CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal is a democratic & landlocked country. If we look at the world development report Nepal holds 999th position in world GNP per capital ranking, poverty is one of the serious challenges for the development of Nation. The country faces berries to economic development due to limited natural resources, a landlocked location, poor infra structure a week human capital base with extremely poor level of education and health , poor public management capacity and long history of public intervention in the economy. Due to lack of education and information people of Nepal are unable to grab the opportunity of the open business environment.

The Nepalese economy has been passing through very difficult times over the last few years. New industries have not come up. Agriculture production has remained make or less static. Foreign aid, which used to take the form of all right grants, has mostly turned into loans have to be repaid. Debt payment is eating up an increasing portion of the budget. The tourism better has suffered serious bonus. In such an adverse economic climate, the banking sector in general has not only survived but also haas been able to make operating profit.

Banking has crossed various phases to come to the modern form. Some sorts of banking activities had been carried out since the time immemorial. Traditional forms of banking were traced during the cinizatrion of Greek, Rome & Mesopotamia. Merchants , goldsmith & money lenders are said to be the ancestors of modern banking (Dahal, 2002 p. 8)

History has proven that though the extent may vary from country to country, requirement of economic development of any country heavily relies on it's banking system. Banking institutions are indispensable for resource mobilization and all round development of the country. It provides resources for economic development, maintains economic confidence of various segments and extends credit to the people (Grywinshki, 1993) Banking institution are inevitable for the resources mobilization and all round development of the country. It is resources for economic development maintain economic confidence of various segments and extends credit to people.

The term bank, in modern times refers to an institution which deals with money accepts deposits and advance loans. It is also deals with credit and has the ability to create credit 9 i.e. the ability to expand its liabilities as a multiple of it's resources. It is a commercial institution with the aim to earn profit. Banks are those institutions which perform the insispensable task of intermediating between individuals and institutions by raising funds from depositors and then loaning those funds to needy individuals and or institutions. (R.R/ Paul, 1996)

Banks are the financial institutions that often the widest range of financial services especially credit savings and payment services and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank services and functions has led to banks being labeled financial supermarkets: and to familiar advertising slogans as "your Bank – a full service financial institution.

Financial infrastructure of an economy consists of financial intermediation, financial institutions and financial market. Financial instruction in the economy play a role of catalyst in the process of economic growth of the country. Bank is an institution, which accepts deposit from t he public and in turn advances was by creating credit. Banking system occupies and important place in a nation's economy. A banking institution is in dispensable in a modern society. It plays a pivotal role in the economy development of a country and forms of the core of the money market in an advance country. It has played and advanced country. It has played an immensely valuable role in the economic life of every country. The special interest of economist in the activities of banks is due to the monitory nature of the deposit liabilities of banks.

Bank is a resources mobilization institution which accepts deposit from various sources and invests such accumulated resource in the different sector, but before 1848 B.S. the goldsmith and to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of security rather than earning interest. The term bank emerged in USA in 1848 B.S.

Nepalese banking history begins from the establishment of 'Nepal Bank ltd' in 1994 B.S. in non government sector. The establishment of Nepal Rastra Banks as the form as the form of central bank in 2013 B.S. was significant plus dimension in he development of Banking sector. Therefore the flow of the establishment of commercial & non commercial bank became continue.

Likewise the other countries gold smiths, merchants and money lenders were the ancient bankers of Nepal. Te Adda established during the tenture of the them prime minister Ranodip Singh (1933 B.S.) was the first step towards the institutional development of banking in Nepal. Tejaratb Adda did not collect deposits from the public but provided loans to employees and public against the bullion. (dahal 2002 p 10)

At present there are 29 commercial banks and 79 finance co's in the private sectors.

The financial system of the present in Nepal can be classified into goups.

a. Central bank
b. Commercial bank and
c. The financial institution

Commercial Banks:

Commercial banks are established under company act 2021" and are governed by "commercial bank act 2031. "Though the commercial bank is formally registered in company register office, Nepal Rastra Banks (central Bank) prior approval is essential.

Commercial Banks are those financial institutions which deal in accepting deposits of persons/ institutions and giving loans against securities.

As per commercial Bank act 2031. B.S. "A commercial bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions."

Commercial banks are those banks that pool together the saving of the community and make arrangement for their productive usages. They supply the financial needs of modern business by various means. They provide working capital needs not only of trade industry but also of agricultural sectors. Infect, the economic development of a country is only possible with a bound system of commercial banking.

A sound banking system depends partly on the control exercised by the central banking and to a large extent, on trust of it's customer's or clients (the customer's trust that his deposit will be looked after in the best possible way and the funds will be available whenever he wishes to withdraw his money. The banks have a major responsibility to he have like good citizen in a business with profitability as a major consideration.

Commercial banks collect deposits from public in various forms and lend the same as investment. Moreover they also provide technical support administrative suggestion cheap remittance of funds, safe keeping of valuables, collect of bills, cheque, overdraft facilities ot industries & commerce. Whenever banks lend money they must remember that the source of their fund is customer's deposits. Therefore it is of almost importance that the subsequent lending should be of minimal risk. Banks have often been criticized for not lending more freely. But higher risk of loss is the determine factor on granting advances despite the availability of option of changing higher interest rate commercial banks are the heart of the financial system.

Commercial banks in Nepal started with the inception of Nepal Bank l;td. in 1994 B.S. Today 29 commercial banks are in operation. The commercial bank of Nepal can be categorized in to two types viz public sector and private sector. Public sector banks include two of the oldest banks in Nepal, Nepal Bank ltd and Rastriya Banijya Bank. Private sector comprises the other banks. With the opening of NABIL Bank (earlier known as Nepal Arab bank ltd.) in 1985 A.D. the door of establishing commercial banks was opened to the private sector. Since them, whole lot of commercial banks have come in to operation in Nepal. To day all the banks expect Nepal Bank ltd. and Rastriya Banijya bank are making substantial amt. of profit. so in an under developed country like Nepal, commercial banks though verities of services and function have contributed to the overgrowing economics enlistment of the country into can not be derived without the debt. of commercial banks in the development like agriculture industry, trade and commerce would be paralysed and the economy a s a whole would remain stagnant. Nepal like other developing countries has been facing the problem of accelerating the peace of economic development, so the role of commercial banks in this country plays vital role in growth of economic development. In Nepal, all banks have been operating to provide all modern banking services and facilities to modernize like those of highly developed countries and lagging behind to participate in economic development of our country. They've been performing their roles to the best of their capacity.

1.2 Focus of the Study:

In Nepal, commercial banking with the establishment of 'Nepal bank ltd (NBL) under the Nepal act 13 B.S the authorized capital was contributed by the government 51% and remaining by public (i.e. 49%) Many commercial and financial compares have been opened up with in few years. Banking system is regarded as the heart of financial system. The development of the country is only a dream without modern banking system. The governments' liberalization and globalization policy has led to the emergence of more than a dozen of commercial Banks. In the short period, joint venture commercial Banks have shown dynamism and innovativeness in meeting the challenges of mobilizing resources for t he development of the country. (NRB Buleting)

The basic task of the financial institutions is to mobilize the savings of the community and ensure efficient allocation of these savings to high yielding investment projects offering attractive and returns to different sectors of the economy keeping in accordance with plans and priorities of the country.

Financial mgmt. is essential to utilize and manage scarce financial resources efficiently. Different tools can be applied to evaluate the financial performance of the banks, Information regd. for this study to evaluate financial performance is basically derived from published reports of the concerned banks and data published in website of Nepal stock exchange. This there is focused on comparative analysis of financial performance of two commercial Banks namely Everest Bank limited and Bank of Ktm. limited, in finding the facts and recommendation for correction measures, pointing the problems Panjab National Bank (PNB) 20% equity the largest nationalized bank in India having 112 year of his technology driven bank serving over 35 billion customers through a network branches spread all over the country with a total business of around. (INR 217)

The bank performance under all parameters has been outstanding during the fiscal year 2063/2064 after providing for income tax and statutory provisions there was a disposal net profit of Rs. 30.06 crore compare to Rs. 23.73 crore last year an increase of 26.68% . The bank was able to increase its operating profit by 31.9% , deposited by more than 38% and advanced by 39% during the year compared to the corresponding period last year.

Assets quality has improved by reduction of Non performing assets (NPA) 1.27% in the previous year. This is one of the lowest. Against the paid up capital by share holders of Rs. 37.80 crore, the shareholders amount to Rs. 119.87 crore with core capital base jof Rs. 81.67 crore. Earhave surged to Rs. 62.78 from Rs. 54.22 . The local Nepalese promoters holds the banks equity, while 20% of equity is contributed by joint vonture partner remaining 30% is hold by the public.

Head office of EBL is in Lazimpat, Ktm. EBL have 22 branches in Nepal, of which 7 are in Kathmandu valley, 2 in sunsari and other in cities like lalitpur shapa, Biratnager Janakpur, Birjung, Simza, persa, Baglung , Pokhara and BH, Bhairaya, Nepaljung & Dhangldhi.

1.3 Statement of Problems

Nepal is an economically back pushed country; most of the resources of the country are remained unlised due to the lack of financing. This inadequacy of financing can be removed by participation foreign investors in commercial banks to some extent. With this view, joint venture commercial banks are welcomed in Nepal. Although various commercial banks have been operating in Nepal after the adoption of liberal & market oriented economic policy of the governent, the financial sectors has not been inough to meet the growing need of economy. How for the commercial banks of Nepal have been able to fulfill the present, need & what will be their situation in future is also an important matter.

Analysis of their present financial performance is necessary to draw the conclusion . A well performance represents the well combination of all factors. So, the effectiveness of policy managerial skill mobilization of funds & assets will be reflected by the achievement.

The main objectives of the commercial bank is to mobilize idle resources form unproductive sectors to the growth of trade, industry & commerce. They pool together saving of the community and arranged for their productive use. They supply the financial needs of modern business by various means. Infact banking sector is considered as the backbone for economic development of the country. So, sand banking system is more essential for the country like Nepal.

The present study basically focuses on the financial performance of Everest bank & bank of Ktm ltd. after implementation of the liberal economy policy by the government. There is rapid growth in the number of commercial banks with in a short span of time. They've been facing neck to keen competition against one another. Therefore it is necessary to analyze the financial position of Everest bank ltd. and bank of Ktm. ltd.

The main problem area of the study is to identify financial performance of these two banks comparatively whose financial performance is better where either there two commercial banks are able to meet obligation? Do they manage and its satisfactory ? Do they have sound operational results in nation to their profit ability? Does the ratio very widely from year after years in there banks? Are they maintaining sufficient liquidity position? Thus the present study seeks to answer these issues. In this context, the present study attempts at evaluating the various measures of financial performance such as profitability, liquidity, turnover, efficiency in operation as well as other related dimensions & they determine the overall financial performance these to banks comparatively.

1. What are the comparative liquidity, profitability & market position of Bank of Kahmandu & Everest bank Ltd?
2. What are the relationship between use of debt & the rate of return on equity of commercial banks?
3. What are the relationship between deposit & investment of commercial banks?
4. What are the growth ratios levels of commercial banks interims of net income, EPS & DPS?

1.4 Significance of the study

At the current stage, bank & financial institutions are spreading over as nation wide network especially urban areas along with branches only 53.74% population is literacy in air country

Nepal . There is a less knowledge about financial education to the people are investors of Nepal. Most of the investors and people are still uninterested to invest in selevities due to lack of knowledge.

This study is devoted to test the financial performance between BOK & EBL . It gives importance guidelines to the top mgmt. for making the policies & strategies. It also helps to take national decision for the investor who want to invest their fund in bank's securities. Like wise the funding of the study will be more useful to the concerned aspects that are willing to know about both banks. Again it will be more important for future researcher about the financial performance between BOK & EBL. Similarly this study will be more useful fore shareholders, debt holders & management of the bank & interested general public.

Banking sector has been one of the major contributors to national economy providing variety of disbursement to different sectors, enabling to boast the GDP. Hence, the performance of this sector needs to be above the par to any other field. The financial performance of commercial banking sector should be very much capable in enhancing the capital market as well.

1.5 Objectives of the Study

The main objectives of the study are as follows.

a. To examine the financial statement of the banks and analyze them to see the financial soundness of the banks.
b. To observe the return over equity and relation between debt and equity.
c. To evaluate the bank's efficiency in utilizing assets.
d. What are the profitability position of the two commercial banks namely Everest Bank Ltd. & Bank of Kathmandu Ltd.
e. To provide suggestion and recommendation for the improvement of the future performance of sample banks based on the finding of analysis.

1.6 Limitation of the study

Present study has very much challenging no. of limitations that should be faced during the study period. Due to the boundary of time & researchers present study has been confined to the limitation of the following factors.

a) Coverage of time period

These studies covers the data of 5 years period form 2003/04 to 2008/09.

b) Present study mainly 2060/61 to 2064/65 consists of financial aspects of two commercial banks normally Everest bank ltd & bank of Ktm.

c) Use of secondary data

This study is mainly based on secondary data such as annual report of the bank, other related journals, magazines, books, websites etc. So, the reliability of the conclusion of the study depends upon the accuracy of the secondary data.

d) All the direct & indirect impact of the banking system will not be studied due to limitation of time factor & budget.

e) This study only deals with certain financial tools such as ratio analysis coefficient analysis.

1.7 Organization of the study

This research aims at understanding the study in following manner.

Chapter I

Introduction

This chapter includes background of the study, introduction of BOK and EBL, statement of problem, objectives, importance & limitation of study.

Chapter II: Review of literature

This chapter reviews the existing literature in the relevant areas and past studies.

Chapter III : Research methodology

This chapter consists of research design, nature & sources of data, population & sample, data process procedure & tools and technique for analysis.

Chapter IV: Presentation and analysis of data

This chapter wills deals with the systematic prismatic and analysis of data various financial and statistical tools and technique would be used to analyze & interpret the data. This chapter will be key chapter for the present study.

Chapter V : Summary, Conclusion & Recommendation

This will be the final chapter of the present study and offers necessary recommendation for further improvement of financial performance of EBL & BOK bank.

At the end of the study, bibliography has also been incorporated.

CHAPTER- II

REVIEW OF LITERATURE

In this chapter, review of relevant thesis and dissertation to make the base of knowledge from in respects of financial performance have expressed different visions. Review of literature comprises with previous articles concerned with this study, i.e. financial performance regarding with financial co-operation, company etc. and other study. "Scientific research must be based on the past knowledge. The previous studies can not be ignored because they provide the foundation to the present study." (Woolf & pant, 1999/30)

2.1 Concept of Banking

Bank is a financial institution, which plays a vital role in the development of the country. It always facilities the growth of trade & industry and other sector of the national economy. So it is a research of economic development that maintained the self-confidence of the society and extends credit to the people.

"A bank is an institution which collects money from who have spared or who are saving it out of their income & lends this out to those who require it." (crowther 1972). "Bank is a business organization that received & holds deposits of funds from others makes loans or extends credit & transfers funds by written orders to depositor (Encyclopedia the world book American Vol 31984)

In the Nepalese context three types of banks are being performed their activities in different sectors i.e. central bank, commercial bank & other financial institution. Commercial banks are either operated fully in the public sector or the joint sector or being operated under joint venture with foreign banks with private participation.

2.2 Function of Commercial Banks

Commercial banks are the important type of financial institution for the nation informs of aggregate assets. The business of banking is very board is modern business are. The number & variety of services provided by commercial bank will probably expand. Recent innovation in

Banking includes the introduction of credit cords, accounting services for business firms, factoring, leasing participation in the Eurodouar market and lock-box banking . (Reed Gill & Smith, 1976) The function of commercial banks can be defined as in several area like, they serve as a depositary for the firms cash; they help firms collect concentrate, and disburse cash provide short term credit; they offer several kinds of short term in vestment; they serve as a fiduciary, they provide consulting services in cash management & other fields, they may provide a brokerage function that permits customers to buy & sell secularities like commercial papers, bond & stock, and they any sell some kind of insurance. (Nill & Sartonis, 1995) The following sections discuss some of these function in more brief:

2.2.1 Review of books relating to commercial banks

Many books are written on commercial banks and we will be reviewing few of them cox (1988) in his modern book named "Success in elements of banking" stresses in three major functioned to be performed by the joint venture banks.

- To accept and safe guard deposit of money from customers.
- To permit money to be with drawn or transferred from one account to another.
- To lend the surplus of deposit money to suitable customers who to borrow.

He thought that the world money is common to all the basic functions of the bank. According to him, money can be defined as anything, which is generally acceptable in the settlement of the debt & passes freely form hand to hand. Commercial bank is the extension of credit to worthy borrowers. Bank lending contributes a lot to the economy interims of financing, agricultural, commercial & industry activities of the country.

The American institute of banking has laid emphasis on the four function of commercial bank as "Receiving & handling deposit of money (deposit function), handing payment of money (payment function), making loans & investments (loan function) and creating money by extension of credit money function **(American institute of banking, 1992).**

"A commercial bank in one which exchange money, accepts deposits, grants loan & performs commercial banking function and which is not a bank meant for co-operative, agricultural, industry or for specific purpose. (commercial bank act 2051)

Sayers, (1996) has stated that the modern banking emphasizes in the economic importance of commercial banks and the function of creation of money by bank according to him, the special interest of economists in the activities of the deposit liabilities of the banks. Their lies the society interest in the bank because by their operation they can effect the monetary situation in sense of availability of their purchasing power. To overdraw the customers accounts by making allowing advance, the bank in effect exchanges it's own promise to pay suddenly against the customers promise to pay off the advance. Later is the bank's promise to pay immediately, is absolutely effective purchasing power. It pays vital role in increasing the total demand of the goods and services.

Thus people use banks for the purpose of making payments and as sources of loans; the later involves various uses of the resources that can be devoted to adding to the real capital of nature.

2.3 Concept of financial performance

It is considered as a heart of the financial decision . The growth & development of any organization are dizectly influenced by the financial policies. To prepare sound financial policies of any business organization rational evaluation of financial performance is essential factor "Analyzing financial performance is a process of evaluating financial statements to obtain a better understanding of firm's position and performance . (metcalf & Titard)

Financial statements report the historical performance of a firm and provide a basis for making projections & forecasts for the future. These statements are part of the annual report, which is a document that informs shareholders about performance of a company. Financial statements represent the score cards for recording and evaluating an organization's performance. **(Pradhan, 2004)**

The model (CAMELS) on which the ranking was based comprises five financial parameters namely capital adequacy, assets quality, earning, liquidity and sensitivity to market risks. Although these parameters provide reason basis to the analysis, there is a least one more parameter that may be worth taking in to account, that is management quality. Yes, the overall performance of the banks indizectly reflects their management quality as well but a model that takes this parameter into account can result in a more well bounded view judging a bank's management capability could be a subjective exercise yet it is one that should be conducted to validate reliability of other aspects including intergrity of financial information on which the other parameters are based in corporating the factors enhances the model to CAMELS.

CAMELS are an ideal rating system practiced wouldwise by central banks and rating agencies to evaluate & analyze safety & soundness of a bank. The acsonym CAMELS refers to six components namely, earnings, liquidity and sensitivity to market risks. (Business age, Aug. 2005)

Capital Adequacy

Any commercial bank should have adequate capital to support the stability & sustain ability of it's operation. Capital adequacy is a measure of a commercial bank's capital as a percentage of it's risk wighted assets, such the loans it has provided and the securities it holds. Thus, this parameter indicates whether a particular bank has enough capital to absorb unexpected losses. This is requized to maintain depositor confidence & preventing the bank form going bankrupt.

Assets quality

This is one of the most critical factors that can be considered are the quality of loan port folio, mix of risk assets and credit administration system.

Management quality

This parameter evaluates man agreement quality so as to assign premium to better quality banks and discount poorly managed ones. As management quality is a subjective measure. It is very difficult to prescribe any pacific rating method for this parameter, leaving this parameter open to subjective judgments.

Earning quality

This parameter plays importance on now a bank earns it's profit. This also explains the sustain ability and growth in earnings in the future.

Liquidity

Banks are in a business where liquidity is of prime importance. Banks must be able to manage demand & supply of funds. Cash balance, bank balance & investment in government bonds are the most liquid form of assets.

Sensitivity to market risk

This parameter refers to the risk conditions in the market . Such as exchange risk, interest rate risk portfolio risks, etc. Which could adversely impact earnings and or capital of the bank.

Thus financial analysis is the process of identifying the financial strength and weaknesses of the firm properly establishing the relationship between the items of the B/S & profit & loss a/c.

In sum it is a process of evaluating the relationship between component parts of financial statement to obtain a better understanding of orgn's position & performance.

2.3.1 Deposit collection

Deposit is the main source of bank fund deposits are collected under different accounting heads they are:

a. Fixed deposit A/C

b. Current deposit A/C

c. Saving deposit A/C

d. Others

This division is made on the basis of duration of deposit and process of withdrawing amt. from that account, Bank provides highest of all. The stipulated time is more than one year but not more than two or three years. No amount can be withdrawn from this account before the expiry of stipulated time. This is a permanent sources of fund as it's duration is the highest of all deposit.

2.3.2 Lending money

A commercial bank is a business institution and aims to earn from it's business. Bank change interest on loan and advances and other credits. It is the main source of income to bank. Interest charged by the bank is higher than the interest it pays to depositors like deposits loans are also granted under different headings. They are:

a. Loan and advances

b. Credit

c. Overdraft &

d. Bills discounting

2.3.3 Agency functions

Bankers render agency functions to their customers they purchase & sale shares debentures, bonds in the stock esc change on behalf of their customers. They collect their customer's cheque bills drafts etc. They pay subscriptions premium, rent, taxes etc. on behalf of their customers. "Concisely it can be said that they can be made to do everything on behalf of their customers provided they are paid for their services.

2.3.4 Miscellaneous Functions

Commercial bank keeps important documents, ornaments and other valuables. They issue letter of credit & other credit instruments . This facilitates in transmitting money from one place to another place. Radhaswami & vasudevan (1985) starts that the general utility services include the safe keeping of the valueables and documents, issue of credit instruments to enable easy transfer of funds from one place to another collection of credit information regarding customers transaction in a foreign each angle & provision of specialized services to customers.

From the above discussions it is known that commercial banks render very valuable services to the trading community and the nation as a whole. They play important role in capital formation by charmel sing household savings towards productive use lastly , it can be said that banks play vital role in the development of the national economy.

2.4 Review of Related Studies

So far various persons have conducted research week as regards activities of commercial banks of Nepal the study of predecessor researches and their activities on manazines, journal is relevant to our study some views or opinions of researchers are presented below.

Joshi (1996) conducted a study entitled "A study on commercial banks of Nepal with special reference to financial analysis of "Rastriya Banijya Bank". He conduces that the bank has lower liquidity position than recessing. Capital structure is highly geazed and there is a gradual increase in the amount of funded debt. The return on assets is not satisfactory. He suggest that the bank should invest it's resources in more productive sectors & equity financing should be emphasized.

Adhikari (1996) conducted this thesis on "Evaluating the financial performance of Nepal Bank Ltd. " with basic objectives of evaluating the financial performance of Nepal Bank Ltd. of the period from 2038 to 2046/047) other objectives of the study were: Firstly to examine the trend of deposit mobilization along with the cost of deposits, secondary, to asses the investment portfolio of the banks. Thirdly, to measure liquidity, profitability and dividend paying ability of the bank.

He had concluded that investment portfolio of the bank had not been managed so efficiently to maximize the returns there form, the bank was suffered from series of operational losses over the period. So operational efficiency was not satisfactory likewise, allocation of lack and advances by the bank was not so meaningful as the productive sector had little share in the loan portfolio. Similarly, lower return on investment and lower market value of the bank's shares as against the book value was a reflection of the weaker financial expect liquidity position of Nepal bank ltd. during the study period.

Dhungana (1997) on "A study of joint venture banks profitability" it is conduded that the profitability ratios of all the JVB's have been satisfactory. Their efficiency is also satisfactory in utilizing the deposits. How ever they have been to mobilize saving from different parts of the country. the profit is indicated in their financial statements is an inflated one fluctuation is in the foreign currency being the main reason.

Shrestha (1998) in his article "Commercial banks comparative performance evaluation, concludes that JVBS are now, operationally more efficient having superior performance comparison with local banks better performance of is due to their sophisticated technology; modern banking method and skill. Their better performance is also due to the governments branching policy is rural areas & financial pees. Local banks are efficient in rural sector despite having one deficiencies. Local banks have to face grow in constraints of socio-economic political system one hand spectrun and that of issues and challenges of JVB'S commanding significant banking business on other spectrum.

Chopra (1998) in his article "Role of foreign banks in Nepal" conduces that: JVBs are already playing an increasing dynamic & initial role in the economic development of the country. This will underbred increase of the government.

In another article entitled " lending operation of commercial banks of Nepal and it's impact on GDP "by Shrestha (2047 B.S.) has found that all the dependent variables (i.e. agricultural, industrial, commercial, general and social sectors) expect service sector. She found co-relation between GDP and lending of commercial banks in various sector of economy expect through service sector investment.

Joshi (1998) entitled "It study on financial performance of commercial banks" tried to evaluated the financial position of point venture and non joint venture banks interm of capital adequacy ratio, liquidity ratio, profitability ratio, turnover ratios etc. Debt equity ratios of local banks, NABIL'S was sound to be stronger interim of profitability ratios. The earnings of the joint venture ranks were increasing in increasing rate where as it was found to be increasing in decreasing rate.

Bohara (1998) entitled "A comparative study the financial performance of Nepal Arab bank ltd. and Nepal Indosuces Bank Ltd. . "Both named as Nabil bank ltd. & NIBL. Respectively conclude that to meet the short term obligation both the banks have been maintaining adequate liquidity. Utilization of deposit is satisfactory. Both the banks have highly geared capital structure, capital adequacy ratio of both the banks has been maintained in excess than actual requized. This study suggest increasing equity capital financing to reduce financial risks."

Sharma (1999) in his article joint venture banks in Nepal co-existing or crowding out" pointed out that. It would be definitely unwise for Nepal not to let JVBS to poerate in the country and not to take advantage of them as additions means of resources mobilization. But it will certainly be unfortunate for the country to the domestic banks. So far one should say frankly that no differential treatments has been extended to the domestic and JVBS equally despite the JVBS bargaining strength & if the JVBS equally show their eagerness to come forward to share the trails & tribulations of this country then both types of banks will co-exist complementing each other and contributing to the nation . On the other hands if the JVBS use their strength against domestic banks and the government. They will eventually crowd out the domestic banks from the country.

Rimal (1999) in his study entitled "Playing issues & development in Nepalese banking system" Conducted that the central bank should instead derive for an approach towards indirect monetary control rather than loan on quantitative individual bank cecing. Indizeat monetary policy through open market operation org. recent treasury bund auctions and opining up inters bank market and targeting board financial variables like net foreign assets or for that matter not domestic assets should even out small instants in the banking system.

Gilles (1999) in his article, "Role of foreign banks in Nepalese context" concludes the five commercial banks are improving their services, due to pressure of compassion for the public benefit.

Bajracharya (1999) in his article "monetary policy & deposit mobilization in Nepal" has concluded that mobilization of the domestic saving is one of the prime objective of the monetary policy in Nepal and commercial banks are the most active financial intermediary for generating resource of in the form of deposit of private sector & providing credit to investor indifferent sectors of the economy.

Paudel (1999) highlights on the importance of B.S. is composed of financial claims as liabilities in the form of deposit and as assets in form of loans; Interest received on loans advances and investments are the major components of profit & loss a/c, fees, commissions, discount & services changes are other sances of income. According to this study, the main objectives of analyzing financial statements is to idenliquidity, profitability & solvency ratio position of the bank. The other factors to be considered when analyzing the financial statements of bank that to assess the capital adequacy ratio and liquidity position . Panta (1979) concludes that loans granted by commercial banks are not proper & balance. They charge high loans on commercial sector & other sectors are not taken into account. So commercial banks are unable to satisfy the financial need of the economy.

The commercial banks are not fully invested or more than 30% of total deposit liabilities remain untilized. On the other hand financial institutions are in need of capital. According to this study commercial banks are not paying proper attention towards the productive sector of the economy. He thinks there is no proper co-ordination among the commercial bank & other financial institutions. He suggest for proper co-ordination among them in order to utilize the fund of commercial banks efficiently and productively. He charges commercial banks for not following the principle of diversification & for the under utilization of available researches.

Bajaracharya (2000) in his article "Rastriya Banijya Bank, A comparative performance study" concluded that deposit growth of commercial bank is not consistent indigenals banks and better in mobilize but they are not much efficient in credit expansion. Credit deposit ratio is better in JVBS. Non performing loan is greater in designers banks but profit ability is greater in JVBS. Local banks but profit ability is greater in JVBS. Local banks are forced to open and continue their branches at the rural areas but JVBS are reluctant but ready to pay fines for not doing so.

K.C. (2005) in his dissertation entitled 'A comparative study on the financial performance of NIBL and NGBL has conduded the following main points. The ratio of loan and investment to total deposit of NIBL considerably higher than that of NGBL. This implies that NIBL is more activate in creating investment opportunities.

The main ratio of loan and advances to total deposit of NIBL is significantly higher than that of NGBL. The profitability position of NGBL is comparatively better than that of NGBL.

Ghimire (2006) in his study has analyzed banking concept of HBL and SCBNL and evaluate the liquidity, capital structure and capital adequacy position . He has shaved the trends of total deposit loan and advance and net profit of the banks under study.

Paudel (2006) has condinded his study to the examination and evaluation of financial Grindlays bank. He has assessed their strengths, weakness and opportunities and attempted to find out seasons of changes on profitability and liquidity trends of the both banks.

Mr. Regmi (2007) had conducted in his thesis on the topic of 'A comparative study of the financial performance of HBL (Himalayan Bank Ltd.)' has suggested NBBL to increase it's arrent assets because the bank is not maintaining adequate liquidity position in comparison with HBL. As capital structure of both the bank is highly levered both the banks are recommended to maintain and improved mix at don't and owner's equaling be increasing equity share . He further suggested to HBL to improve the efficiency in litilizing the deposits in loan and advances for generating the profit. NBBL should try to maintain present position on his regards . Profitability portion of HBL is comparatively better than the some of NBBL . So, NBBL is recommended to utilize it's resources more efficiently for generating more profit margins. If resources held ideal bank faces high cost and causes the low profit margin. An ideal dividend payout ratio is based upon shareholder expectations growth requirement of banks. NBBL is suggested to increase it's dividend payout ratio .

The two banks should extend them resources to rural areas & promote the development of poor and disadvantages group . In order to do so banks should open their branches in the remote areas with objectives of providing cheaper banking services especially HBL should initiated on this regard because it has few branches in comparison to NBBL . Because of the start competition between banking sector both the banks are suggested to formulate & implement some sound and effective financial & non financial strategies to minimize operational expense to adopt modern banking technologies to enhance their better & wide market.

Shrestha (2008) entitled financial performance analysis of Everest Bank Ltd. had concluded that the all profitability ratio seem that the EBL has not fully successful to achieve desired profit. The return on equity ratio is fluctuating during the study period. Interest earned to working fund ratio EBL shows the good position in the mid period, after this the late is decreased slowly . But the ratio of interest paid to working fund is said to be better it has paid lower interest expenses. The interest earned to operating income is satisfactory. Likewise return on total working fund, return on loan and advances is not satisfactory. EPS of EBL have increasing even though there is neg. return in the beginning.

Thapa (2008) intitled fund accurralation & mobilization capacity of commercial banks: with reference to Nepal Bank Ltd. & Nepal Bangeadesh Bank ltd. " had conduded that the saving deposit of NBL is higher where as fixed deposit of NBBL is higher. Similarly, the credit composition of the both banks portrays that the almost all the deposit has been concerntrated in private sector. The reason behind it may be that these may not be demand of fund in public enterprise and it is arranged by government. The investment portfolio reveals that both banks are not making any investment in most of the fiscal year. It may be due to lack of confidence in domestic industries & their worst earning provision. After detail study of the previous dissertations which have been conducted by the various researchers about financial study & it's analysis they lay general emphasis on liquidity, profitability & leverage of the firm.

Gupta (2008) conducted a research study entitled ' Comparative Analysis of Financial Performance of Commercials Banks in Nepal.' The researcher had taken Everest Bank Limited, Bank of Kathmandu and Nepal Standard Charted 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 Banks 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 to achieve the goal of maximizing the shareholders 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 ratios and dividend pay out 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.

Sedai (2009) in his dissertation "An analysis on lending policy and strength of Nepal Investment Bank Ltd." highlighted that aggregate performance of NIBL is satisfactory and pushing upward. Lending strength of NIBL in term of exposure of loan and advances is good and appreciable. The contribution made by Bank in industrial as well as agriculture sector of the economy is highly appreciable and its bust up towards national prosperity. The ratio of Loan and Advances to shareholder's equity indicate a good performance of NIBL in its lending activities.

The main objectives and target of this study is to observe tha loan disbursement of Nepal Investment Bank Ltd. It shows the actual lending position, Strength and weakness. The specific purpose are study of loan and advances provided to customer , amount loan investing in industrial sector, trend of Loan disbursement, process are according to NRB rules & regulation and position of bank and its profitability.

The assets management ratios; the performances of NIBL Seems good in the area of lending, productivity and impact on national economy. The activity ratio also reflects to the soaring performance of NIBL. The decreasing loan loss provision ratio indicates that bank is good enough in Judgment of their value customer. The better activity ratio of this bank has been a major contribution in managing the lending portfolio according to the demand of the profit oriented business. The high volume of lending activity of NIBL has put this bank in the top position in absolute term. Thus looking at the various summaries and findings, we can conclude that the Bank has accelerated its performances in the year 2002/3 and has continued till2004/5 and the bank has the potentially to become a leading bank in Nepal. It is recommended that NIBL should extend their credit and branch in rural area, continue to maintain or further increase in the performance , decrease the NPL and make proper loan loss provision , required proper loan loss provision , required proper market analysis, diversify the investment sector etc. finally, however, performance of NIBL seems ti be good till the date. There are still many opportunities for further growth of the Bank. NIBL is suggested to further improve current position of lending portfolio. The bank should concentrate on financial on financial strength, personal integrity and creditability of the borrower of loan disbursement. It should maintain high level of monitoring and control system over the disbursed loan and advances. To Create opportunity of business new and attractive lending scheme would be launched to the customer.

Limbu 2009) In his dissertation, "Credit 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 ratios shows the more liquidity position. Cash and Bank Balances to total deposits has fluctuating trend in 5 years study period. Cash and Bank Balances to current deposit is also fluctuating. The averaged mean of cash and Bank Balances to interest sensitive ratio is able to maintain goof financial condition.

The main objectives of the research study are to evaluate various financial ratios of the NABIL Bank and analyze the portfolio of lending of selected sector of Banks, to determine the impact of deposit in liquidity and its effect on lending practices and 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 ratios, assets management position of the Bank shows better performance in the recent years. The Bank is able to obtain higher lending opportunity during the study period. Therefore, Credit Management of the Bank is in good position. In leverage ratio, debt equity ratios is in an increasing trend 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 ratios of Bank is in increasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, Credit management is in a good position. Correlation coefficient between total credit and total assets shows high degree of positive correlation. Correlation coefficient between total deposits and loan & advances has high degree of positive correlation. It is conclude that increasing total deposit will have positive impact towards loan & advance. Trend analysis tools are done for future forecasting. Trend analysis for total loan & advances, total assets and Net Profit is done so see future prospect. Trend analysis tools are done for future forecasting. Trend analysis for total deposit, loan and advances to total assets is calculated so see future total assets NABIL has been maintain 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.

2.5 Research Gap

The view of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There are various researchers conduct on lending practice, credit policy, financial performance, credit management, fund collection and mobilization of various commercial banks. In order to perform those analysis researchers have used various ratio analysis. In the past research topic on fund collection and mobilization the researcher has focused on the limit ratios which are incapable of solving the problems. Actually fund mobilization is determined by various factors. In this researcher various ratio are systematically analyzed and generalized. Past researchers are not properly analyzed about investment aspect mobilization of fund and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

This thesis work has covered the period of study till 2064/065 B.S. this thesis work has covered that EBL and BOK focusing on different schemes to collect deposits from general public whereas the previous thesis work lacks this concept. Because deposit collecting schemes are new concepts to attract consumers in competitive banking sector. We have lots of research on the topic fund collection and mobilization.

This study also focuses on all the above issues related to fund mobilization of the bank with similar kind of analysis tools. The selection of the banks here is made on the basis of their establishment date, i.e. they are categorized on the basis of their establishment time. Besides this study the collected date of fund collection and mobilization of EBL and BOK covers the information from 2061-2065.

CHAPTER- III

RESEARCH METHODOLOGY

The prime objectives of the present study is to evaluate and examine the financial performance i.e. financial strengths and weaknesses between two commercial banks they are BOK and EBL and comparatively providing suggestive framework for their improvements. Thus the present chapter proposes to outline the methods followed in the process of analyzing the strength and weaknesses of the financial performance of these two commercial banks.

Research is a systematic method of finding out the solution to a problem where as research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain object in view. Research methodology describes the methods & processes applied in the entire aspects of the study . To find out the solution of problems, various statistical and financial tools and techniques are applied according to the nature of phenomena.

3.1 Research Design

The primary objectives of this study is to assesses the financial performance of BOK & EBL. In order to achieve the objective of the study a descriptive analytical research design has been employed. The study is descriptive in that the study attempts to describe the financial performance of the selected organization on the basis of available data and the study is analytical in that the data have been analysis in order to draw a true picture of financial performance.

3.2 Sources of data

Secondary data are collected from their respective annual report especially from Profit and Loss a/c, Balance sheet & other publications made by the banks. Various information from "Nepal stock exchanged ltd. Kathmandues Bulletin and report of NRB. Data collection & analysis of BOK and EBL banks ltd. For last five year 2002/03 to 2007/08.

3.3 Population and sample of the study

In Nepal, twenty nine commercial banks are operation till this study period. Presently study is considered 29 commercial banks as the total population. They are:

Sample space of population

S.N.	Name of Commercial Bank
1.	Nepal Bank Limited
2.	Rastriya Banijya Bank
3.	Nabil Bank Ltd.
4.	Nepal Investment Bank Ltd.
5.	Standard Chartered Bank Ltd.
6.	Himalayan Bank Ltd.
7.	Nepal SBI Bank Ltd.
8.	Nepal Bangaladesh Bank Ltd.
9.	Everest Bank Limited
10.	Bank of Kathmandu Limited
11.	Nepal Credit & Commercial Bank Ltd.
12.	Nepal Industrial and Commercial Bank Ltd.
13.	Lumbini Bank Ltd.
14.	Machhapuchhre Bank Ltd.
15.	Kumari Bank Ltd.
16.	Laxmi Bank Ltd.
17.	Siddhartha Bank Ltd.

18.	Agricultural Development Bank Ltd.
19.	Global Bank Ltd.
20.	Citizen Bank Ltd.
21.	Prime Bank Ltd.
22.	Sunrise Bank Ltd.
23.	Bank of Asia Ltd.
24.	Development Credit Bank Ltd.
25.	NMB Bank Ltd.
26.	Kist Bank Ltd.
27.	Mega Bank Ltd.
28	Janata Bank Ltd.
29	Hamro Bank Ltd.

3.4 Sample of the study

The sample in this study is purposive in nature . The two commercial banks cover 6.89% parts of population as a sample.

a. Bank of Ktm. Ltd.
b. Everest Bank Ltd.

This search covers the period of five fiscal years i.e. 2002/03 to 2007/08 because of the time constant & expenditure. Both bank have largest & higher transaction therefore, the researcher wont to task of this two banks only.

3.5 Method of data analysis

To analyze the interpret the financial data of BOK & EBL various financial & statistical tools and techniques are used in the study. Brief discussion the tools incorporated in this study is done here under.

3.5.1 Financial tools

In this research study various financial tools are employed for the analysis. There are more than 200 ratios existing today , but in this study some selected ratios are used. Ratio is a mathematical relationship between two related items expressed in quantitative form. It is them measurement of quantitative relationship between two or more items of financial statement connected with each others. " (Fago, subedi & Gyanwali, 2003)

In financial analysis a ratio is used as evaluating & making decision on any financial position & performance of the organization (Dangol, 2056 B.S)

3.5.1.1. Liquidity Ratio

Liquidity ratio is employed to measure the company's ability to meet short term obligation. These ratios provide insight in to the present cash solvency in the event of adverse financial condition. This ratio is used to measure the company's short terms obligation with short term resources available at a given point of time. Liquidity ratios measure the short-term solvency position of the organization . It reflects the business . (Dangol 2056)

To find out the ability of banks to meet their short-term obligations which are likely to mature in the short duration. The following ratios are computed to find out the short term solvency.

a) Current ratio

Current ratio is also known as working capital ratio. The current ratio is the ratio of total current assets to total current liabilities & measures the short term solvency of a firm. It is calculated by dividing current assets by current liabilities.

$$\text{Current ratio} = \frac{Current \quad Assets}{Current \quad liabilities} \text{......................(3.1)}$$

Current assets include normally those assets of a firm. Which are converted in to cash with in one ear. These assets of a firm include cash, bank balance, investment of treasury bills, discount, overdrafts short term loan, foreing currency loan, bills for collection, stock, receivable and prepaid expenses.

Similarly current liabilities include those liabilities of a firm which are paid with in one year, like current payment, cash margin, current deposits, saving deposits, interbank reconciliation account, bills payable, provision for overdrafts, accrued expenses bills for collection, outstanding expenses, dividend payable and provision for taxation . Although there is no hard & fast rule for measuring the ratio , a current ratio of 2:1 is considered satisfactory conventionally.

b. Cash and Bank Balances to total deposit ratio (excluding fixed deposits)

This ratio is applied to measurer whether cash & bank balance is sufficient to cover it's currents call margin including deposits . It is calculated by dividing cash & bank balance in bank by saving & current deposits . This ratio is calculated as:

Cash & Bank Balance to total deposits ratio = $\frac{Cash \quad \& \quad Bank \quad B/L}{Deposits\left(fixed \quad deposits\right)}$.........(3.2)

c. Cash and Bank balance to current assets ratio

This ratio is calculated to find the ability of banks to pay total calls made on current deposit . It is computed dividing cash and bank balance by

Cash & bank balance to current assets ratio = $\frac{Cash \quad \& \quad Bank \quad B/L}{Current \quad Assets}$.........(3.3)

It is hidden fact that the depositors would not with draw the total deposit, in case at a time so, the bank keeps a certain margin of cash . This ratio indicates that, if the ratio is higher, there is higher margin and if lower the bank also the use of various components of total assets.

3.5.1.2 Activity turnover ratio

Activity ratios are concerned with measuring the efficiency in assets mgmt. These ratios are also termed as efficiency ratios, assets labialization and turnover ratios. They indicate the speed of collection and utilization of funds in order to increase revenue from loans and advances, investment and other services rendered by a bank. Creater rate of turnover signifies efficient utilization and mgmt. of assets therefore, proper balance on sales & assets is very vital to any firm. Various turnover ratios are used to compute the efficiency of a firm which are briefly discussed hereunder.

a) Loan and advances to total deposits ratios

This ratio shows whether the banks are efficient in utilizations of the outsiders fund (i.e. total deposits) for the purpose of profit generation on the loan and advances. This ratio is computed by dividing the total amount of loans and advances by total funds deposited.

Loan and advances to total deposit ratio = $\frac{Loan \quad and \quad advances}{Total \quad deposits}$ ....(3.4)

Loan and advances refers to the total amt. of loan and advances and overdraft (in local as well as convertible foreign currencies) and total deposit refers to total of all kinds of deposits.

b) Loan and advances to fixed deposit ratio

This ratio examines that how many times the funds is used in loan and advances against fixed deposit. For commercial banks, fixed deposits are long term interest bearing obligation whereas investment in loans and advances are the main source of earning. It examines that how many times the fund is used is loan and advances against fixed deposits. This ratio is computed dividing loan & advances by fixed deposit . A high ratio indicates idle cash balance. It is computed as:

Loan and advances to fixed deposit ratio = $\frac{Loan \quad and \quad advances}{Fixed \quad deposits}$ ....(3.5)

c) Loan & advances to saving deposits ratio

Present ratio assesses, how many times the funds is used to loans and advances against saving deposit . Saving deposits are major sources of investment is loans advances for earning generating purpose. It indicates how many times the short terms interest bearing deposits are utilized for generating the income, which is calculated dividing the amt. of loans & advances by total deposits in saving a/c. it is calculated as:

$$\text{Loans \& advances to saving deposit ratio} = \frac{Loan \quad and \quad advances}{Total \quad saving \quad deposits} \text{.........(3.6)}$$

3.5.1.3 Profitability ratio

Bank is a business institution whose objectives is to earn profit. It must earn sufficient income to meet it's running cost, to make payments of interest on deposits and to yield reasonable return for the owners. Moreover, profits provide money for repaying the debt incurred to finance the project & resources for the internal financing expansion. The profitability of firm can be measured by it's profitability ratios. (M.Y. Khan & P.K. Join 1997) . Profitability ratios essentially related to the profit earned by a firm during a particular period to various parameters like sales, shareholders equity, capital employed and total assets. Profit is essential survive in any business field for it's successful operation and future expansion & growth profitability ratios can be determined on the basis of investment. Some of the important profitability ratio used is as follows .

a) Net profit to total assets ratio

This ratio is very much crucial for measuring the profitability of funds invested in the bank assets. It measures the returns on assets & is computed by dividing net profit after tax (NPAT) by total assets.

$$\text{Net profit to total assets} = \frac{Net \quad profit \quad after \quad tax}{Total \quad assets} \text{...............(3.7)}$$

Higher ratio indicates higher efficiency in utilization of assets of the firm and vice versa.

b) Net profit to total deposit ratio

This ratio is used for measuring the internal rate of return from deposits. It is computed by dividing net profit by total deposits.

$$\text{Net profit to total deposits} = \frac{Net \quad profit}{Total \quad deposits} \text{...............(3.8)}$$

Higher ratio indicates the return from investment on loans & advances are desizeable & lower ratios indicates the funds are not properly mobilized.

c) Return on investment

Present ratio measures the company's return from investment. Return means net profit after tax. Investment covered owner's equity as well as loans & different titles long term and short-term investment. This ratio is computed by

Return on investment (ROI) = $\frac{\text{Profit after tax}}{\text{Total investment}}$...............(3.9)

3.5.1.4 Capital structure ratio / leverage ratio

The long term financial position of the form is judged by capital structure or leverage ratio. The capital structures ratios are calculated to measure the financial risk and firm's ability to using debt on the benefit of the shareholders . Two ratios measure the proportion of outsiders fund and owner's capital used in the bank . The following ratios are used.

a) Total debt to assets ratio

Total debt to assets ratio or simply debt ratio reflects the financial contribution at outsiders & owners on total assets of the from . It also measures the financial security the outsiders. Generally creditors prefer high debt order to magnify their earnings on the one hand to maintain their concentrated control over the firm on the other.

Conventionally a ratio of 1:2 is considered to be satisfactory, although no hard & fast rule exist. This ratio is computed as :

Debt ratio = $\frac{\text{Total debt}}{\text{Total assets}}$.............(3.10)

b) Total debt to shareholder's equity ratio

This ratio is assessed as borrowing fund and owner's capital that is a popularly measure the long term financing solvency of firm, it is reflected to relative claims creditors and shareholders against the assets of its. It can be calculated by dividing total debt by share holders funds.

Total debt to shareholders fund ratio = $\frac{\text{Total debt}}{\text{Shareholders fund}}$.............(3.11)

3.5.2 Statistical tools

In this study, statistical tool such as correlation coefficient analysis is used to achieve the objective. Here the basic statistical analysis i.e. Karl Pearson's correlation coefficient analysis is used which is , given below .

a. Arithmetic Mean

Arithmetic Mean of a given set of observations is their sum dividend by the number of observations. It general, X_1+X_2……… X_n are the given observations then their arithmetic mean, usually denoted by X is given by:

$$\overline{X} = \overline{X}\,\frac{X_1 + X_2 + \ldots\ldots + X_n}{n}$$

b) Karl Pearson's correlation co-efficient analysis

Correlation is the relationship between (or among) two or more variables (i.e. only one variable dependent and one or more variables independent) . If the two (or more) variables are so related that the change in the value (s) of one (or more) independent variable (s) results the change in the value of dependent variable then they are said to have "Correlation (Shrestha & Silwal 2057) . Correlation analysis is defined as the statistical technique which measures the degree and deletion of relationship (or association) between (or among) the variables. This analysis merely measures the degree and directions not the cause and effect of the relationship .

Karl Pearson's correlation co-efficient has been used to find out the relationship between net worth and return on EBL & BOK . Simply, Karl Pearson's correlation co-efficient (r) can be obtained as:

$$r = \frac{\sum xy - \sum x.\frac{\sum y}{n}}{\sqrt{\sum x^2 - \frac{(\sum x)^2}{n} \times \sum y^2 - \frac{(\sum y)^2}{n}}}$$

Where

r = Coefficient of correlation between variable x and y .

n = Number of pairs in observation .

Σxy = Sum of the deviation of x and y series from actual mean .

x = Value of first variable (shareholders net worth)

y = Value of second variable (Return on co.)

Σx = Sum of the deviation 'x' series .

Σy = Sum of the deviation on 'y' series.

Σx^2 = Sum of the squares of the deviations of 'x' series .

Σy^2 = Sum of the squares of the deviations 'y' series.

In the present study, correlation coefficient is calculated to measure the relationship between return and net worth of BOK and SBL or in other words. It is calculated to justify whether the net worth is significant. The values of the coefficient of correlation shall always between +1 to-1. Where r= +1 it means there is perfect positive correlation between the variables where r=-1. Where r ± 1 is meant there is perfect negative correlation between the variables. Where r =) is meant there is not relationship between the row variables the two variables, however in practice such values or r as +1, -1 and are rate.

c) Probable Error

The probable error the coefficient of correlation helps in interpreting its values. It helps to determine the reliability of the value of the coefficient the probable error of the coefficient is obtained as follows:

$$PE_r = 0.6745\ \frac{1-r^2}{\sqrt{N}}$$

Where, r= coefficient of correlation, and N= number of pairs of observation.

1. If the value of r is less than the probable error is no proof of correlation, i.e. the value of r is not at all significant.
2. If the value of r is more than six times the probable error the coefficient of correlation is practically certain, i.e. values of r is significant.
3. Coefficient of correlation is expected to lie with in the range of ±Per.

Symbolically, limit of population correlation = r±PE

By using the above formula coefficient of correlation between 'Return & Net worth and probable error of BOK and EBL are calculated.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS AND MAJOR FINDINGS

The main objective of this chapter is presenting and analyzing data according to research methodology to attain the objective of this study. The focus of this chapter will be the ratio analysis, which is powerful financial tool to measure the financial performance of the banks. In this chapter analysis and interpretations are categorized in two heading, which are as follows:

- Analysis of financial ratios
- Statistical tools

4.1 Analysis of Financial Statements (Examination of Financial Soundness & Liquidity Position)

Financial ratios is a process of evaluating relationship between component parts of financial statements, i.e., balance sheet and profit and loss account to obtain better understanding of the bank's position and financial performance. The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and quantity of management of the business and industrial concerns, the important ratios are studied for this purpose are given below:

Ratio Analysis:

Ratio analysis is very powerful tool of financial analysis. Financial ratios are most frequently and widely used in practice to assess company's financial performance and condition. The tern ratio refers to the numerical or quantitative relationships can be determined. The ratio analysis is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank.

Liquidity Ratios

A liquidity ratio measures the ability of the firm to meet the current obligations. Liquidity ratios are used to judge a firm's ability to meet short- term obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community liquidity provided honor strength health and prosperity to an organization.

The following ratios are evaluated and interpreted under liquidity.

4.1.1 Current Ratio

Current ratio is one of the most widely used measures of liquidity. It measures the degree to which current assets cover current liabilities. The ratio is the yardstick to judge the soundness of the short-term financial position of the business unit or industry. A higher ratio greater indicates greater assurance of ability to pay current liabilities. A current ratio of 2:1 is generally considered to be an acceptable standard.

Symbolically,

$$\textbf{\textit{Current Ratio}} = \frac{\textbf{\textit{Current Assets}}}{\textbf{\textit{Current Liabilities}}}$$

Where,

Current Assets = cash and bank balances, money at call short Notice, loans, cash credit, overdrafts, bill discounted and purchases, investment on government securities and foreign banks, interest receivables, sundry debtors, staff loan & advance, advance tax.

Current Liabilities = Deposits loan and advances bills payable, Income tax payable, staff bonus payable, dividend payable, Interest Payable and sundry creditors. In the following table we can see the data relating to current ratio EBL and BOK.

Table No. 4.1

Calculation of Current Assets to Current Liabilities ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.94	2.59	1.81	1.37	3.16	1.97
BOK	1.53	1.54	1.95	2.29	2.09	1.88

Appendix 1

Above table shows the current ratio of EBL and BOK which looks satisfactory level. Both the Current Assets and Current Liabilities are in increasing trend during the study period of BOK however EBL has fluctuating. The analysis shows the current assets are increasing year after year which means bank's ability to meet its short term obligation is increasing over the period of five years except for the year 2064/65 of EBL. The Banks Current Ratio is between almost 0 and 3 which is very liable from international standard.

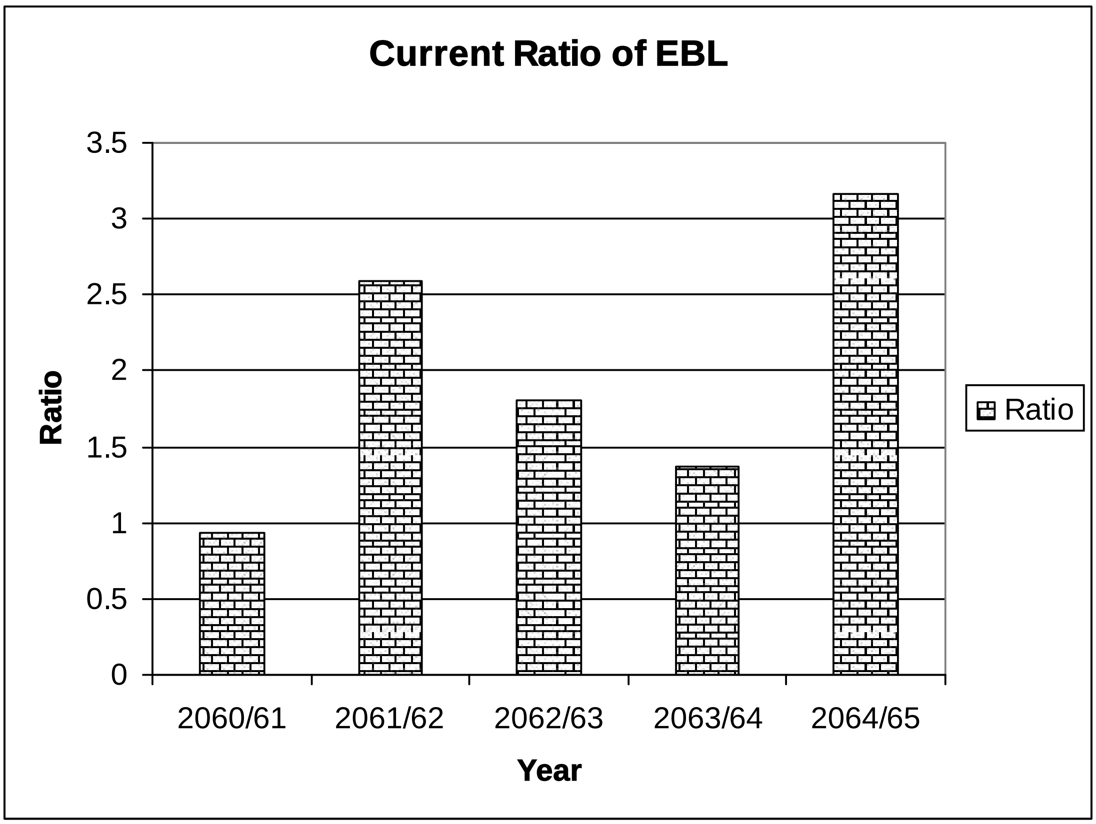


Fig. no. 4.1

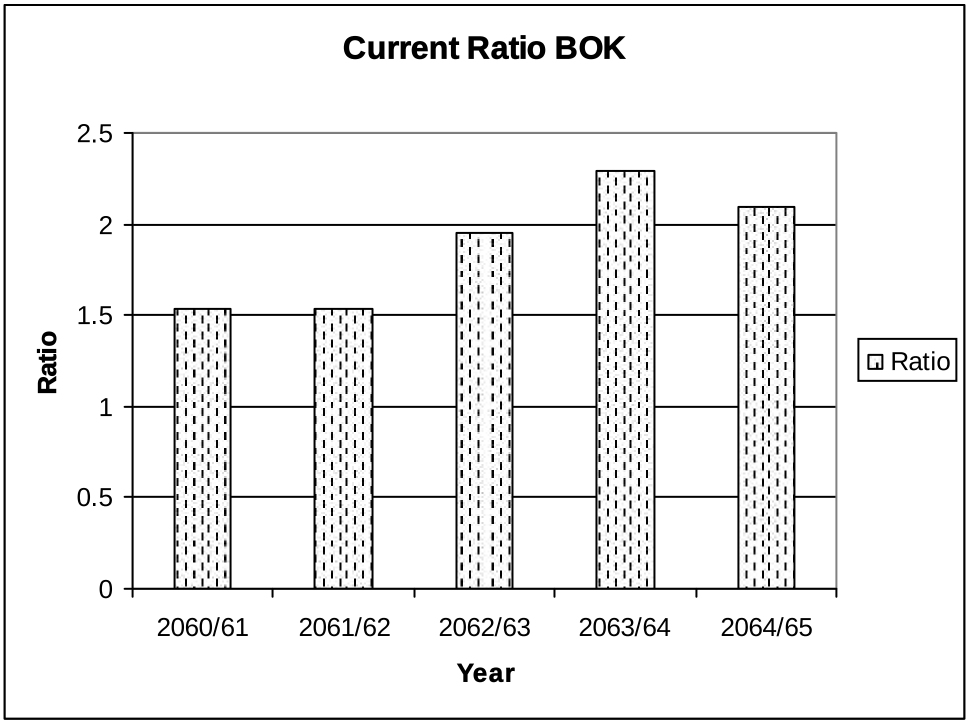


Fig. no. 4.2

4.1.2 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.

We have,

$$= \frac{\textbf{\textit{Total cash and bank balance}}}{\textbf{\textit{Total current assets}}}$$

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

Following table shows the data relating to cash and bank balance to current assets.

Table No. 4.2

Calculation of Cash & Bank Balance to Current Assets Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.77	0.64	0.95	1	0.88	0.85
BOK	0.83	0.80	0.79	0.76	0.82	0.80

Appendix 2

Above table shows the ratio between cash and bank balance to Current Assets. It shows the consistent trend of the ratio during the study period of FY 2060/61 to FY 2064/65. FY 2062/63 and 2063/64 have shown higher proportion of cash and bank balance in comparison with other FY. The proportion is lowest in the year 2061/62.

BOK has consistent of cash and bank balance to current ratio during the study period. It ranges from 0.83 to 0.82 over the five year period. In the fiscal year 2060/61 it has 083 and decline in the year 2062/63 and 2063/64 after that it has been reached 082 in the fiscal year 2064/65. The consistent trend shows the ability to manage deposit withdraws from the customers.

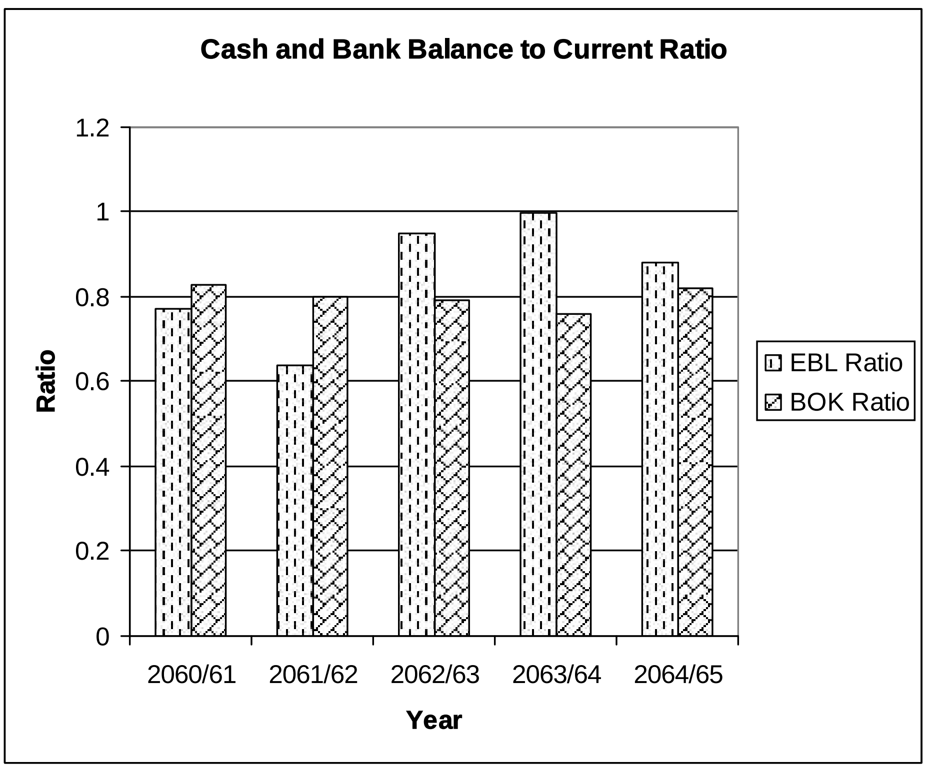


Fig. no. 4.3

4.1.3 Investment in Government Securities to Current Assets Ratio

Government security is 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 asset. Investment on government security to current asset ratio visualizes the proportion of investment on government security to current assets.

We have,

$$= \frac{\textit{\textbf{Investment on Government Securities}}}{\textit{\textbf{Current Assets}}}$$

The following table shows the figure of this ratio

Table No.4.3

Calculation of Investment of Government Securities to Current Assets Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	3.01	1.30	2.05	1.97	1.60	1.98
BOK	1.56	1.68	1.49	1.59	1.84	1.63

Appendix 3

Above table shows increasing trend of investment of EBL to the government securities almost in every year. The percentage have decline marginally from 3.1 to 1.6. BOK has also increasing trend. BOK has 1.56 times investment of government securities to current assets in the fiscal year 2060/61 and reached 1.84 in the fiscal year 2064/65. It has lowest ratio in the fiscal year 2062/63 is 1.49 percent. Investment on government securities is the more safe investment than current assets. In addition it can earn additional interest income by investing instead of keeping idle cash. In conclusion, EBL and has invested its remarkable portion of current asset to government securities.

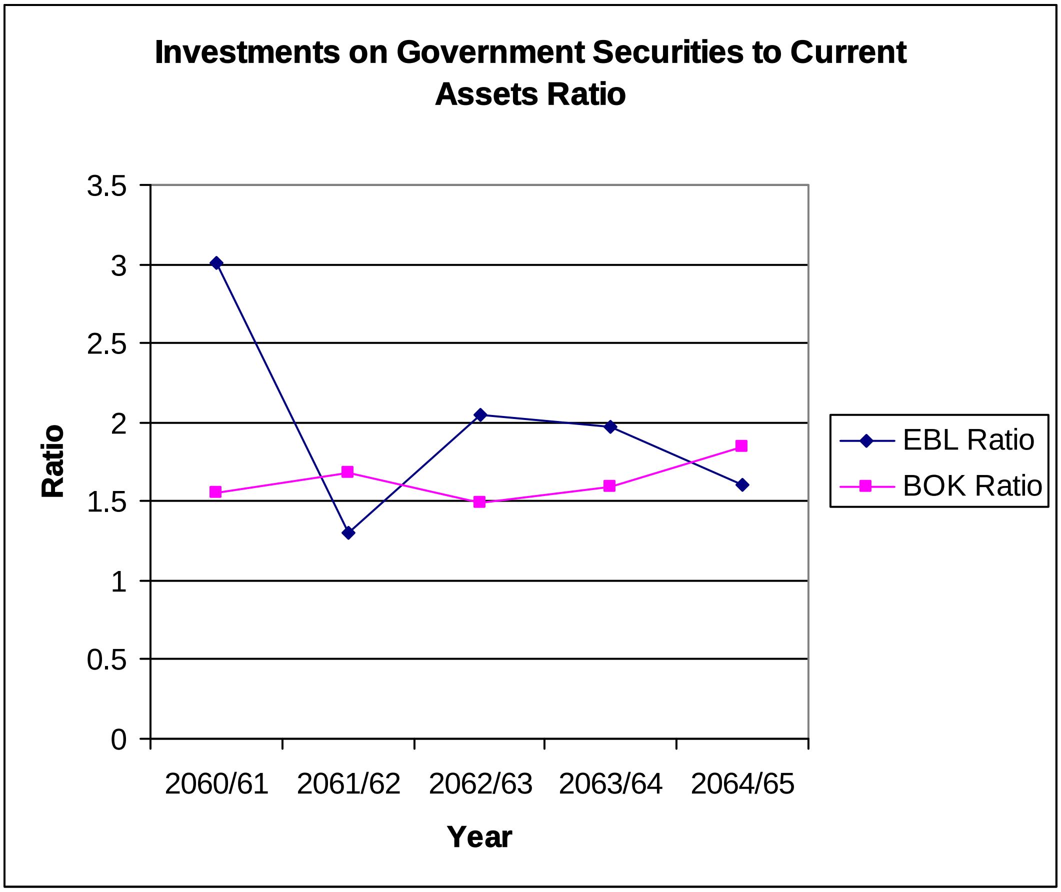


Fig. no. 4.4

4.1.4 Loan and Advance to Current Assets Ratio

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

We have

$$= \frac{\textit{Loan and Advances}}{\textit{Current Assets}}$$

The table below shows the ratio of loan and advance to current asset ratio.

Table No . 4.4

Calculation of Loan and Advance to Current Assets Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	7.1	4.7	6.05	5.71	6.08	5.93
BOK	7.34	6.65	7.08	6.42	7.35	6.97

Appendix 4

The above table shows the ratio between loan and advances to current assets. EBL has ranges loan and advances to current ratio from 7.1 to 4.7 during the study period. The highest ratio of EBL is 7.1 in the fiscal year 2060/61 and lowest ratio in the fiscal year 2061/62. BOK has consistency during the study period. It ranges from 7.35 to 6.42 over the five year study period. This ratio is somewhat fluctuating over the study period. The above discussion helps to conclude that the bank is successful to mobilize its current deposit on loan and advances.

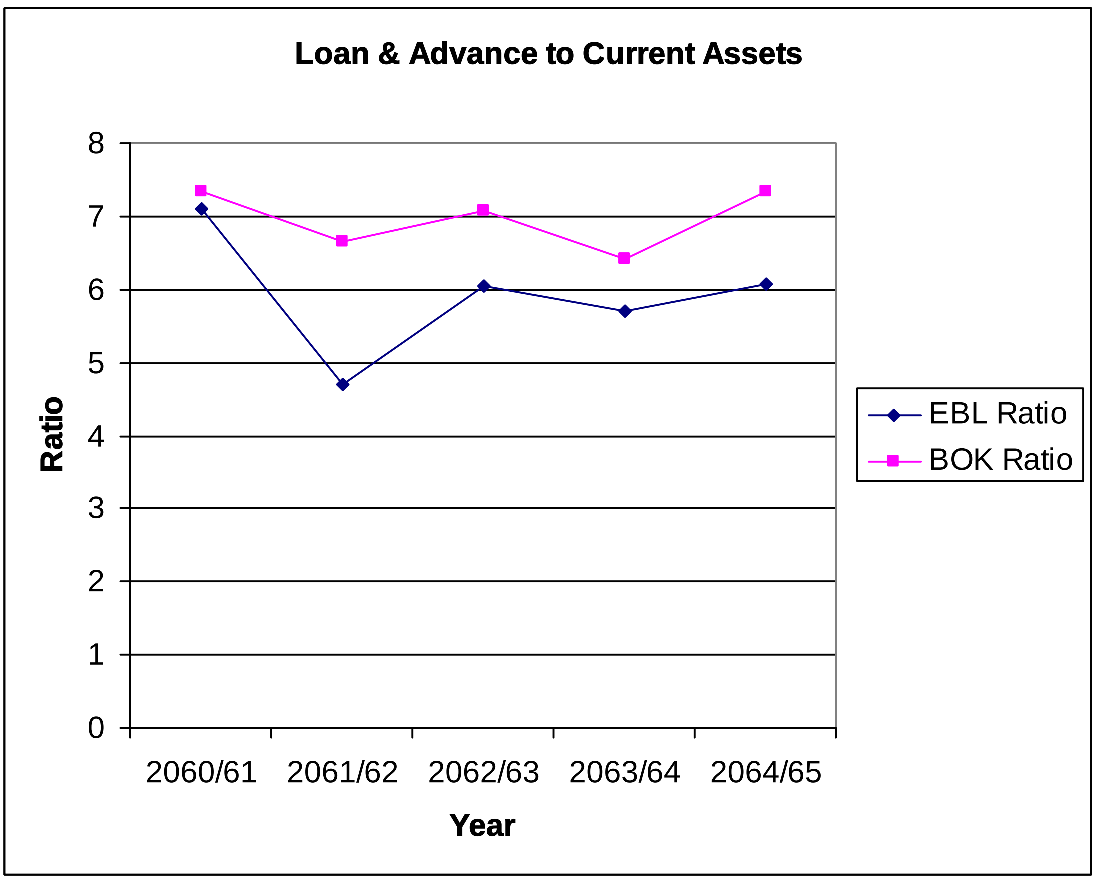


Fig. No. 4.5

4.1.5 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 and bank balance and total deposit measures the ability of bank to meet the unanticipated cash and all types of deposit.

We have,

$$= \frac{\textit{\textbf{Cash and bank balance}}}{\textit{\textbf{Total deposit}}}$$

The following table shows the ratio measurement years

Table No. 4.5

Calculation of Cash and Bank Balance to Total Deposit Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.08	0.10	0.11	0.13	0.11	0.10
BOK	0.09	0.11	0.09	0.10	0.10	0.01

Appendix 5

The above analysis shows fluctuating trend on cash and bank balance to total deposit ratio during the study period of EBL. There is remarkable growth in deposit during the FY 2064/65 from 7% in FY 2060/61 to 11 % during FY 2064/65. The trend shows decrement from 13% during the FY 2063/64 to 11 % during the FY 2064/65. BOK has less fluctuating in comparison with EBL. It's ratio has been ranges from 9 percent to 11 percent during the study period. The highest ratio of BOK is 11 percent in the year 2061/62 and lowest ratio is 9 percent in the fiscal year 2060/61. Thus, the trend shows zigzag trend during the study period of both banks.

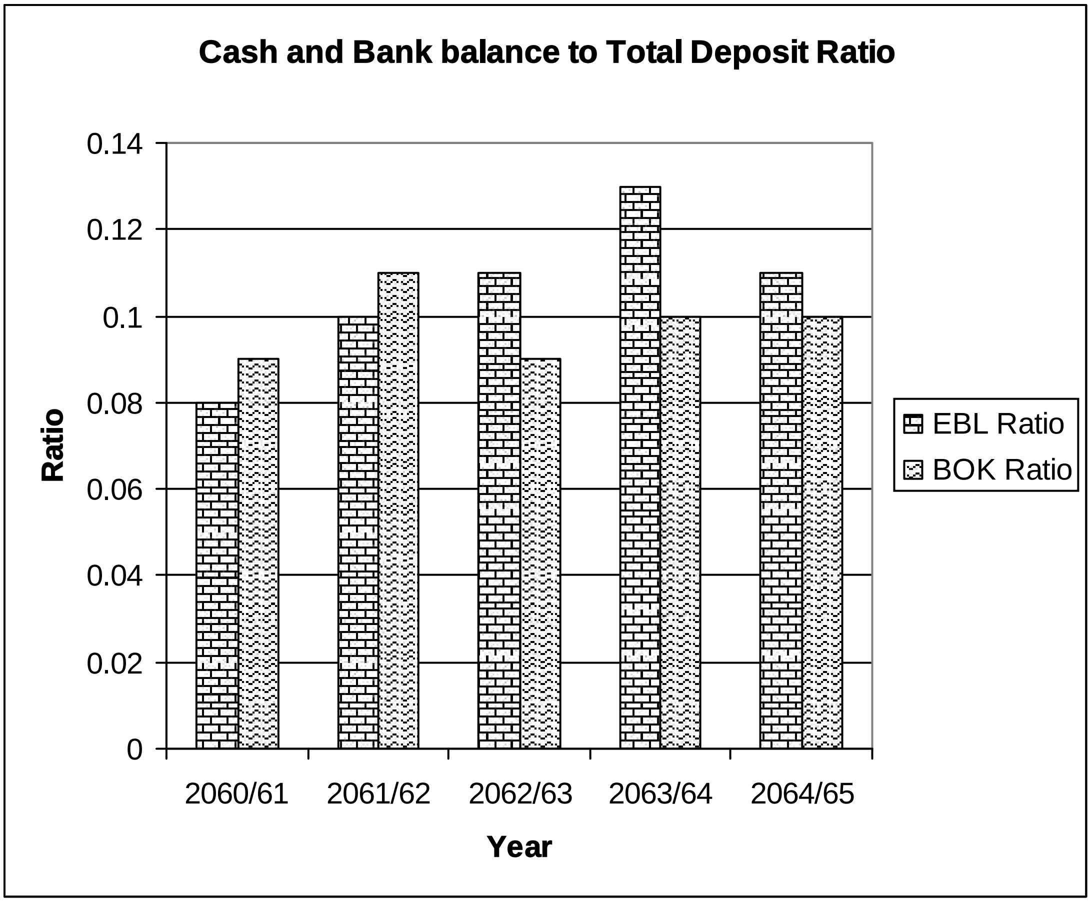


Fig. no. 4.5

Activity Ratio

Funds of creditors and owners are invested in various assets to generate sales and profits. The better the management of assets, the larger the amount of sales. Activity ratios are employed to evaluate the efficiency with which the firm manage and utilizes its assets. Activity ratios, thus, involve a relationship between sales and assets. A proper balance between sales and assets are generally reflects that assets are managed well. Following ratios are used under activity ratio.

4.1.6 Loan and Advances to Total Deposit Ratio

Loans and advances to total deposit ratio is calculated by dividing total loan and advances by total deposit. The core banking function is to mobilize the funds from the depositors to the borrowers. Banks make profit by lending or utilizing the deposited funds by charging a higher rate of interest to the borrowers than they pay to the depositors. Hence they are known to be efficient in utilizing the funds if they can advance a greater proportion of the deposited fund into risk assets. Loans and advances to total deposit ratio measures the extent to which the banks are successful to mobilize the outsider's fund, i.e., total deposit in loans and advances for the purpose of profit generation.

We have,

$$= \frac{\textbf{\textit{Loan and Advances}}}{\textbf{\textit{Total deposit}}}$$

Table No. 4.6

Calculation of Loan and Advance to Total Deposit Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.72	0.75	0.71	0.75	0.76	0.74
BOK	0.84	0.89	0.84	0.83	0.88	0.86

Appendix 6

Above table shows the ratio between loan and advances to total deposit. The trend shows slightly fluctuating trend in case of EBL and consistent in case of BOK. EBL has higher ratio during the FY 2064/65 i.e. 0.76 and lowest ratio during the FY 2062/63 i.e. 0.71. BOK ratio ranges from 0.83 to 0.89 during the five year period. The highest ratio of BOK is 0.89 in the year 2061/62 and lowest ratio is 0.83 in the year 2063/64. In conclusion banks has strong position regarding the mobilization of total deposit on loan and advances and acquiring higher profit. But higher ratio is not better from the point of view of liquidity as the loan and advances is not as liquid as cash and bank balance.

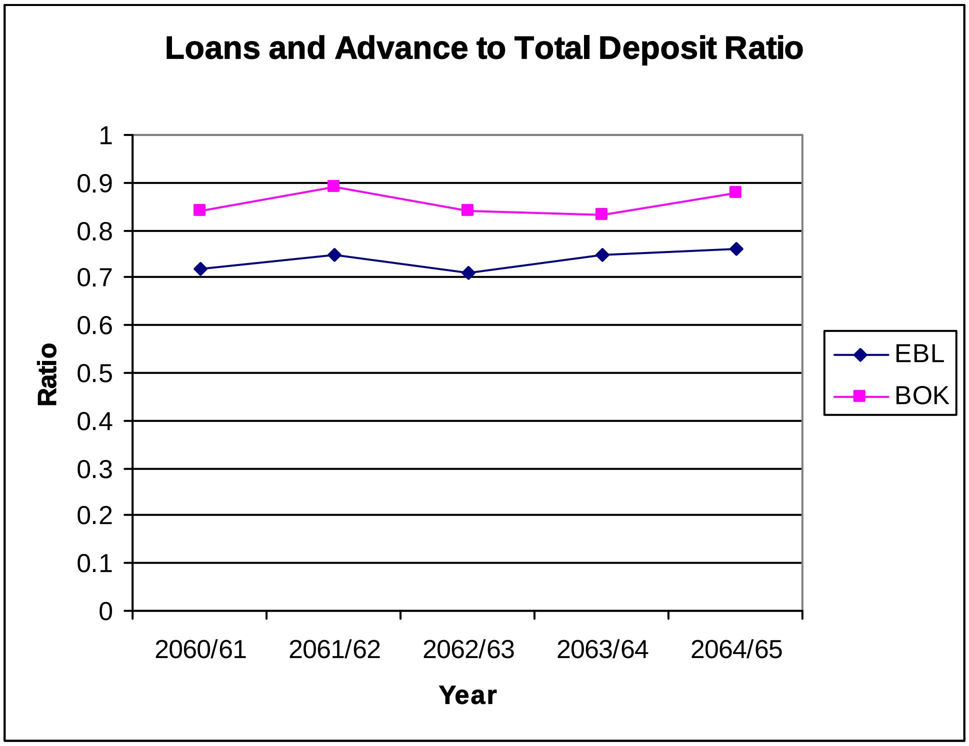


Fig. no. 4.6

4.1.7 Total Investment to Total Deposit Ratio

This ratio calculated by dividing total investment by total deposit. Investment function or funds management is gaining widespread importance in the banking sector. Treasury of the bank is involved in investing the surplus fund with the bank in the income generating investments. In order to fill this gap between borrowing, lending, bank rather go for investments such as treasury bills, government securities, development bonds, overseas placement and inter banking lending.

We have,

$$= \frac{\textit{Total Investment}}{\textit{Total Deposit}}$$

The following table exhibits the ratio of total investments to total deposit.

Table No. 4.7

Calculation of Total Investment to Total Deposit Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.31	0.21	0.3	0.27	0.21	0.26
BOK	0.21	0.22	0.21	0.23	0.23	0.22

Appendix 7

The above table shows fluctuating trend of EBL and consistency trend of BOK of total investment to total deposit ratio during the study period. Both banks have increment their investment out of deposit which is very good mobilization of deposit. EBL has highest ratio 0.31 in the year 2060/61 and lowest ratio 0.21 in the year 2061/62 and 2064/65 respectively. BOK has 0.23 ratio in the year 2063/64 and 2064/65 and 0.21 in the fiscal year 2060/61 and 2062/63 respectively.

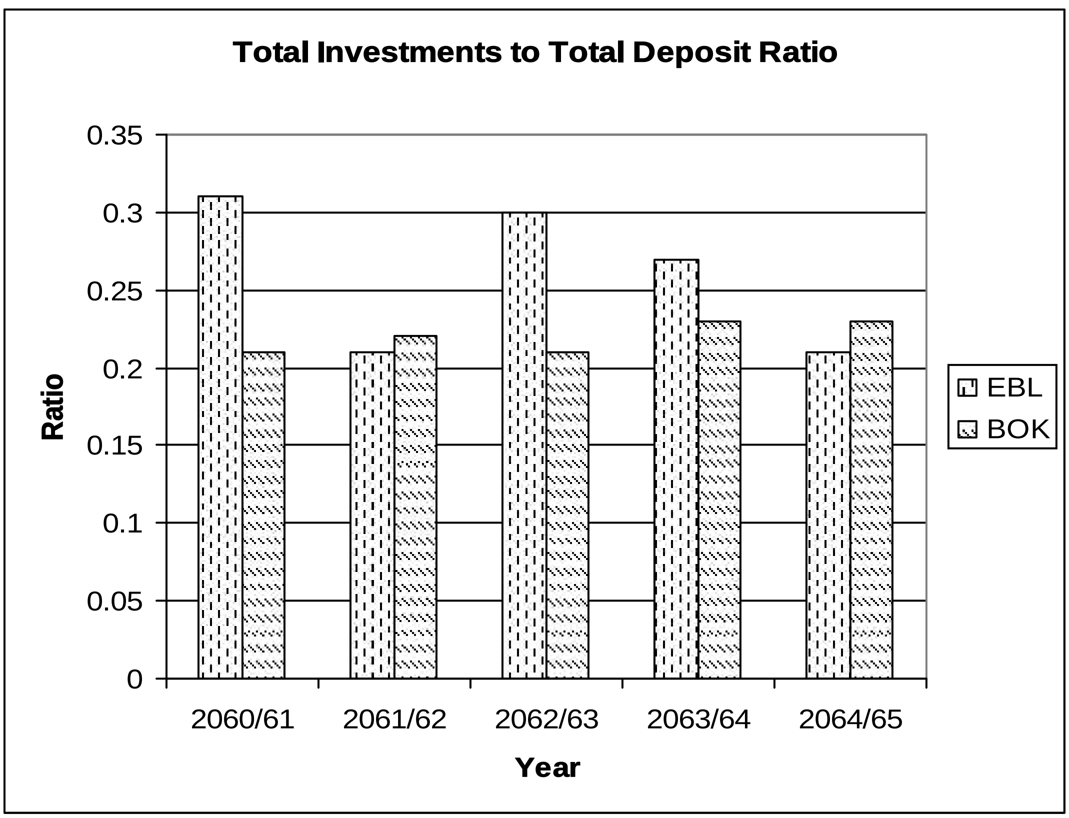


Fig no. 4.7

4.1.8 Loans and Advances to Total Assets ratio.

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

We have,

$$= \frac{\textit{Loan and advances}}{\textit{Total assets}}$$

Total assets are the total assets. It is composed up of current assets, fixed assets, miscellaneous assets, investment, loans for development banks etc. The following table exhibits the ratio of loan and advance to total working fund.

Table No. 4.8

Calculation of Loan and Advance to Total Assets Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.61	0.64	0.61	0.63	0.67	0.63
BOK	0.77	0.75	0.70	0.68	0.70	0.70

Appendix 8

The above table shows the loan and advance to total assets ratio of EBL and BOK over the five year period. EBL has 0.61 in the year 2060/61 and reached 0.67 in the year 2064/65. This ratio is lowest on the FY 2060/61 and 2062/63 which is 0.61. BOK has fluctuating trend during the five year period. BOK has lowest ratio of 0.68 in the fiscal year 2063/64 and highest ratio of 0.77 in the fiscal year 2060/61. The ratio shows the increasing mobilization of assets in the loan and advances and covers respective proportion to total assets.

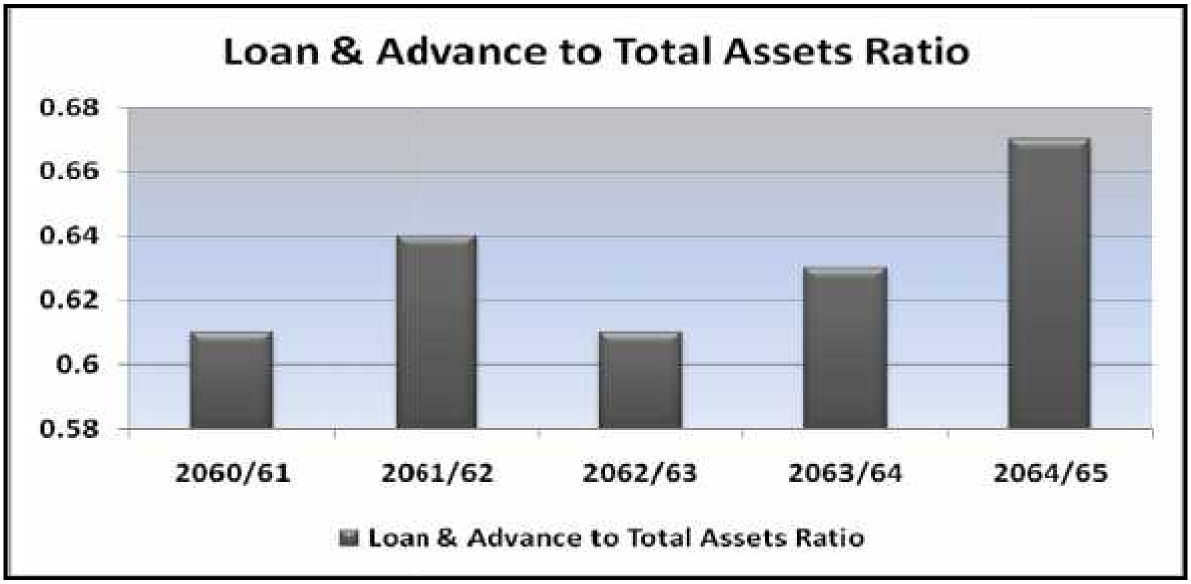


Fig. no. 4.8

Profitability Ratio

A company should earn profits to survive and grow over long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits, irrespective of social consequences. It is unfortunate that the word ‘profit’ is looked upon as a term of abuse since some firms always want to maximize profits at the cost of employees, customers and society. Except such infrequent cases, it is a fact that sufficient profits must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society.

Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate ‘output’ of a company, and it will have No. future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profits. Profitability ratios indicate degree of success in achieving desired profit level. Profitability, ratios, which measures management overall effectiveness, are shown by the returns generated on sales and investment. A bank should be able to earn profit to survive and grow over long period of time profit is the indicator of efficient operation of a bank. The banks acquire profit by providing different services to its customers or by making investment of different kinds. Profitability ratios measure the efficiency of bank. Higher profit ratio shows the higher the efficiency of the bank. The following profitability ratios are related to study in this heading.

4.1.9 Return on Equity and Relation between Debt & Equity

If bank can mobilize its equity capital properly, they can earn high profit. The return on equity capital measures the extent to which a bank successful to mobilize its equity. We have,

$$= \frac{\textit{Net Profit}}{\textit{Total Equity Capital}}$$

Equity capital includes paid up equity, profit and loss account, various reserve, general loan, loss provision etc. The table below shows the ROE in different years during the study period.

Table No. 4.9

Calculation of Net Profit to Total Equity Capital

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.31	0.37	0.45	0.57	0.54	0.44
BOK	0.20	0.22	0.25	0.26	0.28	0.24

Appendix 9

The above table shows the net profit to total equity ratio of EBL and BOK. Both banks have increasing trend of ratio during the study period. EBL ratio has been ranges from 0.31 to 0.54 and BOK ratio ranges from 0.20 to 0.28. The ratio has slightly decreased at the end of the study period. The trend shows the bank have not been utilizing its equity capital. It shows the diminishing performance in utilizing the equity capital, though it have shown remarkable pick up in the final year of study period.

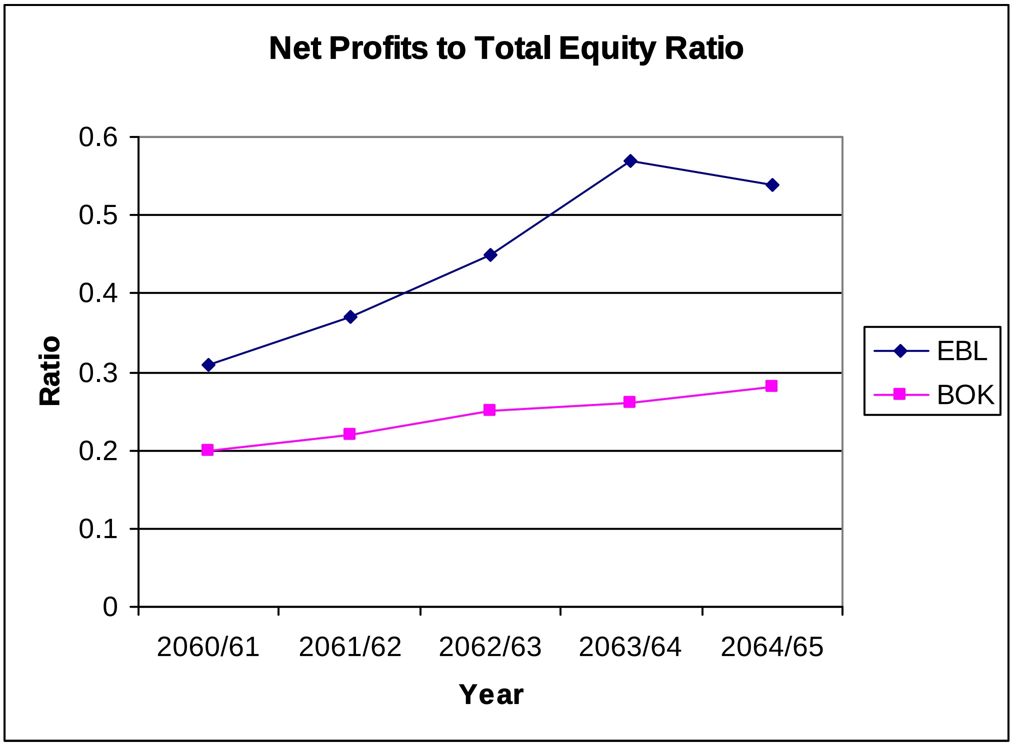


Fig. no. 4.8

4.1.10 Interest Earned to Total Assets 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 of high earning power of the bank on its total working fund and vice versa.

We have,

$$= \frac{\textit{Interest Earned}}{\textit{Total Assets}}$$

Table No. 4.10

Calculation of Interest Earned to Total Assets Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.07	0.06	0.06	0.05	0.06	0.06
BOK	0.07	0.07	0.06	0.06	0.06	0.064

Appendix 10

Above table shows the analysis of the ratio between interests earned to total assets of EBL and BOK during the five year period. The trend of interest earned of EBL shows fluctuating during the study period. It has highest ratio of 7 percent in FY 2060/61 and the lowest of 5 percent in FY 2063/64. BOK has 7 percent in the year 2060/61 and 2061/62 and remains 6 percent in the year 2062/63, 2063/64 and 2064/65 respectively. From the above table it can be concluded that the ratio of total interest earned to total assets is not much satisfactory. This shows the bank is not successful in earning interest income.

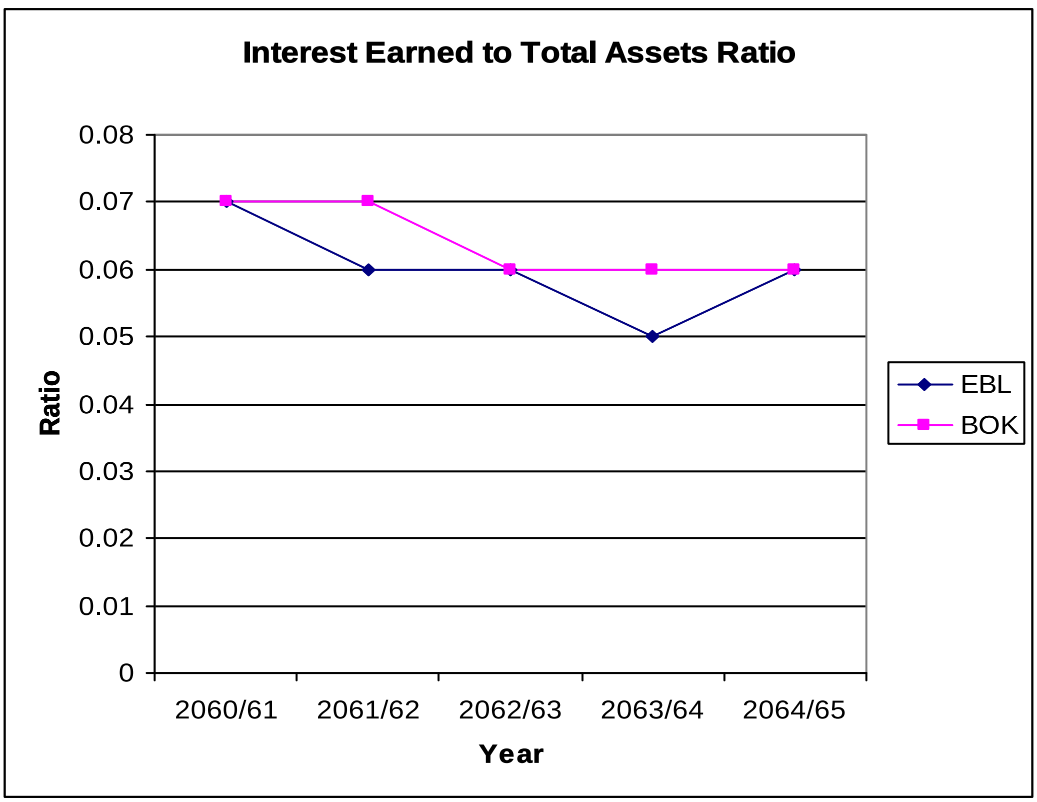


Fig. no. 4.9

4.1.11 Interest paid to Total Assets Ratio

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

We have,

$$= \frac{\textbf{\textit{Interest Paid}}}{\textbf{\textit{Total Assets}}}$$

The following table shows the figure of this ratio.

Table No. 4.11

Calculation of Interest Paid to Total Assets Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.03	0.03	0.03	0.02	0.02	0.026
BOK	0.03	0.02	0.02	0.03	0.03	0.026

Appendix 11

The above table shows the ratio between interest expenses to total assets. The table shows the diminishing trend of ratio of EBL during the study period. It has the maximum of 3 percent of ratio in the FY 2060/61 and minimum of 2 percent in the FY 2064/65. The analysis shows EBL has lower interest expenses and it has been decreasing during the study period. BOK has fluctuating trend during the study period. BOK has 3 percent in the year 2060/61 and decline 2 percent in the year 2061/62 and it has also increased 3 percent in the year 2063/64 and 2064/65.

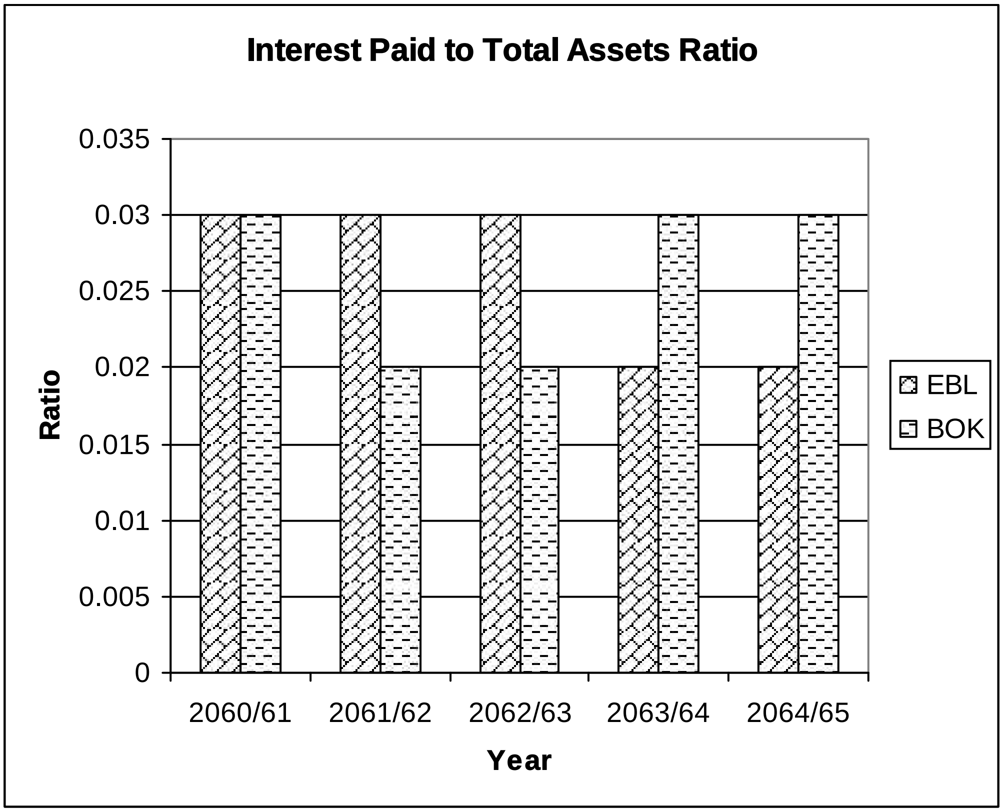


Fig. no. 4.11

4.1.12 Interest Earned to Operating Income Ratio

This ratio reflects the extent to which the bank has successfully mobilized its fund in interest bearing assets. It measures the magnitude of interest income in total income.

We have,

$$= \frac{\textit{Total Interest Earned}}{\textit{Total Operating Income}}$$

Total operating income includes the interest income, commission and discount, income from dividend, foreign exchange income and others.The following table shows the figure of this ratio

Table No. 4.12

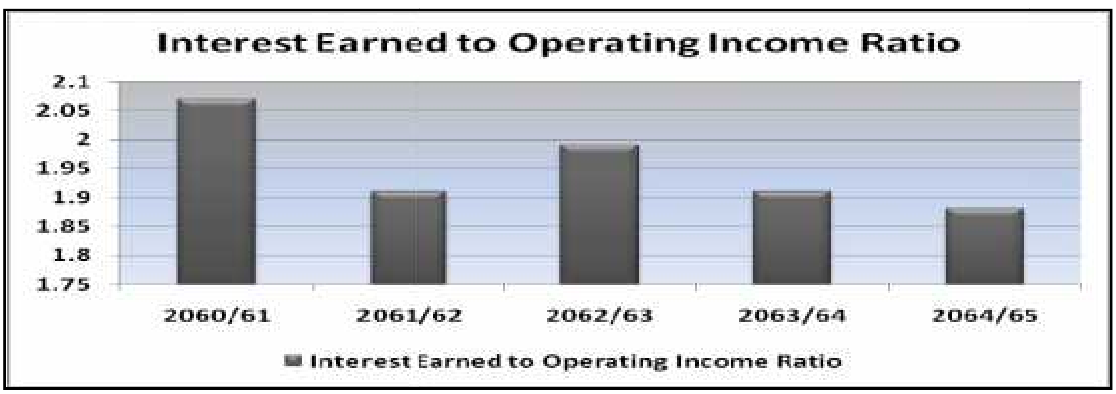
Calculation of Total Interest Earned to Total Operating Income Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	2.07	1.91	1.99	1.91	1.88	1.952
BOK	1.59	1.61	1.59	1.56	1.52	1.574

Appendix 12

The above table shows the ratio between total interests earned to total operating income. Both banks trend of this ratio has been decreased during the study period. EBL has maximum ratio of 2.07 in the year 2060/61 and gradually decline every year and reached 1.88 in the year 2064/65. BOK has fluctuating trend of ratio during the study period. BOK has highest ratio 1.61 in the year 2061/62 and lowest in the year 6064/65. The trend show interest earning of the bank covers larger portion in total operating income. It can be concluded that the bank has the satisfactory position regarding the mobilization of interest bearing assets such as loan and advances and investment.

Figure 1Interest Earned to Operating Income Ratio



4.1.13 Return on Total Assets Ratio

It measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks total assets are well managed and efficiency utilized.

We have,

$$= \frac{\textit{Net Profit}}{\textit{Total Assets}}$$

Net profit includes the profit that is left to the internal equities after all costs, charge and expense. Following tables shows the figure of this ratio.

Table No. 4.13

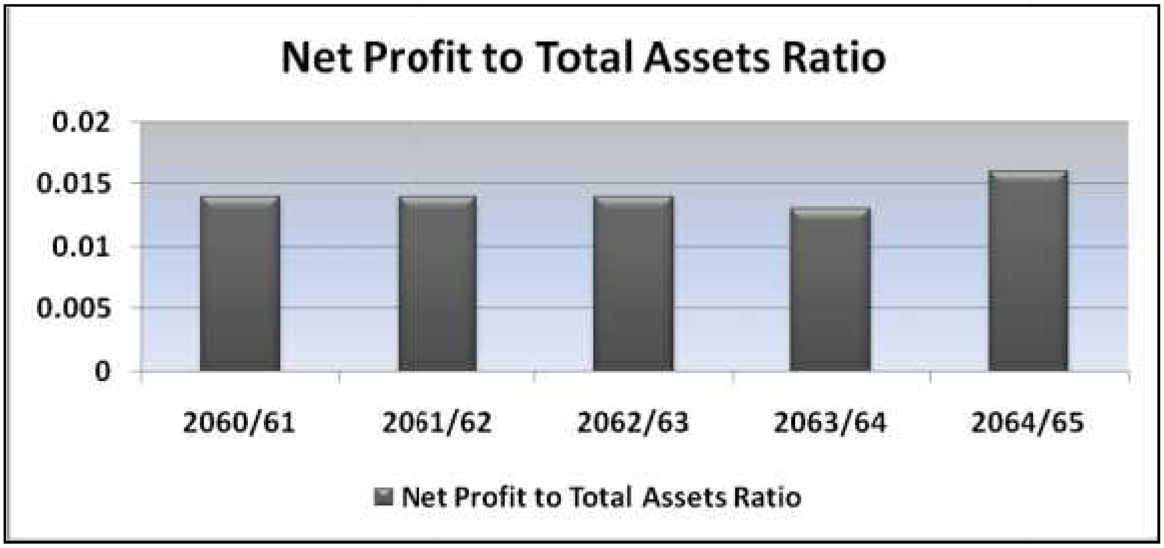
Calculation of Net Profit to Total Assets Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.01	0.01	0.01	0.02	0.02	0.018
BOK	0.02	0.02	0.02	0.02	0.03	0.022

Appendix 13

The above table shows the ratio between net profit and total assets. It shows the profitability ratio of bank is very consistent. Both banks have an increasing trend. EBL has 0.01 ratio in the year 2060/61 and reached 0.02 in the year 2064/65. BOK has 0.02 in the year 2060/61 and reached 0.03 in the year 2064/65. From the above analysis, it can be concluded that the profitability with respect to financial resources investment of the bank asset is satisfactory.

Figure 2.13 Net Profit to Total Assets Ratio



4.1.14 Return on Loans and Advances Ratio

It measures the earnings capacity of commercial banks on its deposits mobilized on loan and advances. We have,

$$= \frac{\textit{Net Profit}}{\textit{Loan and Advances}}$$

The following tables show the figure of this ratio

Table No. 4.14

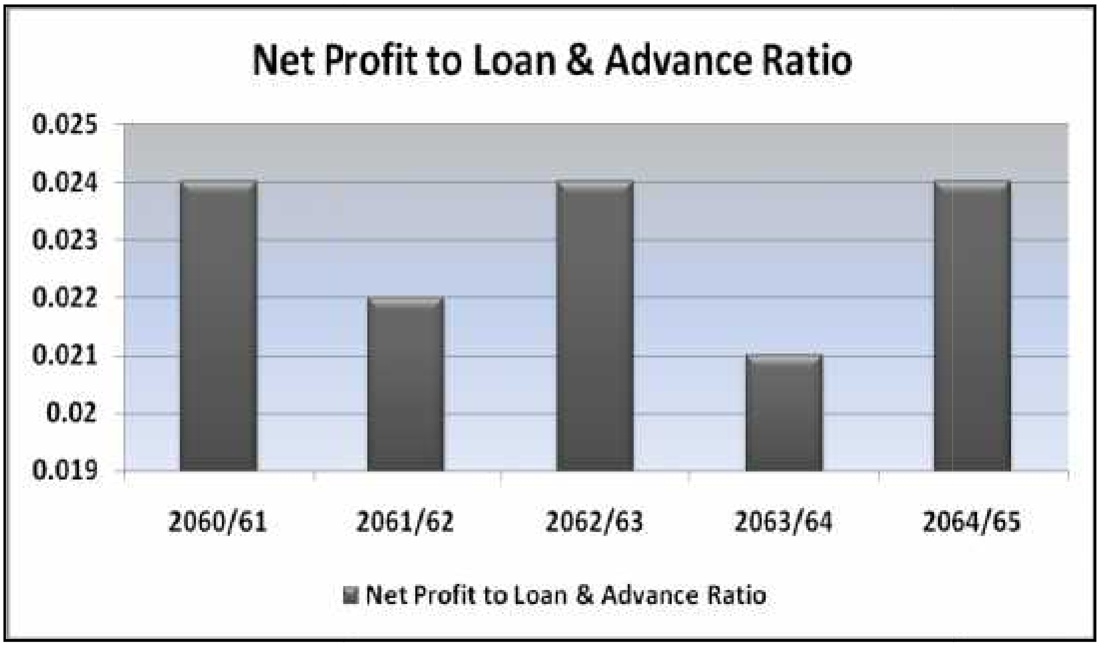
Calculation of Net Profit to Loan and Advance Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.02	0.02	0.03	0.02	0.03	0.024
BOK	0.02	0.03	0.03	0.03	0.02	0.026

Appendix 14

Above table shows the ratio between net profit to loan and advances. The above table shows that both the Net Profit and Loan and advances are increasing continuously during the study period. The trend seems to be zigzag during the study period. EBL has highest ratio of 0.03 in the FY, 2062/63 and 2064/65 and lowest ratio of 0.02 in the FY 2063/64, 2060/61 and 2061/62 respectively. BOK has 0.02 ratio in the year 2064/65 and 2060/61 and 0.03 in the year 2061/62, 2062/63 and 2063/64 respectively. The banks have lower ratio of net profit to loan and advances generated by them. The bank has not been to maintain respective and stable net profit to loan and advances during the study period.

Figure 2.14 Profits to Loan & Advance Ratio



4.1.15 Earning Per Share (EPS)

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

$$= \frac{\textit{Net income available to common stock holders}}{\textit{Total No. of common stock outstanding}}$$

The following table shows the EPS of respective banks taken for the study.

Table No. 4.15

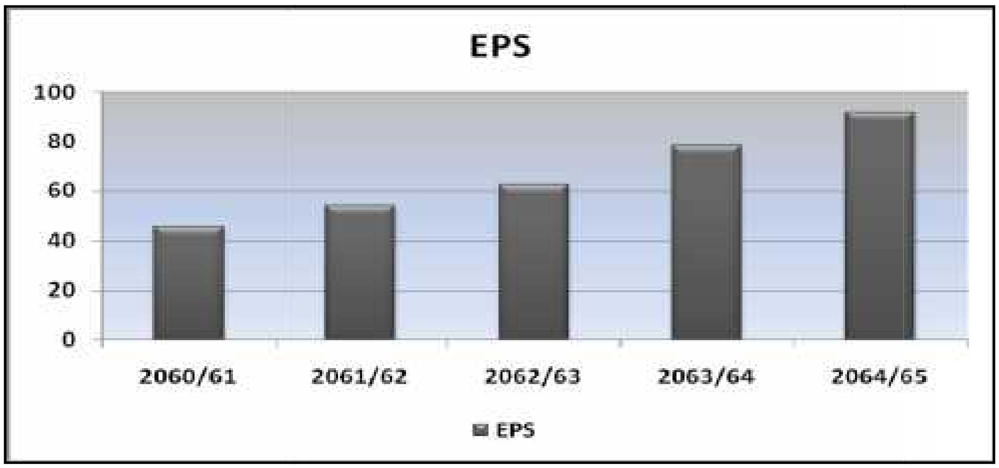
Calculation of Net Profit After Tax to Number of Common Stock Outstanding

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	45.57	54.22	62.77	78.41	91.82	66.56
BOK	38.09	40.96	36.87	39.22	38.24	38.68

Appendix 15

The above table shows the trend of EPS of EBL and BOK. EBL has been continuously increasing EPS during the study period. The EPS have increased to Rs. 91.82 during the FY2064/65 from Rs. 45.57 during the FY 2060/61. BOK has fluctuating trend of EPS during the study period. It ranges from Rs. 36.87 to Rs. 40.96 over the five year period. Thus the trend seems to be increasing so it can be concluded that the EPS of the EBL is satisfactory. It is good trace of operation performance of bank.

Figure 2.15 Earning Per Share



Leverage/ Capital Structure Ratio

Leverage ratio shows the proportion of debt capital and equity capital. It shows the long-term solvency of the firm. It judges the long-term financial position of the firm. Shareholder stands to gain with capital gearing during times of good profit as the debt capital is paid fixed interest and all balance of profit is available to equity holders. But in times of low profits, the payments of fixed interest on high debt capital may absurd all the profits leaving nothing for the shareholders. That’s why at the time of high profit leverage is favorable and unfavorable when profits are too low.

Hence, the leverage ratios are calculated to measure the financial risk and the firm’s ability if using debt for the benefit of shareholders.

- Total debt to net worth ratio

- Total debt to equity ratio
- Net worth to total liabilities ratio

4.1.16 Total Debt to Net Worth Ratio

Total debt to net worth ratio measures the relative claim of outsiders and owner over the banks assets. Indicating the extent of debt financing in the bank compared to net worth financing. A very low debt or net worth ratio is disadvantageous from the owner's point of view, especially in the situation where the bank is earning a higher return on capital employed. Since with the increase in debt, bank can enhance its return on total fund, trading on equity policy is very much favored in this kind of situation.

However, a very high debt to net worth is also favorable, because debts are considered to be more risky than equity funds in the sense that the bank has a compulsory legal obligation to pay interest to the debt holders, irrespective of the profit made or losses incurred. Therefore an appropriate mix o debt and owner's fund is desired by the banks.

We have

$$= \frac{\textit{Total Debt}}{\textit{Net Worth}}$$

Table No. 4.16

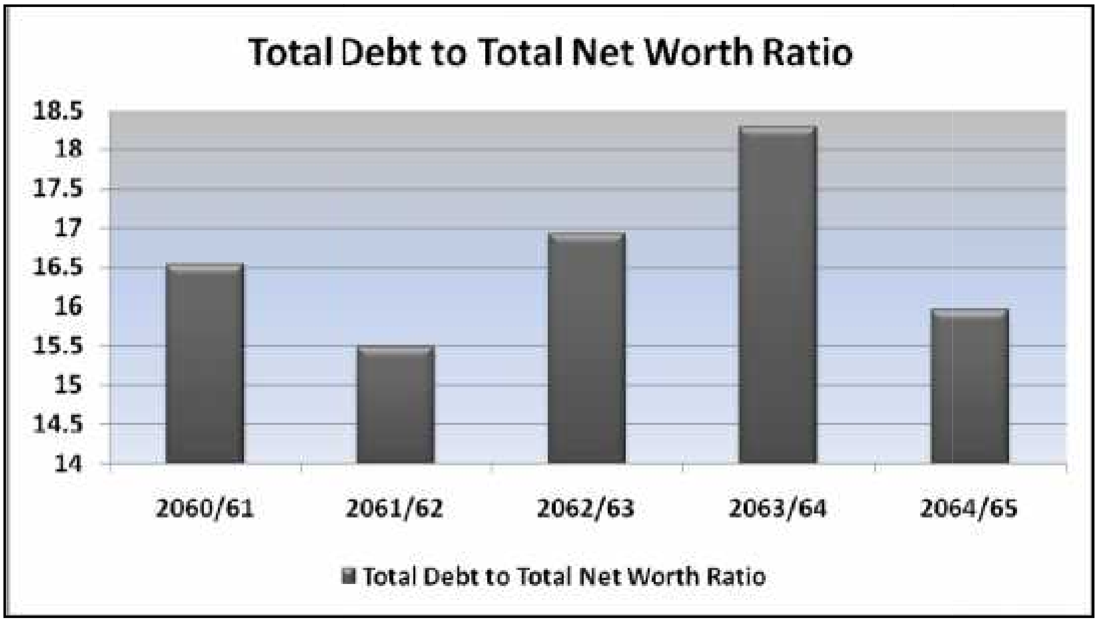
Calculation of Total Debt to Net Worth Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	16.52	15.48	16.93	18.28	15.95	16.63
BOK	14.28	13.33	10.58	10.26	10.06	11.70

Appendix 16

Above table shows the analysis of total debt to net worth ratio of EBL and BOK. EBL total debt to net worth is in decreasing trend during the study period, except it starts to increase during the FY 2062/63 i.e. 15.48 of FY 2061/62 to 16.93 in 2062/63. The highest ratio is 18.28 which is at the FY 2063/64 and lowest is in the FY 2061/62 i.e. 15.48. BOK has also decreasing trend of ratio during the study period. It has 14.28 in the year 2060/61 and reached 10.06 in the fiscal year 2064/65 after declining every year.

Figure No. 2.16 Total Debt to Total Net worth Ratio



4.1.17 Debt to Equity Ratio

Debt equity ratio is used to measure the creditors' claim against the owners' claims. The total debt obligation is measured as ratio of the total shareholder's equity. It is computed by dividing total debt by shareholder's equity. It also indicates the composition of debt to equity in the capital structure.

We have,

$$= \frac{\textit{Total Debt}}{\textit{Total Equity}}$$

Table No. 4.17

Calculation of Total Debt to Total Equity Ratio

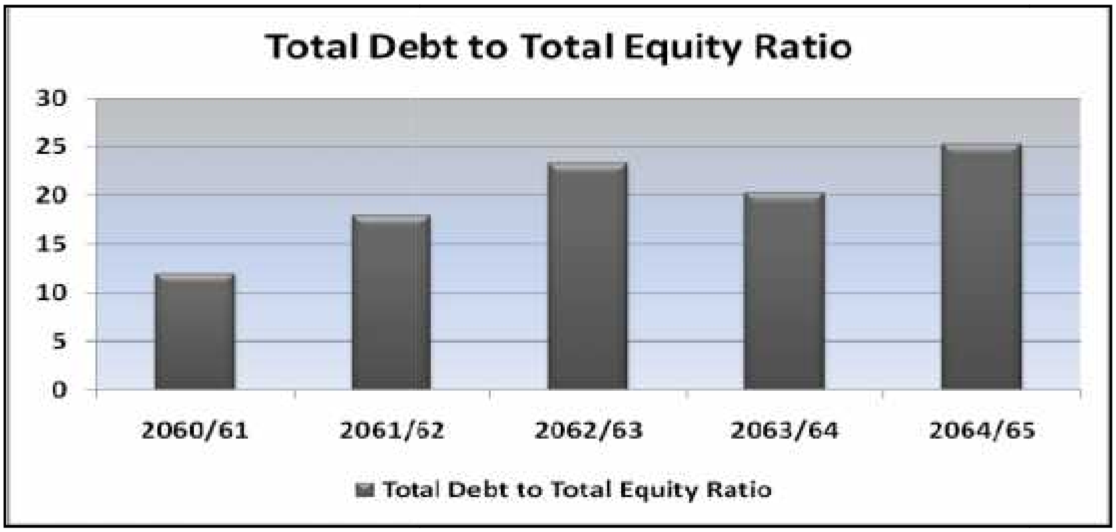
Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	11.9	17.86	23.22	20.23	25.22	19.69

BOK	10.42	12.35	13.56	15.45	18.57	14.07

Appendix 17

The above table shows the debt to equity ratio of EBL and BOK. It shows the composition of debt and equity in the capital structure. Both banks ratio are increasing substantially. EBL has highest ratio of 25.22 in the FY 2064/65 and lowest is in the 11.90 in FY 2060/61. BOK has highest ratio of 18.57 in the year 2064/65 and lowest ratio of 10.42 in the year 2060/61. There is substantial difference in highest and lowest point of the ratio during the five year study period.

Figure 2.17 Total Debt to Total Equity Ratio



4.1. 18 Net worth to total liabilities Ratio

This ratio is sometime preferred in addition to debt equity ratio to judge the overall risk of the company. The real strength of the net worth of a company should be judged in relation to its total liabilities. This ratio outweighs the deficiency of debt equity and helps to assess the relative position of net worth as compared to all liabilities of the business.

We have,

$$= \frac{\textit{Net worth}}{\textit{Total liabilities}}$$

Table No. 4.18

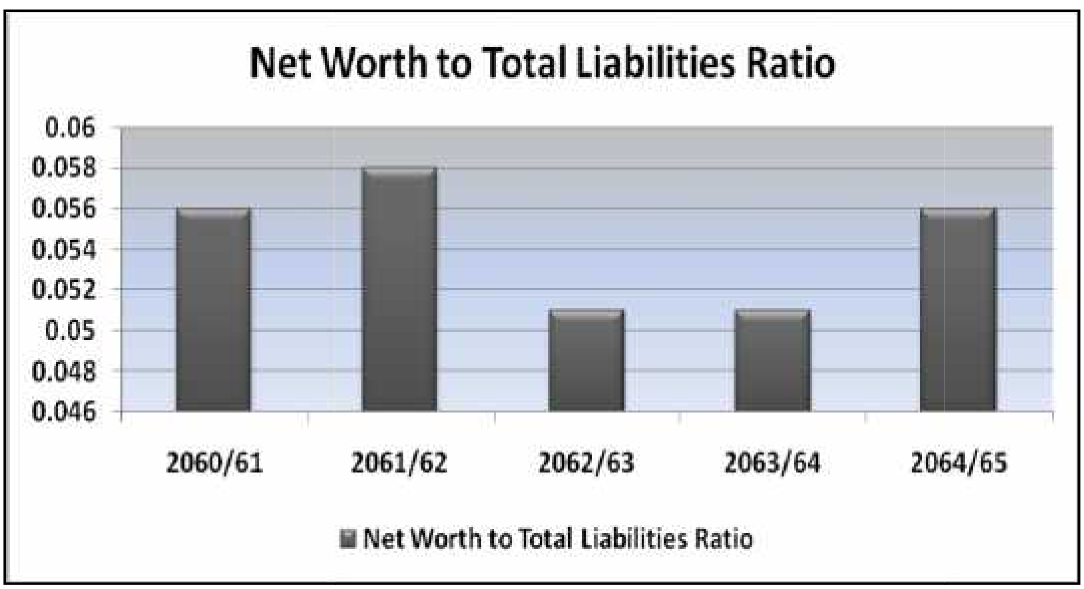
Calculation of Net Worth to Total Liabilities Ratio

Name of Banks	Fiscal Year					
	2060/061	2061/062	2062/063	2063/064	2064/065	Mean
EBL	0.06	0.06	0.05	0.05	0.06	0.056
BOK	0.05	0.05	0.08	0.08	0.09	0.07

Appendix 18

The above table shows the ratio between net worth to total liabilities ratio of EBL and BOK. EBL has consistent to some extent compared with BOK. EBL has ratio of 0.05 in the fiscal year 2062/63 and 2063/64 and 0.06 in the year 2060/61, 2061/62 and 2064/65 respectively during the study period. BOK has fluctuating trend during the study period. It has highest ratio of 0.09 in the year 2064/65 and lowest ratio in the year 2060/61 and 2062/63 respectively.

Figure 2.18 Net Worth to Total Liabilities Ratio



4.2 Statistical Tools

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

4.2.1 Coefficient of correlation Analysis

Under this chapter Karl Pearson's coefficient is used to find out the relationship between deposit and loan and advances, deposit and total investment and outside and net profit.

4.2.2 Coefficient of correlation between deposit and loan and advances

Deposits have played a very important role in performance of a commercial bank and similarly loan advances are important to mobile the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between two variables. In this analysis, deposit is independent variable (X) and Loan and advances is dependent variables (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used on loan and advances in a proper way of No. t. The following table shows the value of "r", "r"^{2} , Probable error (P. ER) and 6 P.ER between deposit and loan and advances for the study period 2060/61 to 2064/65.

Table No. 4.19

Correlation between Deposit and Loan & Advances

	r.	**r^2**	**P.Er**	**6P. Er**
EBL	0.999	0.998	0.001	0.006
BOK	0.989	0.988	0.003	0.009

The above table shows that coefficient of correlation between deposit and loan and advances of EBL is 0.999, which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination (r^2) is to be found 0.998, which shows that 99.8% in the dependent variable has been explained by independent variable. More of P.Er i.e. 0.001, which means the relation deposit and loans and advances is significant. In other words EBL is successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.999 and comparing it with 6P.Er i.e. 0.006, we can say that the value of r is more than 6 P.Er, which reveals that there is significant relationship between deposit and loan and advances.

The above table shows that coefficient of correlation between deposit and loan and advances of BOK is 0.989, which shows higher positive correlation between these two variables. Similarly the value of coefficient of determination (r^2) is to be found 0.988, which shows that 98.8% in the dependent variable has been explained by independent variable. More of P.Er i.e. 0.003, which means the relation deposit and loans and advances is significant. In other words BOK is successful to mobilize its fund in proper way in loan and advances. Similarly considering the value of (r) i.e. 0.988 and comparing it with 6P.Er i.e. 0.009, we can say that the value of r is more than 6 P.Er, which reveals that there is significant relationship between deposit and loan and advances.

4.2.3 Coefficient of correlation between deposit and total investment.

Coefficient of correlation between deposit and total investment measure the degree of relation between these two variables. Here deposit is independent variable (x) and total investment is dependent variable (y). The purpose of computing co-efficient of correlations between deposit and total investments to find whether deposit is significantly used as investment or No. t. The following table shows the variable of r, (r^2), P.Er and 6 P. Er between deposit and total investment for the study period 2060/61 to 2064/65.

Table No. 4.20

Correlation between deposit and total investment

	r.	**r.^{2}**	**P.Er**	**6. P. Er**
EBL	0.970	0.941	0.02	0.12
BOK	0.975	0.954	0.03	0.15

From the above table, we find that coefficient of correlation between deposit (independent) and total value of EBL r is 0.970. It shows positive relationship between two variables however by application of coefficient of determination the value of (r^2) is 0.941, which indicates that he 94.1% of the valuation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error since the value of r is i.e. 0.970 is more than six times of P.Er i.e. 0.12. So we can say that there is significant relationship between total deposit and total investments. Lastly, it can be said that the bank has followed the policy of maximizing the investment of their deposits.

From the above table, we find that coefficient of correlation between deposit (independent) and total value of BOK r is 0.975. It shows positive relationship between two variables however by application of coefficient of determination the value of (r^2) is 0.954, which indicates that he 95.4% of the valuation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error since the value of r is i.e. 0.975 is more than six times of P.Er i.e. 0.15. So we can say that there is significant relationship between total deposit and total investments. Lastly, it can be said that the bank has followed the policy of maximizing the investment of their deposits.

4.2.4 Coefficient of correlation Between Deposit and net profit

Coefficient of correlation “r” between deposit and net profit measures the degree of relationship between these two variables. Here deposit is independent variable (x) and net profit is dependent variable (y). The purpose of computing coefficient of correlation between deposit and net profit is to find out whether the net profit is significantly correlated with respective deposit or No. t.

Table No. 4.21

Coefficient of Correlation Between deposit and Net profit

	r.	**$r.^2$**	**P.Er**	**6.P.Er**
EBL	0.974	0.949	0.015	0.0924
BOK	0.972	0.951	0.012	0.0896

From the above table it has been found that the coefficient of correlation between total outside assets (independent) and net profit (dependent) of EBL is 0.974, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is r^2 i.e 0.949 indicates 94.9% of the variation in the dependent variables (net profit) has been explained by the independent variable (total outside assets) moreover by considering the probable error we can further say that there is significant relationship between total assets and net profit because the value of r i.e. 0.974 is greater than six times P.Er i.e 0.0924. It indicates that EBL is capable of earning net profit by mobilizing its total outside assets.

From the above table it has been found that the coefficient of correlation between total outside assets (independent) and net profit (dependent) of BOK is 0.972, which indicates positive correlation between these two variables. Considering the value of coefficient of determination is r^2 i.e. 0.951 indicates 95.1% of the variation in the dependent variables (net profit) has been explained by the independent variable (total outside assets) moreover by considering the probable error we can further say that there is significant relationship between total assets and net profit because the value of r i.e. 0.972 is greater than six times P.Er i.e. 0.0896. It indicates that BOK is capable of earning net profit by mobilizing its total outside assets.

4.3 Major Finding of the Study

Major finding of this study are:

- Current Ratio of EBL and BOK looks satisfactory level. Both the Current Assets and Current Liabilities are in increasing trend during the study period of BOK however EBL has fluctuating. The Banks Current Ratio is between almost 0 and 3 which is very liable from international standard. EBL Investment in government securities to current assets is increase almost in every year. The percentage have decline marginally from 3.1 to 1.6. BOK has also increasing trend. BOK has 1.56 times investment of government securities to current assets in the fiscal year 2060/61 and reached 1.84 in the fiscal year 2064/65. Investment on government securities is the more safe investment than current assets.

- Cash and Bank balance to Current Assets ratio of both banks shows the consistent trend of the ratio during the study period of FY 2060/61 to FY 2064/65. FY 2062/63 and 2063/64 have shown higher proportion of cash and bank balance in comparison with other FY. The proportion is lowest in the year 2061/62. BOK has consistent of cash and bank balance to current ratio during the study period. It ranges from 0.83 to 0.82 over the five year period.

- Total investment to total deposit ratio during the study period of both banks have increment their investment out of deposit which is very good mobilization of deposit.

EBL has highest ratio 0.31 in the year 2060/61 and lowest ratio 0.21 in the year 2061/62 and 2064/65 respectively. BOK has 0.23 ratio in the year 2063/64 and 2064/65 and 0.21 in the fiscal year 2060/61 and 2062/63 respectively.

- The bank could invest the liquid to various sectors maintaining minimum balance according to NRB directives The analysis of investment of government securities to current assets ratio shows the bank have maintain satisfactory level of investment to government securities. The bank has not diversified the investment to other than risk free investment. The analysis of loan and advance to current assets ratio shows the high and consistency level of ratio, which says there is good mobilization of liquid assets.
- The analysis of cash and bank balance to total deposit ratio shows the ratio is fairly good and have liquid assets enough to pay paid up capital. Loan and advances ratio shows bank have been able to mobilize the funds collected from the depositors to the borrowers. The ratio is satisfactory and encouraging. The total investment ratio to total deposit ratio shows that ratio have increased remarkably during the study period which indicates that bank is performing quite well in mobilizing deposits into income generating investment. The loan and advances to total assets ratio indicates satisfactory position of the bank. The ratio should be higher than current position.

- In the context of return on equity, the bank has been able to maintain satisfactory level of ROE. However, the mobilization of equity capital has increased in last year of study period which shows the efficiency increased by the bank. In context of interest earned to total assets ratio, the bank shows consistency level in earning interest through the proper utilization of deposits. In context of interest paid to total asset ratio, the bank have shown decrement in payment of interest, which says that the deposit of the fund have decreased. The bank should be encouraging the deposit through proper promotion tools.

- In context of interest earned to operating income ratio, it shows the consistency level of earning interest, which reflects the bank has successfully mobilized its fund in interest bearing asset. The interest is major portion of operating income, which could be encouraged more to earn more interest income. In context of return on total assets ratio, it reflects consistency level of earning during the study period. The percentage could be higher with the proper utilization of total assets..

- The debt position of bank is moving to satisfactory position, which is again is to improve. The bank should not depend and utilize more of lending fund rather bank should focus more on equity funds. The bank has maintained high level of debt than equity, which is quite riskier to the bank. The bank should minimize its risk b improving its capital structure. The bank has higher financial risk which also shows that banks have to pay high level of interest even in the low profitable year.

- Coefficient of correlation between deposit and loans & advances indicates satisfactory position in mobilization of deposit as loan and advances. Co efficient of correlation between deposit and total investment indicates satisfactory position in mobilizing deposit as an investment. Co efficient of correlation between outside assets and net profit indicates that the bank is moderately successful in mobilization of fund and earns return i.e. net profit from such mobilized fund.

- The profitability ratio of bank is very consistent. Both banks have an increasing trend. EBL has 0.01 ratio in the year 2060/61 and reached 0.02 in the year 2064/65. BOK has 0.02 in the year 2060/61 and reached 0.03 in the year 2064/65. Both banks have increasing trend of ratio during the study period. EBL ratio has been ranges from 0.31 to 0.54 and BOK ratio ranges from 0.20 to 0.28. The ratio has slightly decreased at the end of the study period.

- Total interests earned to total operating income ratio of both banks has been decreased during the study period. EBL has maximum ratio of 2.07 in the year 2060/61 and gradually decline every year and reached 1.88 in the year 2064/65. BOK has fluctuating trend of ratio during the study period. BOK has highest ratio 1.61 in the year 2061/62 and lowest in the year 6064/65. Net profit to loan and advances ratio of both banks has been fluctuating during the study period. EBL has highest ratio of 0.03 in the FY, 2062/63 and 2064/65 and lowest ratio of 0.02 in the FY 2063/64, 2060/61 and 2061/62 respectively.

BOK has 0.02 ratio in the year 2064/65 and 2060/61 and 0.03 in the year 2061/62, 2062/63 and 2063/64 respectively.

- The above table shows the trend of EPS of EBL and BOK. EBL has been continuously increasing EPS during the study period. The EPS have increased to Rs. 91.82 during the FY2064/65 from Rs. 45.57 during the FY 2060/61. BOK has fluctuating trend of EPS during the study period. It ranges from Rs. 36.87 to Rs. 40.96 over the five year period. Thus the trend seems to be increasing so it can be concluded that the EPS of the EBL is satisfactory. It is good trace of operation performance of bank.

- EBL total debt to net worth is in decreasing trend during the study period, except it starts to increase during the FY 2062/63 i.e. 15.48 of FY 2061/62 to 16.93 in 2062/63. The highest ratio is 18.28 which is at the FY 2063/64 and lowest is in the FY 2061/62 i.e. 15.48. BOK has also decreasing trend of ratio during the study period. It has 14.28 in the year 2060/61 and reached 10.06 in the fiscal year 2064/65 after declining every year.

- Debt to equity ratio of EBL and BOK ratio are increasing substantially. EBL has highest ratio of 25.22 in the FY 2064/65 and lowest is in the 11.90 in FY 2060/61. BOK has highest ratio of 18.57 in the year 2064/65 and lowest ratio of 10.42 in the year 2060/61. There is substantial difference in highest and lowest point of the ratio during the five year study period.

- The coefficient of correlation between deposit (independent) and total value of EBL r is 0.970 and BOK is 0.975. It shows positive relationship between two variables however by application of coefficient of determination the value of (r^2) of EBL is 0.941 and BOK is 0.954, which indicates that he 94.1% and 95.40% of the valuation of the dependent variable (total investment) has been explained by the independent variable (deposits) moreover by considering the probable error .

- The coefficient of correlation between total outside assets (independent) and net profit (dependent) of EBL is 0.974 and BOK is 0.972, which indicates positive correlation between these two variables. Considering the value of coefficient of determination of EBL is r^2 i.e 0.949 and BOK is 0.951 indicates 94.9% and 95.10% of the variation in the dependent variables (net profit) has been explained by the independent variable (total outside assets) moreover by considering the probable error.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Since, few previous years, Nepal has been facing unstable economy due to various unfavorable situations in the country, which have created negative impact and threat to the banking sector. As a result, among various other JVBs, Everest bank and Nepal are facing same threat and impact. Despite the situation, EBL and BOK have been able to grow and develop in the complex economic environment. Thus, this study is conducted to know the financial performance of the leading bank in the nation.

A bank is an institution, which primarily deals with monetary transaction accepting public deposits, honoring customer's drawings against such deposits on demand, collecting cheques for customers and lending or issuing credit or investing surplus deposits until they are required for repayment. Present banking system is the result of the development of many centuries. When we talk of the wonderful scientific inventions, banking also comes to be as a wonder of the modern world. The study explores the importance and functions of banks.

Commercial banks plays vital role in the economic development of the country. In recent years due to liberal economic policy of the government, many private banks are coming into operation. The foreign joint venture banks are enjoying competitive advantageous factors like highly skilled personnel, modern and advanced banking technology, customer oriented modern banking services, management expertise and global banking network. So, banking sector is becoming more dynamic and subject to rapid changes. It is not enough to analysis operating performance. There should be proper financial analysis. Financial analysis is the key for financial decision-making and for making plans and program before using sophisticated forecasting and budgeting procedures. Optimum utilization of the organization to the ultimate target fulfillment, so it is very important to analyze the accounting and financial statements to know whether the financial position is sound and what kind of measures should be applied. The value of financial analysis is to form the quantitative relation, who can be used to diagnose strength and weakness in a firm's performance; such analysis is considerable for the company's common stockholder, investors, bondholders and others. This study presents the financial analysis of Everest bank and Bank of Kathmandu Ltd.

The basic objectives of this study are to examine and evaluate the overall financial performance and effectiveness of EBL and BOK. The objectives of the study are to examine financial statement of the bank and analyze them to see the financial soundness of the bank, to observe the return over equity and relation between debt and equity, to highlight the relationship between different variable of financial statement, to evaluate the financial ratios to calculate efficiencies, valuation, profitability, capital structure ratios and to evaluate the bank's efficiency in utilizing assets.

Financial analysis of EBL and BOK is done on the basis of financial statement from 2060/61 to 2064/65. The study is based on the secondary data. To approach the study, various financial and statistical tools have been used. As, financial tool, ratio analysis has been used massively. In the same way, some statistical tools such as co-efficient of correlation analysis between different variables and trend analysis have been used to accomplish the objective.

5.2 Conclusion

For the financial analysis of the bank, ratio analysis is the main tools used for it. Liquidity ratio is firstly calculated which includes current ratio, cash and bank balance to current asset ratio, investment of government securities to current assets ratio, loan and advances to current ratio and cash & bank balance to total deposit ratios. These ratio measures the ability of the bank to meet the current obligations. From them, much insight can be obtained into the present cash solvency of the form and its ability to remain solvent in the event of advertises. Activity ratio is secondly calculated which presents the evaluation of the efficiency with which the firm manages and utilizes its assets. The activity ratio includes loan and advances to total deposit ratio, total investment to total deposit ratio and loan & advances to total assets ratio. Profitability ratio is calculated thirdly, which indicates the degree of success in achieving desired profit level. This ratio includes return on equity, interest earned to total assets ratio, interest paid to total assets ratio, interest earned to operating income ratio, return on total assets ratio, return on loans and advances ratio and earning per share. Lastly, leverage/ capital structure ratio is calculated which shows the long-term solvency of the firm. This ratio includes total debt to net worth ratio, total debt to equity ratio and net worth to total liabilities ratio. Thus, these are the tools used in ratio analysis.

Statistical tools are also used during the study the topic. These tools include coefficient of correlation analysis and trend analysis. The coefficient of correlation finds out the relationship between deposit and loan and advances, deposit and total investment, outside and net profit.

5.3 Recommendations

A clear financial picture of EBL and BOK can be viewed from all above presentation. Now some valuable and timely suggestions and recommendation can be advances to overcome weakness, inefficiency and to improve present financial position of the bank. On the basis of findings mentioned above some of recommendation have been drawn which are as follows:

- The study of financial performance of bank indicates that there is lack in proper mobilization of deposit. This is also lack of proper management planning in deposit mobilization. Thus, proper mobilization of the deposit fund in various investment sectors is necessary with proper management planning.
- The study also indicates the uneven and inconsistent investment of the fund. Thus, proper study and research of the investment sector is necessary for stable investment and return.
- The bank is suggested to maintain to its liquidity position in normal standard i.e. 2:1 as their liquidity is below normal standard and also recommended to follow consistency liquidity policy.
- In regard, investment and government securities, it has been revealed that EBL has given more priority to invest its fund in government securities than other investment sector. Though securities issued by government are considered to be free risk of default, but such securities yield the lower interest rate of a particular maturity due to low risk feature. So; EBL is recommended not to give much of important to the government securities and diversity the investment policy on more yield base funds.
- Proper capital structure planning and risk management debt-equity ratio is recommended.

- EBL has existing branches that are not sufficient to cover the banking business. Coverage of limited areas by the banks will not boost up its campaign of deposit mobilization and credit disbursement as desired. NRB and HMG/N have also encouraged the joint venture banks to expand the banking service in rural areas and communities without making unfavorable impact in their profits. Therefore, the bank is recommended to open new branches at certain places every year after studying the feasibility. Before making choice of particular place for opening a branch, saving and business potentiality of that area should be studied well, which will be very helpful to the bank in tapping the resources of different places.
- Looking at the current trend of banking business, a bank must be very careful while formulation marketing strategies to serve customers. The marketing strategies should be innovative so that it would attract and retain the customers. It is recommended that the bank should develop innovative approach to banks marketing for its well-being and sustainability in the market upgrade the banking facilities business.
- It is recommended to boost up foreign investment, as EBL does not seem to be successful in these aspects. To be successful in the investment sector, it should initiate strong step for the recovery part.

Appendix I

Everest Bank and Bank of Kathmandu

Liquidity Ratio

1) Current Ratio to Currient libilites

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Current Assets	**Current Liabilities**	**Ratio**	**Current Assets**	**Current Liabilities**	**Ratio**
2060/61	819.25	864.35	0.94	1189.8	215.32	1.53
2061/62	1619.98	624.81	2.59	1345.6	242.9	1.54
2062/63	1619.93	894.01	1.81	1285.9	259.62	1.95
2063/64	2391.4	1744.78	1.37	1473.5	278.3	2.29
2064/65	3013.95	951.79	3.16	1647.2	232.4	2.09

(Source: Financial statements of the banks)

Calculation of Cash & Bank Balance to Current Assets Ratio

2) Cash and Bank Balance to Current Assets Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Cash & Bank Balance	Current Assets	%	Cash & Bank Balance	Current Assets	%
2060/61	631.8	819.25	0.77	985.86	1189.8	0.83
2061/62	1049.98	1619.98	0.64	1082.95	1345.6	0.80
2062/63	1552.95	1619.93	0.95	1012.53	1285.9	0.79
2063/64	2391.4	2391.4	1	1114.72	1473.5	0.76
2064/65	2667.89	3013.95	0.88	1344.8	1647.2	0.82

3) **Calculation of Investment of Government Securities to Current Assets Ratio**

Investment of Goverments Securities to Current Assets Ratio.

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Inv. Govt.	**CA**	Ratio	*Inv. Govt.*	CA	Ratio
2060/61	2466.42	819.25	3.01	1854	1189.8	1.56
2061/62	2100.28	1619.98	1.30	2254	1345.6	1.68
2062/63	3322.44	1619.93	2.05	1912	1285.9	1.49
2063/64	4704.63	2391.4	1.97	2346	1473.5	1.59
2064/65	4821.59	3013.95	1.60	3037	1647.2	1.84

(Source: Financial statements of the banks)

4) Calculation of Loan and Advances to Current Assets Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Loan & Advance	Current Assets	Ratio	Loan & Advance	Current Assets	Ratio
2060/61	5884.12	819.25	7.1	8728.75	1189.8	7.34
2061/62	7618.67	1619.98	4.7	8945.65	1345.6	6.65
2062/63	9801.3	1619.93	6.05	9102.56	1285.9	7.08
2063/64	13664.1	2391.4	5.71	9461.52	1473.5	6.42
2064/65	18339.1	3013.95	6.08	12113.32	1647.2	7.35

(Source: Financial statement of the banks)

5) Calculation of Cash & Bank Balanvce to Total Deposit Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Cash & Bank Balance	Total Deposit	Ratio	Cash & Bank Balance	Total Deposit	Ratio
2060/61	631.8	8063.9	0.08	985.86	10398.58	0.09
2061/62	1049.98	10097.69	0.10	1082.95	10056.65	0.11
2062/63	1552.95	13802.44	0.11	1012.53	10872.92	0.09
2063/64	2391.4	18186.25	0.13	1114.72	11445.82	0.10
2064/65	2667.89	23976.29	0.11	1344.82	13715.32	0.10

(Source: Financial statement of the banks)

6. Calculation of Loan and Advances to Total Deposit Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Loan & Advance	Total Deposits	Ratio	Loan & Advance	Total Deposits	Ratio
2060/61	5884.12	8063.9	0.72	8728.75	10398.58	0.84
2061/62	7618.67	10097.69	0.75	8945.65	10056.65	0.89
2062/63	9801.3	13802.44	0.71	9102.56	10872.92	0.84
2063/64	13664.1	18186.25	0.75	9461.52	11445.82	0.83
2064/65	18339.1	23976.29	0.76	12113.32	13715.32	0.88

(Source: Financial statement of the bank)

7. Calculation of Total Investment to Total Deposit Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Total Investment	Total Deposits	Ratio	Total Investment	Total Deposits	Ratio
2060/61	2535.65	8063.9	0.31	2215.65	10398.58	0.21
2061/62	2128.93	10097.69	0.21	2189.58	10056.65	0.22
2062/63	4200.51	13802.44	0.3	2256.89	10872.92	0.21
2063/64	4984.31	18186.25	0.27	2659.45	11445.82	0.23
2064/65	5059.55	23976.29	0.21	3088.89	13715.32	0.23

8. Calculation of Loan and Advances to Total Assets Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Loan & Advance	Total Assets	Ratio	Loan & Advance	Total Assets	Ratio
2060/61	5884.12	9608.57	0.61	8728.75	11352.88	0.77
2061/62	7618.67	11792.12	0.64	8945.65	11895.74	0.75
2062/63	9801.3	15959.28	0.61	9102.56	12985.56	0.70
2063/64	13664.08	21432.57	0.63	9461.52	13901.22	0.68
2064/65	18339.08	27149.34	0.67	12113.32	17187.44	0.70

(Source: Financial statement of the bank)

9. Calculation of Net Profit to Total Equity Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Net Profit	Total Equity	%	Net Profit	Total Equity	%
2060/61	143.56	455	0.31	212.52	937.62	0.20
2061/62	170.8	455	0.37	228.58	957.62	0.22
2062/63	237.29	518	0.45	239.65	1163.29	0.25
2063/64	296.4	518	0.57	254.91	1163.29	0.26

2064/65	451.21	831.4	0.54	247.77	1414.65	0.28

(Source: Financial statement of the banks)

10. Calculation of Interest Earned to Total Assets Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2060/61	657.24	9608.57	0.07	798.58	11352.88	0.07
2061/62	719.29	11792.12	0.06	825.62	11895.74	0.07
2062/63	903.41	15959.28	0.06	789.52	12985.56	0.06
2063/64	1144.4	21432.57	0.05	831.12	13901.22	0.06
2064/65	1548.65	27149.34	0.06	970.51	17187.44	0.06

(Source: Financial statement of the bank)

11. Calculation of Interest Paid to Total Assets Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Interest Paid	Total Assets	%	Interest Paid	Total Assets	%
2060/61	316.36	9608.57	0.03	342.56	11352.88	0.03
2061/62	299.56	11792.12	0.03	287.52	11652.32	0.02
2062/63	401.39	15959.28	0.03	312.58	12985.56	0.02
2063/64	517.16	21432.57	0.02	412.26	13901.22	0.03
2064/65	632.6	27149.34	0.02	454.92	17187.44	0.03

(Source: Financial statement of the bank)

12. Calculation of Interest Earned to Operating Income Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Interest Earned	Operating Income	Ratio	Interest Earned	Operating Income	Ratio
2060/61	657.24	316.4	2.07	798.58	502.36	1.59
2061/62	719.29	375.22	1.91	825.62	512.98	1.61
2062/63	903.41	453.11	1.99	789.52	495.58	1.59
2063/64	1144.4	597.9	1.91	831.12	533.51	1.56

2064/65	1548.65	822.7	1.88	970.51	638.06	1.52

(Source: Financial statement of the banks)

13. Calculation of Net Profit to Total Assets Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
2060/61	143.56	9608.57	0.01	212.52	11352.88	0.02
2061/62	170.8	11792.12	0.01	228.58	11652.32	0.02
2062/63	237.29	15959.28	0.01	239.65	12985.56	0.02
2063/64	296.4	21432.57	0.02	254.91	13901.22	0.02
2064/65	451.21	27149.34	0.02	247.77	17187.44	0.03

(Source: Financial statement of the banks)

14. Calculation of net profit to loan and advances ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Net Profit	Loan & Advances	Ratio	Net Profit	Loan & Advances	Ratio
2060/61	143.56	5884.12	0.02	212.52	8728.75	0.02
2061/62	170.8	7618.67	0.02	228.58	8945.65	0.03
2062/63	237.29	9801.3	0.03	239.65	9102.56	0.03
2063/64	296.4	13664.08	0.02	254.91	9461.52	0.03
2064/65	451.21	18339.08	0.03	247.77	12113.32	0.02

(Source: Financial statement of the banks)

15. Calculation of total debt to equity ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Total Debt	Total Equity	Ratio	Total Debt	Total Equity	Ratio
2060/61	8928.22	750	11.9	8948.72	858.75	10.42
2061/62	10721.77	600	17.86	9587.25	958.65	12.35

2062/63	13932.9	600	23.22	10285.62	1163.29	13.56
2063/64	20231.03	1000	20.23	11831.53	1163.29	15.45
2064/65	25228.08	1000	25.22	14133.08	1414.65	18.57

(Source: Financial statement of the banks)

16. Calculation of Net Worth to Total Liabilities Ratio

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Net Worth	Total Liabilities	Ratio	Net Worth	Total Liabilities	Ratio
2060/61	540.3	9608.57	0.06	626.64	11985.68	0.05
2061/62	692.6	11792.12	0.06	689.01	12589.69	0.05
2062/63	822.8	15959.28	0.05	971.73	12857.48	0.08
2063/64	1106.6	21432.57	0.05	1153.31	13982.56	0.08
2064/65	1581.2	27149.34	0.06	1404.26	15772.82	0.09

(Source: Financial statement of the banks)

17. Calculation of EPS

Year	Everest Bank Ltd			Bank of Kathmandu Ltd		
	Net Profit	No. of Share	EPS	Net Profit	No. of Share	EPS
2060/61	143.56	3.15	45.57	212.52	5.58	38.09
2061/62	170.8	3.15	54.22	228.58	5.58	40.96
2062/63	237.29	3.78	62.77	239.65	6.5	36.87
2063/64	296.4	3.78	78.41	254.91	6.5	39.22
2064/65	451.21	4.914	91.82	247.77	8.775	38.24

(Source: Financial statement of the banks)

18. Net worth and return of EBL

Year	Net worth (x)	Return (y)
2060/61	540.3	143.56
2061/62	692.6	170.80
2062/63	822.8	237.29

2063/64	1106.6	296.4
2064/65	1581.2	451.21

19. Net worth and return of BOK

Year	Net worth (x)	Return (y)
2060/61	626.64	212.52
2061/62	689.01	228.58
2062/63	971.73	239.65
2063/64	1153.31	254.91
2064/65	1404.26	247.77

Where

r = Coefficient of correlation between variable x and y .

n = Number of pairs in observation .

Σxy = Sum of the deviation of x and y series from actual mean .

x = Value of first variable (shareholders net worth)

y = Value of second variable (Return on co.)

Σx = Sum of the deviation 'x' series .

Σy = Sum of the deviation on 'y' series.

Σx^2 = Sum of the squares of the deviations of 'x' series .

Σy^2 = Sum of the squares of the deviations 'y' series.

$$r = \frac{\sum xy - \sum x.\frac{\sum y}{n}}{\sqrt{\sum x^2 - \frac{(\sum x)^2}{n} \times \sum y^2 - \frac{(\sum y)^2}{n}}}$$

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