CHAPTER – I
INTRODUCTION

1.1 Background of Study

A bank is a financial institution, which can play significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They peruse economic growth rapidly, developing the banking habit among the people by collecting small scattered resources in one bulk, using them in further productive purpose and rendering the valuable services to the country. Commercial bank deals with the offer of collected deposits and provides the loan for commercial purpose. Commercial Bank Act (2031BS) states, "Accepting deposits granting loan and performing commercial banking functions are the main motto of commercial bank". In the other words, commercial bank's facilities also become right hand for the growth of trade and industry of national economy of developing country like Nepal.

In case of the history of bank, an institutional banking system came in to existence in Nepal only in the 19th century. Nepal Bank Limited was the first financial institutional of Nepal established on the 30th of Kartik 1994 B.S. Being a commercial bank, it focuses on income generating and profit maximization. As it was only one commercial bank has to look the economic condition of the country. Only one Nepal bank Limited was not sufficient to look all the sector of country. So in 2013 BS another bank names "Nepal Rastra Bank" was established as the central bank of Nepal to regulate and control banking management system of country. Then in 2022 B.S. "Rastriya Banijya Bank" was established under Rastrya Banijya Bank Act 2021. This act is now revised as commercial bank act 2031B.S. For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation act 2016. For the development of agricultural sector, Agricultural Development Bank was established on Magh 7th 2024 B.S., under Agricultural Bank Act 2024.

The joint venture bank was introduced in Nepal (2041 B.S.) with the establishment of Nabil Bank Ltd. Nepalese government kept on liberalizing the economic policies and improving the infrastructure. As a result, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited were established in 6th Magh 2042 B.S. and 16th Marga 2043B.S. respectively. Nepal Grindlays bank Limited is now being operated with new ownership and name, Standard Chartered Bank Nepal Limited. After restoration of democracy in Nepal in 2046B.S government adopted liberalized and market oriented economic policies that created conductive environment for the development of banking sector. As a result various joint venture commercial banks are established one after another. Up to FY2006/2007 there are twenty commercial banks are operating their banking activities.

Commercial banks are major financial institution, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources deficit sectors by investing the saving collected as deposit. Beside the, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial bank became the heart of financial system.

The role of commercial banks in economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economy of a country. The sound investment policies help commercial banks to maximize quality and quantity of investment and thereby, achieve the own objectives of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regard, commercial banks investment policy is also a push drive to achieve priority of industries in the context of Nepal’s economic development. Investment policy is one fact of the overall spectrum of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy.

A good investment can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment pattern attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The load provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society.

1.1.1 Commercial Banking in Nepal

The history of commercial banks in Nepal starts from the establishment of Nepal Bank ltd .in 1994B.S Nepal Bank Limited was first bank to establish in Nepal and prior to this. There was no such organized banking system in the country. The bank was started with a paid up capital of Rs 845000. It started its operation by accepting deposits from the public. Later on, Nepal Rastria Bank was established in 2013, which helped to make banking system more systematic and dynamic during that time.

As the time passed, there need for more commercial banks arose. At that time NBL was just doing sample banking by collecting deposits from local public. To cater to those needs, Rastriya Banijya Bank was established in 2022 B.S in order to play a major role not only in domestic banking services but also in the foreign trade. It was established under its own act, Rastriya Banijya Bank act 2022. With the established of Rastriya Banijya bank, a notable progress could be seen in banking industry in Nepal. It brought a revolution in the banking industry. People could easily make business transactions with other countries .Both the banks have majority of shares owned by the government of Nepal. Rastriya Banijya Bank is fully owned by government.

Today Nepal can take legitimate pride in remarkable growth and progress in the banking industry Nepal opened its door to foreign commercial banks to operate in Nepal .Consequently. Nabil Bank was established in 2041 under the commercial bank act of 2031 .Slowly and slowly new banks started to in Nepal for doing business. At present, the number of commercial banks in the country has reached to 25 including NBL & RBB.

Today the banking industry can be compared with the international standards in terms of their functioning and operations. The legitimate entry of foreign commercial banks with full fledged banking functions led to rapid growth of the banking system, accompanied by greater sophistication due to diversity of instruments and institutions handling different modes of raising funds and deployment of funds.
Some of the important changes in the recent past, which have profoundly reshaped the financial landscape, include.

- Liberalization of exchange controls.
- Gradual privatization of state owned enterprise.
- Opening up of commercial and investment banking to the private sector.
- Establishment of large number of companies, multinational companies.
- Insurance companies.
- Development of capital market and stock exchange.
- Auctioning of government securities.
- Market based rate of return.

- Other liberal banking regulations.

These development present strong challenges and opportunists to commercial banks, especially as these are taking place faster than what the commercial banks have been used in terms of responding to changes.

Current the economy of Nepal is witnessing historic changes in its structure, both positively and negatively, and almost all sectors for the economy are facing new issue and confronting new challenge of transformation by the introduction of market economy in the country.

1.2 Profile of Sample Bank

A. Bank of Kathmandu (BOK)

Bank of Kathmandu (BOK) is a culmination of a comprehensive vision of the Promoters to take the Nepalese economy to newer realm in the global market. The promoters' comprehensive vision and the government's overwhelming support gave birth to BOK as one of the private sectors banks of the country in 1993 which commenced its commercial business in March, 1995.

BOK was established by a group of distinguished civil servants and renowned businessmen in collaboration with the **SIAM Commercial Public Company Limited (SCB) -** a leading bank of Thailand. Upon establishing BOK as one of the reputed banks in a short period, the Nepalese promoters decided to conclude the technical service agreement with SCB and BOK to be arranged by the Nepalese professionals as it could further enhance its business performance years ahead under the Nepalese management. With the well-acclaimed capabilities of the Nepalese management team, BOK has successfully enhanced its capital structure, profitability; reach to the customers and image in the market. It has created a position in the industry in a shortest possible span of time.

Since, BOK is established with the objective of providing prompt and quality services the clients. Its branches as well as number of eligible staffs have been increasing. Therefore, it has become successful Commercial banks in Nepal.

B. Everest Bank limited

Everest Bank limited was established in 1992 under the company Act, 1964 with an objective of carrying out commercial banking activities under the commercial Bank Act, 1974. United Bank of India Ltd. under Technical services Agreement signed between it Nepali promoters was managing the bank from the very beginning till November 1996. Later on, it handed over the management to the Punjab National Bank Ltd. India which holds 20% equity on the bank‘s share capital. The bank has 18 branches in various parts of the country. Its head office is located in Baneshowr, kathmandu. Other Branches located within Kathmandu and Lalitpur valley are New Road Branch, Teku Branch, Pulchok Branch, Lajimpat Branch,Chabahil Branch and Satungal Branch. Remaining Branches outside the valley are in Biratnagar, Duhabi, Itahari, Janakpur, Birgunj, I.C.D.Dry.Port, Simara, Pkhara, Butuwal, Bhairahawa and Dhangadhi.

Its present capital structure is as follows:

1.3. Statement of Problems

Various numbers of commercial banks are increasing in Nepal day by day. There is high flow of money in the market but less viable and investable projects. In the current situation there is mismatch of deposit and investable funds of banks. Therefore, the introduction of a new bank is just sharing a cake rather than pumping new capital or new technology, as Nepalese market is almost felt safeguarded. Few commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. This has attracted the potential customers to power their money into banks, as there are very few sectors to make profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore, commercial banks have a lot of deposits but a very little investment opportunity. They are even discouraging people by offering very low interest rate and high minimum threshold balance. This will definitely make adverse impact on the economic development of a country. This has decelerated the pace of economy development. Lack of sound investment policy is another reason for commercial banks not to proper utilizing its deposit.

There are 25 commercial banks operating in Nepal. They collected adequate amount from the mass, however they could not find or locate new investment sectors required to mobilize their funds on the changing context of Nepal. Many banks are increasing liquidity, has caused a downward trend in investment sectors.

It has ensued bad impacts on interest rate to the depositors, lower dividend to the shareholders, lower contribution to national revenues market value of shares etc. For the assessment of such adverse impact, this study has liquidity position of commercial banks.

Thus, the present study will make an attempt to analyze comparative study on financial performance of Bank of Kathmandu and Everest bank ltd. Special problem related to investment function of the commercial banks in Nepal have been presented briefly as follows:

- What factors are affecting to investment of commercial bank?
- What is the liquidity, efficiency of assets management, profitability and risk position of concerned commercial banks?
- What is the empirical relationship between the variables that affect financial performance of banks?
- What are the views and ideas of the financial executives and customers regarding the knowledge on the various aspect of the investment policy adopted by commercial banks?
- What is the comparative position of commercial banks on fund mobilization and investment policy?

1.4 Objectives of the Study

The basic objective of this study is the comparative evaluation of the financial performance adopted by BOK and EBL. The specific objectives of this study are as follows:

- To find out the empirical relationship between total investments, deposits, loans and advances net profit and asset and compare them

- To compare various ratio between BOK and EBL
- To see the trend and its projection of total deposit, loan and advance and net profit for five years of sample commercial banks.
- To recommend suggestions for the better performance of the banks based on the findings of the analysis.

1.5 Significant of the study

The scope of this study mainly in filling gap in the study of financial performance of concerned banks. Especially, this study deals with comparative study of financial position of Bank of Kathmandu Ltd and Everest bank ltd. The study is basically confined to review the investment polices of the banks during the five years period. This study is expected to provide a useful feedback to the policy maker of banks and also to the government and central bank (NRB) to formulate the appropriate strategies for improvement in the performance of banks. Moreover, this study can also be used as reference point by the international organization like ADB, World Bank etc.

1.6 Limitation of the Study

This study is about the financial performance of Bank of Kathmandu Ltd and Everest bank ltd. Every research has its own limitation, which are as follows: this research done for Partial Fulfillment of the Requirements for the Degree of Masters of Business Studies (M. B. S). The main limitations are as follows

1. Although some primary data are included, but the study is mainly based on secondary data collected from the banks. Research based on secondary data may be far from accuracy due to inherent character.
2. A whole study is based on the data of five years period i.e. from fiscal year 2003 to 2007 and hence the conclusion drawn confines only to the above period.
3. Only two banks are taken for the study i.e. BOK and EBL
4. This study concentrates on Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Market Price per Share related to investment.

1.7. Organization of the Study

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study, commercial bank in Nepal, introduction of sample bank. Similarly, various problems of the study, objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Review of literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It includes review of books, review of related articles and studies and previous thesis as well.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

Chapter-IV: Presentation and Analysis of data

This chapter analysis the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V: Summary, Conclusion and Recommendation

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

CHAPTER - II
REVIEW OF LITERATURE

In this part, focus has been made on the conceptual framework and the review of literature that is relevant to the financial performance of commercial banks. This chapter is basically concerned with review of literature relevant to the comparative study of financial performance of Bank of Kathmandu Ltd and Everest bank ltd. So, every possible effort has been made to grasp knowledge and information that is available from libraries, document collection centers, magazines and concerned commercial banks.

Reviewing and studying process has helped to take adequate feedback to broaden the information bases and inputs to this study. Here mainly two parts conceptual framework & review of related research work are included for the bases and to make the study more purposive.

I) Conceptual review

II) Review of related studies

2.1 Conceptual Review

2.1.1 Concept of Banking

Bank plays a significant role in the development of country. It facilitates the growth of trade and industry of the national economy. However, bank is a resource for economic development, which maintains the self-confidence of various segments of society and extends credit to people.

According to Encyclopedia (1984), “A bank is a business organization that receives and holds deposits of funds from others makes loan or extends credits and transfers funds by written orders of depositors.” The business of banking is one of collecting funds from the community and extending credit to people for useful purpose. Banks have played a vital role in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit motive, it is expected to pay dividends and otherwise add to the wealth of its shareholders.

In Nepalese context, there are three types of banks, operated by performing their activities in different sectors, such as, Central Bank (Nepal Rastra Bank), Commercial banks and Development banks.

2.1.2 Concept of Commercial Bank

Commercial banks are that financial institutions which deal in accepting deposits of persons and institutions and giving loans against securities. They provide working capital needs of trade, industry even to agriculture sectors. Moreover, commercial banks also provide technical and administrative assistance to industries, trades and business enterprises.

The American Institute of banking has laid down the four major function of the commercial bank such as receiving and handing deposits, handling payments for its clients, making loans and investments and creating money by extension of credit. A commercial bank is one, which exchanges money deposit, accepts deposit, grants loan and performs commercial banking functions.

Under the Nepal Commercial Bank Act (2031 BS) that has been defined and emphasized about commercial banks they provide short term and long term loan whenever necessary for trade and commerce. They accept deposit from the public and provide loans in different forms. They purchase and discount the bills of exchange, promissory notes and exchange foreign currency.

American Institute of Banking (1972) states that “Commercial bank is a corporation, which accepts demand deposits subject to cheques and makes short-term loans to business enterprises, regardless of the scope of its other services.” A commercial banker is a dealer in money and substitute for money such as cheques, bills of exchange. It also provides variety of financial services. Principally, commercial banks accept deposits and provide loans, primary to business firms. Commercial banks pool together the savings of the community under different account that seems they help in capital formation.

2.1.3 Concept of joint Venture Bank

A joint venture is an association of to or more people or parties undertaken to make the operation highly effective with their collective efforts. Joint venture bank plays an important role in the economic development of the country. Joint venture means the joining of forces between two or more enterprise for the purpose of carrying out a specific operation (Gupta, 1994:56).

In Nepal, the history of joint venture bank is not very old. About the history of foreign joint venture banks in Nepal, Nabil Bank Ltd. was established on July12, 1984 under a technical services agreement with Dubai Bank Limited, Dubai, which was later merged with Emirates Bank Ltd., Dubai. Joint venture banks are working under commercial Bank Act 2031B.S, which are backbones for the economic development of the country. Beside this, joint venture banks have been also creating completion for venture banks of Nepal are in a better position than local commercial banks in terms of profit making and services providing. Joint venture banks play vital roles in attracting foreign investment by familiarizing the foreign investors.

2.1.4 Concept of Investment

The banks are such types of institutions, which deal in money and substitute for money. They deal with deposit, credit and credit instrument. Good circulation of credit is very much important for financial institution and bank Unsteady and unevenly flow of credit harms the economy and profitability of commercial banks. Thus to collect fund and utilize it in good investment is the prime objective of commercial banks.

Investment is any vehicle into which funds can be place with the expectation that will preserve or increase in value and generate positive returns (Gitman and Joehank, 1999:201).

Investment is the employment of funds with the aim of achieving additional income for the growth in value. As per the investment is the key factor to achieve additional income for the growth of banks (Singh, 1992:121).

Investment, in its broadest sense, means the sacrifice of certain present value for (Possible uncertain) future value (Sharpe and Gordon, 1999:88). In the view of Sharpe and Garden the investment is the venture that the return is uncertain. So, they have presented their view in the books that bank should look for the safe and less risky investment.

An investment is the current commitment of funds for a period of time to derive a further flow of funds that will compensate the investing unit for the time the funds are committed, for the expended rate of inflation and also for the uncertainty involved in the future flow of funds (Frank and Reilly, 1990:109).

From the above definitions, it is clean that an investment means to trade current funds for some expected stream of payment or benefits, which will exceed the current outlay by an amount of return or interest that will compensate the investor. The return or interest is expected because of uncertainty involved in expected future cash flow. The investment (credit or other investment) is the most important function of commercial banks. It is long-term commitment of bank in the uncertain and risky environment. Investment is a very challenging task of commercial banks. So a bank has to be very careful while investing their funds in various sectors. The success of bank heavily depends upon the proper management of funds.

2.1.5 Meaning of Investment Policy

Investment management of a bank is guided by the investment policy adopted by the bank. Investment policies can be varied in bank to bank. Few banks accept higher risk on investment and other is more conservative for their investment decision. The investment policy of the bank helps the investment function of the bank, which makes the investment efficient and profitable by minimizing the inherent risk.

Investment policies of banks are conditioned, to great extent by the national policy framework; every banker has to apply his own judgment for arriving at credit decision, keeping of course, his banker’s credit policy also in mind (Singh and Singh, 1983:203).

According to the above definition, government and central bank have to make a sound policy about the investment of commercial banks. They further state, the field of investment is more challenging as is offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But his higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit function has become more complex.

Investment policy fixes responsibilities for the investment disposition of the banks assets in terms of allocating funds for invest and loan, and establishing responsibility for day to day management of these assets. It is assumed the management should be responsible for the investment decision of banks (Baxley, 1987:228).

Lending is the essence of commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. Well conceived lending policies are careful lending practice is essential in a bank to perform its credit creating function effectively and minimizing the risk inherent in any extension of credit (Crosse, 1963:98).

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a generous profit as well as it should be secured and can be converted in to cash whenever needed. Obviously, a firm that is being considered for commercial loan must be analyzed to find out why the firm need money, how much money the firm need and when and how it will be able to repay the loan. Project or business proposal must be carefully scrutinized. Investment policy provides several inputs to the bank through which they can handle their investment operation efficiently ensuring the maximum exposure to risk, which ultimately leads the bank to provide secured loans and investment.

2.1.6 Characteristics of Sound Investment Policy

Income and profit of the bank depends upon its lending procedure and investment of funds on different securities. The greater the credit by a bank, the greater will be profitability. A sound lending policy is not only prerequisite for banks profitability, but also crucially significant for the promotion of commercial saving of a backward country like Nepal. Some main characteristics of sound lending and investment policies are given below.

a) Safety and Security

The bank should invest its funds in those securities, which are subject to too much depreciation and fluctuation because little difference may cause a great loss. It must not invest its funds into speculative businessman who may be bankrupt at once or who may earn million in a minute also. The bank should accept that type of securities, which are commercial, durable, and marketable and have high marketable price.

b) Liquidity

People deposit money at bank in different account with confidence that the bank will repay their money when they are in need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities or at the same time of lending, So that it can meet current short-term obligation, when they become due for payment.

c) Profitability

Commercial banks can minimize its volume of wealth through maximization of return on their investment and lending. So, they must invest their funds where they gain maximum profit. The profit of commercial banks mainly depends on interest rate, volume of loan, its time period and nature of investment in different securities.

d) Purpose of Loan

The loan should be utilized in purposed plan. Every thing related with the customer should be examined before lending. If borrower misuses the loan granted by the bank they can never repay and bank will poses heavy bad debts. Detailed information about the scheme of the project activities should be examined before lending.

e) Tangibility

Though it may be considered that tangible property does not yield income apart from direct satisfaction of possession of property, many times intangible securities lost their value due to price level inflation. So commercial banks should prefer tangible security to intangible one.

f) Legality

Every financial institution must follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of finance and other while issuing securities and mobilizing funds illegal securities will bring out many problems to the investors that may lose reputation and goodwill of the bank.

g) Diversification

The bank should be careful that while granting loan, it should not be always in one sector. To minimize risk and minimize profit, a bank must diversify its investment on different sectors or make portfolio investment. Diversification of loans helps to sustain loss as, if securities of some companies deprived then there may be appreciation in the securities of other companies.

2.1.7 Some important terms

The study in this section comprises of some important banking terms for which efforts have been made to clarify the meaning, which are frequently used in this study, which are given below.

a) Deposits:

Deposit means the amounts deposited in different accounts such as fixed account, saving account, current accounts etc. of a bank or financial institution deposit is the main source of fund of the financial institution. For a commercial bank, deposit is the most important source of the liquidity. For bank's financial strength, it is treated as a barometer. In the word of Eugene, "A Bank's deposits are the amount that it owes to its customers". Deposits are the lifeblood of the commercial bank. Though they constitute the great bulk of bank liabilities, the success of a bank greatly depends upon the extent to which it may attract mort and more deposits. For accounting and analyzing purpose, deposits are categorized in three headings. (Limbu, 2008:59)

1. Current deposits
2. Saving deposits and
3. Fixed deposits

b) Loan and advances:

This is the primary source of income and most profitable asset to a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. But bank has to be more careful while providing loans and advances since they may must be realized at short period of time. And sometimes they may turn into bad debt. Therefore it is wise not to rely on them. At the time of emergency for all banks. A commercial bank hardly lends money for along period of time. It lends money for a short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long term loan because it has to synchronize the loans and advances with the nature of deposits they receive loans and advances are provided against the security of the immovable and movable properties. Banks provide the loans in the various overdraft cash credit, direct loans and discounting bills of exchange.

c) Investment on government securities, shares and debentures

Though a commercial bank can earn some interest and dividend from the investment on government securities, shares and debentures, it is not the major portion of income, but it is treated as a second source of banking business. A commercial bank may extend credit by purchasing government securities, bond and shares for several reasons.

Some of them are given as:

i) It may want to space its maturates so that the inflow of cash coincide with expected withdrawals by depositors or large loan demands of its customers.

ii) It may wish to have high-grade marketable securities to liquidate if its primary reserve becomes inadequate.

iii) It may also be forced to invest because the demand for loans has decreased or is not sufficient to absorb its excess reserves.

However, investment portfolio of commercial bank is established and maintained primarily with a view of nature of banks liabilities that is since depositors' may demand funds in great volume without previous notice to banks. The investment must be of a type that can be marketed quickly with little or no shrinkage in value. (Khadka, 1998:20)

d) Investment on Other Company's Share and Debentures

Most of commercial banks invest their excess fund to the share and debenture of the other financial and non-financial companies. Due to excess funds but least opportunity to invest those funds in much more profitable sector and to meet the requirement of Nepal Rastra Bank (NRB) directives. Now a day the commercial banks have purchased share and debenture of regional development bank, NIDC'S and other development banks. (Limbu, 2008:61).

e) Other Use of Fund

A commercial bank must maintain the must minimum bank balance with NRB i.e. 6% for fixed deposits and 8% for each of current and saving deposit account in local currency. Similarly 3%cash balance of local cash balance, in local currency, accounts must be maintained in the vault of the bank .Again a part of the fund should be used for bank balance in foreign bank and to purchase fixed assets like land, building, furniture, computers, stationary etc. (Limbu, 2008:61)

f) Off-balance Sheet Activities

Off balance sheet activities involve contracts for future purchase or sale of assets and all these activities are contingent obligations. These are not recognized as assets or liabilities on balance sheet. Some example of these items is letter of credit, letter of guarantee, bills of collection etc. These activities are very important; as they are the good source of profit of bank through they have risk. Nowadays, some economists and finance specialists to expand the modern transactions of a bank stressfully highlight such activities. (Limbu, 2008:61)

2.2 Review of Related Studies

2.2.1 Review of Related Articles/ Journals

In this section, efforts have been made to examine and review of some related articles in different economics journals, World Bank discussion papers, magazines, newspapers and other related books.

Morris (1990) in the research paper on “Latin America’s banking system in the 1980’s” concluded that most of the banks concentrated on compliance with central bank rules on reserve requirements, credit allocation (investment decision) and interest rates. While analyzing loan portfolio, quality, operating efficiency and soundness of banks investment management has largely been overlooked.

He further added that mismanagement in financial institutions has involved in adequate and overoptimistic loan appraisal, higher risk diversification of loan portfolio and investments, high- risk concentration, related parties lending, etc are major cause of the investment and loan that has gone bad.

Similarly, Bista (2048, BS) in the research paper, “*Nepalma Adhunik Banking Byabasta*” made an attempt to highlight some of the important indicators, which have contributed to the efficiency and performance of joint venture banks in the field of commercial banks. At the end of the paper the researcher has concluded that the establishment of joint venture banks a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, hypothecation consortium investment in loan and modern fee based activities into the economy. These are indeed significant milestone in the financial development process to the economy.

Similarly, Shrestha (2055, BS) in the article, "*lending operation of commercial banks of Nepal and its impact on GDP*" presented with the objectives to make an analysis of contribution of commercial bank's lending to the gross domestic product (GDP) of Nepal. The researcher set hypothesis that there has been positive impact of lending of commercial banks to GDP. In research methodology, the researcher considered GDP as the dependent variable and various sectors of lending like agriculture, industrial, commercial, service and social sectors as independent variables. A multiple regression technique had been applied to analyze the contribution.

The multiple analyses had shown that all the variables except service sectors lending has positive impact on GDP. Thus, in conclusion the researcher accepted the hypothesis i.e. there had been positive impact by the lending of commercial banks in various sectors of economy except service sector investment.

Pyakuryal (1987), in the article, "*Workshop on Banking and National Development*" writes, "the present changing context of the economy calls for a substantial revitalization of the resources. How much they have gained over the years depends chiefly on how far they have been able to utilize of resources is as much crucial as the mobilization. The under utilization of resources not only results in loss of income but also goes further to discourage the collection of deposits."

Thus is his paper, he has emphasize on proper utilization of mobilization resources and profitability increment. The researcher further indicates that under utilization of resources in an opportunity loss of the banks and commercial bank will not be motivated to collect public deposit.

Kishi (1996), in the article states, concludes that following an introduction of the reform in the banking sectors as an integrate parts of the liberal economic policy, more banks and finance companies have come up as a welcome measure competition.

However, because of poor investment polices and lack of internal control the two governments controlled banks. Nepal Bank limited and Rastriya Banijya Bank's non-performing assets have increased substantially. Now, Nepal Rastra Bank has awarded the management contract to foreign companies to improve the conditions of non-performing assets. The policy of giving management to professional consultant is a part of the financial sector reform policy of NRB.

Bajracharya (2047, BS) in the article, "*Monetary policy and deposit mobilization in Nepal*" has concluded that mobilization of domestic savings is one of the prime objectives of the monetary policy in Nepal. Commercial Banks and financial intermediary for a accepting deposit of private sector and providing credit to the investor in different sectors of the economy. The writer added that the public deposit is the major resources of credit and investment of the commercial banks in Nepal.

Shrestha (2055, BS), has given a short glimpse on the *"Portfolio Management in Commercial Bank, Theory and Practice,*" The portfolio management becomes very important for both individual as well as institutional investors. Investors would like to select best mix of investment assets subject to following aspects.

1. Higher return which is comparable with alternative opportunities available according to the risk class of investors.
2. Good liquidity with adequate safety of investment.
3. Certain capital gains.
4. Maximum tax concession.
5. Flexible investment.
6. Economic, efficient and effective investment mix.

In view of above aspects, following strategies should be adopted.

7. Do not hold any single security i.e. try to have a portfolio of different securities.
8. Do not pull all the eggs in the one basket i.e. to have a diversified investment.
9. Choose such a portfolio of securities, which ensures maximum return with minimum risk or lower of return but with added objective of wealth maximization.

The writer presented two types of investment analysis technique i.e. fundamental analysis and technical analysis to consider any securities such as equity, debentures or bonds and other money and capital market instrument. The writer suggested that banks having international network can also offer access to global financial markets. The writer pointed out the requirements of skilled Manpower, research and analysis team and proper management information system (MIS) in any commercial bank to get success in any portfolio management and customer confidence.

According to the writer, the portfolio management activities of Nepalese commercial banks at preset art in growing stage. However, on the other hand, most of banks are not doing such activities so far because of following reasons.

1. Unawareness the clients about the service available.
2. Hesitation of taking risk by the clients to use such fatalities.
3. Lack of proper technique to run such activities in the best and successful manner.
4. Less developed capital market and availability of few financial instruments in the financial market.

Regarding the joint venture commercial banks, they are very eager to provide such service but because of above-mentioned problems, very limited opportunities are available to the banks for exercising the portfolio management. Mr. Shrestha has also explained and recommends the banks the following order to get success in portfolio management and customer's confidence.

1. Should have skilled personnel.
2. Should do strong and deep research and analysis.
3. Should have proper management information system.
4. Should make portfolio investment for their excess, funds or deposit collection or surplus money.

Similarly, Sharma (2000) found same result that all the commercial bank are establishing and operating in urban areas. In this study, "*Banking the future of competition*", the writer's achievements is:

1. Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Limited and Rastrya Banijya Bank Ltd. are running in these sectors.
2. Commercial banks are charging higher interest credit lending.
3. They have maximum tax concession.
4. They do not properly analyze the credit the credit system.

According to the writer, due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effect would show colors only after four or five years. He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and activities are possible.

Thapa (1994) expresses his views in a research paper, "*Financial system of Nepal*" that the commercial banks including foreign joining venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds.

Out of all commercial banks (excluding two newly opened commercial banks), Nepal Bank limited and Rastriya Banijya Bank are operating with nominal profit or loss, the later turning towards negative from time to time. Because of non-recovery of accrued interest, the margin between interest income and interest expenses is declining. Because of these two local banks, in traditional off-balance sheet operation, these banks have not able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overhead. Similarly, due to accumulated overdue and defaulting loans Profit positions of these banks have been seriously affected. On the other hand, the foreign venture banks have been functioning in all efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders.

At the end of his article, he concludes that by its very nature of public sector, the domestic banks couldn't compete with the private sector banks, as the government decided. to hand over the ownership as well as the management of these banks to private sector.

2.2.2 Review of Thesis

Under the topic of Investment Policy, students have conducted several thesis works. Some of them, which are relevant for this thesis, are presented below.

Mr. Ojha (1997) has given conclusion in the thesis, "*A study on priority sector investment of commercial banks (with reference to Rastriya Banijya Bank)*" that bank was unable to meet the 12% of required lending in the priority sector as set under NRB directives. During the five years study period, the researcher further found that low interest rate in priority sector but increasing trend of overdue and miss-utilization. The researcher recommended in improving supervision and evaluation of borrowers paying capacity and reducing the overdue through integrated program of priority sector loan.

The researcher studied about investment on priority sector of RBB and showed that the bank is unable to invest as NRB directive percentage on priority sector. But is should be kept mind that commercial banks are profit oriented organization and they invest more on highly return sector to long life banking business and are responsible to develop economy. So they must invest on other sectors too.

Mr. Shahi (1999) conducted a study entitled "*Investment Policy of commercial banks of Nepal.*" The researcher's main objectives of the study was to study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and funds based on-balance sheet transaction and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit. Through is research, the researcher found that the liquidity position of Nepal Bank Ltd. is comparatively high than the of joint venture banks. NBL is comparatively less successful in on balance sheet as well as off balance sheet operation than that of other joint venture banks.

It has not followed any definite policy with regard to the management of its assets. Similarly profitability position of NBL is comparatively not better than that of other joint venture banks. Growth ratio of NBL is also lower than other banks.

The study recommended that to get success itself and to encourage financial and economic development of the country through industrialization and commercialization. Commercial bank must mobilize its funds in different sectors such as purchasing of shares and debentures of other financial and non-financial companies. The researcher recommended that banks should make continuous effort to explore new competitive and high yielding investment opportunities to optimize its investment portfolio. The study pointed out the loan default in commercial bank is a result of the necessary skill of project appraisal, improper collateral evaluation, irregular supervision and lack of entrepreneurship attitude. The researcher also recommended to formulate a policy enhances its income from off balance sheet as well as on-balance sheet operation. The researcher also suggested enacting loan recovery act to enhance the recovery loan.

This study is based on investment policy of Nepal Bank Limited with other joint venture banks (NABIL, NGBL and NIBL). It would not be responsible to quote good or bad about investment policy of NRB only by comparing it with other three banks. Since NBL is a semi government bank with huge branches, this bank is obviously different from other joint venture banks as it is some how affected by government interference.

Ms. Thapa (1999) has conducted a study entitled *"A comparative study on investment policy of Nepal Bangladesh Bank Ltd. and other joint venture banks (Nepal Arab Bank Ltd. and Grindlays Bank Ltd.*)".The researcher's main objective of study was to examine the fund mobilization and investment policy of NB Bank Ltd. through off balance sheet and on balance sheet activities in comparison to other two banks and to evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.

Ms. Thapa has found that NBBL is not in better position regarding its on balance sheet as well as off balance sheet activities in compare to NABIL and NGBL and its does not seem to follow any definite policy regarding the management the management of its assets. The researcher has stated that NBBL has maintained high growth rates on comparison to other banks though it is not successful to make enough investment and NBBL is success in increasing its sources of funds and its mobilization.

The researcher has concluded that the position of NBBL in regards to utilization of the funds to earn profits is not better in comparison to NABIL and NGBL, NBBL has collected funds in comparatively higher cost and playing 6% to 7.75% interest rate in various deposits. Further NBBL does not seem to have adequate recovery rate.

The researcher has compared Nepal Bangladesh Bank Ltd. with other joint venture banks (NABIL & NGBL). Her study is based on five years period from 1994/95 to 1998/99. It would not be responsible to analyze investment policy of any bank as success or unsuccessful by study of only five years data.

Mr. Tuladhar (1999) has conducted a study entitled "*A Study Investment Policy of Nepal Grindlays Bank Ltd. in comparison to other join venture banks (NABIL and HBL)*." The researcher's main objectives of study was to evaluate liquidity, assets management, efficiency, profitability, and risk position of NGBL in comparison to NABIL and HBL and to examine the fund mobilization and investment policy of NGBL through off balance sheet and on balance sheet activities in comparison to the other two banks.

Through his research, Mr. Tuladhar found that NGBL had been successful to maintain in the best way both liquidity position and their consistency among three banks. NGBL had successful to maintain and manages assets towards different income generating activities. Income from loan and advance and total investment is the main income source of NGBL and it can affect the bank's net profit. Profitability position of NGBL is better than NABIL and HBL.

The researcher concluded that joint venture banks of Nepal are not effectively informative to their clients. These banks have given first priority on education sectors while making investment. The poverty stricken and deprived sectors are given second priority. The study found that the reason behind not providing banking facilities to the rural areas is that these banks are profit oriented only.

He has performed a comparison on investment policy of NGBL with NABIL and HBL NABIL and HBL both are successfully operating from more than ten years. So it would not be reasonable to make decision about the condition of investment policy of NGBL only by comparing it's with two successful banks.

Mr. Khadka (2000) conducted a study entitled "*A study on Investment policy of NABIL in comparison to other joint venture banks of Nepal*" The main objective of the study was to evaluate the liquidity, assets management, efficiency, profitability and risk position of NABIL in comparison to other JVBs and to study the fund mobilization and investment policy with respect to fee based off-balance sheet transaction and fund based on-balance sheet transaction.

The researcher found that liquidity position of NABIL is worse than that of Nepal Grindlays Bank Ltd. and Nepal Indosuez Bank Ltd. NABIL has more portions of current assets as loan and advances but less portion as investment on government securities. NABIL is comparatively less successful in on-balance sheet operation as well as off-balance sheet operation than that of other JVBs. NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL.

The researcher has suggested the joint venture banks to be careful in increasing profit in real sense to maintain the confidence of shareholders, depositors and customers. The researcher has strongly recommended NABIL to utilize its risky assets and shareholders fund to gain highest profit margin and reduce its expense and collect cheaper fund for more profitability. The researcher has recommended investing its funds in different sectors of investment and administering various deposit scheme, price bond scheme, gift cheque scheme, house building deposit scheme etc. The researcher has recommended following liberal lending policy and investment more percentage of total deposit as loan and advances. This study is based on five years period 1992 to 1996. He has taken only two banks to compare the investment policy of NABIL with NGBL and NIBL among thirteen commercial banks of Nepal. It would not be to quote investment policy of NABIL as good or bad by only five years data.

Ms. Gautam (2001) conducted a study entitled "*Investment analysis of the finance companies in context of Nepal.*" The researcher has found the investment in government securities of finance companies is decreasing Major source of finance company is utilized as loan and advances. Use of fund towards the hire purchase loan is decreasing in finance companies and investment on housing loan is more.

The researcher has recommended that the overall investment policy of the finance companies should be concentrated on productive sector such as business and industry loan rather than consumer goods such as hire purchase and housing plan. This would contribute on the capital formulation for overall national development. Further, she said that the credit monitoring wind should be strong enough to ensure timely cash inflow from credit generated.

Ms. Gautam has tried to analyze the investment policy of finance companies. He study does not cover the investment analysis of commercial bank and other institution. Her study also analyzes the comparative study of the commercial banks and finance companies.

Mr. Shrestha (2004) on his thesis entitled **"***Role of Rastriya Banijya Bank in priority sector credit & its recovery***"** has tried to reveal the following objectives:

- To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
- To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.

- To examine the situation of deprived sector credit (DSC) of RBB.
- To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:

Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC. RBB is very much success in complying the NRB policy. Bank was not able to fully utilize the collected deposits in a proper way. The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend. Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector. The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Mr. Gurung (2006) explored in his research "*Lending policy and recovery management of Standard Chartered Bank Nepal ltd and Nabil bank ltd*" has found out the following result.

The deposit collection by the banks shows that increasing but in a fluctuating trend. The trend analysis of deposit collection the increase in deposit collection in the forthcoming years will continue. Out of different types of deposit collection account, higher account has been collected in saving deposit account. Out of the total deposit collection, SCBNL has disbursed 36% of average as a loan and Nabil has disbursed 52% of its deposit collection as a loan disbursement to deposit collection ratio of commercial banks, it is around 60%. This ratio is quite low incasing of sample bank especially of SCBNL. It is further proved by the calculation of correlation coefficient, which is 0.75 and 0.23 of SCBNL and Nabil respectively.

In order to analyze the recovery management of these banks, their loan loss provision and NPL were analyzed. While looking at the loan loss provision of SCBNL it is in decreasing trend from 2002.

The correlation coefficient of loan loss provision and loan disbursement of SCBNL is 0.36. While looking at he future trend of loan loss provision its shows the increasing trend in case of SCBNL and the trend of Loan loss provision is decreasing every year in case of Nabil, which is proved by the trend analysis. The correlation of loan loss provision and loan disbursement of Nabil is negative.

The main statement of his problem is there many banks are mushrooming although banks are not interested to expand their branch in remote rural area. There are difficulty and length formality of procedure for long term and medium term as well as short-term loan, Low deposit habit of Nepalese people and lack of strong recovery act of lending and bad debt. The main objectives of the dissertation are loan and advance providing procedure of bank, lending and investment sector of bank, recovery condition of both SCBNL and NABIL bank.

Mr. Rana (2007) conducted a research entitled *"A Comparative Financial Performance Analysis of Nabil and Himalayan Bank Limited*". The objective of the research study was to evaluate liquidity position activity and operating ratio and earning price per share, book value per share, dividend per share and to show relationship among these variables of Nabil Bank Limited and Himalayan Bank Limited.

The researcher concluded that NABIL had better current ratio then HBL but the HBL had very much cash and bank balance to total deposit ratio and cash and bank balance to current assets ratio than that of HBL. So, HBL had found to have better liquidity position. The researcher further concluded that both the banks were utilizing most of their assets efficiently in order generate profit. But both the bank did not earn satisfactory profit during the research period. Though the net profit of these banks were not satisfactory they earned high return on 'shareholders' equity because they had used more debt in the capital structures of other banks

Mr. Gupta (2007) conducted a research study entitled *"Comparative Analysis of Financial Performance of Commercial Banks in Nepal"*. The researcher had taken Everest Bank Limited, Bank of Kathmandu and

Nepal Standard Chartered Bank Limited as sample. The major objective of the study was to evaluate Liquidity Ratio, Activity Ratio, Profitability Ratio and other market related ratios of these sample banks. The researcher had used descriptive and analytical research design in writing the research study. The research had also used F-Test in testing the hypothesis.

The researcher study concluded that among three sample bank BOK maintained the highest liquidity position during the research period in comparisons to other two banks. The study further added that SCBNL had the excellent assets utilization in order achieve the goal of maximizing the shareholder's wealth. In the same way SCBNL generated the highest net profit and paid the highest dividend per share to shareholders.

The study further stated that there is no significance difference among the commercial banks in terms of net profit of total assets ratio, and dividend payout ratio. The review of above relevant thesis has not doubt enhanced the fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive.

Limbu, (2008). In his dissertation, "C*redit Management of NABIL Bank Limited*" highlighted that aggregate performance and condition of Nabil bank. In the aspect of liquidity position, cash and bank balance reserve ratio shows the more liquidity position. Cash and bank balance to total deposit has fluctuating trend in 5 years study period. Cash and bank balance to current deposit is also fluctuating. The average mean of Cash and bank balance to interest sensitive ratio is able to maintain good financial condition.
The main objectives of the research study are as follow.

- To evaluate various financial ration of the Nabil Bank.
- To analyze the portfolio of lending of selected sector of banks
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

The main findings and conclusions are according to calculated ratio. In the aspect of assets management ratio, assets management position of the bank shows better performance in the recent years.

Non–performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank. In leverage ratio, Debt to equity ratio is in an increasing trend. High total debt to total assets ratio posses' higher financial risk and vice-versa. It represents good condition of Total assets to net worth ratio. In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances. Earning per share and The Price earning ratio of NABIL is in increasing trend. Loan loss provision to total loan and advances ratio and None-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

In the statistical tools analysis, average mean, correlation analysis and trend analysis have been calculated. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposit and loan & advances has high degree of positive correlation it is concluded that increasing total deposit will have positive impact towards loan & advances. Trend analysis tools are done for future forecasting. Trend analysis for total, loan & an advance, Total asset and Net profit is done to see future prospect. Trend analysis tools are done for future forecasting. Trend analysis for total deposit is calculated to see future deposit trend of the bank. Trend analyses for loan & an advance is done to see future loan & advances. Trend analyses for Total asset is calculate to see future total asset.

The study is conducted on credit management of Nabil Bank, which is one of the leading banks in Nepal. NABIL has been maintaining a steady growth rate over this period. In the study every aspect of banks seems to be better and steady in every year. Its all analysis indicates better future of concern bank.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Introduction

In this chapter research methodology is presented for achieving the predetermined objective which is already stated. One various statically and financial instrument will be used for the required purpose. It counts on the resources and techniques available and to the extent of their reliability and validity in this chapter. This research methodology has done to fulfill the objective of comparative study of financial performance of bank i.e. Bank of Kathmandu Ltd and Everest bank ltd. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research. Research methodology refer to the various sequential steps (along with a rationale of each such steps) to be adopted by researcher in studying a problem with certain objective in view.

The main objective of this topic is to identifying the tools to analyze, examine, highlight and compete the financial performances of Bank of Kathmandu and Everest Bank Ltd and recommend suggestions for improvements. This chapter looks into the research designs, nature and sources of data, data collection, procedures and tools and techniques of analysis.

3.2 Research Design

Research is a theory building activity. Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances.

"A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combined relevance to the research purpose with economic in procedure" (Kothari, 1989:59).

Since the main objectives of this study is to analysis financial performance of the banks, all the indicators that shows the financial performance of the banks were calculated using data obtained from the five year end internally generated accounting records maintained by sampled Banks.

The study depends on the secondary data. Various financial parameters and effective research techniques are employed to evaluate the financial performance of the banks. Furthermore, various descriptive as well as analytical techniques are used. The study is designed as to give a clear picture of the Bank's financial circumstances with the help of available data with useful suggestions and recommendation.

3.3 Population and Sample

Twenty-three Commercial banks are operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible the study all the data related with all JVBs because of the limited time period and showed also taken in to consideration of the partial fulfillment of the Master’s Degree. Thus two joint venture banks i.e. BOK and EBL have been selected for the present study.

3.4 Nature and Sources of data

The study is mainly conducted on secondary data relating to the study of financial performance of selected Banks, as they are they are available at concerned Banks. For the purpose of the study, various related books, booklets, magazine, journals, newspaper and thesis made in this field have been referred. Besides necessary suggestions are taken from various experts both inside and outside the bank whenever required.

3.5 Data Collecting Procedures

The annual reports of the concerned banks were obtained from their head office and their websites. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc .has been collected from the personal visit of concerned department of NRB at Baluwatar. Besides, a details review materials are collected from the library of Shanker Dev Campus and central library of T.U.

3.6 Tools and Techniques used

"The analysis of data consists of organizing, tabulating, and performing statistical analysis" (Wolf and Pant, 1998:201)

In this study, various financial and statistical tools have been used to achieve the objective of the study. According to the pattern of data available, the analysis of data will be done. The various tools applied in this study have been briefly presented as under:

3.6.1 Financial Tools

Financial performance is analyzed through the use of two important tools. The financial tool is one of the most important tool, which includes ratio analysis and the other one financial statement analysis have been used in this study. Financial tools are used to examine the financial strength and weakness of bank. Although there are many financial ratios, only selected ratios are used in this study.

3.7 Analysis of Financial Rations

The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and the quality of management of the business and industrial concerns, the important ratios that are studied for this purpose are given below.

3.7.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

The following ratios are evaluated and interpreted under liquidity ratios:

i) Current Ratio

Current ratio indicates whether the concern has instant ability to payout the current liabilities as they mature. The ratio is the yardstick t judge the soundness of the short term financial position of the business unit or industry. Standard of current ratio is 2:1.

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

Where, current assets = cash in hand, cash at bank, bills receivable, sundry debtors or account receivable, short term loan & advances, inventories , prepaid expenses etc.

Current Liabilities = Bills Payable, Sundry Creditor, Accrued expenses, Bank overdraft, short term loan, provision for taxation, etc.

ii) **Cash and Bank balance to Current Assets Ratio**

Cash and Bank balance to current assets ratio reveals the position of cash and bank into cash and bank balance in total of current assets.

$$\text{Cash and Bank balance to Current Asset Ratio X} \frac{\text{Cash and Bank balance}}{\text{Current Asset}}$$

In the present study cash and bank balances includes cash on hand including foreign cheques other cash item and balance with domestic banks and abroad. Cash and bank balances are highly liquid assets than other current assets. So this ratio scans higher liquidity position than current ratio.

iii) Investment of Government Securities to Current Assets Ratio

Government securities are slightly liquid assets as well as confidential investment until the state is living. So it is also a very important and very near cash item of current assets. Investments on Government securities to current assets ratio visualize the proportion of investment on government securities to current assets.

Investment of Government Securities to Current Assets Ratio

$$\text{X} \frac{\text{Investment on Government Security}}{\text{Current Asset}}$$

iv) Loan and Advances to Current Assets Ratio

Loan and advances to current assets ratio reflects the capability of bank discounting and purchasing the bill, loans and overdraft facilities to the customer to make a profit, mobilization its fund in the best way. A commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers.

$$\text{Loan and Advance to Current Asset Ratio X} \frac{\text{Loan and Advance}}{\text{Current Asset}}$$

v) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance is said to be the first defense of every banks. The ratio between the cash & bank balance and total deposit measure the ability of the bank to meet the unanticipated cash and all type of deposit.

$$\text{Cash and Bank balance Total Deposit Ratio X} \frac{\text{Cash and Bank balance}}{\text{Total Deposit}}$$

3.7.2ActiviRatio

Activity or turnover ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. These ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets.

A commercials bank must manage its assets properly to earn high profit.
Under this chapter following ratios are studied.

i) Loan and Advance to Total Deposit Ratio

This ratio measure the extent to which the banks are successful to mobilize their total deposit on loan and advances.

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

ii) Total Investment to Total Deposit Ratio.

This ratio measures the extent to which the banks are able to mobilize their deposit on investment on various securities. A high ratio indicates the success in mobilizing deposits in securities and vice versa.

$$\text{Total Investment to Total Deposit Ratio X} \frac{\text{Total Investment}}{\text{Total Deposit}}$$

iii) Loan and Advances to working Fund Ratio

This ratio reflects the extent to which the commercial banks are success in the mobilizing their assets as loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund as loan and advances and vice versa.

$$\text{Loan and Advance to Working Fund Ratio X} \frac{\text{Loan and Advances}}{\text{Total Working Fund}}$$

Total working fund is the total assets. It composed up of current assets, fixed assets, miscellaneous assets, investment, loan for development bank etc.

3.7.3 Profitability Ratio

Profitability ratio indicates degree of success in achieving desired profit level. Profitability ratio, which measures management overall effectiveness, are shown by the returns generated on sale and investment. A bank should be able to earn profit to survive and grow over a long period of time. Profit is the indicator of effective operation of a bank. The banks acquire profit by providing different services to its customer or by making investment of different kind.

Profitability ratio measures the efficiency of bank. Higher profit ratio shows higher efficiency of the bank. The following profitability ratios are related to study in this heading.

i) Return on Equity (ROE)

If banks can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the extend to which a bank is successful to mobilize its equity.

$$\text{Return on Equity X} \frac{\text{Net Profit}}{\text{Total Equity Capitals}}$$

Equity Capital includes paid up equity, Profit & Loss Account, Various Reserve, General loan, loss provision etc.

ii) Interest Earned to Working Fund Ratio

This ratio reflects the extent to which the banks are successful in mobilizing their total assets to generate high income as interest. A high ratio is indicator for high earning power of the bank on its total working fund and vice versa.

$$\text{Interest Paid to Working Fund Ratio } X \frac{\text{Interest Earned}}{\text{Total Asset}}$$

iii) Interest Paid to Total Assets Ratio

This ratio measure the percentage of total interest paid against the total Assets. A high ratio indicates the higher interest expenses on total working fund and vice versa.

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

iv) Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the banks have successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income. Where, Total operating income includes the interest income, commission & discount, income from dividend, foreign exchange income and others.

$$\text{Interest Earned to Operating Income Ratio } X \frac{\text{Total Interest Earned}}{\text{Total Operating Icomr}}$$

v) Return on Total Assets Ratio

Its measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks working fund is well managed and efficiently utilized.

Where,

Net profit includes the profit that is left to the internal equities after all costs, charges and expenses.

$$\text{Return on working Fund } X \frac{\text{Net Profit}}{\text{Total Asset}}$$

vi) Return on Loan and Advances Ratio

Its measures the earning capacity of commercial banks on its total deposits mobilized on loan and advances.

$$\text{Return on Loan \&Advances Ratio X} \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

vii) Earning per Share (EPS)

EPS measures the profitability of common shareholder. The earning may be on a per share basis.

$$\text{Earning Per Share X} \frac{\text{Net Income Available to the common stockholders}}{\text{Total No. of Common stock outstanding}}$$

3.7.4 Lending Efficiency Ratio

This ratio is concerned with measuring the efficiency of bank. This ratio also shows the utility of available fund. One following is the various types of lending efficiency ratio.

i) Loan Loss Provision to Total Loan and Advances ratio

Loan loss provision to total loan and advances describes the quality assets that a bank holding. The provision for loan loss reflects the increasing probability of non-performing loan. The provision of loan mean the net profit of the banks will come down by such amount. Increase in loan loss provision decreases in profit result to decreases in dividends but its positive impact is that strengthens financial conditions of the bank by controlling the credit risk and reduced the risks related deposits. So, it can said that loan suffer it only for short term while the good financial conditions and safety of loans will make banks prosperity regulating increasing profits for long term.

The low ratio indicates the good quality of assets in total volume of loan and advances. High ratio indicates more risky assets in total volume of loan advances.

$$\text{Loan loss provision to total loan and advances} = \frac{\text{Loan loss provision}}{\text{Total loan and advances}}$$

ii) Non-Performing Loan to Total Loan and Advances

This ratio shows the relationship of Non-Performing loan and total loan and advances and is to determine how efficiently the total loan and advances have been used by management. Higher ratio shows the low efficient operating of the management and lower ratio shows the more efficient operating of credit management.

$$\text{Non-performing loan to total loan and advances} = \frac{\text{Non-performing loan}}{\text{Total Loan and advances}}$$

iii) Interest Expenses to Total Deposit Ratio

This ratio measures the percentage of total interest paid against total deposit. A high ratio indicates higher interest expenses on total deposit. Commercial banks are dependent upon its ability to generate cheaper fund. The cheaper fund has more the probability of generating loans, advances, and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio X } \frac{\text{Interest Expenses}}{\text{Total Deposit Ratio}}$$

3.8 Statistical Tools

Under this heading some statistical tool such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

3.8.1 Arithmetic Mean

An average is a single value related from a group of values to represent them in someway, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} \text{ X } \frac{X}{n}$$

Where, $\overline{X}$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observations

3.8.2 Correlation Coefficient (r):

Correlation may be defined as the degree of linear relationship existing between two or more variables. These variables are said to be correlated when the change in the value of one results change in another variable. Correlation is categorized three types. They are Simple, Partial and Multiple correlations. Correlation may be positive, negative or zero. Correlation can be classified as linear or non- linear. Here, we study simple correlation only." In simple correlation the effect of others is not included rather these are taken as constant considering them to have no serious effect on the dependent.

Formula

$$r_{x1x2} = \frac{N\Sigma X_1X_2 - (\Sigma X_1)(\Sigma X_2)}{\sqrt{[N\Sigma X_1^2 - (\Sigma X_1)^2]}\sqrt{[N\Sigma X_2^2 - (\Sigma X_2)^2]}}$$

Whereas,

r_{x1x2} = Correlation between X_1 and X_2

$N\Sigma X_1X_2$ = No. of Product observation and Sum of product $X_1$and X_2

$\Sigma X_1 \Sigma X_2$ = Sum of Product $X_1$and sum of Product X_2

3.8.3 Coefficient of variation (c.v.):

The coefficient of variation is measures the relative measures of dispersion , hence capable to compare two variables independently in term of variability**.**

$$\text{c.v.} = \frac{ó}{x} * 100$$

σ = Standard deviation

x = sum of the observation

3.8.4 Probable Error:

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

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

Here, r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e., the value of ‘r’ is significant.

3.8.5 Trend Analysis

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a seires of data is represented by the following formula.

Y= a + bx

Here,

Y is the dependent variable, a is y intercept or value of y when x=0, b is the slope of the trend line or amount of change that comes in y for a unit change in x.

Where,

y= Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

CHAPTER - IV
PRESENTATION AND ANALYSIS OF DATA

Introduction review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed financial performance of Bank of Kathmandu Limited and Everest Bank. Different tables and diagrams are shown to make the analysis simple and understandable.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed.

Various financials ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. EBL and BOK. Some important financial rations are only calculated in the point of view of fund mobilization and investment patterns. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

4.1.1 Ratio Analysis

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to investment policy of banks.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

A) Current Ratio

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

Table No. 4.1

Current Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V. (%)
BOK	1.058	1.02	1.21	0.85	1.06	1.04	0.126	0.121
EBL	1.17	1.14	1.13	1.16	1.10	1.14	0.027	0.024

Source: Annual Report of Concern Bank

Table no 4.1 shows the current ratio of selected commercial banks during the study period. The current ratio of BOK and EBL is fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short- term obligations. In the case of BOK the C.R. are in increasing in 2005/06 and EBL has high in 1.17. In an average, liquidity position of EBL is greater than BOK i.e. 1.14>1.04 due to high mean ratio. So, EBL is sound in liquidity position than BOK. Likewise, S. D. and C.V. of EBL is less than BOK i.e. 0.024 < 0.024. It can be said that C.R. of EBL is more consistent than BOK.

Lastly, from the above analysis it is known that all these two banks have not better liquidity position because the standard ratio is 1:1. They have not made this standard.

Generally banks require more liquid assets with compare to current liabilities in order to provide better bank service but these two banks have less liquidity position.

B) Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of NBIL and EBL during the study period.

Table No. 4.2

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V. (%)
BOK	0.101	0.083	0.069	0.106	0.091	0.090	0.015	0.166
EBL	0.078	0.104	0.112	0.131	0.111	0.107	0.019	0.177

Cash & Bank Balance to Total Deposit Ratio

Source: Annual Report of Concern Bank

The Table No. 4.2 revels that the Cash and Bank Balance to Total Deposit Ratio of BOK and EBL are in fluctuating trend. The highest ratio of BOK is 0.106 percent in FY 2006/07 and lowest is 0.069 percent in FY 2005/06. Similarly, the highest ratio of EBL is 0.131 percent in FY 2006/07 and lower in 0.078 in 2003/04.

The mean ratio of BOK and EBL are 0.090 times and 0.107 times respectively. EBL has higher ratio than the BOK, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of BOK is 0.166 times and EBL is 0.177 times. S.D. of BOK is lower than the EBL

The above analysis has to conclude that the cash and bank balance position of EBL with respect to BOK is better in order to serve its customer’s deposits. It implies the better liquidity position of EBL. In contrast, a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds income generating areas. Thus, EBL may invest in more productive sectors like short-term marketable securities insuring enough liquidity, which will help the bank to improve its profitability.

C) Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis.

Following the states the cash and bank balance to current assets BOK and EBL during the study period.

Table No. 4.3

Cash & Bank Balance to Current Asset Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V. (%)
BOK	0.084	0.079	0.082	0.092	0.083	0.084	0.005	0.059
EBL	0.066	0.091	0.098	0.112	0.099	0.093	0.017	0.18

Source: Annual Report of Concern Bank

The Table 4.3 reveals that cash and bank balance to current assets ratio of BOK is in fluctuating trend. But ratio of EBL is continuously increasing to fiscal year 2006/07. The mean ratio of BOK and EBL is 0.084 times and 0.093 times respectively. The higher mean ratio shows EBL's liquidity position is better than that of BOK. Moreover the .S.D and C.V. of EBL is higher than BOK. The higher C.V. of EBL indicates that it has more inconsistency in the ratios in comparison to BOK.

Regarding the above analysis, it can be concluded that EBL has better ability to meet daily cash requirements of their customers but there is not any fix policy to maintain the standard ratio of cash balance over the period.

D) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government in different times to utilize their excess funds and for other purpose. Although those securities can be sold easily in the financial market or they can be converted into cash, they are not very liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. Government securities are the more secured investment alternatives. These securities are also called risk less investment but less return is generated than others risky assets.

Table No. 4.4

Investment on Government Securities to Current Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V. (%)
BOK	0.253	0.230	0.298	0.163	0.122	0.213	0.071	0.333
EBL	0.252	0.161	0.210	0.170	0.120	0.183	0.050	0.274

Source: Annual Report of Concern Bank

The Table 4.4 shows investment on government securities to current assets ratio of BOK and EBL. Both Banks has fluctuating type ratios. Similarly, BOK follows more increasing trend in investment on government securities to current assets ratio. The table shows the highest ratio of BOK is 25.3 percent in FY 2003/04 and lowest is 12.2 percent in FY 2007/08.In the same way, 0the highest ratio of EBL is 25.2 percent in FY 2003/04 and lowest is 12 percent in FY 2007/08.

The mean ratio of BOK is 0.213 i.e. 21.3 percent which is higher than the mean ratio of EBL 0.183 i.e. 18.3 percent. Similarly, S.D. is 0.071 and 0.050 and C.V is 0.333 and 0.274. The higher ratio of BOK indicates the better liquidity position than EBL. The higher C.V. of BOK shows the more inconsistency in the ratios with compare to EBL. From the above analysis it can be concluded that BOK has maintained higher ratio of investment on government securities.

4.1.1.2 Assets Management Ratio

A commercial bank must be able to manage it's assets very well to earn high profit, so to satisfy it's customers and for own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. Through following ratios, assets management ability of banks has been measured.

A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan & advances for the purpose of profit generation. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks.

Table No. 4.5

Loan and Advance to Total Deposit Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V. (%)
BOK	0.729	0.661	0.692	0.759	0.787	0.726	0.0503	0.069
EBL	0.73	0.754	0.710	0.751	0.765	0.742	0.022	0.0296

Source: Annual Report of Concern Bank

The Table 4.5 shows that the loan & advances to total deposit ratio of BOK and EBL is fluctuating trends. The ratio of BOK has more fluctuating trend. EBL bank has higher ratio than that of BOK which is shown by higher mean ratio. It indicates the better mobilization of deposit by EBL bank. The mean, S.D. and C.V of BOK is 0.726, 0.0503 and 0.069 similarly EBL has 0.742, 0.022 and 0.0296.By the analysis, EBL has little used the deposit in profit generating sector than that of BOK

B) Total Investment to Total Deposit Ratio

Commercial banks and financial companies invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds on investment in various securities. This ratio of BOK and EBL are calculated and presentation below.

Table No. 4.6

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.320	0.290	0.322	0.241	0.202	0.275	0.0522	0.189
EBL	0.314	0.211	0.304	0.274	0.211	0.263	0.0497	0.189

Total Investment to Total Deposit Ratio

Source: Annual Report of Concern Bank

The Table no 4.6 shows that total investment to total deposit ratio of BOK and EBL. Both banks have fluctuating trend total investment to total deposit ratio. Higher ratio of BOK is 32.2 percent in FY 2005/06 and lowest ratio is 20.2 percent in FY 2007/08 in the same way the highest ratio of EBL 31.4 percent in FY 2003/04 and lowest ratio is 21.11 percent in FY 2004/05 and 2007/08. The higher mean ratio of BOK shows the bank is mobilizing its funds on investment in various securities more efficiently. From the above analysis, it can be concluded that BOK is more successful in utilizing its total deposit by investing in marketable securities. The C.V. of both bank are equal its shows the bank has same informality of ratios.

C) Loan & Advances to Total Assets Ratio

A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan & advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan & advances to total assets of BOK and EBL as follows.

Table No. 4.7

Loan & Advances to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V. (%)
BOK	0.595	0.599	0.591	0.645	0.703	0.627	0.0479	0.076
EBL	0.612	0.649	0.614	0.637	0.675	0.638	0.026	0.041

Source: Annual Report of Concern Bank

The Table 4.7 shows the loan & advances to total assets ratio of BOK and EBL during the study period. Loan & advances to total assets of BOK is increasing trend and EBL has fluctuating trend ratio. The higher mean ratio of BOK is 70.30 percent where as EBL has 67.5 percent. This ratio shows BOK has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of BOK states that it has less uniformity in these ratios throughout the study period than that of EBL.

From the above description, it can be concluded that EBL bank has maximum utilized its assets in the form of loan & advances. S.D. and C.V. of EBL has low than the BOK. So, little efficiency in managing its total assets by granting loan & advances by BOK.

D) Investment on Government Securities to Total Assets ratio

It is not possible to apply all collection, deposit and other resources in to loan & advances for the banks. Therefore, they arrange their total assets in various sectors. Among all possible sectors, investment on government securities is one, which is very less risky. Invest on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities in profit maximization and risk minimization point of view. The higher ratio represents the better position of fund mobilization into investment on government securities and vice-versa.

Table No. 4.8

Investment on Government Securities to Total Assets ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.25	0.218	0.216	0.16	0.119	0.193	0.052	0.271
EBL	0.25	0.16	0.208	0.168	0.119	0.181	0.049	0.273

Source: Annual Report of Concern Bank

The Table 4.8 reveals that the investment on government securities to total asset ratio of BOK and EBL. Investment on government securities to total asset ratio of BOK and EBL both have fluctuating trend. The average mean of BOK i.e. 19.3% is slightly higher than that EBL i.e. 18.1%. The higher ratio of BOK reveals that BOK is strong enough to mobilize there total assets as investment in government securities. There is more variability in the ratio of EBL as compare to BOK. It shows there is more inconsistent in the ratio of EBL during the study period, which is indicated by higher C.V. of EBL. From the above analysis it can be concluded that BOK has invested it more portion of total assets. But there is inconsistent in its investment.

4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc.

Profitability ratios are the best indicators of overall efficiently. Here, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of BOK and EBL.

A) Return on Loan & advances

Every financial institution tries to mobilize their deposits on loan & advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan & advances ratio of selected banks are presented as follows.

Table No. 4.9

Return on Loan & advances

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.023	0.024	0.028	0.02888	0.029	0.0260	0.0029	0.11
EBL	0.024	0.022	0.024	0.022	0.025	0.0235	0.0013	0.055

Source: Annual Report of Concern Bank

The Table 4.9 reveals the return on loan & advances of BOK and EBL. As the mean return ratio states that BOK has greater return on loan & advances than that of EBL but the return is not consistent through out the study period. Thus, it can be said that BOK seems to be success to earn higher return on its loan & advances in comparison to EBL. Both banks have small mean returns on its loan & advances as its mean ratio shows. Both banks seem to have poor performance in order to have returns from loan & advances because of heavy less than five percents of return on loan & advances. Thus in conclusion it can be said that BOK seems to be success to earn high return on its loan & advances with comparison to EBL.

B) Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table No. 4.10

Return on Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.013	0.014	0.0.016	0.018	0.020	0.0165	0.0029	0.173
EBL	0.015	0.015	0.015	0.014	0.017	0.0150	0.0010	0.068

Source: Annual Report of Concern Bank

The Table 4.10 shows the Return on Total Assets of BOK and EBL. This table states the net profit to total assets of selected banks during the study period. BOK has constantly increasing trend of return on its total assets but EBL has constant and decreasing trend of return on total asset. It indicates low utilization of asset by EBL. It is observed that BOK is success to have higher return on assets where as S.D. and C.V .of EBL has relatively low it indicate more uniformity in the ratios.

C) Return on Equity

Equity capita of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and there by, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects, the extend to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of BOK and EBL during the study period.

Table No. 4.11

Return on Equity Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.196	0.193	0.281	0.264	0.269	0.241	0.0425	0.176
EBL	0.202	0.205	0.246	0.247	0.234	0.227	0.0219	0.096

Source: Annual Report of Concern Bank

The table shows 4.11 Return on Equity Ratio of BOK and EBL. Above calculated statistic, indicate that BOK has fluctuating return on equity ratio. But EBL has smoothly increasing their ROE ratio till 2006/07. The mean ratio of The return on equity of BOK is little higher than the EBL its indicate total equity has more utilized by BOK rather than EBL. BOK has relatively more inconsistency through out the study period because its C.V is higher.

D) Total Interest Earned to Total Assets Ratio

Total interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of BOK and EBL

Table No. 4.12

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.059	0.062	0.058	0.056	0.058	0.059	0.002	0.034
EBL	0.068	0.061	0.057	0.053	0.006	0.059	0.006	0.097

Total Interest Earned to Total Assets Ratio

Source: Annual Report of Concern Bank

The Table 4.12 shows Total Interest Earned to Total Assets Ratio of BOK and EBL. The calculated statistics shows that BOK and EBL have same power to earn interest on its total assets, which is justified by same mean ratio. The mean ratio of BOK is 5.9 % and EBL has 5.9%. Moreover, EBL also has higher uniformity in the ratios during the study period. It can be concluded that both BOK and EBL has successfully mobilized their fund in interest generating assets.

E) Total Interest Earned To Total outside Assets Ratio

The main assets of commercial banks are it's out side assets, which includes loan & advances, investment on government securities, investment on shares and debentures and other all types of investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A high ratio indicates high earning on such total assets and vice-versa. The following Table No. 4.15 exhibits the ratio of total interest earned to total outside assets of BOK and EBL during the study period.

Table No. 4.13

Total Interest Earned To Total outside Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.054	0.057	0.054	0.056	0.058	0.056	0.0018	0.032
EBL	0.061	0.062	0.052	0.051	0.058	0.057	0.0049	0.086

Source: Annual Report of Concern Bank

The Table 4.13 shows the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both bank BOK and EBL are in fluctuating trend. The highest ratio 5.8 percent in 2007/08 and lowest ratio is equal in 2003/05 and 2005/06 of BOK. Similarly, the highest ratio 6.2 percent in 2004/05 and lowest ratio 5.1 percent is in 2006/07 of EBL. Here Everest bank seems to have more efficiency in generating total interest through well utilizations of outside assets. But it has relatively inconsistent in returns.

F) Total interest Earned to Total Operating Income Ratio

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the firms. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors considering the risk and return. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2001/02 to 2005/06 are presented to analyze in the following table. The major sources of income for the bank are interest income. So the banks should mobilize their funds in more interest generating sectors considering the risk and return.

Table No. 4.14

Interest Earned to Operating Income Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	1.85	1.67	1.79	1.75	1.72	1.76	0.066	0.037
EBL	2.08	1.92	1.99	1.91	1.88	1.96	0.079	0.040

Source: Annual Report of Concern Bank

Table no 4.14 shows Interest Earned to Operating Income Ratio of BOK and EBL. Both banks has fluctuating ratio of study period. EBL has greater share of total interest earn in its total operating income. The mean, S.D. and C.V of BOK is 1.76, 0.066 and 0.037 times similarly EBL have 1.96, 0.079 and 0.040 times.

It can be concluded that EBL has successfully mobilized its funds in interest generating assets as compare to BOK in whole study period. Above statistics shows that greater part of total operating income of both banks is covered by total interest.

G) Total Interest Paid to Total Assets Ratio

Total interest paid to total assets ratio help to show and measure the percentage of interest paid by the firm in comparison with total assets. If interest paid to total assets ratio is higher, there will be higher interest expenditure on total assets. The following table shows that total interest paid to total assets of BOK and EBL.

Table No. 4.15

Interest Paid to Total Assets Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.030	0.0245	0.0233	0.0236	0.0253	0.025	0.0028	0.111
EBL	0.0329	0.0255	0.0251	0.0241	0.0023	0.026	0.0038	0.147

Source: Annual Report of Concern Bank

Table 4.15 shows Total Interest Paid to Total Assets Ratio of BOK and EBL. BOK has fluctuating trend of interest paid to total asset ratio and EBL has the decreasing trend of interest paid to total asset ratio. Average mean of EBL is little higher than the BOK it indicate EBL performing better in interest paid to total asset. The S.D. and C. V. of EBL is greater than the BOK it indicate high risk and insignificant of EBL rather than BOK

4.1.1.4 Risk Ratio

Risk and uncertainty is a part of business loss. All the business activities are influenced by risk, so business organization can not achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks options for high profit have to accept the risk and manage it efficiently. A bank has to have idea of the level of risk of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent of BOK and EBL.

i) Liquidity Risk Ratio: - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

$$\text{Liquidity Risk Ratio} = \frac{\textit{Cash and Bank Balance}}{\textit{Total Deposit}}$$

Table: 4.16

Liquidity Risk Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.101	0.083	0.069	0.106	0.091	0.090	0.015	0.166
EBL	0.078	0.104	0.112	0.131	0.111	0.107	0.019	0.177

Source: Annual Report of Concern Bank

From the Table 4.16 shows cash and bank balance to total deposits ratio of the BOK is in fluctuating trend whereas ratio of EBL is in increasing trend in 2006/07 then decreasing trend over the study period. The higher ratio of BOK and EBL are 10.6% and 13.1% respectively in the same year i.e. 2006//07.The average mean ratio of EBL is greater than that of BOK (i.e.10.7% > 9%). It signifies that EBL has sound liquid fund to make immediate payment to the depositors

ii) Credit Risk Ratio: - Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

Table: 4.17

Credit Risk Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	0.85	0.86	0.87	0.85	0.88	0.86	0.013	0.015
EBL	0.88	0.83	0.88	0.87	0.086	0.71	0.348	0.491

Source: Annual Report of Concern Bank

The Table 4.17 shows the credit risk ratio of BOK and EBL. The analysis shows that BOK and EBL have the credit risk ratio in fluctuating trend. BOK has highest and lowest ratio of 88% and same 85% in the year 2007/085and 2003/04 and 2006/07 respectively. Similarly EBL has the highest and lowest ratio of 88% and 8.6% in the same year 2003/04 and 2007/08 respectively. The mean ratio of EBL is lower than that of BOK (i.e.71 %< 86%). the S.D. and C.V. both are higher of EBL i.e 0.348 > 0.013 and 0.491 > 0.015 than the BOK.

4.1.1.5 Other Ratios

A) Earning Per Share

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

Table No. 4.18

Earning Per Share

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	27.49	30.09	43.67	43.50	59.93	40.94	12.97	0.32
EBL	45.60	54.22	62.77	78.41	91.82	66.56	18.60	0.28

Source: Annual Report of Concern Bank

The Table 4.18 shows that earning price per share of BOK and EBL. Both banks have increasing trend of EPS. BOK has increasing trend of EPS but it has inconsistently through out the study period. But EBL has increasing consistently. The S.D of EBL is higher than BOK. C.V. of EBL is lower. The average EPS is greater for EBL with comparison to BOK. The higher EPS for EBL shows the higher capacity of earnings. But at the same time it is also influence by number of shares outstanding.

C) Market Price per Share

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

Table No. 4.19

Market Price per Share

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	295	430	850	1375	2350	1060	835.1	0.788
EBL	680	870	1379	2430	3132	1698	1050.7	0.619

Source: Annual Report of Concern Bank

This Table 4.19 shows market price of the share of BOK and EBL. Both bank BOK and EBL has increasing trend of Market price. its indicate better performance of company and high expectation by shareholder average mean price of EBL is greater the than BOK i.e. 1698 >1060 it indicate good profit of EBL rather than the S.D. of EBL high and C.V of EBL is low rather than BOK

D) Price Earning Ratio

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Table No. 4.20

Price Earning Ratio

Name of Banks	Fiscal Year							
	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	S.D.	C.V.
BOK	10.73	14.29	19.47	32.60	39.21	23.06	11.991	0.52
EBL	14.91	16.06	21.97	30.99	34.11	23.60	8.66	0.37

Source: Annual Report of Concern Bank

The Table 4.20 shows the price-earning ratio (PE ratio) of BOK and EBL. Both Banks has increasing trend of price earning ratio. EBL has high PE ratio till 2005/06 than BOK has high price earning ratio. Highest PE ratio of BOK is 39.21 in fiscal year 2007/08 and lower 10.73 in fiscal 2003/04 similarly EBL also high 34.11 in fiscal 2007/08 and low 14.91 in fiscal 2003/04. Above analysis indicate share holder of BOK take more benefit after 2006/07. The S.D and C.V of BOK is high than the EBL it indicate its risk to invest in BOK rather than the EBL.

4.2 Statistical Analysis

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is used following convenient statistical tools are used in this thesis study.

4.2.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan & advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan & advances and net profit BOK and EBL using Karl Persons coefficient of correlation, value of coefficient of determination (R^2) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

A) Correlation Coefficient between Deposit & Loan & Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan & advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan & advances measures the degree of relationship between these two variables. The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan & advances in proper way or not.

Table No. 4.21

Correlation between Deposit and Loan & Advances

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
BOK	0.993	0.986	0.00423	0.0254
EBL	0.998	0.996	0.00121	0.00423

Source: Through SPSS Data Editor

Above Table 4.21 shows, that coefficient of correlation between deposits and loan & advances of BOK is 0.993. Which is indicates the positive relationship between these two variables. It refers that deposit and loan & advances of BOK move together very closely. Moreover, the coefficient of determination of BOK is 0.986. It means 98.6 percent of variation in loan & advances has been explained by deposit. Similarly, the correlation coefficient is significant because the correlation coefficient is greater than the relative value of 6 P.Er. in other words, there is significant relationship between deposits and loan & advances.

Likewise, the correlation coefficient between deposit and loan & advances of EBL is 0.998 which indicates that there is high positive correlation between these two variables. Similarly, value of coefficient of determination is calculated as 0.996. It refers that 99.6 percent variance in loan & advances are affected by total deposit. Since the correlation coefficient is greater than 6 P.Er, the relationship between loan & advances and deposit of EBL is significant.

It can be concluded that both BOK and EBL have positive relationship between deposit and loan & advances. the relationship is also significant in the case of both banks the value of coefficient of determination of both banks shows high percentage This indicates that BOK and EBL are successful to mobilize their deposit in proper way.

B) Coefficient of Correlation between Total Deposits and Total Investment

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. The following Table No. 4.30 shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination (R^2) of BOK and EBL during the study period.

Table No. 4.22

Correlation between Deposit and Total Investment

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
BOK	0.681	0.464	0.1625	0.749
EBL	0.897	0.8046	0.0592	0.3552

Source: Through SPSS Data Editor

The Table 4.22 shows that the coefficient of correlation between total deposit and total investment of BOK is 0.681. It shows the moderate degree positive correlation. In addition, coefficient of determination of BOK is 0.464. It means only 46.4 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P.Er. It refers that there is no significant relationship between total deposit and total investment of BOK.

Similarly, there is high degree correlation positive coefficient between total deposit and total investment of EBL than the BOK, which is indicator by correlation coefficient of 0.897. The value of coefficient of determination is found 0.8046 this refers that 80.46 percent of the variation in total investment is explained by total deposit.

From the above analysis, the conclusion can be drawn that EBL has high degree positive correlation between total deposit and total investment than the BOK. This indicates that EBL is successful to mobilize its deposit in proper way in comparison to BOK.

C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of BOK and EBL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the ‘r’, R^2, P.Er. and 6 P. Er. between those variables of BOK and EBL for the study period.

Table No. 4.23

Correlation between Loan and advance and Net profit

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
BOK	0.997	0.994	0.0018	0.011
EBL	0.991	0.982	0.0054	0.033

Source: Through SPSS Data Editor

The Table 4.23 correlation coefficient between, Loan and advance and net profit is 0.997. It refers that there is positive correlation between these two variables. Here, 99.4 percent of net profit is contribute by Loan and advance as its coefficient of determination of 0.994 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er. Likewise EBL has relatively low degree positive correlation i.e. 0.991 between Loan and advance and net profit. The coefficient of determination R^2 is 0.982, which indicates that 98.2 percent variability in net profit is explained by Loan and advance. Moreover, greater correlation coefficient than 6P.Er. shows that the relationship between Loan and advance and net profit is significant for EBL. In calculation, BOK has more significant relationship between Loan and advance and net profit than that of EBL.

D) Coefficient of Correlation between Total Investment and Net Profit

Coefficient of correlation between total investment and net profit measures the degree of their relationship. In the, correlation analysis, investment is independent variable and net profit is dependent variable. The following Table shows the coefficient of correlation coefficient of determination, probable error and six times of P.Er. During the fiscal year 2003/04 to 2007/08.

Table No. 4.24

Correlation between Total Investment and Net Profit

Name of Banks	Evaluation Criterions			
	r	R^2	P.Er.	6 P.Er.
BOK	0.687	0.472	0.16	0.96
EBL	0.85	0.7225	0.084	0.504

Source: Through SPSS Data Editor

The Table 4.24 shows correlation coefficient between total investment and net profit of BOK is 0.687, which implies there is positive correlation between total investment and net profit. In addition, coefficient of determination of BOK is 0.472. It means only 47.2 percent of Profit is contribute by total investment. Obviously, this correlation is not significant at all due to coefficient of determination is lower than P.Error. On the other hand EBL has high positive correlation between total investment and net profit coefficient of determination of EBL is 0.7225 It means 72.25 percent of Profit is contribute by total investment But this relationship is significant as its correlation coefficient is higher than 6 P.Er. i.e. 0.504. EBL has more significant relationship between total investment and net profit than that of BOK

Thus it can be concluded that the degree of relationship between total investment and net profit of BOK is little poor than the EBL. This little correlation coefficient indicates that the bank has poor performed in order to generate net profit.

E) Coefficient of correlation of Total Deposit between BOK and EBL

Coefficient of correlation of total deposit between BOK and EBL and shows their linear relationship.

Table No. 4.25

Correlation between Total Deposit of BOK and EBL

Evaluation Criterions			
R	R^2	P.Er.	6 P.Er.
0.997	0.994	0.00182	0.011

Source: Through SPSS Data Editor

This Table 4.25 shows how the total deposit of BOK and EBL is related 0.997 of correlation coefficient shows that there is highly positive correlation between this two banks in this regard. But this correlation coefficient is also significant because the correlation coefficient is high than 6 P.Er. As the 0.994 of coefficient of determination, which shows the 99.4 percent of the degree of relationship.

the degree of relationship between these two banks is not also high.

F) Coefficient of correlation of Total Investment between BOK and EBL

The coefficient of correlation of total investment between selected commercial banks is shown as follow:

Table No. 4.26

Correlation between Total Investment of BOK and EBL

Evaluation Criterions			
R	R^2	P.Er.	6 P.Er.
0.815	0.664	0.102	0.61

Source: Through SPSS Data Editor

The Table 4.26 reveals that there is positive correlation between BOK and EBL in case of total investment. It implies that the total investment of BOK and EBL move in the same direction. Here $R^2 > 6$ P.Er. Therefore correlation coefficient is significant. This can be said that both BOK and EBL increase its total investment as same direction. The coefficient of determination is 0.664 which shows the 66.4 percent of the degree of relationship.

G) Coefficient of Correlation of Loan & Advances between BOK and EBL The coefficient of correlation of loan & advances between BOK and EBL has been given below.

Table No. 4.27

Correlation between Loan & Advances of BOK and EBL

Evaluation Criterions			
R	R^2	P.Er.	6 P.Er.
0.991	0.982	0.0054	0.033

Source: Through SPSS Data Editor

Above Table show that there is high degree positive correlation between the loan & advances of BOK and EBL. The correlation coefficient between two bank is 0.991. It means loan & advances of these two banks moves in the same direction in high proportion. This correlation coefficient is significant in order to show the relationship between loan & advances of these two banks because correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.982 which shows the 98.2 percent of the degree of relationship.

H) Coefficient of Correlation of Net Profit between BOK and EBL

The coefficient of net profit between the selected commercial banks shows the relationship between the banks.

Table No. 4.28

Correlation between Net Profit of BOK and EBL

Evaluation Criterions			
R	R^2	P.Er.	6 P.Er.
0.995	0.99	0.0030	0.018

Source: Through SPSS Data Editor

Above Table shows that there is high degree positive correlation between profits of BOK and EBL which is indicated by correlation coefficient of 0.995. This relationship is significant because its correlation coefficient is greater than 6 P.Er. The coefficient of determination is 0.99, which shows the 99 percent of the degree of relationship.

4.2.2 Time Series Analysis (Trend Analysis)

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

a) Trend Analysis of Total Deposit:

Deposits are the important part in banking sector hence its trend for next seven years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of BOK and EBL for further eight year

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

BOK EBL

a =11078.414 a = 14825.32

b = 1963.036 b = 3991.335

Where as

Yc = 11078.41 + 1963.04 X of BOK

Yc = 14825.32+3991.335 X of EBL

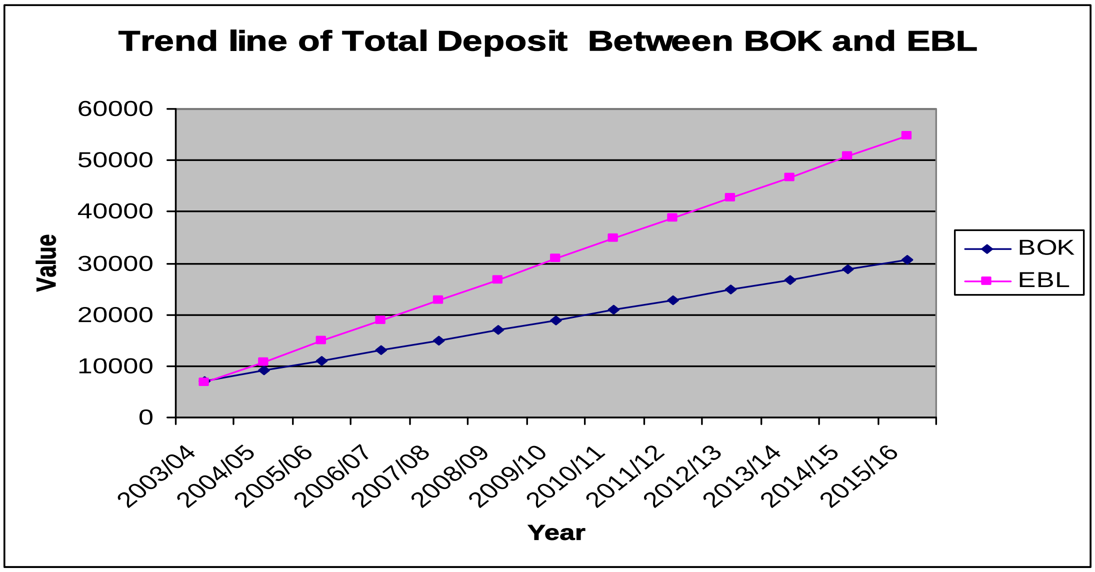
Table No. 4.29

Trend analysis of Total Deposit of BOK and EBL		
Year(x)	BOK	EBL
2003/04	7152.33	6842.65
2004/05	9115.37	10833.99
2005/06	11078.41	14825.32
2006/07	13041.45	18816.66
2007/08	15004.49	22807.99
2008/09	16967.53	26799.33
2009/10	18930.57	30790.66
2010/11	20893.61	34782
2011/12	22856.65	38773.33
2012/13	24819.69	42764.67
2013/14	26782.73	46756
2014/15	28745.77	50747.34
2015/16	30708.81	54738.67

Source: Annul Report of Concern Bank

Appendix - 1

Figure No 4.1



The Table 4.29 and figure no 4.1 shows that total deposit of BOK and EBL. Both Banks is in increasing trend. The rate of increment of total deposit for EBL seems to be higher than that of BOK. The actual value of total deposit for BOK is quite fluctuated in relation to EBL. The trend analysis has projected deposit amount in fiscal year FY 2008/09 to FY 2015/16. From the above trend analysis, it is clear that EBL has better position in collecting deposit than BOK.

B) Trend Analysis of Loan & advances

Here, the trend values of loan & advances Between BOK and EBL have been calculated for further Eight year. The following Table shows the actual and trend values of BOK and EBL.

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x…………………… (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX^2}$

BOK

a = 8136.064

b = 1711.865

EBL

a = 11061.46

b = 3095.54

Yc = 8136.064 + 1711.865 X of Bank of Kathmandu Limited

Yc = 11061.46 + 3095.539 X of Everest Bank Limited

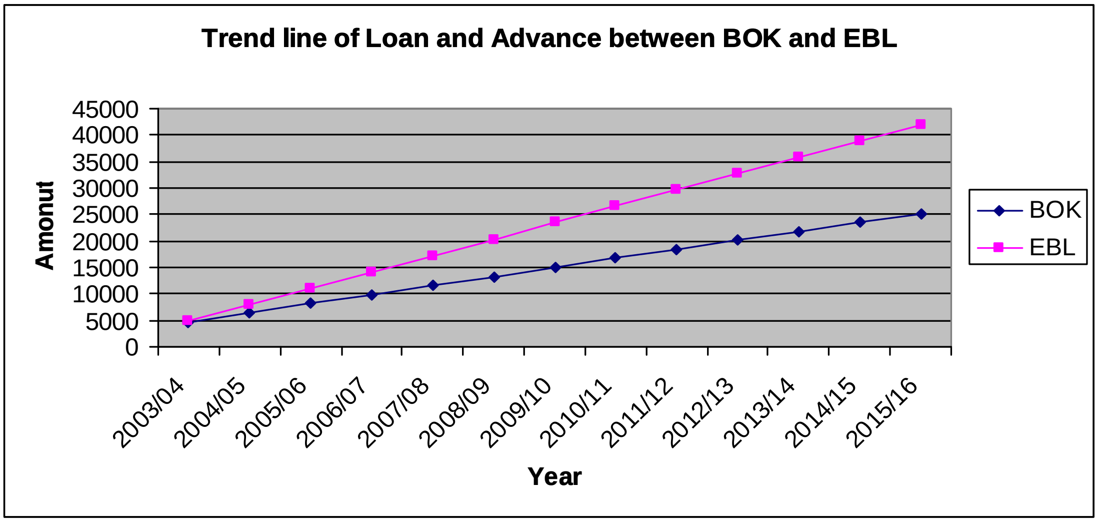
Table No. 4.30

Trend line of Total Loan and Advance of BOK and EBL		
Year(x)	BOK	EBL
2003/04	4712.334	4870.38
2004/05	6424.199	7965.92
2005/06	8136.064	11061.5
2006/07	9847.929	14157
2007/08	11559.794	17252.5
2008/09	13271.659	20348.1
2009/10	14983.524	23443.6
2010/11	16695.389	26539.2
2011/12	18407.254	29634.7
2012/13	20119.119	32730.2
2013/14	21830.984	35825.8
2014/15	23542.849	38921.3
2015/16	25254.714	42016.9

Source: Annul Report of Concern Bank

Appendix - 2

Figure No 4.2



Above Table depicts that loan & advances of BOK and EBL. Both Bank has in increasing trend. The increasing trend of EBL is higher than BOK. The actual value of loan & advances for BOK is quite fluctuating in relation to EBL. The trend projected for father eight year FY 2007/08 to FY 2015/16 where as the projected lowest amount is Rs. 4712.334 in FY 2003/04 and highest amount 25254.714 in FY 2015/16 of BOK. In the same way, the low figure of loan & advances for EBL is Rs. 4870.38in FY 2003/04. In contrast, it has highest amount of loan & advances is Rs 42016.9in FY 20015/16.

From the above analysis, it is clear that both BOK and EBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the EBL has little highly mobilizing loan & advances than the BOK.

C) Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of BOK and EBL for further eight years

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $\qquad$ $b = \frac{SXY}{SX^2}$

BOK	EBL
a = 2930.56	a = 3781.802
b = 184.752	b = 790.328

Yc = Yc = 2930.056+184.752 X of Bank of Kathmandu Limited

Yc = Yc = 3781.802+790.328 X of Everest Bank Limited

Table No. 4.31

Trend Line of Total Investment Between BOK and EBL		
Year(x)	BOK	EBL
2003/04	2560.552	2201.15
2004/05	2745.304	2991.47
2005/06	2930.056	3781.8
2006/07	3114.808	4572.13
2007/08	3299.56	5362.46
2008/09	3484.312	6152.79
2009/10	3669.064	6943.11
2010/11	3853.816	7733.44
2011/12	4038.568	8523.77
2012/13	4223.32	9314.1
2013/14	4408.072	10104.4
2014/15	4592.824	10894.8
2015/16	4777.576	11685.1

Source: Annul Report of Concern Bank

Appendix

Figure No 4.3

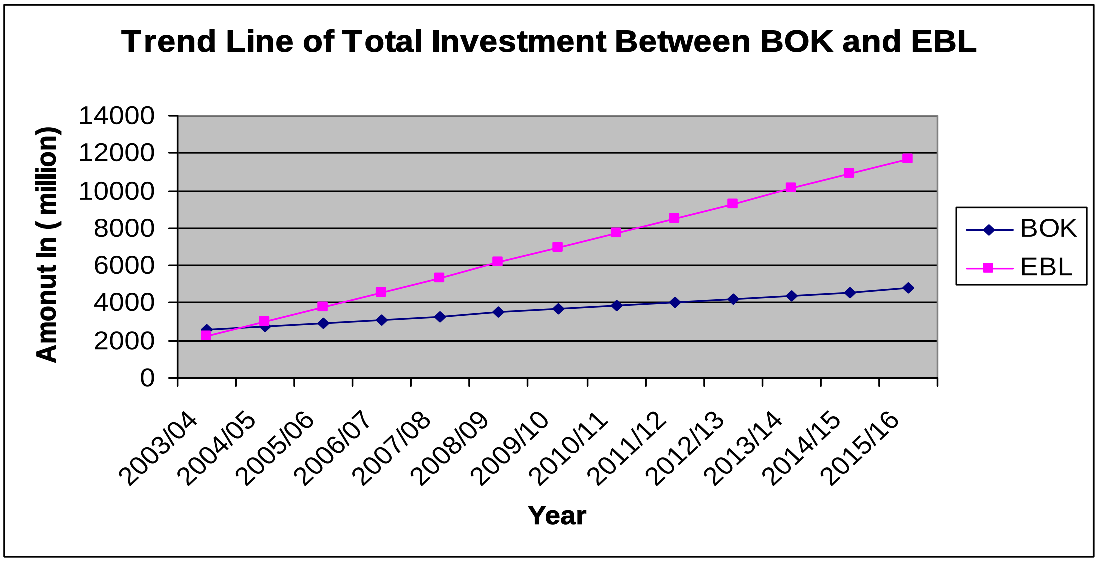


Table no 4.31 shows the Trend of Total Investment between BOK and EBL. Both Bank BOK and EBL have increasing trend in making investment. BOK has little trend of increasing, but EBL has high increasing trend of total investment. The trend of total investment projected to FY 2015/16. The forecasted trend projected that the EBL has greater increment rate in total investment than the increment rate of BOK. The figure indicates EBL has highly mobilized the total investment rather than BOK.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of BOK and EBL have been calculated for five years FY 2001/02 to FY 2005/06 and forecasting of the same for next two year till FY 2006/2007 and FY 2007/2008.

Y= a + bx

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

BOK EBL

a = 218.664 a = 259.874

b = 59.089 b = 74.69

YC=218.664+59.089 X of Bank of Kathmandu Limited

Yc= 259.874+74.069 X of Everest Bank Limited

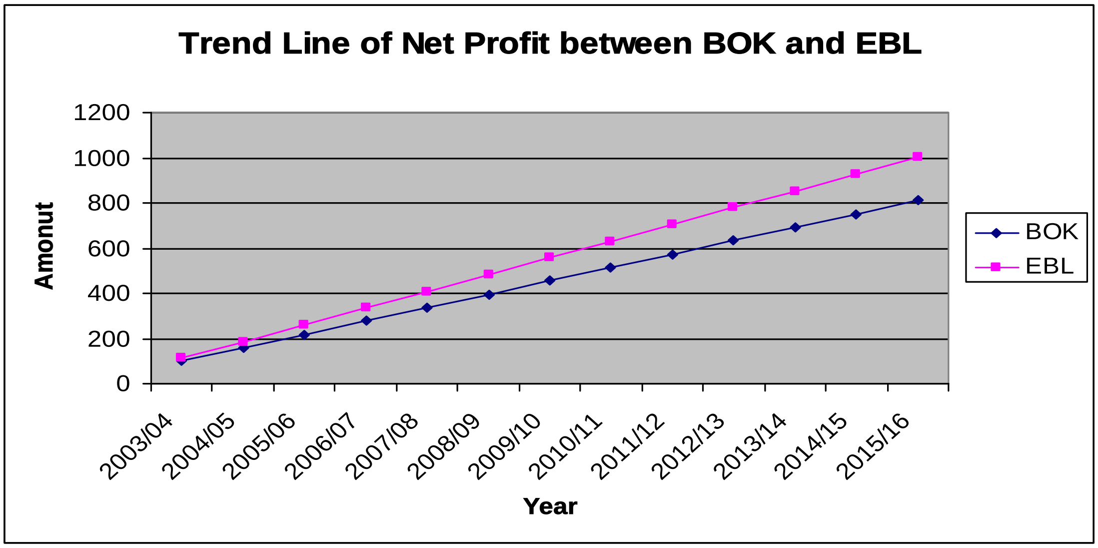
Table No. 4.32

Trend Analysis of Net Profit Between BOK and EBL		
Year(x)	BOK	EBL
2003/04	100.486	111.736
2004/05	159.575	185.805
2005/06	218.664	259.874
2006/07	277.753	333.943
2007/08	336.842	408.012
2008/09	395.931	482.081
2009/10	455.02	556.15
2010/11	514.109	630.219
2011/12	573.198	704.288
2012/13	632.287	778.357
2013/14	691.376	852.426
2014/15	750.465	926.495
2015/16	809.554	1000.56

Source: Annul Report of Concern Bank

Appendix

Figure No 4.4



The above Table reveals the trend of Net profit of BOK and EBL. Net profit both bank BOK and EBL forecasted in increasing trend. The trend of increasing value of net profit of EBL is higher than BOK. The net profit of BOK and EBL has been increasing every year by Rs.59.089 million and Rs.74.69 million respectively. The trend of Net profit projected to FY 2015/16 i.e. further Eight year. Above statistics shows that both the banks have inconsistent net profit throughout the study period. In conclusion, EBL is doing better in order to generate net profit during the projected study period, though both BOK and EBL have increasing trend.

4.3 Major Finding

Liquidity Ratio

From the above research study, following findings are drawn on the liquidity position of the selected commercial banks.

- Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 1:1. The mean current ratio of BOK is 1.039 and EBL is 1.143. the current ratio of EBL is higher than BOK

- Cash and bank balance to total deposit ratio of EBL has higher than BOK i.e. 10.75%>9.01%. Which indicates that the bank has higher collected total deposit of EBL as compare to BOK.

- Cash and bank balance to current assets ratio of EBL is higher than BOK i.e. 9.34% > 8.40%.The higher mean ratio shows EBL's liquidity position is better than that of BOK.

- Investment on government securities to current assets of BOK is higher than EBL i.e. 21.35%>18.28%. It shows BOK has invested more fund in government securities. EBL has invested small portion of their funds in purchasing of government securities. so investment of BOK is less riskier than the EBL.

- Above findings shows that liquidity position of EBL is comparatively better than BOK. Lower liquidity position of BOK shows that the current assets have been utilized in some profit generating sectors, but at the same time the bank has weak short-tern solvency position.

Asset Management Ratio

The assets management ratios of BOK and EBL show the following findings.

The loan & advances to total deposit ratio of EBL is higher than BOK 72.57% > 74.21%. It indicates the better mobilization of deposit by EBL. So, EBL is more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.

- The total investment to total deposit of BOK is higher than EBL i.e. 27.53% > 26.29%. It shows the EBL is mobilizing its funds on investment in various securities efficiently. It can be said that EBL is more successful in utilizing its total deposit by investing in marketable securities.

- The loan & advances to total assets ratio of EBL is greater than BOK i.e. 63.78% > 62.67. It refers EBL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio.

- Investment on government securities to total assets ratio of BOK is higher than EBL i.e. 19.26% > 18.09%. This indicates that BOK has invested more portions of total assets on government securities. The higher investment in Gvt. security ratio of BOK shows risk free or less risk than EBL.

- The performance of BOK in terms of recovery of loan is better than EBL because it has lower loan loss ratio i.e. 3.85 %< 7.34%. But EBL has maintained stability in making provision for loan loss through out the study period.

Above findings reveal that EBL has better utilization of assets in productive sector. BOK has invested more funds in securities which are less productive.

Profitability Ratio

Following findings are drawn on the basis o f profitability position of BOK and EBL.

- Return on loan & advances ratio of BOK is higher than that of EBL i.e. 2.61%> 2.35%. It refers that BOK seems to be success to earn high profit on loan & advances. But the return is not consistent. Since both banks have small mean returns on its loan & advances. Both banks seem to have poor performance in order to have returns from loan & advances.

- Return on total assets ratio of BOK is slightly higher than EBL i.e. 1.65% > 1.5%. But it has greater variability in the ratio. it indicate that BOK generating more profit using its total asset than EBL

- Return on equity of BOK is higher than EBL i.e.24.08% > 22.71% which shows that BOK is more successful to earn high profit through the efficient utilization of its equity capital.

- Total interest earned to total assets ratio of EBL is relatively little higher than that of BOK i.e. 5.94% > 5.89% and also has lower variability in the ratio. It indicates that EBL has efficiently used its total assets to earn higher interest income in comparison to BOK and it is also stable in terms of interest earning.

- Total interest earned to total outside assets ratio of EBL is higher than the BOK i.e. 5.69% > 5.57%. it indicate that EBL is more successful to earn high profit through the efficient utilization of its total outside asset.

- Total interest earned to total operating income ratio of EBL is higher than BOK i.e. 1.96% > 1.76. It means the greater portion of total operating income is occupied by total interest for EBL. It reveals EBL has successful mobilizing their fund in interest generating assets.

- Total interest paid to total assets ratio of BOK is smaller than EBL i.e. 2.53 % < 2.62%. It shows BOK has less interest expenditure to total assets. It supports EBL to increase to interest paid to operating income

Overall findings of profitability ratios show that EBL has earned higher profit in relation to every aspects of the bank than BOK.

Risk Ratio

From the above research study, following findings are drawn on the risk position of the sample banks:

- The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of EBL is greater than that of BOK (i.e.10.7% > 9%). It signifies that EBL has sound liquid fund to make immediate payment to the depositors

- Credit Risk Ratio of both BOK and EBL is fluctuating trend. The mean ratio of EBL is lower than that of BOK (i.e.71 % < 86%). it indicate EBL is in less in credit risk compare to BOK

Above analysis reveals that both the banks have high interest rate risk which is not desirable for any commercial bank. Here, EBL has higher interest rate than BOK.

Other Ratios

From the above research study, following findings are drawn on the other ratios of the sample banks i.e. BOK and EBL:

- Average earning per share of EBL is greater than that of BOK i.e. Rs. 66.57 > Rs. 40.94. But EBL has more inconsistency in earning per share as its higher coefficient of variation shows. It shows the higher earning capacity of EBL in comparison to BOK
- The average market price per share of EBL is greater than the average market price per share of BOK i.e. Rs. 1698.2 > Rs. 1060. It shows EBL has better financial performance than BOK in order to increase market price per share. But EBL contains higher risk because it has greater variability in market price per share.

- The mean price-earning ratio of EBL is little higher than that of BOK i.e. 23.60 is greater than 23.06. It shows EBL is success to increase market price per share more times in relations to earning price per share than BOK. It gives the better indication in analyzing securities for the investors.

Coefficient of Correlation

Coefficient of correlation analysis shows the following findings from the research study:

- Both BOK and EBL have high positive co-relation between total deposit and loan & advances because BOK and EBL have 0.993 and 0.998 of co-relation coefficient between deposit and loan & advances. These relationships are significant. This can be regarded as good indication in financial performance for the banks.

- There is high degree positive correlation between total deposit and total investment of EBL where as BOK has low degree of positive co-relation i.e. 0.897 >0.681. This indicates that EBL is successful to mobilize its deposit in order to make good investment in comparison to BOK.

- Correlation between total assets and net profit shows both the banks have positive relationship but BOK has greater correlation coefficient than EBL in this regard i.e. 0.999 > 0.892. It shows EBL has more significant relationship between total assets and net profit than that of BOK.

- The degree of relationship between total investment and net profit of BOK is poor than EBL i.e. correlation coefficient between total investment and net profit of BOK and EBL is 0.687 and 0.85 respectively. It refers that EBL is comparatively successful to generate net profit through the total investment in relations to BOK.

- Correlation coefficient of total deposit between BOK and EBL shows high positive correlation i.e. 0.997 and 0.991. It refers that total deposit of both banks move in the same direction but less proportionately.

- Correlation coefficient of total deposit between BOK and EBL shows high positive correlation i.e. 0.997. It refers that total deposit of both banks move in the same direction but less proportionately.

- The correlation of total investment between BOK and EBL is positive correlation i.e. 0.815. It implies that the total investment of both banks move in the same direction but less proportionately

- The degree of relationship of loan & advances between the BOK and EBL is high because correlation coefficient between loan & advances of these two banks is 0.991. The loan & advances of these two banks moves very closely with each other.

- The correlation of net profit between BOK and EBL is positive. BOK and EBL are high because correlation coefficient between net profit of these two banks is 0.995. The net profit of these two banks also moves very closely in the same direction.

Above analysis reveals that both the banks highly correlate between each ratio of bank.

Time Series Analysis (Trend Analysis)

The research study has revealed following some major findings on the basis of time series analysis.

- BOK and EBL have increasing trend in collecting deposit the rate of increment of total deposit for EBL seems to be higher than that of BOK. Here EBL has better position in collecting deposit than BOK.

- The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances. The trend line of loan and advances for EBL seems high growing than BOK. It refers that EBL is more aggressive in mobilizing its collected deposits.

- The total investment trend line of BOK and EBL is upward slopping where as EBL has aggressive upward slopping of total investment trend line. It refers that EBL has better increasing trend of total investment than BOK.

- The trend line of Net profit for BOK and EBL is upward slopping. The position of EBL is better in order to generate profit than BOK.

Above analysis reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of EBL is higher than the BOK. It indicate better performance of EBL rather than BOK

CHAPTER - V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The researcher has identified that research problem and set objectives to solve research problems about financial performance of selected commercial banks ie Bank of Kathmandu and Everest bank limited. To make this study more effective, related literatures have been reviewed. The review of literature provides the foundation of knowledge in order to under take this research more precisely.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc. and authorize web site of Nepal stock exchange and security board of Nepal.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists current ratio, liquidity ratio, assets management ratio, profitability ratio, risk ratio and other ratios. Other ratio includes EPS, MPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, regression analysis and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary. The major findings of the study are also included in the final section of the presentation and analysis chapter.

The basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus and deficit in the economy. Investment operation of commercial banks is a very risky one. For this, financial performance of commercial banks have to pay due consideration while investment, mobilization of fund and use of resources. A healthy development of any commercial bank depends upon its financial performance. A good financial performance of a bank attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks, is a very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

In most years, banks are the leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipments. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

5.2 Conclusion

On the basis of financial performance of two sampled commercial banks, using various statistical as well as financial tools following inferences had been drawn:

The overall aspect of liquidity position of EBL is comparatively better than BOK. But the current ratio and investment on government securities to total assets of BOK are slightly higher than EBL. EBL has utilized its liquid assets in more profit generating sectors.

Assets management aspect of EBL is better than BOK which is justified by little higher loan & advances to total deposit ratio, loan & advances to total assets ratio for EBL.

Overall profitability ratios show that EBL has earned higher profit in relation to every aspects of the bank than BOK.

Earning per share, dividend per share and market price per share of is higher for EBL in comparison to BOK .It gives good signal of financial performance of the bank in the market. Price- earning of EBL is higher than BOK, which is considered better in security analyzing in order to make investment decision.

Both commercial banks EBL and BOK have positive correlation between deposit and loan & advances, deposit and total investment, total assets and net profit total investment and net profit. Comparatively both banks have strong relationship between these variables. It is also found that there is positive correlation between total deposit of BOK and EBL, between loan & advances of both banks and between net profits of both banks

Total Investment, loan & advances, net profit of BOK and EBL are in increasing trend. Its show positive trend of both banks.

Both BOK and EBL have high positive co-relation between total deposit and loan & advances, total deposit and total investment
Correlation between total assets and net profit, total investment and net profit shows both the banks have positive relationship but BOK has greater correlation coefficient than.

Correlation coefficient of total deposit, total investment, loan & advances and net profit between BOK and EBL shows positive correlation. It refers that all the variable of both bank moves in the same direction some are closely in the same direction and some are less proportionately

BOK and EBL have increasing trend in collecting deposit the rate of increment of total deposit for EBL seems to be higher than that of BOK. EBL has better position in collecting deposit than BOK.

The trend line of loan & advances and total investment trend line for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances.

The trend line of Net profit for BOK and EBL is upward slopping. The position of EBL is better in order to generate profit than BOK.

The trend analysis reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of EBL is higher than the BOK

From the entire research study, overall all financial performance of EBL is little better than BOK. But BOK is operating smoothly and success in becoming the pillar of economic system of the country.

The profile of financial executives and customers reveals that more Nepalese investors have not knowledge about investment practice adopted by commercial banks. Commercial banks are not providing investment priority to the rural sectors but being a developing country it is very necessary to give investment priority to the rural area. Therefore, the banks should formulate sound investment policies. Good investment practices ensures maximum amount of investment to all sectors with proper utilization.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the financial position of BOK and EBL effective and efficient. This would help to draw some outline and make reforms in the respective banks

- Generally banks have to maintained liquid assets. The current ratio of the two banks, BOK and EBL is considerable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to BOK and EBL.

- Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks, BOK and EBL have made some amount of fund in Government securities. But BOK and EBL are recommended to invest more funds in Government securities instead of keeping them idle.

- To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. It has been found that loan & advances to total deposit ratio of BOK is lower than that of EBL. It means BOK has not properly used their existing fund as loan & advances. So BOK is recommended to follow liberal lending policy and to invest more deposit in loan & advances.

- BOK and EBL have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate the investment opportunities and alternatives using statistical, capital budgeting and other financial tools to avoid large amount of doubtful debt and risk.

- EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the banks

- Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.

- Last political instability directly affected the economic sector such as hotel & tourism, manufacturing and trading sector. Bank loan & advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.

- According to NRB directives, all the commercial bank should increase the capital up to Rs 2000 million by 2070 B.S BOK and EBL are increasing the paid up capita to meet NRB directive. The increment in capital can be made either by capitalization of profit, declaration of Bonus share or right share issue.

Keeping all these in consideration, the BOK has little less performance than that of EBL. Therefore, in the future ahead, the BOK should improve its weaknesses by adopting the innovative approach to marketing. In the light of growing competition in the banking sector, both bank BOK and EBL should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

In this way the entitled thesis comparative study of on financial performances of Bank of Kathmandu Ltd and Everest bank ltd is very use full to every person who concern to those company and research worker as well

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Appendix – 1

A) Trend Analysis of Total Deposit of BOK

Year(x)	Total deposit(Y)	X = x-2005/06	X^2	XY
2003/04	7741.65	-2	4	-15483.3
2004/05	8942.75	-1	1	-8942.75
2005/06	10485	0	0	0
2006/07	12388.93	1	1	12388.93
2007/08	15833.74	2	4	31667.48
Tot n= 5	$\sum Y = 55392.07$	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY = 9630.36$

Source: Annul report of Bank of Kathmandu Limited

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX^2}$

BOK

a = 11078.41

b = 1963.036

Where as

Yc = 11078.41+1963.0368*X

Calculation of Everest Bank Ltd.

Year(x)	Total deposit(Y)	X x-2005/06	X^2	XY
2003/04	8063.9	-2	4	-16127.8
2004/05	10098	-1	1	-10097.7
2005/06	13802	0	0	0
2006/07	18186	1	1	18186.25
2007/08	23976	2	4	47952.6
Tot n= 5	∑Y= 74126.59	∑X = 0	$\sum X^2 = 10$	∑Xy=39913.35

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $b = \frac{SXY}{SX^2}$

a = 14825.32

b = 3991.335

Where as

Yc = 14825.32 + 3991.335 X of EBL

Appendix – 2

Trend Analysis of Loan and Advance of BOK

Year(x)	Loan and advances (Y)	X = x-2005/06	X^2	XY
2003/04	5646.69	-2	4	-11293.4
2004/05	5912.58	-1	1	-5912.58
2005/06	7259.08	0	0	0
2006/07	9399.33	1	1	9399.33
2007/08	12462.6	2	4	24925.28
Tot n= 5	$\sum Y = 40680.32$	$\sum X = 0$	$\sum X^2 = 10$	$\sum XY = 17118.65$

Source: Annul report of Bank of Kathmandu Limited

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

BOK

a = 8136.064

b = 1711.865

Where as

Yc = 8136.064+1711.865X

Calculation of Everest Bank Ltd.

Year(x)	Loan and advances (Y)	X=x-2005/6	X^2	XY
2003/04	5884.1	-2	4	-11768.2
2004/05	7618.7	-1	1	-7618.67
2005/06	9801.3	0	0	0
2006/07	13664	1	1	13664.08
2007/08	18339.1	2	4	36678.22
Tot n= 5	∑Y= 55307.28	∑X=0	$\sum X^2 = 10$	∑XY=30955.39

Let trend line be

Y = a + b x……………………. (I)

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

a = 11061.46

b = 3095.539

Yc= 11061.46 + 3095.539 X of EBL

Appendix -3

Calculation of BOK

Year(x)	Total investment Y	X=x-2005/06	X^2	XY
2003/04	2477.4	-2	4	-4954.8
2004/05	2598.25	-1	1	-2598.25
2005/06	3378.13	0	0	0
2006/07	2992.43	1	1	2992.43
2007/08	3204.07	2	4	6408.14
Tot n = 5	∑Y= 14650.28	∑X = 0	$\sum X^2 = 10$	∑XY=1847.52

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$ $\qquad$ $b = \frac{SXY}{SX^2}$

BOK

a = 2930.56

b = 184.752

Yc = 2930.056+184.752 X of Bank of Kathmandu Limited

Calculation of Everest Bank Ltd.

Year(x)	Total investment (Y)	X=x-2005/6	X^2	XY
2003/04	2535.7	-2	4	-5071.3
2004/05	2128.9	-1	1	-2128.93
2005/06	4200.5	0	0	0
2006/07	4984.3	1	1	4984.31
2007/08	5059.6	2	4	10119.2
Tot n= 5	∑Y=18909.01	∑x=0	$\sum X^2$ =10	∑xy =7903.28

Let trend line be

Y = a + b x……………………. (I)

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Where x = X - Middle year

Here,

$a = \frac{SY}{N}$

$b = \frac{SXY}{SX^2}$

EBL

a = 3781.802

b = 790.328

Yc = 37281.802 + 790.328 X of EBL

Appendix – 4

Trend Analysis of Net Profit of BOK

Year(x)	Net profit (Y)	X = x-2005/06	X^2	XY
2003/04	127.48	-2	4	-254.96
2004/05	139.52	-1	1	-139.52
2005/06	202.44	0	0	0
2006/07	262.39	1	1	262.39
2007/08	361.49	2	4	722.98
Tot n= 5	$\sum Y$ = 1093.32	$\sum X$ = 0	$\sum X^2$ =10	$\sum XY$ = 590.89

Source: Annul report of Bank of Kathmandu Limited

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

BOK

a = 218.664

b = 59.089

Where as

Yc = 218.664+59.089 X of BOK

Calculation of Everest Bank Ltd.

Year(x)	Net profit	X=x-2005/06	X^2	XY
2003/04	143.66	-2	4	-287.32
2004/05	170.8	-1	1	-170.8
2005/06	237.3	0	0	0
2006/07	296.41	1	1	296.41
2007/08	451.2	2	4	902.4
Tot n= 5	∑Y=1299.37	∑X=0	∑ X^2 10	∑x =740.69

Let trend line be

Y = a + b x……………………. (I)

Y= dependent variable,

a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Where x = X - Middle year

Here,

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

EBL

a = 259.874

b = 74.069

Yc= 259.874 + 74.069 X EBL