, shares in subsidiary companies, share in other companies and other investment. A high ratio indicates that the Bank's efficiency is more investing on its deposit and low indicates in ability to put its deposits for the lending activities.

5. Investment on Government Securities to Total Working Fund Ratio

The ratio measures to what extent, Banks are successful in mobilizing their total working fund on different types of govt. securities to grow income. All the deposits of Banks should not be utilized as loans and advances and other credits form liquidity as well as company's security point of view. That's why some of the investments should be invested in such kind of investments that has lower risk in comparison to loans. If the ratios result, better the mobilization of fund as investment on government securities and vice versa. This ratio is calculated by dividing investment on government securities by total working fund.

$$\frac{\text{Investment on government securities}}{\text{Total working fund}}$$

The purpose of this ratio is to measure the successfulness of mobilizing the total working fund to shares and debenture. Share and Debenture are long-term investment. Banks should invest in long-term securities by maintaining a liquidity position. The investment risk can diversify with the help of portfolio management. This ratio can be computed by dividing investment on shares and debentures by total working fund. This can be stated as:

$$\frac{\text{Investment on shares and debentures}}{\text{Total working fund}}$$

C. Profitability Ratios

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Profit is necessary to survive in any business field fir its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment. Higher the profitability ratios, better the financial performance of the bank and vice versa. Profitability ratio can be calculated by following different ratio:

1. Net profit to Total Assets

Net profit refers the profit after interest and taxes. It is also known as Return on total assets (ROA). This ratio evaluates the efficiency of company in utilizing and mobilizing of assets and its survival. It is useful for measurement of the profitability of all financial resources invested in the bank assets. It also provides the necessary foundation for company to deliver a good return on equity. Higher return on assets (ROA) indicates higher efficiency in utilization of total assets and vice-versa. ROA is calculated by dividing the amount of net profit by the total assets.

$$\text{ROA} = \frac{\text{Net profit}}{\text{Total assets}}$$

2. Net profit to Total Deposit Ratio:

Net profit to total deposit ratio evaluate whether management has been capable to mobilizes and utilize the deposit. It also helps to know the overall performance and generation of profit of bank. This ratio is most important to identify whether the organization well efficient or not in mobilizing its total deposits. So that corrective action could be taken. Higher ratio indicates better utilization of deposit and vice-versa. Here net profit is profit after taxes and total deposit means total amount of deposit in various account i.e. saving, current, fixed and other. The return on total deposits ratio can be computed by dividing net profit by total deposit. This can be express as follows:

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

3. Net Profit to Net worth ratio

Net worth or shareholders equity refers to the owners claim on the assets of the bank. It can be found by deducting total liabilities from total assets (excluding intangible assets and accumulated losses).This ratio measures the profit earned by the commercial banks by utilizing owner's equity and there by generating return to satisfy the owners. This ratio indicates how well the banks have used the resources of the owners. Higher the ratio indicates sound management and efficiency and wealth maximization of the banks, which in turn is the wealth maximization of the banks. It is calculated by dividing net profit by net worth, which is express as follows.

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

4. Total interest earned to Total working fund ratio

The ratio shows the earning capacity of a bank on to total assets (working fund).This ratio exhibits the extent on which banks are successful in mobilizing their working funds to generate income as much as possible. The higher ratio will indicate the high earning power of the banks on its total assets. Total interest earned is calculated by adding the total income from loans, advances cash, credit, overdrafts and government securities etc. This ratio is calculated by dividing net profit by total working fund.

$$\frac{\text{Total interest earned}}{\text{Total working fund}}$$

5. Total interest paid to Total working fund ratio

The ratio is used to measure the percentage of total interest expenses against the total assets. Higher the ratio, higher will be the indication of interest expenses on total assets and vice versa. Total interest expenses consists the expenses on total deposits, loan and advances, borrowings and other deposits. The ratio is calculated as follows:

$$\frac{\text{Total interest paid}}{\text{Total working fund}}$$

D. <u>Leverage Ratios</u>

This ratio is also called solvency ratio or capital structure ratio. A firm should have strong short-term as well as long-term financial position. To judge the long term financial position of the firm, these ratios help to measure the financial contribution of owners and creditors comparatively. These ratios indicate the situation of the capital structure,

which is calculated to measure the company's ability of using debt for benefit of shareholders. Long-term creditors like debenture holders. Financial institutions etc. are more interested to the firm's long-term financial wealth, debt servicing capacity ad strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary debt ratio tell us the relative proportions of capital contribution by creditors and owners.

1. Debt-Assets Ratio

This ratio exhibits the relationship between creditors fund and owners capital. This ratio shows the proportion of outside fund used in financing total assets. It also provides security/financial safety to the outsider's that is potential shareholder, depositor or investors. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and lower ratio indicates lower financial risk as well as decreasing claims of outsider over the total asset of the firm. Generally 1:2 ratios are considered good however no hard and fast rule is prescribed. This ratio implies a finance company success in exploiting debt to more profitable areas. This ratio represents as follows:

$$\text{Debt-Assets ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

2. Debt Equity Ratio

Debt equity ratio examines the relative claims of creditors and owners against the firm assets. Alternatively, the debt equity ratio indicates the combinations of debt capital and equity capital fund to the total investment. The ratio is computed by using following formula:

$$\text{Debt equity ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

E. Capital Adequacy Ratio

The capital adequacy ratio is used to measure the strength of the capital adequacy of the available capital. It is measured by the capital (Paid up capital + Free reserves) to the total assets explains the strengths of the capital base of commercial banks. A high or low capital adequacy ratio undesirable item of lower return or lower solvency respectively. Therefore, appropriate capital adequacy is needed but it is a controversial matter. According to NRB's prescription bank has to keep capital adequacy ratio. NRB's standard of capital adequacy ratio is changing over the time period. The capital adequacy is measured by analyzing following ratio:

1. Shareholders fund to total assets ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund. Generally this ratio measures the fund claims of owners of the bank over its assets. A high ratio indicates that out of total assets shareholders have more controlled

owner command and vice-versa. This ratio is calculated by dividing shareholders fund by total assets which is presented as follows:

$$\frac{\text{Shareholders Fund}}{\text{Total Assets}}$$

2. Shareholders fund to Total deposit ratio

Shareholders fund to total deposit ratio shows how well bank are maintain sufficient account as shareholder's fund is comparison to the amount of the total deposit. This ratio is calculated by shareholders fund divided by total deposit, which is presented as follows:

$$\frac{\text{Shareholders Fund}}{\text{Total Deposit}}$$

b) Market Value Ratio (Growth Ratio)

Market value ratio represents how well the banks are maintaining their economic and financial position. The ratios can be calculated by dividing the last period dividend by the first period dividend, then by referring to the compound interest tables. Alternatively, it is calculated by using the following formulas,

$$FV = PV\ (1+r)\ n$$

Where,

FV = Future Value

PV = Present Value

r = Rate of interest

n = No. of year

A high ratio generally indicates better performance and vice-versa. To examine and analyzed the expansion analysis growth of company, following growth ratio are calculated in this study.

1. Net Profit

Net profit is the main indicator of financial position of any business organization. Net profit is essential for its survival and growth and to maintain capital adequacy through profit retention. This indicator is computed by subtracting total expenditure including tax from operating income and interest. It is also called net profit after tax and interest.

$$NP = OI – (TE+IP+T)$$

Where,

NP = Net profit after tax and interest

OI = Operating Income

TE = Total Expenditure

IP = Interest Paid

T = Taxes

2. Earning Per Share

The earning per share exhibits that the owner is theoretical entitles to get from company. EPS is also identifying to measure the profitability of the shareholders investment. It simply shows that the profitability of bank on a per share basis, this ratio can be calculated by dividing net profit after interest and taxes less preference dividend by

the total number of equity shares outstanding of bank. It is calculated by using following formula:

$$EPS = \frac{NPAIT\ PD}{n}$$

Where,

EPS = Earning per share

NPAIT = Net profit after interest and tax

PD = Preference Dividend

N = Number of equity shares

2. Dividend per Share

The term dividend refers to distribute earning to the shareholders of the bank in return to their investment. Generally, dividend implies that portion of net profit, which is allocated to shareholders as their return in term of cash or share. The difference fund between EPS and DPS is retaining in the company as retain earning. It is calculated total dividend by number of share.

$$DPS = \frac{TDD}{n}$$

Where,

DPS = Dividend per share

TDD = Total distributed dividend

n = No. of common share outstanding

3.9 Limitation of the methodology

Although the researcher always attempts to get into the depth of fact, there always exits some loopholes in the practical life that are considered as limitations of the study. The limitations of this methodology can be categorized the following heads:

- The study is solely based on the financial statements of the bank as given in the various annual reports for the period of five years i.e. from FY2004/05 to FY 2005/09. However, the amount given in these financial statements are in the round figure of thousand of rupees. Therefore, the result may very.
- The profitability ratio analysis , which too is used as tool for determining risk and return, has its own limitation, which is listed below:
    a. It is difficult to decide on an appropriate basis of comparison.
    b. The change in price level also makes the interpretation of the ratios paralyzed
    c. The ratios do not give any indications of the future as it is calculated from past financial statements.

- The arithmetic mean is a statistical tool of data analysis depends upon each and every item of the series; extreme items may be very small and very large items. This unduly distorts the precise value of the mean and as such the analysis.

- The trend analysis is a statistical tool of data analysis ignores the impact of cyclical and irregular variation, as predications are based only on long-term variations. Hence, the trend analysis is flexible.

- The Karl Pearson's coefficient of correlation is a statistical tool of data analysis that always assumes linear relationship between the variables regardless of the fact whether that assumption is correct or incorrect. Hence, extreme values unduly affect the value of the coefficient of correlation.

CHAPTER –IV

PRESENTATION AND ANALYSIS OF DATA

4.1 INTRODUCTION

This chapter presents all the data collected from various sources in a tabular and graphical form to analyze and interpret them systematically. Before presenting them tabular and graphical shape, the data are organized, diagnosed, selected, formulated and calculated. After presenting the data in a tabular and graphical form, they are analyzed and interpreted. Five years data are applied for the study (fiscal year 2004/2005 to 2008/2009) in order to assess financial position of the banking and finance companies. For this purpose, two types of analysis have been carried out descriptive and inferential.

Various ratios are to be calculated to compare the activities of the two banks. These ratios are the indicator of a concern with regard to its efficiency in assets management, or to assess how far they are successful in mobilizing total deposit on investment. It indicates the speed of collection of funds and utilization of that funds to increase revenue by providing loans and advances, investments and other service renders by banks, in this section the main focus aims to analyze and compare the KBL and EBL with regard to collecting total funds, deposit structure, and assess efficiency in utilizing available resources.

4.2 RATIO ANALYSIS

Ratios are used to create comparisons within any company's performance or within any particular industry, by region, country, or globally. Comparisons may

say a lot about any company's financial health and can uncover trends as well as pinpoint possibilities for improvement. In other words, to evaluate the financial conditions and performances for a firm, the financial analyst needs certain yardsticks. Experienced and skilled analysts would obtain a better understanding to the financial conditions and performance of the firm from the analysis and interpretation of various ratios than from analysis of the financial data. Thus, we can conclude that the ratio analysis is the powerful financial tools to measure the financial performance of the bank.

4.2.1 Liquidity Ratio

Liquidity analysis means the ability of the firm to meet its current obligations. This ratio measures the firm's ability to meet short-term obligations. in case of commercial bank liquidity can be considered as the capacity to honor the cheque at the time of their presentation. There is compulsory for commercial banks to maintain cash and bank balance according to Nepal Rastra Bank (NRB) directives.

Nepal Rastra Bank has directed commercial bank to maintain balance in cash and bank as below:

- 3% of total deposit as cash balance.
- 8% of current & saving deposit cash balance at NRB.
- 6% of fixed deposit.

1. Current Ratio:

Current ratio measures the short-term solvency, i.e. its ability to measure short-term obligation. In other works, current ratio measures raise ability to pay debts.

As a measure versus creditors versus current assets, it indicates each type of current assets available by dividing current assets by current liabilities.

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

Current assets include cash, and those assets which can be converted into cash within a year, such as debtor, receivable, cash and bank balance, prepaid expenses inventory etc. Current liabilities mean all obligations maturing within a year. Under the current liabilities include secondary creditor, provision for taxation, bank loan, miscellaneous current liabilities and provision.

Table No 4.1:

Current Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Current Assets	Current Liabilities	Ratio (times)	Current Assets	Current Liabilities	Ratio times
2004/05	6155.0	6786.5	0.907	12874.03	18402.71	0.6995
2005/06	7519.8	8146.4	0.923	15170.28	18068.67	0.8395
2006/07	10048.2	10892.7	0.922	15856.53	19689.47	0.8053
2007/08	12662.7	13261.7	0.955	21109.33	22575.53	0.9350
2008/09	16779.9	16513.6	1.016	18008.8	20839.39	0.8641
Mean			0.945			0.8286
S.D.			0.042			0.0864
C.V. (%)			4.4			10.43

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

[Refer Annex A- 1]

Above table indicates the current ratios of the sample banks. Current ratio of KBL is in increasing order. The highest ratio is in the year 2008/09 which is 1.016 and lowest is 0.907 in the year 2004/05. Similarly, The ratio has EBL is in fluctuating order that is from 0.6995 to 0.8641 in fiscal year 2004/05 to 2008/09 through out the study period. Since the mean ratio of KBL is above 1:1 which indicates the successful management of current assets over current liabilities whereas EBL has below 1:1 mean ratio which means it has failed to maintain the current obligation. As concern with liquidity and consistency KBL seems to be in better position than EBL which is by the lower CV (4.4%).

Cash and Bank Balance to Total Deposit Ratio:

Cash and bank balance to total deposit analysis measure the availability of bank highly liquid funds. The structure of cash will be in the form of cash in hand, cash kept in the central bank of the country and cash kept in other bank. The analysis indicates the ability of bank fund to cover their current, fixed, saving and call & other deposit. This can be calculated by using the following formula.

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

Table No 4.2:

Cash and Bank Balance to Total Deposit Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari **B**ank Ltd.			Everest Bank Ltd		
	Cash and Bank Balance	Total Deposit	Ratio (times)	Cash and Bank Balance	Total Deposit	Ratio (times)
2004/05	443.4	6269.0	0.071	1979.2	21045.09	0.0940
2005/06	389.6	7769.0	0.050	2001.18	22010.33	0.0909
2006/07	672.1	10557.1	0.064	2014.47	24814.01	0.0811
2007/08	933.8	12774.3	0.073	1757.33	30048.42	0.0584
2008/09	1776.3	15710.9	0.113	1717.35	26490.85	0.0648
Mean			0.074			0.0778
S.D.			0.0235			0.0157
C.V. (%)			31.76			20.21

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

In the table no.4.2 shows the fluctuation on cash and bank balance to total deposit ratio of the sample banks. During the study of five years period, the ratio of KBL is ranged between 0.071 in 2004/05 and 0.113 in 2008/09, EBL is ranged between 0.0940 in 2004/05 to 0.0648 in 2008/09. It shows that EBL has maintained the highest mean ratio which is 0.0778 than KBL. This shows that EBL has successfully maintained the higher cash and bank balance to total deposit ratio. It also means that EBL is successful in meeting the daily cash requirement.

Even though KBL fail to maintain a higher cash balance which is shown by low mean ratio 0.074 it has also fail to maintain a consistency level in utilizing the cash balance than EBL. This consistency is measured by highest C.V. (31.76%)

which is higher than that of EBL. EBL mean ratio is 0.0778 and CV is 20.21% which indicate the higher cash balance and lower consistency. Holding cash and bank balance can have a negative impact on the goodwill and reputation of the bank to fulfill the demand of the profit holder and lower cash balance can have a negative impact on the customer. Therefore banks should maintain the enough liquidity.

Cash and Bank Balance to Current Assets Ratio:

Cash and bank balance to current deposit is computed to measure whether cash and bank balance is sufficient to meet its current calls margin including deposit or not. It is calculated as,

$$\text{Cash and bank balance to current deposit } X \frac{Total\ Cash\ \&\ Bank\ Balance}{Total\ Current\ Deposit} | 100$$

Table No 4.3:
Cash and Bank Balance to Current Assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Cash and Bank Balance	Current Assets	Ratio (times)	Cash and Bank Balance	Current Assets	Ratio (times)
2004/05	443.4	6155.0	0.072	1979.2	12874.03	0.1537
2005/06	389.6	7519.8	0.052	2001.18	15170.28	0.1319
2006/07	672.1	10048.2	0.067	2014.47	15856.53	0.1270
2007/08	933.8	12662.7	0.074	1757.33	21109.33	0.0832
2008/09	1776.3	16779.9	0.106	1717.35	18008.8	0.0953
Mean			0.074			0.1182
S.D.			0.0198			0.0286
C.V. (%)			26.77			24.21

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above table shows that the ratio of KBL is ranged between the 0.072 in 2004/05 and 0.106 in 2008/09 with mean ratio of 0.074; EBL is ranged between the 0.1537 in 2004/05 and 0.0953 in 2008/09 with mean ratio of 0.1182. Since, the mean ratio of EBL is higher than that of KBL. It supports the conclusion that, EBL has been successful in maintaining its higher cash and bank balance to current assets ratio, but it doesn't mean that it has mobilized its more fund in profitable sectors. It actually means that EBL can meet its daily cash requirement. In contrast KBL has lower mean ratio because it may have invested their fund in more productive sectors. Moreover, its also be failed to maintain a stability of cash and bank balance in comparison to EBL which is indicate by higher C.V. (26.77%).

Loan and Advances to Current Assets Ratio:

This ratio measures the amount of investment in loan and advance out of total current assets. This ratio shows the liquidity position of the banks as loans and advance are also liquid assets. If it is invested in higher return area then it would be profitable for the banks.

$$\text{Loan and Advances to Current Assets Ratio} = \frac{\text{Loan and Advances}}{\text{Current Assets Ratio}}$$

Table No 4.4:
Loan and Advance to Current Assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Loan and Advances	Current Assets	Ratio (times)	Loan and Advances	Current Assets	Ratio (times)
2004/05	5584.6	6155.0	0.907	10001.85	12874.03	0.7769
2005/06	6891.9	7519.8	0.917	11951.87	15170.28	0.7878
2006/07	8929.0	10048.2	0.889	12424.52	15856.53	0.7835
2007/08	11335.1	12680.7	0.895	16997.98	21109.33	0.8052
2008/09	14593.4	16779.9	0.870	14642.56	18008.8	0.8130
Mean			0.896			0.7932
S.D.			0.0179			0.0152
C.V. (%)			1.99			1.92

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above table shows that the ratio of KBL is ranged between 0.907 in 2004/05 and 0.870 in 2008/09 with mean ratio 0.896.EBL is ranged between the 0.7769 in 2004/05 and 0.8130 in 2008/09 with mean ratio of 0.7932. As the mean ratio of KBL is higher than that of EBL which is 0.896 which indicates that KBL has invested more in loan and advances than that of EBL However, as the C. V. of EBL is lower than that of KBL which is 1.92% indicates that the bank is successful in maintaining a stability of loan and advance in comparison to the KBL.

4.2.2 Leverage Ratios or Capital Structure Ratio

Leverage ratio is also one of the major ratios to know about the financial performance of any institution. This ratio reveals the proportion of funds used by the institution either from the creditor's side or from owner side. In order to maintain healthy financial position any institutions need to maintain proper

proportion of debt and equity capital. A capital structure of an institution is very important in terms of sustainability, liquidity and profitability.

1. Debt-equity Ratio

The debt equity ratio implies the debt equity proportion used by the institution. High debt equity ratio indicates more use of money from creditors' side and vice-versa. High debt equity ratio considered good if the institution is able to have higher return than the cost paid on debt.

$$\text{Debt-equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Table No 4.5:
Debt-equity Ratio (2004-05-2008/09)

(Rs. InMillion)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Total Debt	Total Equity	Ratio (times)	Total Debt	Total Equity	Ratio (times)
2004/05	6786.4	641.8	10.57	22216.21	1063.13	20.90
2005/06	8146.43	863.9	9.43	23437.85	1324.17	17.70
2006/07	10892.7	1025.6	10.62	26302.95	1541.75	17.06
2007/08	13661.7	1364.9	10.01	31372.64	2146.5	14.62
2008/09	16913.6	1625.0	10.41	27694.21	1766.17	15.68
Mean			10.208			17.19
S.D.			0.4965			2.39
C.V. (%)			4.86			13.93

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above table shows that ratio of KBL is ranged between 10.57(2004/05) to 10.41(2008/09) with mean ratio of 10.208.In the same way, the ratio has EBL ranged between 20.90 (2004/05) to 15.68(2008/09) with mean ratio of 17.19.The mean ratio of KBL is lower than that of EBL. It declared that KBL has lower debt cost and higher investment from equity fund. The ratios of both banks are in fluctuation mode. The higher debt investment brings a higher cost to the banks.

The C.V. of EBL and KBL are 13.93 and 4.86 respectively. Therefore KBL has lower C.V. which indicates that KBL has consistency in debt equity ratio.

2. Debt-assets Ratio

It measures proportion of the creditor's funds used by the institution to acquire the assets. The increased proportion of debt indicated the high level of risk or burden to the institution. The debt is considering more risky and cheaper source of financing. The high level of risk then the same, debt financing needs regular payment of interest in any condition of institution financial status and economic. The debt assets ratios of the sample banks are as below;

$$\text{Debt-assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Table No 4.6:

Debt-assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd..			Everest Bank Ltd		
	Total Debt	Total Assets	Ratio (times)	Total Debt	Total Assets	Ratio (times)
2004/05	6786.54	7428.3	0.914	22216.21	23279.34	0.9543
2005/06	8146.43	9010.3	0.904	23437.85	24762.02	0.9465
2006/07	10892.7	11918.3	0.914	26302.95	27844.69	0.9446
2007/08	13661.7	15026.6	0.909	31372.64	33519.14	0.9359
2008/09	16913.6	18538.6	0.912	27694.21	29460.38	0.94
Mean			0.911			0.9443
S.D.			0.0042			0.0069
C.V. (%)			0.47			0.7374

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above table shows that debts financing of both sample banks are high. The ratios are not very fluctuation. The ratio of KBL is ranged between 0.914 to 0.912 in 2004/05 to 2008/09 respectively. The highest ratio of EBL is 0.9543 in 2004/05 with mean ratio of 0.9443 which is highest mean ratio than KBL. KBL has a lower mean ratio than that of EBL. The C.V. of EBL and KBL are 0.7374% and 0.47% respectively. Above statement conclude that the debt financing of EBL is higher than that of KBL. Even though KBL use low proportion of debt they are not successful in maintaining a consistency. EBL has more consistency than KBL due to lower C.V.

3. Coverage Ratio:

This ratio measures the proportion of possible loan losses out of its total loans and advance invested.

$$\text{Coverage Ratio} = \frac{\text{Provision for possible loan losses}}{\text{Loans and Advances}}$$

Table No. 4.7:
Coverage Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Provision for possible losses	Loans and Advances	Ratio (times)	Provision for possible losses	Loans and Advances	Ratio (times)
2004/05	47.4	5584.6	0.008	202.87	10001.85	0.0202
2005/06	25.9	6891.9	0.004	186.23	11951.87	0.0155
2006/07	25	8929.0	0.003	58.89	12424.52	0.0047
2007/08	64.1	11335.1	0.006	145.16	16997.98	0.0085
2008/09	57.4	14593.4	0.004	90.69	14642.56	0.0061
Mean			0.005			0.011
S.D.			0.0020			0.0066
C.V. (%)			40			60.10

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

From the above comparative table the ratios of both banks are highly fluctuating. The mean ratio of EBL is higher than KBL which is not good for the bank. The higher ratio indicates the larger amount of losses for the banks out of loans and advances invested. KBL has more consistency due to its lower C.V. of 40% than EBL.

4.2.3 Activity Ratios or Assets and Investment Management Ratio:

Banks must be able to manage its assets very well to earn high return to satisfy its customers and for its own existence. Asset management ratio predicts how efficiently banks manage the resources at its command. The following asset management ratios are used in this study for comparison of the banks.

1. Loan and Advances to Total Deposit Ratio:

This ratio measures the extent to which the banks are successful to mobilize the total deposits on loans and advances for the purposes of income generation. The following table exhibits the ratio of loans and advances to total deposits of the banks throughout the study period.

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

Table No. 4.8:
Loan and Advances to Total Deposit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Loan and Advances	Total Deposit	Ratio (times)	Loan and Advances	Total Deposit	Ratio (times)
2004/05	5584.6	6269.0	0.891	10001.85	21045.09	0.47
2005/06	6891.9	7769.0	0.887	11951.87	22010.33	0.54
2006/07	8929.0	10557.1	0.846	12424.52	24814.01	0.50
2007/08	11335.1	12774.3	0.887	16997.98	30048.42	0.56
2008/09	14593.4	15710.9	0.929	14642.56	26490.85	0.55
Mean			0.888			0.52
S.D.			0.029			0.0378
C.V. (%)			3.3			7.27

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

From above comparative table, it reveals the highly fluctuation of ratio during the study period of five years of the sample banks. In fiscal year 2004/05 and 2008/09 EBL has registered the lowest ratio 0.47 and highest ratio 0.56 respectively with mean ratio of 0.52 which is the lower than that of KBL. Similarly KBL has registered the highest ratio 0.929 in year 2008/09 and lowest ratio 0.846 in year 2006/07 with mean ratio of 0.888.KBL has higher mean ratio of 0.88 which shows that they are successful in mobilizing the loan and advances to profitable sector with respect to total deposit whereas EBL is less successful in comparison to other sample banks.

As concern with the consistency, EBL is failed to maintain the consistency in comparison to KBL because it has higher C.V. (7.27%) whereas KBL has (3.3%).IT shows that KBL is able to maintain the stability in investing through loan and advance that of EBL.

3. Loan and Advances to Total Assets Ratio:

This ratio measures the proportion of investment in loan and advance out of total assets. Total assets of any organization are very important for different purposes and so far how the total assets formation is also important. Loan and advances is current assets investment of an organization which is utilized for short-term obligation.

$$\text{Loan and Advances to Total Assets ratio} = \frac{\text{Loans and Advances}}{\text{Total Assets}}$$

Table No. 4.9:

Loan and Advances to Total Assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Loan and Advances	Total Assets	Ratio (times)	Loan and Advances	Total Assets	Ratio (times)
2004/05	5584.6	7428.3	0.752	10001.85	23279.34	0.4296
2005/06	6891.9	9010.3	0.765	11951.87	24762.02	0.4826
2006/07	8929.0	11918.3	0.749	12424.52	27844.69	0.4462
2007/08	11335.1	15026.6	0.754	16997.98	33519.14	0.5071
2008/09	14593.4	18538.6	0.787	14642.56	29460.38	0.4970
Mean			0.761			0.4725
S.D.			0.0155			0.0332
C.V. (%)			2.04			7.04

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The table presented above shows that the ratio of KBL ratio is ranged between 0.752 in year 2004/05 to 0.787 in year 2008/09. EBL is ranged between 0.4296 in year 2004/05 to 0.4970 in year 2008/09.The ratios are in fluctuating trend. As the mean ratio of KBL is higher 0.761 which indicates that it has invested larger amount in loan and advance than that of EBL. In terms of consistency, KBL has maintain a successful consistency level that that of EBL which indicated by lower C.V. 2.04%.

4. Long-term Investment to Total Deposit Ratio:

The main purpose of this ratio is to measure successfulness in mobilizing the deposit in investment. The long-term investment to total deposit ratio of different banks in the study period are mentioned in the following table:

$$\text{Long-term Investment to Total Deposit Ratio} = \frac{\text{Long - term Investment}}{\text{Total Deposit}}$$

Table No. 4.10:

Long-term Investment to Total Deposit Ratio(2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Long-term Investment	Total Deposit	Ratio (times)	Long-term Investment	Total Deposit	Ratio (times)
2004/05	1190..3	6269.0	0.190	10175.44	21045.09	0.48
2005/06	1395.0	7769.0	0.180	9292.10	22010.33	0.42
2006/07	1678.4	10557.1	0.159	11692.34	24814.01	0.47
2007/08	2138.8	12774.3	0.167	11822.98	30048.42	0.39
2008/09	1510.8	15710.9	0.096	10889.03	26490.85	0.41
Mean			0.158			0.43
S.D.			0.036			0.0391
C.V. (%)			22.78			9.09

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

From above table reflects that the ratio of KBL ratio is ranged between 0.19 to 0.096 in year 2004/05 to 2007/08 with mean ratio of 0.158 respectvly. EBL is ranged between 0.48 to 0.41 in year 2004/05 to 2008/09 with mean ratio of 0.43. The EBL has a higher mean ratio than KBL which indicates it has successfully invested in long-term investment out of total deposit. A large proportion of

investment in long-term investment may bring a higher return to the institution. Moreover, EBL has also successfully maintained to its consistency in comparison to KBL which is lower that is 9.09%.

5. Performing Assets to Total Assets Ratio

This ratio measures the proportion of income generating assets. These assets are the assets which are invested for short-term purpose.

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

Table No. 4.11:

Performing Assets to Total Assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Performing Assets	Total Assets	Ratio (times)	Performing Assets	Total Assets	Ratio (times)
2004/05	6155.0	7428.3	0.829	12874.03	23279.34	0.55
2005/06	7519.8	9010.3	0.835	15170.28	24762.02	0.61
2006/07	10048.2	11918.3	0.843	15856.53	27844.69	0.57
2007/08	12662.7	15026.6	0.843	21109.33	33519.14	0.63
2008/09	16779.9	18538.6	0.905	18008.8	29460.38	0.61
Mean			0.851			0.594
S.D.			0.031			0.0329
C.V. (%)			3.64			5.53

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

From the above table, the ratio of KBL is ranged between 0.829 to 0.905 the year (2004/2005) to (2008/09) with mean ratio of 0.851.EBL is ranged between (0.55)

to (0.61) in year 2004/05 to 2008/09. KBL has a higher mean ratio of 0.851 which indicates higher investment in performing assets than Blather short-term investment are very important for any institution for its working capital and other short-term needs. The C.V. of KBL is lower than that of EBL which shows the more consistency.

6. Performing Assets to Total Debt Ratio:

This ratio measures the extent to which the outsider's fund is invested in performing assets.

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

Table No. 4.12:

Performing Assets to Total Debt Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Performing Assets	Total Debt	Ratio (times)	Performing Assets	Total Debt	Ratio (times)
2004/05	6155.0	6786.54	0.907	12874.03	22216.21	0.5794
2005/06	7519.8	8146.43	0.923	15170.28	23437.85	0.6472
2006/07	10048.2	10892.7	0.922	15856.53	26302.95	0.6028
2007/08	12662.7	13661.7	0.927	21109.33	31372.64	0.6728
2008/09	16779.9	16913.6	0.992	18008.8	27694.21	0.6502
Mean			0.934			0.6305
S.D.			0.033			0.0382
C.V. (%)			3.53			6.06

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

In the above comparative table, reveals that the ratio of EBL is in fluctuating trend. The ratio of the KBL is ranged between 0.907 in year 2004/05 to 0.992 in year 2008/09 with higher mean ratio of 0.934 than that of EBL. EBL is ranged between 0.5794 in year 2004/05 to 0.6502 in year 2008/09. The higher mean ratio indicates that the KBL has used higher outsider's investment than EBL. In terms of KBL has successfully maintained its consistency due to its lower C.V. which is 3.53%.

7. Personnel Expenses to Total Income Ratio:

This ratio is measures the percentage expenses made to personnel out of the firms total income.

$$\text{Personnel Expenses to Total Income Ratio} = \frac{\text{Personnel Expenses}}{\text{Total Income}}$$

Table No. 4.13:
Personnel Expenses to Total Income Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Personnel Expenses	Total Income	Ratio (times)	Personnel Expenses	Total Income	Ratio (times)
2004/05	42.4	300.5	0.141	120.15	1454.31	0.0826
2005/06	59.9	331.1	0.181	152.51	1519.62	0.1004
2006/07	74.3	470.6	0.158	178.59	1760.68	0.1014
2007/08	89.6	566.7	0.158	234.59	2100.83	0.1117
2008/09	116.0	716.4	0.162	272.23	2576.92	0.1056
Mean			0.16			0.1003
S.D.			0.014			0.0109
C.V. (%)			8.75			10.84

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

In above table, the ratio of KBL ratio is range between 0.141 in year 2004/05 to 0.162 in year 2008/09 with mean ratio of 0.16. EBL is ranged between 0.0826 in year 2004/05 to 0.1056 in year 2008/09 with mean ratio of 0.1003, The ratio of EBL are in increasing trend which shows either bank has increase employees pay scale or it has open different branches which has increased its ratio. Employee point of view they desire high ratio, however high ratio is unfavorable to the bank though it functions as catalyst for employees working spirit. The mean ratio of KBL is higher than that of EBL which indicates the bank has well paid to its employee. KBL has successfully maintained its consistency due to its lower C.V. which is 8.75%.

4.2.4 Profitability Ratio

The main objective of a bank is to make profit providing different types of services to its customers. To meet those objectives likewise a good liquidity position, meet fixed interest obligation, overcome the future contingencies, grab the investment opportunities, business expansion etc. they must earn sufficient profit. It is an obvious that profitability ratios are the best indicators of overall efficiency. In this study, mainly those ratios are presented which are related with profit as well as fund mobilization. The following are profitability ratios those are relevant in this study.

1. Net Profit to Total Deposit Ratio:

The following table reveals the percentage of net profit to total deposit of the sample banks.

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

Table No 4.14:

Net Profit to Total Deposit Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Net Profit	Total Deposit	Ratio (%)	Net Profit	Total Deposit	Ratio (%)
2004/05	84.2	6269.0	1.3	212.13	21045.09	1.01
2005/06	103.7	7769.0	1.3	263.05	22010.33	1.19
2006/07	170.3	10557.1	1.6	308.28	24814.01	1.24
2007/08	174.9	12774.3	1.4	457.46	30048.42	1.52
2008/09	261.5	15710.9	1.7	491.82	26490.85	1.86
Mean			1.46			1.36
S.D.			0.18			0.33
C.V. (%)			12.32			24.26

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above comparative table reveals the net profit to total deposit ratio are in fluctuating situation of both banks. The ratio of EBL has ranged between 1.01 in year 2004/05 to 1.86 in year 2008/09 with mean ratio of 1.36. KBL ratio has ranged between 1.3 in year 2004/05 to 1.7 in year 2008/09 with mean ratio of 1.46.KBL has the higher mean ratio with 1.46.The above statement indicates that KBL has better performance in utilizing deposit to earn a higher profit than EBL as it has higher mean ratio of 1.46.As far as consistency level, KBL has successful in maintaining consistency in mobilizing total deposit to earn the profit even though it has lower C.V. of 12.32%.

2. Net Profit to Total Assets ratio:

This ratio is a measuring tool of profitability with respect to each financial resources investment of the assets. If bank's total assets is well managed and utilized efficiently, return on such assets will be higher and vice-versa. The following comparative table shows the return on total assets ratio of different banks recorded over the study period.

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

Table No. 4.15:

Net Profit to Total Assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Net Profit	Total Assets	Ratio (%)	Net Profit	Total Assets	Ratio (%)
2004/05	84.2	7428.3	1.1	212.13	23279.34	0.91
2005/06	103.7	9010.3	1.2	263.05	24762.02	1.06
2006/07	170.3	11918.3	1.4	308.28	27844.69	1.11
2007/08	174.9	15026.6	1.2	457.46	33519.14	1.36
2008/09	261.5	18538.6	1.4	491.82	29460.38	1.67
Mean			1.3			1.22
S.D.			0.14			0.30
C.V. (%)			10.77			24.59

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

\From comparative table, it can be seen that the both bank have fluctuating ratio. The ratio of KBL ratio has ranged between 1.1 and 1.4 in year 2004/05 and 2008/09 respectively with mean ratio of 1.3, EBL ratio has ranged between 0.91

and 1.67 in year 2004/05 and 2008/09 respectively with mean ratio of 1.22. The highest recorded ratio of EBL is 1.67 in year 2008/09 and lowest is 0.91 in year 2004/05.Similarly, the highest recorded ratio of KBL is 1.4 in year 2008/09 & 2006/07 and lowest is 1.1 in year 2004/05.From the above statement it can be concluded that the both bank profit have been increasing in comparison to previous year. Moreover, KBL has a highest mean ratio with 1.3 which determined that KBL is successful in earning the net profit with efficient utilization of total assets with comparison to EBL. In addition, KBL is successful to maintain the consistency profit which is shown by lower C. V (10.77%).

3. Return on Net Worth

This ratio is used to measure the successfulness of earning the profit with respect to the shareholder's equity. The following table presents the net profit to net worth ratio of sample banks.

$$\text{Return on Net Worth} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Table No. 4.16:
Return on Net Worth (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Net Profit	Net Worth	Ratio (%)	Net Profit	Net Worth	Ratio (%)
2004/05	84.2	641.8	13.12	212.13	1063.13	19.95
2005/06	103.7	863.9	12	263.05	1324.17	19.86
2006/07	170.3	1025.6	16.61	308.28	1541.75	19.99
2007/08	174.9	1364.9	12.81	457.46	2146.5	21.31
2008/09	261.5	1625.0	16.09	491.82	1766.17	27.85
Mean			14.13			21.79
S.D.			2.079			3.44
C.V. (%)			14.72			15.79

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

From above table it reveals that both sample banks have fluctuating ratio. The highest ratio of KBL recorded ratio in year 2006/07 with (16.61) and lowest in year 20045/06 with (12%).recorded in year 2008/09 with (27.85) and lowest is in year 2005/06 with (19.86), The mean ratio of EBL is 21.79 and KBL ratio is 14.13.The EBL has the highest mean ratio than that of KBL which defined that they got a better achieving on increasing a net profit by mobilizing on resources of shareholder's equity. On the other side, KBL has a lower mean ratio which indicates it less successful in earning a net profit by utilizing a shareholder's equity due to its lower mean ratio.

Although KBL has lower mean ratio than EBL but it is successful in earning a net profit with respect to net worth it has consistency or stability in earning a net profit which is shown by lower C.V. of 14.72%.

4. Total Interest Earned to Total Assets Ratio

The ratio shows the earning capacity of a bank on its total assets. This ratio exhibits the extent on which banks are successful in mobilizing their working funds to generate income as much as possible. The following table shows the comparative ratios of banks for the different periods.

$$\text{Total Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

Table No. 4.17:

Total Interest Earned to Total Assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Interest Earned	Total Assets	Ratio (times)	Interest Earned	Total Assets	Ratio (times)
2004/05	500.0	7428.3	0.067	1201.23	23279.34	0.0516
2005/06	605.5	9010.3	0.067	1245.89	24762.02	0.0503
2006/07	791.3	11918.3	0.066	1446.47	27844.69	0.0519
2007/08	957.3	15026.6	0.064	1626.47	33519.14	0.0485
2008/09	1374.7	18538.6	0.074	1775.58	29460.38	0.0603
Mean			0.068			0.0525
S.D.			0.0038			0.0045
C.V. (%)			5.59			8.67

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

From the above table reveals the total interest earned to total assets ratio. The ratio of KBL ratio is ranged between (0.067) in year 2004/05 to (0.074) in year 2008/09 with mean ratio of (0.068). EBL is ranged between (0.0516) in year 2004/05 to (0.0603) in year 2008/09 with mean ratio of (0.0525). The highest recorded ratio of EBL is (0.0603) in year 2008/09 and KBL is (0.074) in year 2008/09.The mean ratio of KBL is higher than that of EBL which indicates that the bank has earned more interest. Since the C.V of KBL is significantly lower than that of EBL which shows the good consistency in earning interest by mobilizing total assets effectively.

5. Total Interest Paid to Total Assets Ratio

The ratio is used to measure the percentage of total interest expenses against the total assets. The following are the comparative ratio figures of banks recorded in different periods.

$$\text{Total Interest Paid to Total Assets Ratio} = \frac{\text{Interest Paid}}{\text{Total Assets}}$$

Table No. 4.18:

Total Interest Paid to Total Assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Interest Paid	Total Assets	Ratio (times)	Interest Paid	Total Assets	Ratio (times)
2004/05	240.1	7428.3	0.032	554.13	23279.34	0.0238
2005/06	337.1	9010.3	0.037	491.54	24762.02	0.0198
2006/07	397.1	11918.3	0.033	561.96	27844.69	0.0202
2007/08	498.7	15026.6	0.033	648.84	33519.14	0.0194
2008/09	816.2	18538.6	0.044	767.41	29460.38	0.0260
Mean			0.0358			0.0218
S.D.			0.0050			0.0029
C.V. (%)			13.96			13.36

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above table shows the comparative analysis of total interest paid to total assets. The ratio of KBL ratio has ranged between (0.0358) in year 2004/05 to (0.44) in year 2008/09 with mean ratio of (0.015).Whereas, EBL is ranged between (0.0238) in year 2004/05 to (0.0260) in year 2008/09 with mean ratio of (0.0218). The highest ratio of EBL is (0.0260) in year 2008/09 and KBL has

(0.44) in year 2008/09.The table reflects that KBL has higher mean ratio which indicates that it has paid larger interest. It terms of consistency also EBL has successfully maintained which indicates by significant lower C.V. of 13.36%.

6. Return on Capital Employed Ratio:

A relation between net profit and capital employed is known as return on capital employed ratio. It shows whether the amount of capital employed has been properly used or not.

$$\text{Return on Capital Employed Ratio} = \frac{\text{Net Profit}}{\text{Total Capital}}$$

Table No. 4.19:

Return on Capital Employed Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Net Profit	Total Capital	Ratio (times)	Net Profit	Total Capital	Ratio (times)
2004/05	84.2	641.8	0.1312	212.13	4876.63	0.0435
2005/06	103.7	863.9	0.12	263.05	6693.35	0.0393
2006/07	170.3	1025.6	0.1661	308.28	8155.23	0.0378
2007/08	174.9	1364.9	0.1281	457.46	10943.61	0.0418
2008/09	261.5	1625.0	0.1609	491.82	8620.99	0.0570
Mean			0.1413			0.0439
S.D.			0.021			0.0076
C.V. (%)			14.72			17.45

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above table reflects the ratio trends of both banks. The ratio of KBL ratio has ranged between (0.1312) in year 2004/05 to (0.1609) in year 2008/09 with mean ratio of (0.1413). Respectively, EBL is ranged between (0.0435) to (0.0570) in year 2004/05 to 2008/09 with mean ratio of (0.0439). The highest recorded ratio of EBL and KBL are (0.0570) and (0.1609) respectively. Similarly the lowest recorded ratio of EBL and KBL are (0.0378) and (0.12) respectively. The mean ratio of KBL is higher than that of EBL which indicates the efficiency of the firm on the utilization of total capital. A higher ratio is an indication of the better utilization of capital employed. Hence, higher ratio is preferable for the company. In terms of consistency also KBL has successfully maintained which indicates by its significant lower C.V. of 14.72%.

4.2.5 Capital Adequacy Ratio

Capital adequacy ratio indicates strength of capital base of the institution. The capital adequacy ratios of the sampled banks are as follows:

1. Shareholder's Fund to Total Deposit Ratio:

$$\text{Shareholder's Fund to Total Deposit Ratio} = \frac{\text{Shareholders Fund}}{\text{Total Deposit}}$$

Table No. 4.20:

Shareholder's Fund to Total Deposit Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Net Worth	Total Deposit	Ratio (times)	Net Worth	Total Deposit	Ratio (times)
2004/05	641.8	6269.	0.1024	1063.13	21045.09	0.0505
2005/06	863.9	7769.	0.1112	1324.17	22010.33	0.0602
2006/07	1025.6	10557.1	0.0972	1541.75	24814.01	0.0621
2007/08	1364.9	12774.3	0.1068	2146.5	30048.42	0.0714
2008/09	1625.0	15710.9	0.1034	1766.17	26490.85	0.0667
Mean			0.1042			0.0622
S.D.			0.0052			0.0078
C.V. (%)			4.99			12.60

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above comparative table shows the capital adequacy ratio of both sample banks are fluctuating. The ratio of KBL ratio is ranged between the 0.1024(2004/05) to 0.1034(2008/09) with mean ratio of 0.1042, EBL is ranged between the 0.0505 (2004/05) to 0.0667(2008/09) with mean ratio of 0.0622. The highest recorded ratio of EBL and KBL are 0.0714 and 0.1112respectively. Similarly the lowest recorded ratio of EBL and KBL are 0.0505 and 0.0972 respectively. The mean ratio of KBL is higher than EBL which indicates the capital base of bank is stronger.

In the same way C.V. of EBL and KBL are 12.60% and 4.99% respectively. Therefore the stability in capital strength of KBL is good due to lower C.V. of 4.99%.

2. Shareholder's Fund to Total Assets Ratio:

$$\text{Shareholder's Fund to Total Assets ratio} = \frac{\text{Shareholders Fund}}{\text{Total Assets}}$$

Table No. 4.21:

Shareholder's Fund to Total Assets Ratio (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks					
	Kumari Bank Ltd.			Everest Bank Ltd		
	Net Worth	Total Assets	Ratio (times)	Net Worth	Total Assets	Ratio (times)
2004/05	641.8	7428.3	0.086	1063.13	23279.34	0.0456
2005/06	863.9	9010.3	0.096	1324.17	24762.02	0.0534
2006/07	1025.6	11918.3	0.086	1541.75	27844.69	0.0553
2007/08	1364.9	15026.6	0.091	2146.5	33519.14	0.0640
2008/09	1625.0	18538.6	0.088	1766.17	29460.38	0.0599
Mean			0.0894			0.0556
S.D.			0.0042			0.0069
C.V. (%)			4.7			12.52

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

The above table shows that the control over total assets by shareholder's fund is high in KBL which is shown by higher mean ratio. The ratio of KBL is ranged between 0.086(2004/05) to 0.088(2008/09) with mean ratio of 0.0894, EBL ratio is

ranged between 0.0456(2004/05) to 0.0599(2008/09) with mean ratio of 0.0556.The highest ratio of EBL is 0.0640 recorded in year 2007/08 and 0.096 of KBL in year 2005/06.Similarly the lowest recorded ratio of EBL is 0.0456 in year 2004/05 and 0.086 of KBL in the year 2004/05.As the mean ratio of EBL is lower than that of KBL which indicates that it has less control over assets by shareholder's fund. Since KBL has lower C.V (4.7%) which indicates it has more consistency than EBL.

4.3. STATISTICAL ANALYSIS:

4.3.1 Coefficient of Correlation Analysis:

This tool is used to predict the relationship between deposits and loans & advances, net profit and outsider assets and deposits and long-term investment. Under this study, Karl's Pearson's coefficient of correlation is being used.

4.3.1.1 Correlation between Total Deposits and Loan and Advances:

Deposit is the main tool for developing the banking performance of the banks. Likewise loans and advances are the key part to mobilize the collected deposits. The coefficient of correlation between deposits and loans and advances measures the degree of relationship between these two variables. For this study, deposit is taken as independent variable(x) and loans & advances are dependent variables(y).The purpose of computing 'r' between these two variables is to justify whether deposits are significantly used as loans and advances in proper way or not.

Table No. 4.22

Correlation between Total Deposits and Loan and Advance (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks			
	Kumari Bank Ltd.		Everest Bank Ltd	
	Total Deposit (x)	Loan & Advances (y)	Total Deposit (x)	Loan & Advances (y)
2004/05	6269	5584.6	21045.09	10001.85
2005/06	7769	6891.9	22010.33	11951.87
2006/07	10557.1	8929.0	24814.01	12424.52
2007/08	12774.3	11335.1	30048.42	16997.98
2008/09	15710.9	14593.4	26490.85	14642.56
R	0.9959		0.9741	
r2	0.9918		0.9489	
P.E.(r)	0.0025		0.0154	
6 * P.E.(r)	0.015		0.0924	
Level of Significant	Significant		Significant	

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

[Annex A-2 and A-3]

The coefficient of correlation for both banks found to be almost '1' which indicates there is proportion relationship between the total deposit and loans & advances for both banks. While testing 6P.E.r for both banks found

to be significant as the value of ‘r’ is greater than 6P.E.r which implies that there found to be perfect correlation between the total deposits and loan and advances. It shows that the loan & advances and the total deposit to loan and advances efficiently.

4.3.1.2 Correlation between Total Deposit and Long-term Investment:

Investment is also a measures part of banks to mobilize the collected deposit. By investing in different profitable area like shares and debenture, government securities banks maximize the profit. Therefore it is important to study the relation between the deposit and investment. For this analysis

Deposit is taken as independent variable(x) and investment (y) is taken as dependent variable. This analysis measures the degree of relationship between these two variables. Besides this, it will justify whether the deposits are significantly used in proper way or not and whether there is any relationship in between these two components. The following table exhibits the coefficient of correlation (r) between deposits and total investment, coefficient of determination (r2), probable error (P.E. r).

TableNo.4.23

Correlation between Total Deposit and Long-term Investment (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks			
	Kumari Bank Ltd.		Nepal Everest Bank Ltd.	
	Total Deposit (x)	Long-term Investment (y)	Total Deposit (x)	Long-term Investment (y)
2004/05	6269	1190..3	21045.09	10175.44
2005/06	7769	1395.0	22010.33	9292.10
2006/07	10557.1	1678.4	24814.01	11692.34
2007/08	12774.3	2138.8	30048.42	11822.98
2008/09	15710.9	1510.8	26490.85	10889.03
R	0.5641		0.7877	
r2	0.3182		0.6205	
P.E.(r)	0.2057		0.1145	
6 * P.E.(r)	1.2324		0.6868	
Level of Significant	Insignificant		Significant	

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

[Annex A-4 and A-5]

The coefficient of correlation of the KBL is found to be 0.56which indicates that there is moderate degree of correlation between investment and total deposit. EBL coefficient of correlation is found to be almost '1" which indicates perfectly positive correlation. While testing 6P.E. r of KBL found to be insignificant as the value of r is lower than 6P.E.r whereas EBL is found to be significant as the value of r is greater than the value of 6P.E.r.KBL is found to be weak in earning the Total deposit through investment whereas EBL is successful to total deposit by mobilizing the long-term investment.

4.3.1.3 Correlation between Long-term Investment and Net Profit:

Following table shows the relation between the investment and net profit. As we say in above investment is done in different profitable area to maximize the profit.Net profit is the key to survive the banks. Without profit banks can not sustain in the market. Therefore it is necessary to measure the degree of relationship between these two variables. For this study long-term investment (x) is taken as independent variable and net profit(y) is taken as dependent variable. The following table shows the coefficient of correlation between (r), coefficient of determinants (r2) and probable error P.E.r between investment and net profit of the banks.

Table No 4.24
Correlation between Long-term Investment and Net Profit (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks			
	Kumari Bank Ltd.		Everest Bank Ltd	
	Long-term Investment (x)	Net Profit(y)	Long-term Investment (x)	Net Profit(y)
2004/05	1190..3	84.2	10175.44	212.13
2005/06	1395.0	103.7	9292.10	263.05
2006/07	1678.4	170.3	11692.34	308.28
2007/08	2138.8	174.9	11822.98	457.46
2008/09	1510.8	261.5	10889.03	491.82
R	0.4220		0.5811	
r2	0.1781		0.3377	
P.E.(r)	0.2480		0.1998	
6 * P.E.(r)	1.488		1.1987	
Level of Significant	Insignificant		Insignificant	

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

[Annex A-6 and A-7]

The coefficient of correlation of the KBL is found to be 0.42 which indicates that there is moderate degree of correlation between investment and net profit. Also EBL is found to be 0.58 which indicates that there is moderate degree of correlation between investment and net profit

While testing 6P.E. r of EBL found to be insignificant as the value of r is lower than 6P.E.r whereas EBL is found to be Insignificant. Both Banks are found to be weak in earning the net profit through the investment.

4.3.1.4 Correlation between Loan and Advances and Net Profit:

Loan and advances also plays a vital role in earning the profit. By mobilizing the deposit in loan & advances banks earns the profit. So, it is necessary to study the relation between these two variable loan & advances and net profit. Following table shows the coefficient of correlation(r), coefficient of determinants (r2) and probable error between loan & advance and net profit of the banks. For this study loan and advances (x) is taken as independent variable and net profit (y) is taken as dependent variable.

Table No. 4.25

Correlation between Loan and Advances and Net Profit (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks			
	Kumari Bank Ltd.		Everest Bank Ltd	
	Loan and Advances (x)	Net Profit(y)	Loan and Advances (x)	Net Profit(y)
2004/05	5584.6	84.2	10001.85	212.13
2005/06	6891.9	103.7	11951.87	263.05
2006/07	8929.0	170.3	12424.52	308.28
2007/08	11335.1	174.9	16997.98	457.46
2008/09	14593.4	261.5	14642.56	491.82
R	0.9763		0.9080	
r2	0.9531		0.8245	
P.E.(r)	0.0141		0.0529	
6 * P.E.(r)	0.846		0.3177	
Level of Significant	Significant		Significant	

Source:-Five Years Comparative Balance Sheet of KBL and EBL.

[Annex A-8 and A-9]

The coefficient of correlation for the sample banks found to be almost '1' which indicates there is proportion relationship between the loan & advances and net profit for both banks. While testing 6.P.E.r for EBL and KBL found to be significant as the r value for both banks are greater than 6P.E.r which implies that there found to be perfect correlation between the loan & advances and net profit. It shows that both banks are successful in earning the net profit by mobilizing the loan and advances.

4.3.2 Trend Analysis

The main objective of this part is to analyze the trend of prospective net profit in future by analyzing the trend of past net profit of the banks. Banks utilized the deposit by releasing investment in loan and advances in different profitable area for maximizing the profit. A bank can invest in shares & Debentures, government securities and provide the loan and advances under different scheme.

This topic will be used to forecast the ratios between net profit and deposit, net profit and investment, net profit and loan & advances of the banks for next five years on the base of past five years. The analysis is done under limited factors which are as follows:

- The economy will remain unchanged as of present the stage.
- Banks will run as of present position.
- The guidelines by NRB for Banks will remain unchanged.
- The forecast will be true only when the limitations of least square method carried out.
- The main assumption is that other factors are consistent

4.3.2.1 Trend Analysis of Total Deposit:

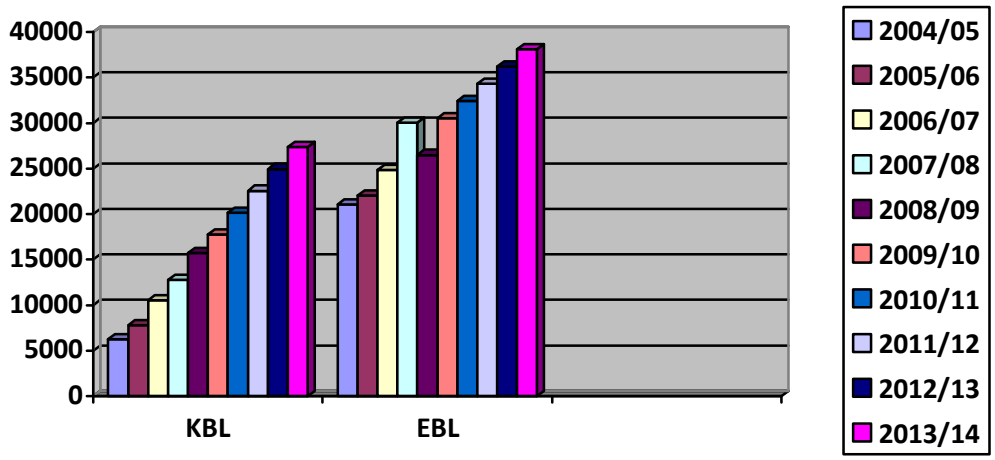
The part of this analysis will analyze net profit to total deposit of banks for five years from 2004/05 to 2008/09 and projection for next five years i.e. 2008/09 to 2013/14.The following table exhibits the trend values of net profit to total deposit of banks for ten years.

Table No. 4.26
Trend Analysis of Total Deposit (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks	
	Kumari Bank Ltd.	Everest Bank Ltd.
	Total Deposit	Total Deposit
2004/05	6269	21045.09
2005/06	7769	22010.33
2006/07	10557.1	24814.01
2007/08	12774.3	30048.42
2008/09	15710.9	26490.85
2009/10	17783.3	30560.65
2010/11	20172.2	32453.62
2011/12	22561.1	34346.59
2012/13	24950	36239.56
2013/14	27338.9	38132.53

Figure No. 4.1



[Annex A-10 and A-11]

The above comparative table exhibits that trend values of the both of the banks are in increasing trend. Among the sample banks, KBL has a higher increasing trend of total deposit in past. The total deposit forecasted for the next Four years on the basis of past years of EBL are 30560.65, 32453.62, 34346.59, 36239.56 and 38132.53 for the year 2008/09 to 2013/14 respectively. Similarly, KBL total deposits for next five years are 17783.3, 20172.2, 22561.1, 24950 and 27338.9 from 2008/09 to 2013/14.

4.3.2.2 Trend Analysis of Loan & Advances

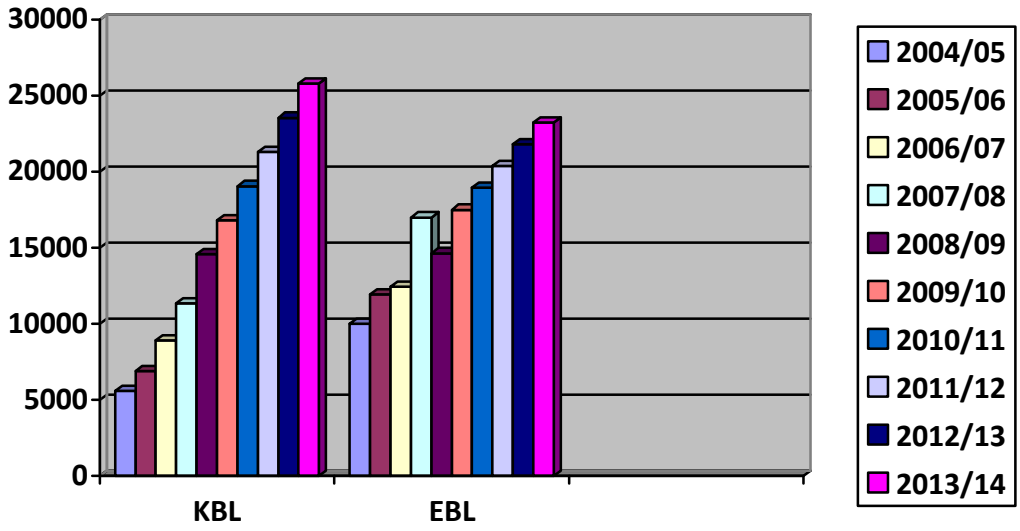
This analysis will show the picture of trend values of net profit to loans & advances of banks for the study period and then forecast for following five years. The trend values of net profit to loans & advances of the banks are presented in the following table.

Table No. 4.27
Trend Analysis of Loan & Advances (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks	
	Kumari Bank Ltd.	Everest Bank Ltd.
	Loan & Advances	Loan & Advances
2004/05	5584.6	10001.85
2005/06	6891.9	11951.87
2006/07	8929.0	12424.52
2007/08	11335.1	16997.98
2008/09	14593.4	14642.56
2009/10	17405.04	17502.03
2010/11	19051.12	18934.78
2011/12	21897.2	20367.53
2012/13	24143.28	21800.28
2013/14	26389.16	23233.03

Figure No. 4.2



[Annex A-12 and A-13]

The comparative table shows that both banks has an increasing trend of net profit with respect to loan & advances. Among then, KBL has a higher trend of loan & advances than EBL.

4.3.2.3 Trend Analysis of Long-term Investment

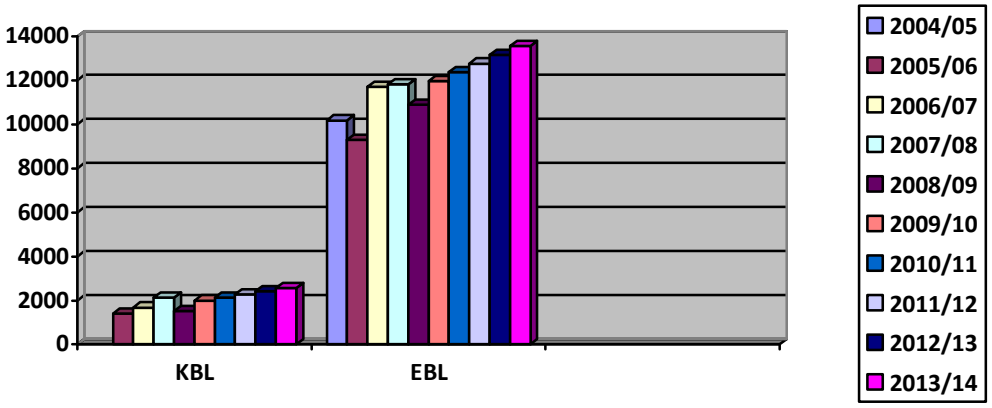
The following table are the analysis for trend of net profit to long-term investment and prediction of long-term investment for next five year according to base of past five year analysis.

Table No. 4.28
Trend Analysis of Long-term Investment (2004-05-2008/09)

(Rs. In Million)

Fiscal Year	Banks	
	Kumari Bank Ltd.	Everest Bank Ltd.
	Long-term Investment	Long-term Investment
2004/05	1190.3	10175.44
2005/06	1395.0	9292.10
2006/07	1678.4	11692.34
2007/08	2138.8	11822.98
2008/09	1510.8	10889.03
2009/10	1998.19	11961.79
2010/11	2136.7	12357.6
2011/12	2275.21	12753.41
2012/13	2413.72	13149.22
2013/14	2552.23	13545.03

Figure No. 4.3



[Annex A-14 and A-15]

From the above table it is clear that the trend value of both the banks are in an increasing trend. In other things remains unchanged total investment of EBL to be Rs. 13545.03 million. This is also the highest under the review period.

The above table reveals that EBL's total investment is higher than that of KBL through out the trend projection period. It can be said that EBL has followed the policy of maximizing its investment.

4.3.3 Simple Regression Analysis

Regression Analysis is useful tool in statistical analysis which shows how the variables are related. In regression analysis one variable is considered to be unknown and other to be known variable. From the known variable we can estimate the value of unknown variable. So, regression is said to be measures of average relationship between two or more variables in terms of the original units of the data. For the study we confined to only two variables and this kind of regression is called simple regression.

4.3.3.1 Regression analysis between Net Profit and Loan and Advances

The analysis determines the relation between net profit and loan & advances. As loan & Advances increases the net profit of the banks need to increase. So, in this analysis net profit is considered to be dependent variable and loan and advances as independent variable. The relation between net profit and loan and advances can presented mathematically as below:

$$N.P. = a + b. LA$$

Where,

N.P. = Net Profit

LA = Loan and advances

Table No. 4.29:

Regression analysis between net profit and loan and advances

No.	Banks	Intercept(a)	Regression Coefficient(b)	r	t-test
	KBL	5.58	24.45	0.97	12.14*
	EBL	6.29	19.94	0.91	3.79*

[Refer Annex A-16 and A-17]

Note: I) * represents that results are significant at 5 % level of significant

The above table is a comparative result of regression analysis for both banks. The regression coefficient of net profit and loan and advances of both sampled banks are positive which determine that increase in the loan and advances ultimately increases net profit. The coefficient correlation found to be highest in case of KBL almost '1' which indicates proportionate change in net profit as increase or decrease in loan and advances whereas EBL has lower correlation between net profit and loan and advances. While testing the hypothesis on the basis of t-test the variables are significant which indicates as they got at 5% significance level. This shows that there was high correlation between net profit and loan and advances.

4.3.3.2 Regression analysis between Net Profit and Long-term Investment

This analysis determines the relation between net profit and long-term investment. As long-term advance increases the net profit of the banks need to increase. So, in this analysis net profit is considered to be dependent variable and long-term

investment as independent variable. The relation between net profit and long-term investment can be presented below:

Table No. 4.30:

Regression analysis between net profit and long-term investment.

No.	Banks	Intercept(a)	Regression Coefficient(b)	r	t-test
	KBL	2.28	24.25	0.42	0.91
	EBL	9.02	5.06	0.58	1.23

[Refer Annex A-18 and A-19]

Represents that results are significant at 5 % level of significant

The above comparative table represents the regression analysis between the net profit and long-term investment. The regression coefficient of net profit and long-term investment for both banks are positive which indicate that increase in investment ultimately increases net profit of the banks. The coefficient of correlation of EBL found to be highest that is almost '1' which indicates proportionate change in net profit as increase or decrease in investment of the bank. KBL has lower correlation in respect to EBL. Since EBL has higher value than t-test table value it has got significant at 5% level while testing the hypothesis whereas KBL didn't get the significance between net profit and long-term investment. This represents that there is a high correlation between the net profit and long-term investment for EBL and low correlation for KBL.

4.4 Other Indicator of the Financial Performance

Apart from the above calculated ratios, Earning per share, Cash dividend per share, Dividend payout ratio, Price earning ratio, Market value per shares are the other indicators of the financial performance.

4.4.1 Earning Per Share

The following table shows the earning available to each share for the investment in these banks.

Table 31

Earning Per Share

Banks	Ratio	Fiscal Years					Average
		2004/05	2005/06	2006/07	2007/08	2008/09	
KBL	Rs.	17.58	16.59	22.70	16.35	22.04	19.052
EBL	Rs.	62.78	78.42	91.82	99.99	100.16	86.64

Table 20 depicts that EPS of KBL banks are fluctuating each year. And EBL increasing trend EPS of EBL is superior over KBL except the first fifth years .The average of the yearly EPS of EBL 86.64than the same of KBL (Rs.19.052). The highest EPS of KBL is (Rs.22.70) in 2006/07 and lowest (Rs.16.35) in 2007/08.The highest EPS of EBL is (Rs.100.16.) in 2008/09 and lowest is (Rs.62.78) in 2004/05.

So, above analysis helps to conclude that the average EPS of EBL is better than KBL, and increment is also gradual in EBL as well.

4.4.2 Cash Dividend per Share (CDPS)

The following table shows the CDPS declare by these banks

Table32

Cash Dividend per Share

Banks	Ratio	Fiscal Years					Average
		2004/05	2005/06	2006/07	2007/08	2008/09	
KBL	%.	-	1.05	1.05	0.53	0.55	0.636
EBL	%.	25	10	20	30	30	19

Though earning profit, KBL did not declare dividend for one year. In the rest two year 2005/06 and 2006/07 as the same. The CDPS paid by KBL is higher 1.05.In the case of EBL it provides dividend all the five years and higher is (30) in 2007/08 and 2008/09 and lowest is (10) in 2005/06.

Higher DPS create positive attitude of the shareholders toward the enterprise that consequently helps to increase the market value of the shares, so it is the indicator of the better performance of an enterprise .In this regard, EBL is better than KBL.

4.4.3 Dividend Payout Ratio

The dividend payout ratios of these two banks are as follow

Table 33

Dividend Payout Ratios

Banks	Ratio	Fiscal Years					Average
		2004/05	2005/06	2006/07	2007/08	2008/09	
KBL	Times	-	21.05	21.05	10.53	10.58	12.64
EBL	Times		30	30	30	30	24

The above table depicts that the average yearly dividend payout ratio is higher in EBL (24 times) than the same of KBL (12.64 times).EBL dividend pay out ratio last four years in same ratio & KBL DPR also two –two years as same ratio..

So above analysis concludes that EBL is paying higher of its earning as dividend in comparison to KBL, which consequently means that EBL is retaining lesser proportion of its earning in the banks as retained earning than KBL. Since retained earning is the most significant internal source of financing the growth of the firm and dividends are described from shareholders point of view .as its tend to increase their current wealth, thus the two objectives of dividend policy distribution of dividend and retention of earning for growth ,though desirable ,are in conflict .But above analysis also helps to conclude that average dividend payout ratio is not justifiable from the shareholders point of view, because these two banks are distributing bonus to their employees .

4.4.4 Price Earning Ratio (P/E Multiple)

P/E ratio of these two banks for last three years, starting from fiscal year 2004/05 to 2008/09 is as follow.

Table34

Price Earning Ratio (Times)

Banks	Ratio	Fiscal Years					Average
		2004/05	2005/06	2006/07	2007/08	2008/09	
KBL	Times	20.99	26.71	35.56	61.47	31.76	35.30
EBL	Times	21.97	30.99	34.11	24.55	16.27	25.58

Table 23 depicts that the P/E ratio of both banks are fluctuating .P/E ratio of KBL is higher trend in first four years, likewise, P/E ratio of EBL is increasing trend in for 1'st three years . The average P/E ratio of KBL (35.30 times) is higher than the same of EBL (25.58 times).

So, above analysis helps to conclude the investors about the banks performance .It is also the market appraisal of the banks performance .The higher the P/E ratio, the better it is for the owners, so in this regard the performance of EBL for five years (starting from 2004/05 to 2008/09) is better than that of KBL.

4.5 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the research is to enlist the findings. This will give meaning to the desired results.

On the basis of various categories of analysis adopted in this study, a comprehensive summary of the major findings of this study is presented below:

The liquidity position of KBL and EBL reveals that;

During the five years study period of the sampled banks the current ratio found to be in fluctuate trend. It is well known that the standard current ratio is 2:1.Among sample bank the current ratio of KBL dominates the respective current liability which indicates that KBL is capable in paying the current obligation. Therefore KBL has a highest liquidity ratio than EBL.EBL has low current ratio, but it does not mean that it failed to maintain the liquidity position. From point of view of working policy EBL is found to be very much aggressive. However average of both banks shows the satisfactory level of current ratio.

The mean ratio of cash and bank balance to total deposits of EBL is slightly higher than KBL. EBL has better liquidity position than KBL because of high percentage of liquid assets. This shows EBL readiness to meet its customer requirement. On the contrary, a high liquidity also indicates the inability of the bank to mobilize its current assets. The ratios of KBL are more consistent than EBL.

The mean ratio of cash and bank balance to current assets of EBL is slightly higher than KBL. This shows EBL greater capacity to meet its customer's daily cash

requirement than KBL. The ratios of KBL are less variable and more consistent than EBL.

On the basis of the study of Activity ratio and Profitability ratio of KBL and EBL, The result reveals that:

The mean ratio of loan and advances to total deposit ratio of KBL is higher than EBL. In terms of consistency both have been stable in their ratios.

The mean ratio of long term investment to total deposits of EBL is higher than KBL. The ratios of EBL are more consistent and less variable than KBL.

The ratio of Investment in shares and debentures to total working fund of EBL is higher than KBL. EBL ratios are more variable than that of KBL. From the above findings it may be concluded that EBL has been more successful in mobilization of its total deposits and working fund as loan and advances. On the other hand, KBL appears to be stronger in mobilization of total deposits and working fund as investment in risk free government securities. EBL has fared better in purchasing shares and debentures of other companies, but both have invested marginal amount under this heading. Both the banks have successfully managed their assets towards different income generation activities.

Net profit to total deposit ratio of KBL is higher then EBL which is indicated by higher mean value. As concern of consistency level has maintained successfully better level then EBL which is indicator by lower C.V.

Net profit to total assets ratio of KBL is higher then EBL which is indicated by higher mean value. As concern of consistency level has maintained successfully better level then EBL which is indicator by lower C.V.

The mean ratio of return on net worth ratio of EBL is higher then KBL which indicated that earning level of EBL is higher. Although, EBL is failed to maintain its consistency level in comparison to KBL but there is negligible variation in percentage of C.V.

In the above comparative table, revels that performing assets to total debt ratio. The higher mean ratio indicate that the KBL has used higher outsider's investment than EBL. In terms of KBL has successfully maintained it consistency due to its lower C.V. which is 4.01%.

On the basis of the study of Capital Structure Ratio and Capital Adequacy ratio of KBL and EBL, The result reveals that:

The above table shows that debts financing of both sample banks are high. The ratios are not very fluctuation. Debt assets ratio of both bank are very consistent although KBL is lower C.V. then EBL.

Share holder fund to assets ratio is the mean ratio of EBL is lower than that of KBL which indicates that it has less control over assets by shareholder’s fund. Moreover it has maintained better level of consistency then EBL which is indicated by its lower C.V.

The debt equity ratio of the both bank are in highly fluctuation trend. The mean ratio of EBL is higher then KBL. Which indicates that more of the fund investment in the business is provided by the outsider of the fund invested in the business is provided by the outsider not the owner which is more risky. But comparatively KBL has lower debt- equity ratio.

So, above analysis helps to conclude that the average EPS of EBL is better than KBL and increment is also gradual in EBL as well.

So above analysis concludes that EBL is paying higher of its earning as dividend in comparison to KBL, which consequently means that EBL is retaining lesser proportion of its earning in the banks as retained earning than KBL.

Since, Retained earning is the most significant internal source of financing the growth of the firm and dividends are described from shareholders point of view .as its tend to increase their current wealth, thus the two objectives of dividend policy distribution of dividend and retention of earning for growth though desirable are in conflict .But above analysis also helps to conclude that average dividend payout ratio is not justifiable from the shareholders point of view, because these two banks are distributing bonus to their employees .

So, above analysis helps to conclude the investors about the banks performance .It is also the market appraisal of the banks performance .The higher the P/E ratio, the better it is for the owners, so in this regard the performance of KBL for last three years (from 2006/07 to 2008/09) is better than that of EBL.

Since there is higher market price of the securities and greater earning, which consequently means that the wealth of the shareholders belonging to both of these banks is maximized comparatively it is maximized more in KBL than EBL.
So, above analysis help to conclude that in terms of market value per share, KBL's performance better then EBL.

On the basis of the study of Coefficient of Correlation and Trend Analysis of KBL and EBL, The result reveals that:

The positive correlation between Total deposit and loan and advances are found of both banks. The correlation between the deposit and loan and advances are perfect as there is significant between them. It means that the both banks provided the loans and advances from its deposit. Banks are successful in mobilizing the deposit as loan and advances.

There is the perfect positive correlation between the loan & advance and Net profit of both banks. It shows that both sample banks are successful in earning the net profit by mobilizing the loan and advance.

The deposits of KBL and EBL'S trend both values are an increasing trend. The deposit collection of EBL is much better then KBL.

The loan and advance of both the banks have an increasing trend. The total loan and advance of KBL is predicted to be 14593.4 million and that of EBL to be 14642.56 million at the end of F/Y 2008/09. The trend of loan and advances of KBL is much better compared to EBL.

CHAPTER –V

SUMMARY, CONCLUSION & RECOMMEDNATION

This chapter is a summary of the study and it released some suggestive package. It contains summary, conclusion and recommendation summary is a brief introduction of whole study. Conclusions are made on the basis of the analysis of relevant data by using various financial and statistical tools. It also appears the strength, weakness, opportunities and threats of the joint venture banks. Recommendations are presented in terms of suggestion, which are prepared on the basis of findings and conclusion.

5.1 Summary

To summarize the study on portfolio management of joint venture banks follows the conventions of the methodology Nepal. First chapters includes introduction, brief profile on sample of commercial banks taken under study, significance of the study, limitation on the study and scheme of the study. Second chapter includes review of literature where theories of risk and return are included with the concept of portfolio. Third chapter makes an attempt to review the methodological aspect in brief. Similarly, in the fourth chapter, analytical exploration and manipulation of data has been presented with in the research methodology and the analyzed data are presented in suitable forms like tables and diagrams. Finally, the fifth chapter includes summary of the study, conclusion revived from the study and recommendation.

The development of country largely depends on the level of economic development. The economy of nation depends on the used of available resources in efficient way. The proper utilization of capital appreciates in wealth position of

country. Banks and the financial institutions play important role in successful formulation and effective implementation of capital. Hence, the proper mobilization and utilization of available resources are important factors for economic development.

Commercial banks and financial institution are the back bone of the Nepalese economy at present. It plays vital role in capital formulation, proper utilization of collected fund, providing various type of banking services. Joint venture banks are the commercial banks formed by joining two or more enterprises. Commercial banks collect money from public by providing attractive sound interest and can earn profile by lording it in mainly in business organizations, industries, agriculture sectors etc. So, we can say the main task of commercial bank is to mobilize idle resources in productive areas by collecting it from scattered sources and generating profit.

For last few years, many commercial activities have been significantly growing up especially in the financial sector in Nepal. Basically, in the banking world, Nepal is still its infant stage although the numbers of financial institution like commercial banks, development banks, and insurance companies, co-operative societies and other have been set up with in the short period. Nepal's banking history has begun, with the establishment of Nepal bank Ltd. In1997 A.D. Since, the year 1990s, Nepal has been adopting liberal policy, invite private sector (both domestic and foreign) in order to bring healthy competition in the financial sector.

At present there are altogether twenty six commercial banks operating in the country among which EBL and KBL has occupied wide range of the business due to access to most of the corner of the country. Slowly private banks are also

initiating to move toward every corner of the country but due to prevailing political crisis they are not being able to meet their objects to reach to every corner of the country. Due to increasing competition banks are forced to innovate new products to their customer and they are also shifting from traditional service procedure to various sophisticated services like ATM card, debit card, credit card, housing loan, educational loans, vehicle financing.

Two joint venture banks are taken as reference to analyze the financial performance. During the research work, a brief review of literature has been conducted. As this research is related to the financial performance, financial strength and weakness of the joint venture banks have been measured on the basis of balance sheet and profit and loss a/c. In that course, different tools have been used. More over, the various textbooks and the published journals have been reviewed. For analyzing and statistical tools like arithmetic mea, coefficient of variation, coefficient of correlation probable errors have been extensively used. Tools, graphs and diagrams are used to present the data and result; secondary data are collected from the related banks.

Financial analysis, on government securities is low but it has also lower risk. Similarly loan and advances give more return than government securities but it has also higher risk than government securities. With respect to ratio analysis different ratios related to financial analysis have been used. KBL utilized the overall resources efficiently than EBL is more successful in utilizing its resources than EBL. The joint venture banks are not successful to mobilize their resources in the filed of shares and debenture, They invested very nominal percentage of total outside investment on share and debenture of other companies. As per trend analysis, total investment, investment on loan and advances, investment on share

and debenture are also in increasing but the increasing ratio of net profit is not satisfactory, as per correlation between total deposits and total investment, total deposit and individual assets, total deposits and total investment, total deposit and individual assets, total deposits and Net Profit highly correlated and the of correlation is significant.

5.2 CONCLUSION

The study completely based on secondary data accumulated from websites. The study covers only two banks EBL and KBL among various banks but the sample banks are the leading banks among commercial banks. The study is based on five fiscal years from 2004/05 to 2008/09. Research Methodology followed to achieve the objective of the study and which constitute research design, sources of data, population and sample, data collection procedure and method of analysis. Moreover, a financial and statistical tool has been used according to the requirement to achieve the targeted result.

The uncontrollable growth in number of banks within a short span of time has raised reasonable doubts to the common people. Banks, insurance companies and other companies are directly playing parts in the country to establish their banking with fully or partly repatriation facilities. Banks help to mobilize the small saving collectively to the huge capital investment though banking is considered as the platform of money market and capital markets, commercial banks basically help to promote the money market. Because of qualitative managerial skills, at most customers satisfaction, objective to use advanced technology, private commercial banks have been able to attain their objectives within short span of time.

5.3 RECOMMENDATIONS

From the above finding and analysis it is clear both sample banks are not strong in all fields. One is strong in profit making but another failed to maintain the consistency, weaker in mobilizing their deposits, concentrated into very limited diversified investment etc. Therefore, the following recommendations should be brought into highlight to overcome inefficiency, weaker and develop present fund mobilization and investment policy of the banks:

i. The liquidity position of KBL is higher then as directly NRB. It is suggested that idle fund should not be maintained instead of maintaining higher cash balance to utilize remain liquidity by financing short term loans.
ii. The liquidity position of EBL is lower then as directly NRB. So, NRB should be maintaining cash balance directly by NRB.
iii. KBL and EBL are suggested to reduce their operating expenses. The bank should initiate the cost control and cost of reduction techniques.
iv. KBL should increase its investment high risk asset i.e. loans and advance. So, as to increase its interest income, this is the major source of earning of commercial banks.
v. Although, commercial banks are found to be profit oriented, but they should not forget social responsibilities. So, banks should render their services in rural areas to promote and mobilize small investor. Mostly, commercial banks especially joint venture banks as concentrating their focus only in KTM and other certain urban areas. Which is unfair in practice? So, these joint venture banks should expand their branches in rural areas too.

vi. Beside these all, these Banks should the profitability areas and make investment in profitable areas to increase their operating profit. At cost, the

contribution made by all there Banks in the development of our country is highly appreciated and recommended to conduct activity meeting their social responsibilities.

vii. Recently, Carper garments and tourism industries of Nepal are bearing negative impact from reduction in worldwide economic activities. KBL and EBL have invested in these industries; consequently they are also suffering from the situation. So, they are recommended to adopt more diversified investment policy for investing in wide-range of profitable sector and proportional manner.

viii. Nepal Rastra Bank should clearly define its role and strict monitoring for the efficient operations of banks so that they can use the facilities as much as possible. Beside that, NRB should open to all, flexible and strong supervision rather then imposing rules and regulation only.

ANNEX A – 1

Calculation of Mean and Coefficient of Variation between current assets and current Liabilities

(Rs. In Million)

Fiscal Year(X)	Ratio of KBL(X)	(X - X)	(X - X)2	Ratio of EBL(Y)	(Y-Y)	(Y-Y)2
2004/05	0.907	-0.038	0.001	0.6995	-0.1291	0.0166668
2005/06	0.923	-0.022	0.0005	0.8395	0.0109	0.0001188
2006/07	0.922	-0.023	0.0005	0.8053	-0.0233	0.0005429
2007/08	0.956	0.010	0.0001	0.935	0.1064	0.011321
2008/09	1.016	0.071	0.005	0.8641	0.0355	0.0012603
N= 5	**4.724**		**0.0071**	**4.1434**		**0.0299097**

Here,

$$\text{Arithmetic Mean } \bar{X} = \frac{X}{N} = \frac{4.725}{5} = 0.945$$

$$\text{Arithmetic Mean } \bar{Y} = \frac{Y}{N} = \frac{4.1434}{5} = 0.8286$$

$$\text{Standard Deviation (S.D)} = \sqrt{\frac{(X\ \mathrm{Z}\ X)2}{N\ \mathrm{Z}1}} = \sqrt{\frac{0.0071}{5\ \mathrm{Z}1}} = 0.042$$

$$\text{Standard Deviation (S.D)} = \sqrt{\frac{(Y\ \mathrm{Z}\ Y)2}{N\ \mathrm{Z}1}} = \sqrt{\frac{0.02990}{5\ \mathrm{Z}1}} = 0.0864$$

$$\text{Coefficient of Variation C.V} = \frac{Q}{X} \times 100\ \% = \frac{0.042}{0.945} \times 100\ \% = 4.44\%$$

$$\text{Coefficient of Variation C.V} = \frac{Q}{Y} \times 100\ \% = \frac{0.0864}{0.8286} \times 100\ \% = 10.43$$

ANNEX A – 2

Calculation of Correlation between Total Deposits(x) and Loan and Advance(y):

For KBL:

Fiscal Year	x	y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	6269	5584.6	-4288.1	-3344.4	18387801.61	11185011.36	14341121.64
2005/06	7769	6891.9	-2788.1	-2037.1	7773501.61	4149776.41	5679638.5
2006/07	**10557.1**	**8929.0**	0	0	0	0	0
2007/08	12774.3	11335.1	2217.2	2406.1	4915975.84	5789317.25	5334804.92
2008/09	15710.9	14593.4	5153.8	5664.4	2656165.44	32085427.36	29193184.72
	53080.3	**50334**	**294.8**	**2689**	**57638933.5**	**53209532.34**	**54548749.79**

$$r_{12}\ \mathrm{X}\frac{n\quad d_1d_2\ \mathrm{Z}(\quad d_1)(\quad d_2}{\sqrt{n\quad d_1{}^2\ \mathrm{Z}(\quad d_1)^2}\sqrt{n\quad d_{2^2}\ \mathrm{Z}(\quad d_2)^2}}$$

Where,

n=5

a= assumed mean

Karl's Pearson's Coefficient of Correlation

$$r_{12}\ \mathrm{X}\frac{5*54548749.79\ \mathrm{Z}(294.8)(2689)}{\sqrt{5x57638933.5\ \mathrm{Z}(294.8)^2}\sqrt{5x53209532.34\ \mathrm{Z}(2689)^2}}$$

$$\mathrm{X}\frac{271951031.75}{273069964.634}$$

X0.9959

r^2 X0.9918

$$P.E\{r)\ \mathrm{X}0.6745x\frac{1\mathrm{Z}r^2}{\sqrt{n}}$$

$$\mathrm{X}0.6745x\frac{1\mathrm{Z}0.9918}{\sqrt{5}}$$

$$\mathrm{X}\frac{0.00809}{2.2361}$$

X0.0025

$6xP.E(r)$ X$6x0.0025$

=0.015

ANNEX A – 3

Calculation of Correlation between Total Deposits(x) and Loan and Advance(y):

For EBL:

Fiscal Year	x	y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	21045.1	10001.9	-3768.9	-2422.6	14204607	5868990.76	9130537.1
2005/06	22010.3	11951.9	-2803.7	-472.6	7860733.7	223350.76	1325028.6
.2006/07	**24814**	**12424.5**	0	0	0	0	0
2007/08	30048.4	16998	5234.4	4573	27398943	20916902.3	23939528
2008/09	26490.9	14642.6	1676.9	2218	2811993.6	4919967.61	3719531.9
	124408.7	**66018.9**	**338.7**	**3896.4**	**52276278**	**31929211.4**	**38114626**

$$r_{12}\ \mathrm{X}\frac{n\quad d_1d_2\ \mathrm{Z}(\quad d_1)(\quad d_2}{\sqrt{n\quad d_1{}^2\ \mathrm{Z}(\quad d_1)^2}\sqrt{n\quad d_{2^2}\ \mathrm{Z}(\quad d_2)^2}}$$

Where,

n=5

a= assumed mean

Karl's Pearson's Coefficient of Correlation

$$r_{12}\ \mathrm{X}\frac{5x38114626.05\ \mathrm{Z}(338.7).(386.4)}{\sqrt{5x52276277.87\ \mathrm{Z}(338.7)^2}\sqrt{5x31929211.38\ \mathrm{Z}(3896.4)^2}}$$

$$r_{12}\ \mathrm{X}\frac{189253419.6}{16163.7456x12019.3229}$$

$$\mathrm{X}0.9741$$

$$r^2\ \mathrm{X}0.9489$$

$$P.E.(r)\ \mathrm{X}0.6745x\frac{1\mathrm{Z}r^2}{\sqrt{n}}$$

$$\mathrm{X}0.6745x\frac{1\mathrm{Z}0.9489}{\sqrt{5}}$$

$$\mathrm{X}\frac{0.03447}{2.2361}$$

$$\mathrm{X}0.0154$$

$$6xP.E(r)\ \mathrm{X}6x0.0154$$

$$\mathrm{X}0.0924$$

ANNEX A – 4

Calculation of Correlation between Total Deposit and long-term Investment

For KBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	6269	1190.3	-4288.1	-488.1	18387801.61	238241	2093021.61
2005/06	7769	1395	-2788.1	-283.4	7773501.61	80315.56	790147.51
2006/07	**10557.1**	1678.4	0	0	0	0	0
2007/08	12774.3	2138.8	2217.2	460.4	4915975.84	211968.16	1020798.88
2008/09	15710.9	1510.8	5153.8	-168	2656165.44	28224	(865838.4)
	53080.3	**7913.3**	**294.8**	**-479.1**	**57638933.5**	**558749.33**	**3038129.6**

$$r_{12}\ \mathrm{X}\frac{5x3038129.6\ \mathrm{Z}(294.8).(\mathrm{Z}479.1)}{\sqrt{5x57638933.5\ \mathrm{Z}(294.8)^2}\ x\sqrt{5x558749.33\ \mathrm{Z}(\mathrm{Z}479.1)^2}}$$

$$r_{12}\ \mathrm{X}\frac{15331886.68}{16973.74x1601.32}$$

$$\mathrm{X}0.5641$$

$$r^2\ \mathrm{X}0.3182$$

$$P.E(r)\ \mathrm{X}0.6745x\frac{1\ \mathrm{Z}\ 0.3182}{2.2361}$$

$$\mathrm{X}\frac{0.04599}{2.2361}$$

$$\mathrm{X}0.2057$$

$$6xP.E(r)\ \mathrm{X}6x0.2057$$

$$\mathrm{X}1.2342$$

ANNEX A – 5

Calculation of Correlation between Total Deposit and long-term Investment

For EBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	21045.1	10175.4	-3768.9	-1516.9	14204607	2300985.61	5717044.4
2005/06	22010.3	9292.1	-2803.7	-2400.2	7860733.7	5760960.04	6729440.7
2006/07	24814	11692.3	0	0	0	0	0
2007/08	30048.4	11823	5234.4	130.7	27398943	17082.49	684136.08
2008/09	26490.9	10889	1676.9	-803.3	2811993.6	645290.89	-1347053.8
	124408.7	**53871.8**	**338.7**	**-4589.7**	**52276278**	**8724319.03**	**11783567**

$$r_{12} \text{ X} \frac{5x11783567.46 \text{ Z}(338.7).(\text{Z}4589.7)}{\sqrt{5x52276277.87 \text{ Z}(338.7)^2}\sqrt{5x8724319.03 \text{ Z}(\text{Z}4589.7)^2}}$$

$$\text{X} \frac{58917837.3 \Gamma 1554531.39}{16163.7456x4749.3419}$$

$$\text{X}0.7877$$

$$r^2 \text{ X}0.6205$$

$$P.E(r) \text{ X}0.6745x\frac{1\text{Z}0.6205}{\sqrt{5}}$$

$$\text{X}\frac{0.2560}{2.2361}$$

$$\text{X}0.1145$$

$$6xP.E(r) \text{ X}6x0.1145$$

$$\text{X}0.6868$$

ANNEX A – 6

Calculation of Correlation between long-term Investment and Net Profit

For KBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	1190.3	84.2	-488.1	-86.1	238241.61	7413.21	42025.41
2005/06	1395.0	103.7	-283.4	-66.6	80315.56	4435.56	18874.44
2006/07	1678.4	170.3	0	0	0	0	0
2007/08	2138.8	174.9	460.4	4.6	211968.16	21.16	2117.84
2008/09	1510.8	261.5	-168	91.2	28224	8317.44	(15321.6)
	7913.3	**794.6**	**-479.1**	**-56.9**	**558749.33**	**20187.37**	**47696.09**

$$r_{12} = \frac{5x47696.09 - (479.1).(56.9)}{\sqrt{5x558749.33 - (479.1)^2}.\sqrt{5x20187.37 - (56.9)^2}}$$

$$= \frac{211219.66}{1601.32x312.57}$$

$$= 0.4220$$

$$r^2 = 0.1781$$

$$P.E(r) = 0.6745x\frac{1 - 0.1781}{2.2361}$$

$$= 0.2480$$

$$6xP.E(r) = 6x0.2480$$

$$= 1.488$$

ANNEX A – 7

Calculation of Correlation between long-term Investment and Net Profit

For EBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	10175.4	212.13	-1516.9	-96.15	2300985.6	9244.8225	145849.94
2005/06	9292.1	263.05	-2400.2	-45.23	5760960	2045.7529	108561.05
2006/07	11692.3	308.28	0	0	0	0	0
2007/08	11823	457.46	130.7	149.18	17082.49	22254.6724	19497.826
2008/09	10889	491.82	-803.3	183.54	645290.89	33686.9316	-147437.68
	53871.8	**1732.74**	**-4589.7**	**191.34**	**8724319**	**67232.1794**	**126471.13**

$$r_{12}\ \mathrm{X}\frac{5x126471.125\ \mathrm{Z}(\mathrm{Z}4589.7).(191.34)}{\sqrt{5x8724319.03\ \mathrm{Z}(\mathrm{Z}4589.7)^2}\sqrt{5x106129.8339\ \mathrm{Z}(192.83)^2}}$$

$$\mathrm{X}\frac{1510548.823}{4749.3420x547.3115}$$

$$\mathrm{X}0.5811$$

$$r^2\ \mathrm{X}0.3377$$

$$P.E(r)\ \mathrm{X}0.6745x\frac{1\mathrm{Z}0.3377}{2.2361}$$

$$\mathrm{X}\frac{0.4467}{2.2361}$$

$$\mathrm{X}0.1998$$

$$6xP.E(r)\ \mathrm{X}6*0.1998$$

$$\mathrm{X}1.1987$$

ANNEX A – 8

Calculation of Correlation between loan and Advances and Net Profit

For KBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	5584.6	84.2	-3344.4	-86.1	11185011.36	7413.21	287952.84
2005/06	6891.9	103.7	-2037.1	-66.6	4149776.41	4435.56	135670.86
2006/07	**8929.0**	170.3	0	0	0	0	0
2007/08	11335.1	174.9	2406.1	4.6	5789317.21	21.16	11068.06
2008/09	14593.4	261.5	5664.4	91.2	32085427.36	8317.44	516593.28
	50334	**794.6**	**2689**	**-56.9**	**53209532.34**	**20187.37**	**951285.04**

$$r_{12} \text{ X} \frac{5x951285.04 \text{ Z} (2689).(\text{Z}56.9)}{\sqrt{5x53209532.34 \text{ Z} (2689)^2} \sqrt{5x20187.37 \text{ Z} (\text{Z}56.9)^2}}$$

$$\text{X} \frac{4909429.3}{16087.79x312.57}$$

$$\text{X}0.9763$$

$$r^2 \text{ X}0.9531$$

$$P.E.(r) \text{ X}0.6745x \frac{1 \text{ Z} 0.9531}{2.2361}$$

$$\text{X}0.0141$$

$$6xP.E(r) \text{ X}6x0.0141$$

$$= 0.846$$

ANNEX A – 9

Calculation of Correlation between loan and Advances and Net Profit

For EBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	10001.9	212.13	-2422.6	-96.15	5868990.8	9244.8225	232932.99
2005/06	11951.9	263.05	-472.6	-45.23	223350.76	2045.7529	21375.698
2006/07	12424.5	308.28	0	0	0	0	0
2007/08	16998	457.46	4573.5	149.18	20916902	22254.6724	682274.73
2008/09	14642.6	491.82	2218.1	183.54	4919967.6	33686.9316	407110.07
	66018.9	**1732.74**	**3896.4**	**191.34**	**31929211**	**67232.1794**	**1343693.5**

$$r_{12} \text{ X} \frac{5x1343693.492 \text{ Z} (3896.4).(191.34)}{\sqrt{5x31929211.38 \text{ Z} 3896.4)^2} \sqrt{5x67232.1794 \text{ Z} (191.34)^2}}$$

$$\text{X} \frac{5972930.284}{12019.3229x547.3115}$$

$$\text{X} 0.9080$$

$$r^2 \text{ X} 0.8245$$

$$P.E(r) \text{ X} 0.6745x \frac{1 \text{Z} 0.8245}{2.2361}$$

$$\text{X} \frac{0.1184}{2.2361}$$

$$\text{X} 0.0529$$

$$6xP.E(r) \text{ X} 6x0.0529$$

$$\text{X} 0.3177$$

ANNEX A – 10

Trend Analysis of Total Deposit

For KBL:

Where,

$$a = \frac{y}{N} = \frac{53080.3}{5} = 10616.06$$

$$b = \frac{xy}{x2} = \frac{23889}{10} = 2389.9$$

Trend Line (Yc) = a + bx = 10616.06 + 2389.9x

Total Deposit in Year 2009/10 = a + bx
= 10616.06 + 2389.9(2007 – 2004)
= 17783.3

Total Deposit in Year 2010/11= 10616.06 + 2389.9× 4
= 20172.2

Total Deposit in Year 2011/12 = 10616.06 + 2389.9× 5
= 22561.1

Total Deposit in Year 2012/13 = 10616.06 + 2389.9× 6
= 24950

Total Deposit in Year 2013/14 = 10616.06 + 2389.9× 7
= 27338.9

ANNEX A – 11

Trend Analysis of Total Deposit

For EBL:

Where,

$$a = \frac{y}{N} = \frac{124408.7}{5} = 24881.74$$

$$b = \frac{xy}{x2} = \frac{18929.7}{10} = 1892.97$$

Trend Line (Yc) = a + bx = 24881.74 + 1892.97 x

Total Deposit in Year 2009/10 = a + bx
= 24881.74 + 1892.97(2007 – 2004)
= 30560.6

Total Deposit in Year 2010/11= 24881.74 + 1892.97 × 4
= 32453.62

Total Deposit in Year 2011/12 = 24881.74 + 1892.97 × 5
= 34346.59

Total Deposit in Year 2012/13 = 24881.74 + 1892.97 × 6
= 36239.56

Total Deposit in Year 2013/14 = 24881.74 + 1892.97 × 7
= 38132.53

ANNEX A – 12

Trend Analysis of Loan & Advance

For KBL:

Where,

$$a = \frac{y}{N} = \frac{50334}{5} = 10668.8$$

$$b = \frac{xy}{x2} = \frac{22460.8}{10} = 2246.08$$

Trend Line (Yc) = a + bx = 10668.8+2246.08x

Total Deposit in Year 2009/10 = a + bx
= 10668.8+2246.08(2007 – 2004)
= 17405.04

Total Deposit in Year 2010/11= 10668.8+2246.08 × 4
= 19051.12

Total Deposit in Year 2011/12 = 10668.8+2246.08 × 5
= 21897.2

Total Deposit in Year 2012/13 = 10668.8+2246.08 × 6
= 24143.28

Total Deposit in Year 2013/14 = 10668.8+2246.08 × 7
= 26389.16

ANNEX A – 13

Trend Analysis of Loan & Advance

For EBL:

Where,

$$a = \frac{y}{N} = \frac{66018.9}{5} = 13203.78$$

$$b = \frac{xy}{x2} = \frac{14327.5}{10} = 1432.75$$

Trend Line (Yc) = a + bx = 13203.78 + 1432.75 x

Total Deposit in Year 2009/10 = a + bx
= 13203.78 + 1432.75 (2007 – 2004)
= 17502.03

Total Deposit in Year 2010/11= 13203.78 + 1432.75 × 4
= 18934.78

Total Deposit in Year 2011/12 = 13203.78 + 1432.75 × 5
= 20367.53

Total Deposit in Year 2012/13 =13203.78 + 1432.75 × 6
= 21800.28

Total Deposit in Year 2013/14 = 13203.78 + 1432.75 × 7
= 23233.03

ANNEX A – 14

Trend Analysis of Long-term Investment

For KBL:

Where,

$$a = \frac{y}{N} = \frac{7913.3}{5} = 1582.66$$

$$b = \frac{xy}{x2} = \frac{1385.1}{10} = 138.51$$

Trend Line (Yc) = a + bx = 1582.66+138.51x

Total Deposit in Year 2009/10 = a + bx
= 1582.66+138.51 (2007 – 2004)
= 1998.19

Total Deposit in Year 2010/11= 1582.66+138.51 × 4
= 2136.7

Total Deposit in Year 2011/12 = 1582.66+138.51 × 5
= 2275.21

Total Deposit in Year 2012/13 = 1582.66+138.51 × 6
= 2413.72

Total Deposit in Year 2013/14 = 1582.66+138.51 × 7
= 2552.23

ANNEX A – 15

Trend Analysis of Long-term Investment

For EBL:

Where,

$$a = \frac{y}{N} = \frac{53871.8}{5} = 10774.36$$

$$b = \frac{xy}{x2} = \frac{3958.1}{10} = 395.81$$

Trend Line (Yc) = a + bx = 10774.36 + 395.81 x

Total Deposit in Year 2009/10 = a + bx
= 10774.36 + 395.81 (2007 – 2004)
= 11961.79

Total Deposit in Year 2010/11= 10774.36 + 395.81 × 4
= 12357.6

Total Deposit in Year 2011/12 = 10774.36 + 395.81 × 5
= 12753.41

Total Deposit in Year 2012/13 =10774.36 + 395.81 × 6
= 13149.22

Total Deposit in Year 2013/14 = 10774.36 + 395.81 × 7
= 13545.03

ANNEX A – 16

Regression analysis between Net Profit and Loan and Advances

For KBL:

5a + 0.7946b = 47.3353 a = 5.58

Fiscal Year	Net Profit(x)	Loan & Adv.(y)	x2	y2	xy
2004/05	0.0842	5.5846	0.007090	31.1877	0.470223
2005/06	0.1037	6.8919	0.010754	47.4983	0.714690
2006/07	0.1703	8.929	0.029002	79.7270	1.520608
2007/08	0.1749	11.335	0.03059	128.4823	1.982491
2008/09	0.2615	14.593	0.068382	212.9556	3.816069
	0.7946	**47.3335**	**0.145818**	**499.8509**	**8.504081**

}

r = 0.97

0.7946a + 0.1458b = 8.5041 b = 24.45

$$t\ \mathrm{X}\frac{0.99}{\sqrt{1\mathrm{Z}(0.99)^2}}*\sqrt{5\mathrm{Z}2}$$

$$\mathrm{X}\frac{0.99}{0.4146}*1.73$$

= 12.14

ANNEX A – 17

Regression analysis between Net Profit and Loan and Advances

For EBL:

Fiscal Year	Net Profit(x)	Loan & Adv.(y)	x2	y2	xy
2004/05	0.2121	10	0.04498641	100	2.121
2005/06	0.2631	11.95	0.06922161	142.8025	3.144045
2006/07	0.3083	12.42	0.09504889	154.2564	3.829086
2007/08	0.4575	16.99	0.20930625	288.6601	7.772925
2008/09	0.4918	14.64	0.24186724	214.3296	7.199952
	1.7328	**66**	**0.6604304**	**900.0486**	**24.067008**

$5a + 1.7328\,b = 66$

$1.7328a + 0.6604b = 24.07$

} $a = 6.29$, $b = 19.94$, $r = 0.91$

$$t = \frac{0.91}{\sqrt{1 - (0.91)^2}} * \sqrt{5 - 2}$$

$$= \frac{0.91}{0.4146} * 1.73$$

$= 3.79$

ANNEX A – 18

Regression analysis between Net Profit and Long-term Investment

For KBL:

Fiscal Year	Net Profit(x)	Long-term inv(y)	x2	y2	xy
2004/05	0.0842	1.190	0.007090	1.4169	0.100198
2005/06	0.1037	1.395	0.010754	1.946025	0.1446615
2006/07	0.1703	1.678	0.029002	2.815654	0.2857634
2007/08	0.1749	2.138	0.03059	4.571044	0.79948
2008/09	0.2615	1.510	0.068382	2.2801	0.394865
	0.7946	**7.875**	**0.145818**	**13.029753**	**1.7249679**

$5a + 0.7946b = 7.875$

$0.7946a + 0.1458b = 1.7250$ } $a = 2.28$, $b = 24.25$, $r = 0.42$

$$t = \frac{0.42}{\sqrt{1 - (0.42)^2}} * \sqrt{5 - 2}$$

$$= \frac{0.42}{0.9075} * 1.73$$

$= 0.91$

ANNEX A – 19

Regression analysis between Net Profit and Long-term Investment

For EBL:

Fiscal Year	Net Profit(x)	Long-term inv(y)	x2	y2	xy
2004/05	0.2121	10.17	0.04498641	103.4289	2.157057
2005/06	0.2631	9.29	0.06922161	86.3041	2.444199
2006/07	0.3083	11.69	0.09504889	136.6561	3.604027
2007/08	0.4575	11.82	0.20930625	139.7124	5.40765
2008/09	0.4918	10.89	0.24186724	118.5921	5.355702
	1.7328	**53.86**	**0.6604304**	**584.6936**	**18.968635**

$5a + 1.7328b = 53.86$

$1.7328a + 0.6604b = 18.9686$ } $a = 9.02$, $b = 5.06$, $r = 0.58$

$$t = \frac{0.58}{\sqrt{1 - (0.58)^2}}$$

$$= \frac{0.58}{0.8146} * 1.73$$

$= 1.23$

ANNEX A – 1

Calculation of Mean and Coefficient of Variation between current assets and current Liabilities

(Rs. In Million)

Fiscal Year(X)	Ratio of KBL(X)	(X - X)	(X - X)2	Ratio of EBL(Y)	(Y-Y)	(Y-Y)2
2004/05	0.907	-0.038	0.001	0.6995	-0.1291	0.0166668
2005/06	0.923	-0.022	0.0005	0.8395	0.0109	0.0001188
2006/07	0.922	-0.023	0.0005	0.8053	-0.0233	0.0005429
2007/08	0.956	0.010	0.0001	0.935	0.1064	0.011321
2008/09	1.016	0.071	0.005	0.8641	0.0355	0.0012603
N= 5	**4.724**		**0.0071**	**4.1434**		**0.0299097**

Here,

$$\text{Arithmetic Mean } \bar{X} = \frac{X}{N} = \frac{4.725}{5} = 0.945$$

$$\text{Arithmetic Mean } \bar{Y} = \frac{Y}{N} = \frac{4.1434}{5} = 0.8286$$

$$\text{Standard Deviation (S.D)} = \sqrt{\frac{(X\ \mathrm{Z}\ X)2}{N\ \mathrm{Z}1}} = \sqrt{\frac{0.0071}{5\ \mathrm{Z}1}} = 0.042$$

$$\text{Standard Deviation (S.D)} = \sqrt{\frac{(Y\ \mathrm{Z}\ Y)2}{N\ \mathrm{Z}1}} = \sqrt{\frac{0.02990}{5\ \mathrm{Z}1}} = 0.0864$$

$$\text{Coefficient of Variation C.V} = \frac{Q}{X} \times 100\ \% = \frac{0.042}{0.945} \times 100\ \% = 4.44\%$$

$$\text{Coefficient of Variation C.V} = \frac{Q}{Y} \times 100\ \% = \frac{0.0864}{0.8286} \times 100\ \% = 10.43$$

ANNEX A – 2

Calculation of Correlation between Total Deposits(x) and Loan and Advance(y):

For KBL:

Fiscal Year	x	y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	6269	5584.6	-4288.1	-3344.4	18387801.61	11185011.36	14341121.64
2005/06	7769	6891.9	-2788.1	-2037.1	7773501.61	4149776.41	5679638.5
2006/07	**10557.1**	**8929.0**	0	0	0	0	0
2007/08	12774.3	11335.1	2217.2	2406.1	4915975.84	5789317.25	5334804.92
2008/09	15710.9	14593.4	5153.8	5664.4	2656165.44	32085427.36	29193184.72
	53080.3	**50334**	**294.8**	**2689**	**57638933.5**	**53209532.34**	**54548749.79**

$$r_{12}\ \mathrm{X}\frac{n\quad d_1d_2\ \mathrm{Z}(\quad d_1)(\quad d_2}{\sqrt{n\quad d_1{}^2\ \mathrm{Z}(\quad d_1)^2}\sqrt{n\quad d_{2^2}\ \mathrm{Z}(\quad d_2)^2}}$$

Where,

n=5

a= assumed mean

Karl's Pearson's Coefficient of Correlation

$$r_{12}\ \mathrm{X}\frac{5*54548749.79\ \mathrm{Z}(294.8)(2689)}{\sqrt{5x57638933.5\ \mathrm{Z}(294.8)^2}\sqrt{5x53209532.34\ \mathrm{Z}(2689)^2}}$$

$$\mathrm{X}\frac{271951031.75}{273069964.634}$$

X0.9959

r^2 X0.9918

$$P.E\{r)\ \mathrm{X}0.6745x\frac{1\mathrm{Z}r^2}{\sqrt{n}}$$

$$\mathrm{X}0.6745x\frac{1\mathrm{Z}0.9918}{\sqrt{5}}$$

$$\mathrm{X}\frac{0.00809}{2.2361}$$

X0.0025

$6xP.E(r)$ X$6x0.0025$

=0.015

ANNEX A – 3

Calculation of Correlation between Total Deposits(x) and Loan and Advance(y):

For EBL:

Fiscal Year	x	y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	21045.1	10001.9	-3768.9	-2422.6	14204607	5868990.76	9130537.1
2005/06	22010.3	11951.9	-2803.7	-472.6	7860733.7	223350.76	1325028.6
.2006/07	**24814**	**12424.5**	0	0	0	0	0
2007/08	30048.4	16998	5234.4	4573	27398943	20916902.3	23939528
2008/09	26490.9	14642.6	1676.9	2218	2811993.6	4919967.61	3719531.9
	124408.7	**66018.9**	**338.7**	**3896.4**	**52276278**	**31929211.4**	**38114626**

$$r_{12}\ \mathrm{X}\frac{n\quad d_1d_2\ \mathrm{Z}(\quad d_1)(\quad d_2}{\sqrt{n\quad d_1{}^2\ \mathrm{Z}(\quad d_1)^2}\sqrt{n\quad d_{2^2}\ \mathrm{Z}(\quad d_2)^2}}$$

Where,

n=5

a= assumed mean

Karl's Pearson's Coefficient of Correlation

$$r_{12}\ \mathrm{X}\frac{5x38114626.05\ \mathrm{Z}(338.7).(386.4)}{\sqrt{5x52276277.87\ \mathrm{Z}(338.7)^2}\sqrt{5x31929211.38\ \mathrm{Z}(3896.4)^2}}$$

$$r_{12}\ \mathrm{X}\frac{189253419.6}{16163.7456x12019.3229}$$

$$\mathrm{X}0.9741$$

$$r^2\ \mathrm{X}0.9489$$

$$P.E.(r)\ \mathrm{X}0.6745x\frac{1\mathrm{Z}r^2}{\sqrt{n}}$$

$$\mathrm{X}0.6745x\frac{1\mathrm{Z}0.9489}{\sqrt{5}}$$

$$\mathrm{X}\frac{0.03447}{2.2361}$$

$$\mathrm{X}0.0154$$

$$6xP.E(r)\ \mathrm{X}6x0.0154$$

$$\mathrm{X}0.0924$$

ANNEX A – 4

Calculation of Correlation between Total Deposit and long-term Investment

For KBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	6269	1190.3	-4288.1	-488.1	18387801.61	238241	2093021.61
2005/06	7769	1395	-2788.1	-283.4	7773501.61	80315.56	790147.51
2006/07	**10557.1**	1678.4	0	0	0	0	0
2007/08	12774.3	2138.8	2217.2	460.4	4915975.84	211968.16	1020798.88
2008/09	15710.9	1510.8	5153.8	-168	2656165.44	28224	(865838.4)
	53080.3	**7913.3**	**294.8**	**-479.1**	**57638933.5**	**558749.33**	**3038129.6**

$$r_{12}\ \mathrm{X}\frac{5x3038129.6\ \mathrm{Z}(294.8).(\mathrm{Z}479.1)}{\sqrt{5x57638933.5\ \mathrm{Z}(294.8)^2}\ x\sqrt{5x558749.33\ \mathrm{Z}(\mathrm{Z}479.1)^2}}$$

$$r_{12}\ \mathrm{X}\frac{15331886.68}{16973.74x1601.32}$$

$$\mathrm{X}0.5641$$

$$r^2\ \mathrm{X}0.3182$$

$$P.E(r)\ \mathrm{X}0.6745x\frac{1\ \mathrm{Z}\ 0.3182}{2.2361}$$

$$\mathrm{X}\frac{0.04599}{2.2361}$$

$$\mathrm{X}0.2057$$

$$6xP.E(r)\ \mathrm{X}6x0.2057$$

$$\mathrm{X}1.2342$$

ANNEX A – 5

Calculation of Correlation between Total Deposit and long-term Investment

For EBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	21045.1	10175.4	-3768.9	-1516.9	14204607	2300985.61	5717044.4
2005/06	22010.3	9292.1	-2803.7	-2400.2	7860733.7	5760960.04	6729440.7
2006/07	24814	11692.3	0	0	0	0	0
2007/08	30048.4	11823	5234.4	130.7	27398943	17082.49	684136.08
2008/09	26490.9	10889	1676.9	-803.3	2811993.6	645290.89	-1347053.8
	124408.7	**53871.8**	**338.7**	**-4589.7**	**52276278**	**8724319.03**	**11783567**

$$r_{12}\ \mathrm{X}\frac{5x11783567.46\ \mathrm{Z}(338.7).(\mathrm{Z}4589.7)}{\sqrt{5x52276277.87\ \mathrm{Z}(338.7)^2}\ \sqrt{5x8724319.03\ \mathrm{Z}(\mathrm{Z}4589.7)^2}}$$

$$\mathrm{X}\frac{58917837.3\ \Gamma 1554531.39}{16163.7456x4749.3419}$$

$$\mathrm{X}0.7877$$

$$r^2\ \mathrm{X}0.6205$$

$$P.E(r)\ \mathrm{X}0.6745x\frac{1\mathrm{Z}0.6205}{\sqrt{5}}$$

$$\mathrm{X}\frac{0.2560}{2.2361}$$

$$\mathrm{X}0.1145$$

$$6xP.E(r)\ \mathrm{X}6x0.1145$$

$$\mathrm{X}0.6868$$

ANNEX A – 6

Calculation of Correlation between long-term Investment and Net Profit

For KBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	1190.3	84.2	-488.1	-86.1	238241.61	7413.21	42025.41
2005/06	1395.0	103.7	-283.4	-66.6	80315.56	4435.56	18874.44
2006/07	1678.4	170.3	0	0	0	0	0
2007/08	2138.8	174.9	460.4	4.6	211968.16	21.16	2117.84
2008/09	1510.8	261.5	-168	91.2	28224	8317.44	(15321.6)
	7913.3	**794.6**	**-479.1**	**-56.9**	**558749.33**	**20187.37**	**47696.09**

$$r_{12} \text{ X} \frac{5x47696.09 \text{ Z} (\text{Z}479.1).(\text{Z}56.9)}{\sqrt{5x558749.33 \text{ Z} (\text{Z}479.1)} 2.\sqrt{5x20187.37 \text{ Z} (\text{Z}56.9)^2}}$$

$$\text{X} \frac{211219.66}{1601.32x312.57}$$

$$\text{X}0.4220$$

$$r^2 \text{ X}0.1781$$

$$P.E(r) \text{ X}0.6745x \frac{1 \text{ Z}0.1781}{2.2361}$$

$$\text{X}0.2480$$

$$6xP.E(r) \text{ X}6x0.2480$$

$$\text{X}1.488$$

ANNEX A – 7

Calculation of Correlation between long-term Investment and Net Profit

For EBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	10175.4	212.13	-1516.9	-96.15	2300985.6	9244.8225	145849.94
2005/06	9292.1	263.05	-2400.2	-45.23	5760960	2045.7529	108561.05
2006/07	11692.3	308.28	0	0	0	0	0
2007/08	11823	457.46	130.7	149.18	17082.49	22254.6724	19497.826
2008/09	10889	491.82	-803.3	183.54	645290.89	33686.9316	-147437.68
	53871.8	**1732.74**	**-4589.7**	**191.34**	**8724319**	**67232.1794**	**126471.13**

$$r_{12}\ \mathrm{X}\frac{5x126471.125\ \mathrm{Z}(\mathrm{Z}4589.7).(191.34)}{\sqrt{5x8724319.03\ \mathrm{Z}(\mathrm{Z}4589.7)^2}\sqrt{5x106129.8339\ \mathrm{Z}(192.83)^2}}$$

$$\mathrm{X}\frac{1510548.823}{4749.3420x547.3115}$$

$$\mathrm{X}0.5811$$

$$r^2\ \mathrm{X}0.3377$$

$$P.E(r)\ \mathrm{X}0.6745x\frac{1\mathrm{Z}0.3377}{2.2361}$$

$$\mathrm{X}\frac{0.4467}{2.2361}$$

$$\mathrm{X}0.1998$$

$$6xP.E(r)\ \mathrm{X}6*0.1998$$

$$\mathrm{X}1.1987$$

ANNEX A – 8

Calculation of Correlation between loan and Advances and Net Profit

For KBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	5584.6	84.2	-3344.4	-86.1	11185011.36	7413.21	287952.84
2005/06	6891.9	103.7	-2037.1	-66.6	4149776.41	4435.56	135670.86
2006/07	**8929.0**	170.3	0	0	0	0	0
2007/08	11335.1	174.9	2406.1	4.6	5789317.21	21.16	11068.06
2008/09	14593.4	261.5	5664.4	91.2	32085427.36	8317.44	516593.28
	50334	**794.6**	**2689**	**-56.9**	**53209532.34**	**20187.37**	**951285.04**

$$r_{12} \text{ X} \frac{5x951285.04 \text{ Z} (2689).(\text{Z}56.9)}{\sqrt{5x53209532.34 \text{ Z} (2689)^2} \sqrt{5x20187.37 \text{ Z} (\text{Z}56.9)^2}}$$

$$\text{X} \frac{4909429.3}{16087.79x312.57}$$

$$\text{X}0.9763$$

$$r^2 \text{ X}0.9531$$

$$P.E.(r) \text{ X}0.6745x \frac{1 \text{ Z} 0.9531}{2.2361}$$

$$\text{X}0.0141$$

$$6xP.E(r) \text{ X}6x0.0141$$

$$= 0.846$$

ANNEX A – 9

Calculation of Correlation between loan and Advances and Net Profit

For EBL:

Fiscal Year	X	Y	d1=x-a	d2=y-a	$d1^2$	$d2^2$	d1d2
2004/05	10001.9	212.13	-2422.6	-96.15	5868990.8	9244.8225	232932.99
2005/06	11951.9	263.05	-472.6	-45.23	223350.76	2045.7529	21375.698
2006/07	12424.5	308.28	0	0	0	0	0
2007/08	16998	457.46	4573.5	149.18	20916902	22254.6724	682274.73
2008/09	14642.6	491.82	2218.1	183.54	4919967.6	33686.9316	407110.07
	66018.9	**1732.74**	**3896.4**	**191.34**	**31929211**	**67232.1794**	**1343693.5**

$$r_{12} \text{ X} \frac{5x1343693.492 \text{ Z} (3896.4).(191.34)}{\sqrt{5x31929211.38 \text{ Z} 3896.4)^2} \sqrt{5x67232.1794 \text{ Z} (191.34)^2}}$$

$$\text{X} \frac{5972930.284}{12019.3229x547.3115}$$

$$\text{X} 0.9080$$

$$r^2 \text{ X} 0.8245$$

$$P.E(r) \text{ X} 0.6745x \frac{1 \text{Z} 0.8245}{2.2361}$$

$$\text{X} \frac{0.1184}{2.2361}$$

$$\text{X} 0.0529$$

$$6xP.E(r) \text{ X} 6x0.0529$$

$$\text{X} 0.3177$$

ANNEX A – 10

Trend Analysis of Total Deposit

For KBL:

Where,

$$a = \frac{y}{N} = \frac{53080.3}{5} = 10616.06$$

$$b = \frac{xy}{x2} = \frac{23889}{10} = 2389.9$$

Trend Line (Yc) = a + bx = 10616.06 + 2389.9x

Total Deposit in Year 2009/10 = a + bx
= 10616.06 + 2389.9(2007 – 2004)
= 17783.3

Total Deposit in Year 2010/11= 10616.06 + 2389.9× 4
= 20172.2

Total Deposit in Year 2011/12 = 10616.06 + 2389.9× 5
= 22561.1

Total Deposit in Year 2012/13 = 10616.06 + 2389.9× 6
= 24950

Total Deposit in Year 2013/14 = 10616.06 + 2389.9× 7
= 27338.9

ANNEX A – 11

Trend Analysis of Total Deposit

For EBL:

Where,

$$a = \frac{y}{N} = \frac{124408.7}{5} = 24881.74$$

$$b = \frac{xy}{x2} = \frac{18929.7}{10} = 1892.97$$

Trend Line (Yc) = a + bx = 24881.74 + 1892.97 x

Total Deposit in Year 2009/10 = a + bx
= 24881.74 + 1892.97(2007 – 2004)
= 30560.6

Total Deposit in Year 2010/11= 24881.74 + 1892.97 × 4
= 32453.62

Total Deposit in Year 2011/12 = 24881.74 + 1892.97 × 5
= 34346.59

Total Deposit in Year 2012/13 = 24881.74 + 1892.97 × 6
= 36239.56

Total Deposit in Year 2013/14 = 24881.74 + 1892.97 × 7
= 38132.53

ANNEX A – 12

Trend Analysis of Loan & Advance

For KBL:

Where,

$$a = \frac{y}{N} = \frac{50334}{5} = 10668.8$$

$$b = \frac{xy}{x2} = \frac{22460.8}{10} = 2246.08$$

Trend Line (Yc) = a + bx = 10668.8+2246.08x

Total Deposit in Year 2009/10 = a + bx
= 10668.8+2246.08(2007 – 2004)
= 17405.04

Total Deposit in Year 2010/11= 10668.8+2246.08 × 4
= 19051.12

Total Deposit in Year 2011/12 = 10668.8+2246.08 × 5
= 21897.2

Total Deposit in Year 2012/13 = 10668.8+2246.08 × 6
= 24143.28

Total Deposit in Year 2013/14 = 10668.8+2246.08 × 7
= 26389.16

ANNEX A – 13

Trend Analysis of Loan & Advance

For EBL:

Where,

$$a = \frac{y}{N} = \frac{66018.9}{5} = 13203.78$$

$$b = \frac{xy}{x2} = \frac{14327.5}{10} = 1432.75$$

Trend Line (Yc) = a + bx = 13203.78 + 1432.75 x

Total Deposit in Year 2009/10 = a + bx
= 13203.78 + 1432.75 (2007 – 2004)
= 17502.03

Total Deposit in Year 2010/11= 13203.78 + 1432.75 × 4
= 18934.78

Total Deposit in Year 2011/12 = 13203.78 + 1432.75 × 5
= 20367.53

Total Deposit in Year 2012/13 =13203.78 + 1432.75 × 6
= 21800.28

Total Deposit in Year 2013/14 = 13203.78 + 1432.75 × 7
= 23233.03

ANNEX A – 14

Trend Analysis of Long-term Investment

For KBL:

Where,

$$a = \frac{y}{N} = \frac{7913.3}{5} = 1582.66$$

$$b = \frac{xy}{x2} = \frac{1385.1}{10} = 138.51$$

Trend Line (Yc) = a + bx = 1582.66+138.51x

Total Deposit in Year 2009/10 = a + bx
= 1582.66+138.51 (2007 – 2004)
= 1998.19

Total Deposit in Year 2010/11= 1582.66+138.51 × 4
= 2136.7

Total Deposit in Year 2011/12 = 1582.66+138.51 × 5
= 2275.21

Total Deposit in Year 2012/13 = 1582.66+138.51 × 6
= 2413.72

Total Deposit in Year 2013/14 = 1582.66+138.51 × 7
= 2552.23

ANNEX A – 15

Trend Analysis of Long-term Investment

For EBL:

Where,

$$a = \frac{y}{N} = \frac{53871.8}{5} = 10774.36$$

$$b = \frac{xy}{x2} = \frac{3958.1}{10} = 395.81$$

Trend Line (Yc) = a + bx = 10774.36 + 395.81 x

Total Deposit in Year 2009/10 = a + bx
= 10774.36 + 395.81 (2007 – 2004)
= 11961.79

Total Deposit in Year 2010/11= 10774.36 + 395.81 × 4
= 12357.6

Total Deposit in Year 2011/12 = 10774.36 + 395.81 × 5
= 12753.41

Total Deposit in Year 2012/13 =10774.36 + 395.81 × 6
= 13149.22

Total Deposit in Year 2013/14 = 10774.36 + 395.81 × 7
= 13545.03

ANNEX A – 16

Regression analysis between Net Profit and Loan and Advances

For KBL:

5a + 0.7946b = 47.3353 a = 5.58

Fiscal Year	Net Profit(x)	Loan & Adv.(y)	x2	y2	xy
2004/05	0.0842	5.5846	0.007090	31.1877	0.470223
2005/06	0.1037	6.8919	0.010754	47.4983	0.714690
2006/07	0.1703	8.929	0.029002	79.7270	1.520608
2007/08	0.1749	11.335	0.03059	128.4823	1.982491
2008/09	0.2615	14.593	0.068382	212.9556	3.816069
	0.7946	**47.3335**	**0.145818**	**499.8509**	**8.504081**

}

r = 0.97

0.7946a + 0.1458b = 8.5041 b = 24.45

$$t\ \mathrm{X}\frac{0.99}{\sqrt{1\mathrm{Z}(0.99)^2}}*\sqrt{5\mathrm{Z}2}$$

$$\mathrm{X}\frac{0.99}{0.4146}*1.73$$

= 12.14

ANNEX A – 17

Regression analysis between Net Profit and Loan and Advances

For EBL:

Fiscal Year	Net Profit(x)	Loan & Adv.(y)	x2	y2	xy
2004/05	0.2121	10	0.04498641	100	2.121
2005/06	0.2631	11.95	0.06922161	142.8025	3.144045
2006/07	0.3083	12.42	0.09504889	154.2564	3.829086
2007/08	0.4575	16.99	0.20930625	288.6601	7.772925
2008/09	0.4918	14.64	0.24186724	214.3296	7.199952
	1.7328	**66**	**0.6604304**	**900.0486**	**24.067008**

$5a + 1.7328\,b = 66$

$1.7328a + 0.6604b = 24.07$

} $a = 6.29$, $b = 19.94$, $r = 0.91$

$$t = \frac{0.91}{\sqrt{1 - (0.91)^2}} * \sqrt{5 - 2}$$

$$= \frac{0.91}{0.4146} * 1.73$$

$= 3.79$

ANNEX A – 18

Regression analysis between Net Profit and Long-term Investment

For KBL:

Fiscal Year	Net Profit(x)	Long-term inv(y)	x2	y2	xy
2004/05	0.0842	1.190	0.007090	1.4169	0.100198
2005/06	0.1037	1.395	0.010754	1.946025	0.1446615
2006/07	0.1703	1.678	0.029002	2.815654	0.2857634
2007/08	0.1749	2.138	0.03059	4.571044	0.79948
2008/09	0.2615	1.510	0.068382	2.2801	0.394865
	0.7946	**7.875**	**0.145818**	**13.029753**	**1.7249679**

$5a + 0.7946b = 7.875$

$0.7946a + 0.1458b = 1.7250$

} $a = 2.28$, $b = 24.25$, $r = 0.42$

$$t = \frac{0.42}{\sqrt{1 - (0.42)^2}} * \sqrt{5 - 2}$$

$$= \frac{0.42}{0.9075} * 1.73$$

$= 0.91$

ANNEX A – 19

Regression analysis between Net Profit and Long-term Investment

For EBL:

Fiscal Year	Net Profit(x)	Long-term inv(y)	x2	y2	xy
2004/05	0.2121	10.17	0.04498641	103.4289	2.157057
2005/06	0.2631	9.29	0.06922161	86.3041	2.444199
2006/07	0.3083	11.69	0.09504889	136.6561	3.604027
2007/08	0.4575	11.82	0.20930625	139.7124	5.40765
2008/09	0.4918	10.89	0.24186724	118.5921	5.355702
	1.7328	**53.86**	**0.6604304**	**584.6936**	**18.968635**

$5a + 1.7328b = 53.86$

$1.7328a + 0.6604b = 18.9686$ } $a = 9.02$, $b = 5.06$, $r = 0.58$

$$t = \frac{0.58}{\sqrt{1 - (0.58)^2}}$$

$$= \frac{0.58}{0.8146} * 1.73$$

$= 1.23$

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