

Chapter 1

Introduction

1.1 Background

The Nepalese economy has been passing through very difficult times over the last few years. New industries have not come up. Agricultural production has remained more or less static. Foreign aid, which used to take the form of outright grants, has mostly turned into loans that have to be repaid. Debt repayment is eating an increasing portion of the budget. The tourism sector in general, has not only survived but also has been able to make responsible operating profit.

So, finance is the lifeblood of the economic development of the country. Finance is prime requisite to fulfill the economic, political and social goals, development of trade. The lack of finance is weakness of developing country like Nepal. It is the cause of less utilize of natural resources. Therefore the proper mobilization of natural resources could be the cause of rapid growth of economy. The banks and financial institutions contribute in rapid development of economy. It can be done by developing the banking habits among the people, collecting small scattered resources of money and utilize them in productivity sector and other purpose.

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 civilization of Greek, Rome and Mesopotamia. Merchants, goldsmith and money lenders are said to be the ancestors of modern banking.

History has proven that though the extent may vary from country to country requirement of economic development of any country heavily relies on its 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.

The term bank, in modern times refers to an institution which deals with money, accepts deposits and advances loans. It also deals with credit and has the ability to create credit (i.e. the ability to expand its liabilities as a multiple of its reserves). It is a commercial institution with the aim to earn profit.

Banks are those institutions which perform the indispensable task of intermediating between individuals and institutions by raising funds from depositors and then loaning those funds to needy individuals and/or institutions.

It also offer 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 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”.⁴

Like other countries, goldsmiths, merchants, and money-lenders were the ancient bankers of Nepal. Tejarath Adda established during the tenure of the then Prime Minister Ranodip Singh (1933 B.S.) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but provided loans to employees and public against the bullion.

1.2 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 Registrar’s Office, Nepal Rastra Bank’s (Central Bank) prior approval is essential.

As per Commercial Bank Act 2031 B.S., “A Commercial Bank means the bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions.”

Commercial banks are those banks that pool together the savings of the community and make arrangement for their productive usage. 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. In fact, the economic development of a country is only possible with a sound system of commercial banking.

A sound banking system depends partly on the control exercised by the central bank and, to a large extent, on trust of its customers or clients (the customer’s trust that his deposits 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 behave 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, safekeeping of valuables, collection of bills, cheques, overdraft facilities to industries and commerce. Whenever banks lend money they must remember that the source of their fund is customer’s deposits. Therefore, it is of utmost 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 deterring factor on granting advances despite the availability of option of charging higher interest rate.

Commercial banks in Nepal started with the inception of Nepal Bank Limited in 1994 B.S. Today, 17 commercial banks are in operation. The commercial banks of Nepal can be categorized into two types viz., Public Sector and Private Sector. Public Sector banks include two of the oldest banks in Nepal, Nepal Bank Limited and Rastriya Banijya Bank. Private Sector comprises the other 15 banks.

Introduction of Everest Bank Limited:

With an objective of carrying out banking activities under the commercial bank, Act 2031 B.S., Everest Bank was established on 3rd Marga, 2049 (17th Nov, 1992) and started its operation from 1st kartik, 2051 (18th Oct, 1994) under the company act 2021 B.S.

In the beginning of its establishment, till November 1996, it was managed by United Bank of India Limited (UBIL). Later on, UBIL handed over the management to the Punjab National Bank (PNB) India.

Under a technical service agreement signed between the two banks, PNB has been providing top management services and banking expertise to EBL.

In various parts of the kingdom, the bank is currently running its operation with 17 branches. The main branch or the head office of EBL is located at Lazimpat and out of 17 branches, 7 are within the valley and 10 are outside the valley.

Introduction of Nepal Investment Bank Limited:

Under the Company Act 2021, NIBL was established on 21 January, 1986. In the beginning Banque Indosuez Paris has held 60% of total number of shares, 20% by Nepalese promoter and remaining 20% by general public of Nepal. Now the bank has 12 branches, and Nepalese promoter manages the bank. The main branch of this bank is located at Durbar Marg.

1.3 Joint Venture Banks

To achieve mutual exchange of goods, services and modern technology, joint venture are made up through partnership and with negotiation between countries, industries (enterprises), trades and mercantile. So, the main purpose of joint venture bank is to joint economic forces in order to achieve certain results, which partners could not achieve separately. For joint venture bank there should at least be two partners.

GON deliberate policy of allowing foreign joint venture banks to operate in Nepal is basically targeted to encourage local traditional run commercial banks to exchange their bankable capacity through competition, efficiency, modernization and mechanization via computerization and prompt customer service.

1.4 Focus of the study

Banking system is regarded as the heart of financial system. The development of the country is only a dream without modern banking system. The government's liberalization and modernization 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 the development of the country.

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

Financial management is essential to utilize and manage scarce financial resources efficiently. Different tools can be applied to evaluate the financial performance of the banks. This thesis is focused on analysis of financial performance of two banks namely Nepal Investment Bank Limited and Everest Bank Limited, in finding the facts and recommendation for correction measures, pointing the problems. Information required for this study to evaluate financial performance is basically derived from published annual reports of the concerned banks and data published in website of Nepal Stock Exchange.

1.5 Statement of the Problem

In a developed or developing nation, joint venture commercial banks play a tremendous role. It helps to improve the economic sector of the country. The open and liberal

economic policy towards the banking sector of HMG initiated many joint venture banks, finance companies, rural banks and co-operative societies in Nepal. But still joint venture banks have-not opened their branches in the rural areas. This study basically focused our attention to reveal the struggle and success achieved there from by joint venture banks namely Nepal Investment Bank Ltd and Everest Bank Ltd. The problem of this study is to find out the reason for differences in the financial performance of these two joint venture banks in different period of time.

A comparative study of financial predominance is a basic process. It provides the information on profitability, earning capacity, liquidity position, and efficiency in operation, sources and uses of status of the companies. This information will be useful to determine the extent of efficiency and effectiveness of the company in respect of deploying financial resources in profitable manner.

Though the joint venture banks performed well, there are still many problems which must be resolved. In the recent years, number of joint venture banks, finance companies came into existence which brings the competition in the market. They have been facing neck to neck competition against one another. It has threatened the entire banking system including Everest Bank Ltd and Nepal Investment Bank Ltd. Therefore, in present scenario this study attempts to trace out the inefficiency and weakness within the following of these two banks.

Following are the research problem of this study.

-) What are the comparative liquidity, profitability, activity, capital structure and capital adequacy position of Everest and NIB Ltd?
-) What are the trends in terms of net profit, total deposits, total credits and total investment of these two banks?
-) How far these two banks have been able to select appropriate level of current assets and the required level of current assets to be financed?

) Which of the current asset is creating more problems in Everest Bank and NIB Bank Ltd?

1.6 Objective of the Study

The main objective of the study is to examine and to make comparative analysis of financial performance between the selected two joint venture banks, Everest and Nepal Investment to recommend suggestions for the improvements of JVB's.

To solve the above mentioned problems of study, following specific objectives has been set in this study.

1. Highlights on Everest Bank Ltd and Nepal Investment Bank Ltd.
2. Analysis related variable:
 - To analyze the liquidity, asset utilization, long term solvency and profitability position.
 - To study the current assets, current liability and their effect on liquidity and profitability.
 - To examine the comparative financial strength and weakness of the Everest Bank Ltd and Nepal Investment Bank Ltd.
3. To provide recommendation and suggestions to improve banking business base in the finding of the study.

1.7 Significance of the Study

In Nepal, due to the efficient management and professional service and a dynamic role in economy, the joint venture banks are widely popular at present but still the banks do not have sufficient investment opportunities, because of the poor economic structure of the country. The government policy of economic liberalization increases the number of joint venture banks and financial institutions, which create threats and affect the profitability of joint venture banks. Therefore, the study of financial performance is

helpful to better run of business. It helps to find out the bank's financial strength ness, weakness and opportunities. There is no doubt that the study is essential for various groups and areas.

1. This study will be helpful to shareholders, they will able to know about the financial performance of the banks. They can aware in the utilization of their scare resource with the help of the comparison. Therefore, this study helps them to identify the productivity of their funds.
2. It will be helpful to the management of respective banks to evaluate their performance in comparison with other banks with the help of this study. They can identify their hidden weakness and can improve them. It also helps to identify effective use of the resources for efficient and profitable orations.
3. It is also useful to government bodies and policy makers such as central bank.
4. This research will provide required information to the outside parties such as investors, customers of banks, competitors, personal, dealers, market markers etc.
5. Similarly, it will be matters of interest for students and researchers.

1.8 Limitation of the Study

The study has the following limitations.

1. This study is based on secondary data. Thus, the reliability of the study depends upon accuracy of the data provided.
2. This study does not conduct an experimental research.
3. This study is limited to analysis of five years data from fiscal year 2057/2058 to 2061/1062 B.S.
4. The focus is given to the quantitative aspects of the two banks, qualitative factors are not studied.
5. This study will base on financial statement and annual report of Everest Bank Ltd and Nepal Investment Bank Ltd.

1.9 Research Methodology

The secondary data collected during the study period will be analyzed and interpreted by using financial tools and techniques.

1.9.1 Research Design

The study is based on analytical and exploratory research design. The first step of the study is to collect necessary information and data concerning the study of Everest Bank Ltd and Investment Bank Ltd by contacting the concern staffs. The task will be fulfilling by the collection of secondary data and various published information regarding this content. The systematical under specific major heading so as to meet the objective of the study.

1.9.2 Population and Sample

In Nepal, 17 commercial banks are operating. All are considered as the population. It is not possible to study all the data related to venture bank's so, the two banks Everest and Nepal Investment Bank has been selected as sample for the present study.

1.10 Organization of the Study

This research aims at understanding the study in following manner.

1.10.1 Chapter- I. Introduction

This chapter deals with subject matter of the research and includes background statement of problem, objectives of the study, significance of the study, limitation of the study and organization for the study.

1.10.2 Chapter-II Review of Literature

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

1.10.3 Chapter- III Research Methodology

This chapter introduces the research methodology used in the present research and explains the research design, population and sample, sources of data, data processing procedure and tools and technology of analysis.

1.10.4 Chapter-IV Presentation and Analysis of Data

This chapter is for presentation and analysis of relevant data and information. Various analytical tools have been used to analyze and interpret the result.

1.10.5 Chapter-V Summary, Conclusion and Recommendation

This is the last chapter of present study which is concerned with the summary of The data, conclusions and recommendation of the study for the implementation in the future.

Chapter-2

Review of Literature

This chapter highlights and deals with the literature relevant to this study. It comprises review of books, previous studies received, article review and review of policy document. It is divided into following headings.

- 2.1 Conceptual review of financial analysis.
- 2.2 Review of books and journals.
- 2.3 Review of legislation related to commercial banks.
- 2.4 Review of thesis.

2.1. Conceptual Review of Financial Analysis

“Financial Analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship in between the items of the balance sheet and profit & loss account. Management of the firm can undertake it or by parties outside the firm.”(Pandey,I.M.1997-p103) The focus pf the financial analysis is on the key figure contained in the financial statement and significant relationship existed. Management of the firm is generally interested in every aspect of the financial analysis; they are responsible for the overall efficient and effective utilization of the available resources and financial position of the firm.

The vertical and horizontal analysis could be done for the financial analysis. The vertical analysis consists of financial balance sheet, profit and loss account of a certain period of time only, which is known as static analysis. Likewise, the horizontal analysis consists of a series of statement related to the number of the years are reviewed and analyzed. It is also known as dynamic analysis that measures the change of the position

or trend of the business over the number of years. In this study, the horizontal analysis has been adopted to find out the financial indicator of the NIBL and EBL over the period of FY 2057/58 to 2061/62. The steps of analysis are as follows.

1. Selection of the information relevant to the decision.
2. Arrangement of the selected information to highlight the significant relationship of the financial yardsticks.
3. Interpretation and drawing of inferences and conclusions.

To evaluate the financial performance of a firm, the analyst needs a certain parameters of the company by which the quantitative relationship and its position come out. The most widely and effective used tool of the financial analysis is ratio analysis.

The financial ratio is the measurement of relationship between to accounting figures, expressed in mathematical way or the numerical relationship proportion of numbers. It helps to summarize the large quantities of financial data and to make quantitative judgment about the firm's financial performance. "Financial ratio helps us to find the symptoms of the operational and financial problems of a corporation can be ascertained by examining the behaviors of these ratios."(Dr. Pradhan,R. .1989-p1)

"Ratio analysis is the systematic use of financial information the firm's strengths and weaknesses as its historical performance, and current financial condition can be ditetermined."(Weston.J.1987-p138)

After calculating various ratios, we need to compare with the certain standard and draw out the conclusion of the result. The comparison classified by Weston and Brigham in to six types viz, (i) Liquidity ratios (ii) Leverage ratios (iii) Activity ratios iv) Profitability ratios (v) Growth ratios (vi) Valuation ratios. The initial four types of ratios are popularly used and the growth ratios measure the firm's ability to maintain its

economic position and the last valuation ratios measure the performance, which reflect the risk ratios.

To evaluate the financial performance of NIBL and EBL the analysis has been made by i) Ratio Analysis ii) Correlation Analysis and iii) Trend Analysis.

2.2 Review of Books and Journals

In this section an attempt has been made to review some books and journals on financial management, which deals with financial performance.

The word 'banks' commonly refers to the 'commercial banks'. "An establishment for keeping money and valuables safely, the money being out on the customers' order (by means of cheques)."(Sayers,R.S.)

This traditional definition is too simple and incomplete because modern banking is not confined only to keep the money and valuables and to make payments. In this context Dr. Mali Ram says, "Banking means the accepting, for the purpose of lending or inverting, the deposits of money from the public, repayable by cheques drafts, orders or otherwise."(Dr. Mali,1969-p2)

The encyclopedia American defines bank as , "A business organization that receives and holds deposits of fund from other makes loan or extend credit and transfers fund by written order of deposits." (The Encyclopedia of America,1984-Vol.3)

E.S. Klise gave the meaning of bank by emphasizing the bank's function as creation of money. "A bank's business is basically to buy and sell credit, credit instruments are its stock in trade. Also on the banks of its own credit a bank creates money by transferred by credit instruments."(Klise.1972-p3)

American Institute of Banking defines commercial bank as, “Commercial bank is a corporation which accepts demand deposits subject to cheques and makes short term loans to business enterprises regardless of the scope of its other services.” (American Institute of Banking-1978)

(Bowlin Oswald,1990-p35) in his books stresses three major functions to be performed by the commercial banks:

-) To accept and safeguard deposits of money from customers.
-) To permit money to be drawn or transferred from one account to another.
-) To lend the surplus of deposited money to suitable customers who wish to borrow.

(Aryal,M.P-1997) In his book highlights the following characteristics of the commercial banks operating in Nepal:

-) Commercial banks having limited liability are established under the company Act 2021 with the approval of the Nepal Rastra Bank.
-) Commercial banks are established with the objective of profit maximization and are managed by shareholders.
-) Commercial banks, except performing primary functions of accepting deposits and lending, also deal in foreign exchange and trade finance activities.
-) Commercial banks in Nepal are established in government, semi-government, private and joint venture sectors.
-) Nepal Rastra Bank recommends, directs and controls the establishment, operations and dissolutions of all the commercial banks in Nepal.

According to G. Fago, D. Subedhi and A. Gyawali “Analysis of financial statement is a purposeful and systematic presentation of information in the financial statement by developing relationship between figures with other figures in order to measure the

profitability, liquidity, solvency, operational efficiency and growth potentiality of the business organization.” The authors highlighted upon the relationship between figures. When figure is expressed in the relation with another it helps to users to analyze the situation and helps to get meaningful information. It can be define as an effective tool for simplifying, systematizing and summarizing the monotonous. Figures with the help of financial analysis, an average people can draw conclusion from such analysis i.e. profitability the capacity of firm, its operating activities and financial soundness of the business, etc. It shows the true and fair financial picture.

Professor R.D. Agrawal indicates that interested all aspects of financial analysis in order to evaluate its internal financial control system and to develop a strategy of bargaining for funds from external resources.

Erich A.H. in his book has described financial analysis as “Financial analysis is both an analytic and judgmental process that helps to answer the questions that have been properly posed to and therefore, it is a mean to an end. We can stress enough that financial analysis is an aid that allows those responsible for results to make sound decisions.” (Erich.1992-p2)

M.Y. Khan and P.K. Jain conclude that “The financial statement provides a summarized view of the financial position and operation of its financial statements as invaluable documents performance reports. The analysis of financial statement is thus, an important aid to financial analysis.”(Khan,1994-p3.47)

N.P. Poudel in his article has mentioned “Balance Sheet, Profit & loss account and other related notes are the most widely aspects of financial statement of a Bank. We need to understand the major characteristics of the bank’s balance sheet are composed of financial obligations as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account for a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance items. Interest

received on loan and advances and investment and interest expenses on deposit liabilities are the major components of profit and loss account. The other sources of income are fees, commission, discount and service charge.”(Poudel,1987,NRB Samachar)

Another useful contribution made by Narayan pd. Poudel in his article called “Financial Statement Analysis” published in Nepal Rastra Bank Samachar on 2053 is reviewed. According to him, Balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank; we need to understand the major characteristics of bank’s balance sheet and profit & loss account. The bank’s balance sheet is composed of financial claims as liabilities in the form of deposits and assets in the form of loans. Fixed assets account forms a small portion of total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items.

The users of the financial statement of a bank relevant, reliable and comparable information, which assists them in evaluating the financial position, and performance of the bank and which is useful to them in making economic decisions. According to Mr. Poudel, the principle objectives of analyzing financial statements are to identify:

- Financial adoptability (Liquidity)
- Financial performance (Profitability) and
- Financial position of the bank (solvency)

According to Mr. Poudel, the other factors to be considered in analyzing the financial statements of banks are to assess the capital adequacy ratio and liquidity position. In the line of the norms set by Bank for International Settlements (BIS), capital adequacy of a bank is assessed on the basis of risk-weighted assets. It indicated a bank’s financial strength and solvency. Banks are facing with capital adequacy problem may increase capital or reduce assets or reallocating the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which a bank's assets can be converted into cash and other current obligations. It is also important in view of survival and growth of a bank.

2.3 Review of legislation related to commercial banks.

2.3.1 Commercial Bank Act 2031 was formulated to facilitate the smooth run of commercial banks. All the commercial banks are functioning under this act. This act defines the bank as, "A commercial bank is one which exchange money, deposits money, accepts deposits, grant loans and performs commercial banking function and which is not a bank meant for co-operative, agriculture, industry or for specific purpose."(Commercial Bank Act, 2031,Nepal)

"The Commercial Bank Act 2031 also pointed the functions of commercial banks provide short- term debts necessary for trade and commerce. They take necessary for trade and commerce. They take deposits from the public and grant loans indifferent forms. They purchase and discount bill of exchange, promissory note and exchange foreign currency. They discharge various functions on behalf of their customers provided that they are aid for their services." (Commercial Bank Act,2031,Nepal)

2.3.2 Company Act 2021 (Amended to company Act 2053)

Commercial Bank including JVBs in Nepal can be established only as a company with limited liability under the Company Act 2021 on the recommendation of Nepal Rastra Bank. The provision mentioned in the Act strictly regulates the commercial banks in all the aspects, starting from the incorporation to the winding up of the bank.

2.3.3 Commercial Bank Act 2031 (Amended to Commercial Act 2049)

The precision required under this act for the establishment of the commercial banks are mentioned below.

Establishment of Bank:

1. A bank shall be established under the company act with the recommendation of the Rastra Bank. For obtaining such recommendation, an application shall be filed, along with the particulars by the Rastra Bank. Only in case the Rastra Bank so, recommends shall such bank be registered according to the company act for working under this act.
2. The NRB may prescribe necessary conditions while recommending the establishment of a bank under sub-section (1), and it shall be the duty of the concerned bank to fulfill the conditions so prescribed.
3. The bank may determine the location of its head office with the approval of the Rastra Bank.
4. The bank shall be an autonomous corporate body with the perpetual succession. It may use or be used in its own name.
5. Subject to this act and other current Nepal law, the bank may acquire, use and sell movable and immovable property.
6. Any bank may open or shift the location of, or close branches depots or other offices with the approval of the NRB.

Establishment of Branches of Joint Venture Foreign Banks

1. In case any foreign commercial bank desires to open a branch, representative office or liaison such branch under the Company Act with the approval of NRB and provisions of the act shall apply to such foreign bank.
2. The NRB shall obtain the consent of Nepal Government before granting approval under sub- section 1.

3. While granting approval under sub-section (1), the NRB may prescribe condition according to the need, and the foreign bank shall comply with the conditions thus prescribed by the NRB.

2.3.4. Nepal Rastra Bank Act 2012 (Amended to NRB Act 2049)²⁵

As per the provision of NRB Act 2012, NRB may issue directives from time to time to commercial banks regarding banking, currency and credit. It shall be the duty of commercial banks to comply with the following directives.

1. Development of Banking system and supply of credit to commercial banks.

- a) NRB shall make all the possible efforts to develop and regulate the banking system in Nepal.
- b) With the consideration to the monetary situation, the NRB may provide loans for refinancing facilities on the conditions prescribed by it against collateral or guarantee to any commercial banks which supplies agricultural or industrial credit.

2. Commercial banks must obtain the permission to accept deposits, supply loans and issue debentures.

3. Determination of rate of interest.

NRB can determine the rate of interest to be charged or paid by commercial banks on loans or deposits. But in the current circumstances where NRB has not prescribed any rate of interest under sub section 1, it has given authority to commercial banks itself for fixing interest in lending and borrowing. But NRB always monitors the spread between the lending and borrowing rates.

4. Funds to maintained with NRB

Commercial banks must maintain funds in NRB according to the percentage of total deposit liabilities prescribed by NRB. Total deposit liabilities refers to the liabilities of amount covered by the term deposits defined in the 2031 Commercial Bank Act.

5. Loans to be supplied to the prescribed sectors

NRB has prescribed the priority and deprived sectors for commercial banks to advance 3% of its total loans and advances to these sectors in order to flow the credit in rural areas of the country.

6. Core capital to be increased to 50 million.

All the commercial banks, including JVBs are informed by NRB that they must make their core capital at least 50 million by 2057. Core capital includes paid up capital and statutory reserves. This provision has initiated all the banks in capitalizing those earnings by suing bonus shares. Earning per share and Dividend per share of commercial banks is adversely affected by compulsion to issue bonus shares.

7. Power of NRB to inspect, supervise and issue directions

The NRB may inspect and supervise any office of commercial banks at any time, or make arrangement for doing so. NRB may issue after the inspection, the necessary directives to commercial banks in respect to matters considered necessary after the inspection and supervision.

2.4 Review of Related Thesis

Various thesis works have done in different aspects of joint venture banks in Nepal. The comparative study of financial performance of Nepal Investment Bank and Everest Bank Ltd added one more study in this banking sector through which the researcher can analyze the financial performance of these banks.

Mr. Pragun shrestha in his study, “A comparative analysis of financial performance of the selected commercial banks;(2001/002) concluded that many of the banks are of the view that political instability in the country is mainly responsible for the decline of the lending opportunities. Few banks ascribed it to the economic crisis

that occurred in Asia Pacific region. No one felt that higher rates on interest on lending to be a major factor. Commercial banks play an important role in the economic development of the country. At the same time it should target not only the urban sector, it should go to the rural sector also. They have to explore all the potential sectors like tourism etc. in order to generate high rate of profits.”

Joshi in his research titled “A study of financial performance of commercial banks”(1989) analyzed different ratios of Nepal Bank Ltd and Rastriya Banijya Bank for the period of five years till FY 1998. He concludes, “Liquidity position of commercial bank is sound. Their debt to equity ratio is high which doubt on solvency. Debt to equity ratio of local commercial banks is higher than joint venture banks. Conservative credit policy is followed by commercial banks for assets utilization. This is why more investments are done in loans and advances. He recommended that, “dividend payout ratios of commercial banks should be determined keeping in mind the shareholder’s expectations and the growth requirements of the banks.”

Dahal- in his thesis entitled “A comparative study on financial performance of Nepal SBI bank limited and Nepal Indosuez bank limited (2001)” concluded the different liquidity position of these two banks shown that NIBL has comparatively better than that of SBI. Though income generative assets of NIBL are higher than SBI, SBI is utilizing its deposits more efficiency on loans and advance investment and total outside assets. NIBL is adopting more aggressive lending investment and borrowing policy to generate profit than SBI, the trend analysis clearly shows that SBI is in increasing trend where as NIBL has a minded trend.

Shrestha in her thesis entitled “A comparative analysis of financial performance of the selected joint venture Banks (2003)” has concluded the NB bank has better liquidity position where as HBL and Nabil bank have lower. NB bank has efficiently utilizing its deposit on loans and advances however total investment of

Nabil is better than that of NB and HBL. It is found that the common situation in all the JVBs is unbalanced capital structure. Decreasing trend of EPS and unstable policy of dividend is the cause of decreasing trend of market value per share of these banks. The researcher also recommends that the selected JVBs should increase their equity capital by issue of shares, expending general reserves and retaining more earning. These JVBs must identify the investment opportunity and assort the risk assets portfolio carefully before accepting higher volume of deposits, especially high cost bearing fixed deposit.

Bista in his thesis entitled “A comparative study on financial performance of Nepal SBI bank limited and Everest bank limited”-(2002) has concluded that liquidity position of both the banks seems only satisfactory. Due to lacking up more funds in the form of current assets has negative impact in profitability. NSBIBL appears more levered in overall capital structure. EBL has remained highest debt assets ratio, which reveals that the greater position of assets was financed through the outsider’s cost- bearing fund. For income gestation, NSBIBL utilized the resources more efficiently and prudently. Average return on assets is also higher in NSBIBL than EBL. The profitability position of EBL is weaker in the study period. The researched therefore concluded total deposits, loans, and advance, investment and net worth increased with faster rate in NSBIBL whereas the speed of increment of net profit, MVPs and EPS remained greater in EBL. The researcher suggested both banks to review their investment portfolio to see if there is any better mix than present one.

The research conducted by Ghimire¹⁹ entitled “A comparative case study of Nepal Bangladesh Bank Ltd, Himalayan Bank Ltd and Everest Bank Ltd.” Have drawn following conclusions.

Ghimire-“A Comparative case study of Nepal Bangladesh Bank, Himalayan Bank Ltd and Everest Bank Ltd”(2003)

To evaluate the financial performance of joint venture banks in Nepal, Ghimire has been undertaken Hiamlayan Bank Ltd, Bangladesh Bank Ltd and Everest Bank Ltd. In his study, he found that these banks does not consider seriously about the liquidity position. He suggested all the banks to maintain an appropriate mix of debt and owner’s equity. He further suggested that these banks should play proper role of merchant bank as well as financial intermediary i.e. acting as brokers, underwriting securities and other supportive roles in the security exchange.

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

- In terms of liquidity position of cash and bank balance to total deposit EBL has out performed than other banks still among three banks, no banks has maintain 1:1 proportion.
- In terms of fixed deposit to total deposit ratio, NB bank has out performed others.
- Saving deposit total deposit ratio of NBBL has been recorded the lowest of all, which shows better liquidity position to meet short - term obligation.

In analysis of activities ratio NB Bank has comparatively utilized their resources much satisfactory.

- In terms of short- term investment to total deposit ratio EBL has recorded highest. But loan & advances to total deposit ratio and loan & advances to total assets ratio, the performance of NBL has been more satisfactory.
- In case of loan & advances to fixed deposit ratio, HBL has out performed others.

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

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

A study undertaken by Vikram Chandra Gurung entitled, “A Financial study of joint venture banks in Nepal: A comparative study of Nepal Grindlays Bank Limited and Nepal Indosuez Bank Limited”(2003) concluded that the liquidity position of NGBL is below normal standard current ration of 2:1 indicates unsatisfactory position. The bank is efficient in utilizing most of its total assets. Profitability of the bank as assumed an increasing trend but yet to be fully satisfactory. The capital structure of the bank is extremely leveraged. The bank has been maintaining sound capital adequacy ratio as directed by the central bank NRB.

Chapter - 3

Research Methodology

Evaluating the financial performance of the selected banks in a micro level and to highlight the efforts of the financial decisions of these banks in the economy at the macro level forms the basic objective of this research. This chapter will outline the method followed in the process of analyzing financial performance of two commercial banks.

This study is mainly based on secondary data gathered from respective annual reports of concerned banks especially from profit and loss account, balance sheet and other publication.

3.1 Research Design

Keeping in mind the objective of the study, descriptive cum analytical research design has been followed. The study is based on the wide range of variables and factors influencing financial decisions of the banks. Comparative data banks are presented in such a way so as to make the research informative to the reader. Financial as well as statistical tools have been used to analyze and interpret the balance sheet, income statement and other accounting information.

3.2 Population and Sample

In Nepal 17 commercial banks are operating. Among them Everest Bank Ltd and Nepal Investment Bank Ltd have been selected for the present study because of limited time period.

Population:

- Bank of Kathmandu Ltd.
- Everest Bank Ltd.

- Himalayan Bank Ltd.
- Kumari Bank Ltd.
- Lumbini Bank Ltd.
- Laxmi Bank Ltd.
- Machhapuchhre Bank Ltd.
- Nepal Bank Ltd.
- NABIL Bank Ltd.
- Nepal Investment Bank Ltd.
- Nepal Credit & commercial Bank Ltd.
- Nepal Industrial & Commercial Bank Ltd.
- Nepal SBI Bank Ltd.
- Nepal Bangladesh Bank Ltd.
- Rastriya Banijya Bank.
- Standard Chartered Bank Ltd.
- Siddhartha Bank Ltd.

Among these banks two banks are taken as sample which is selected for the study purpose on the basis of their performance.

Sample:

1. Everest Bank Ltd

With an objective of carrying out banking activities under the commercial bank, Act 2031 B.S., Everest Bank was established on 3rd Marga, 2049 (17th Nov, 1992) and started its operation from 1st kartik, 2051 (18th Oct, 1994) under the company act 2021 B.S.

In the beginning of its establishment, till November 1996, it was managed by United Bank of India Limited (UBIL). Later on, UBIL handed over the management to the Punjab National Bank (PNB) India.

Under a technical service agreement signed between the two banks, PNB has been providing top management services and banking expertise to EBL.

In various parts of the kingdom, the bank is currently running its operation with 17 branches. The main branch or the head office of EBL is located at Lazimpat and out of 17 branches, 7 are within the valley and 10 are outside the valley.

2. Nepal Investment Bank Ltd.

Under the Company Act 2021, NIBL was established on 21 January, 1986. In the beginning Banque Indosuez Paris has held 60% of total number of shares, 20% by Nepalese promoter and remaining 20% by general public of Nepal. Now the bank has 12 branches, and Nepalese promoter manages the bank. The main branch of this bank is located at Durbar Marg.

3.3 Sources of Data

For the purpose of the study, following sources which are secondary in their nature has been used.

- Banking and Financial Statistics, published by Nepal Rastra Bank.
- Web- sites, booklets
- Other Publications
- Previous Dissertations & reports.
- Nepal Stock Exchange.
- TU central Library, Nepal Commerce Campus, & Shanker Dev Campus.

3.4 Data Collection Tools and Techniques of Analysis

To achieve the results, the researcher has been used two types of tools. On the basis of past data both tools are used to analytical of different variables.

1. Financial Tools
2. Statistical Tools

3.4.1 Financial Tools

The considerable assistance of financial ratios and income & expenditure analysis has been taken to measure the strength and weakness of the NIBL and EBL.

3.4.1.1. Ratio Analysis

Ratio Analysis is one of the most commonly used techniques in the analysis of the financial statement and evaluation of the managerial performance. “Ratios are relationships expressed in of mathematical terms between figures which have a cause effect relationship or which are connected with each other in some other manners.” (Grewal, *Management Accounting* ,Delhi,p-102) Ratio analysis points out the problems in any operational areas and provides a basis to recommend corrective actions. The purpose of ratio analysis is also to satisfy the interest of shareholders to make them clear about the picture of the bank. Ratio analysis satisfies the interests, creditors, government institutions and other to form their opinion or enable them to have guideline towards effective decision making.

“Financial statements are examined using various ratios to make sure that the business operation is carried out properly and results are within the expected range.” (Pradhan,Basic of Financial Management,1996,p-38) There is variety in ratio calculation. Data contained in financial statement as the requirement of the types of ratios are as follows:

-) Liquidity Ratio
-) Activity or Turnover Ratio
-) Leverage or Capital Structure Ratio
-) Profitability Ratio
-) Valuation Ratio

A) Liquidity Ratios

The liquidity ratios measure the liquidity position and short – term solvency indicate the company’s ability to meet short term obligations. These ratios provide insight into the present cash solvency in the event of adverse financial condition. Important liquidity ratios that have been used in the study are listed below:

I) Current Ratio

This ratio is commonly used ratio to measure the liquidity position and short term solvency of the firm. It is the ratio of total current assets to current liability. Current assets are viewed as relatively liquid as they generate cash in relatively short- term period. Current liabilities are debit that become due within a year. Lower current ratio creates difficulties in meeting short run commitments as they mature. If the ratio is too high, the bank has an excessive investment in current assets or is under utilizing short – term credit current ratio can be computed dividing current assets by current liabilities.

Symbolically,

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

Current assets include cash & balance; money at call on short notice, investment on government securities, account receivable, bills purchased and discounted loans, advances & overdraft and miscellaneous current assets.

II) Quick Ratio/ Acid Test Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets which are considered to be relatively liquid and included in quick assets are debtors and bills

receivables and marketable securities. The quick ratio is found out by dividing quick assets by current liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

III) Cash and Bank Balance to Current Margin and Other Deposit Ratio (without fixed deposit)

This ratio is implied to measure whether bank and cash balance is sufficient to cover its current calls margin including deposits. It is calculated by dividing cash and bank balance by dividing margin and current deposits.

Cash and Bank Balance to current Margin and other Deposit Ratio,

$$= \frac{\text{Cash and bank balance}}{\text{Deposit (Except fixed Deposit)}}$$

IV) Saving Deposit to Total Deposit Ratio

Saving deposit is interest bearing short – term deposit. The ratio is developed in order to find out the proportion of saving deposit, which is interest bearing and short term in nature. It is found out by dividing the total amount of saving deposits by the amount of total deposit, which is given below;

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

V) Fixed Deposit to Total Deposit Ratio

This ratio shows that, what percentage of total deposit has been collected in the form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long term loans. Low ratio means the bank should invest the fund if low cost in short – term loans. The ratio is calculated using following formula;

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

B) Activity or Turnover Ratio

Activity ratios are used to evaluate the efficiency with which the firm manages and utilizes its assets or these ratios also known as utilization ratio. Through these ratios, it is known that whether the funds have been used effectively in the business activities or not. The following are the ratios to analyze the activeness of the concerned joint venture.

I) Loan and Advances to Total Deposit Ratio

Loan and advances are the major resources of investment to generate income in the commercial banks. Deposits are used to grant loans and advances. Therefore, the bank should manage its deposits efficiently. This ratio is calculated to determine the utilization of deposits for profit generating purpose on the loans and advances. This is calculated as;

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

II) Loan and Advances to Fixed Deposit Ratio

This ratio is calculated to determine the utilization of fixed deposits (high interest bearing long term liabilities) in profit generating purpose on loans and advances. This ratio can be calculated as;

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Fixed Deposit}}$$

III) Total Investment to Total Deposit Ratio:

Investment is one of the major forms of credit created to earn return. It measures the utilization of deposits in investment. Higher the ratio, better the utilization of collected fund and generates regular income to the banks. This ratio is calculated as;

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

IV) Loan and Advances to Saving Deposits Ratio:

This ratio is calculated to determine the utilization of saving deposits (fixed interest bearing short term liabilities) in profit generating purpose. This ratio is calculated as;

$$\text{Loan and Advances to Saving Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposits}}$$

C) Leverage/ Capital Structure Ratio

Leverage refers to the ratio of debt to liquidity in the capital structure of the firm. Debt and equity are long term obligations. The long term financial position of the firm is determined by the leverage or capital structure. The different leverage ratios are maintained to measure the financial risk or proportion of outsiders fund and owners' capital used by the firm and the level of debt financing and the firms' ability to pay interest and other fixed charges. "The leverage ratios are calculated to judge the long term financial position of a firm. These ratios measure the enterprise's ability to pay the interest regularly and to repay the principal on maturity."(Dangol, *Accounting for Financial Analysis and Planning*,2059)

Hence, the leverage ratios are calculated to measure the financial risk and the firm's ability if using debt for the benefit of shareholders. Under this group following ratios are computed:

I) Long Term Debt to Net Worth (Shareholders equity) Ratio:

It measures the proportion of long- term debt and equity used in the capitalization of the banks. It is calculated as;

$$\text{Long Term Debt to Net worth Ratio} = \frac{\text{Long Term Debt}}{\text{Net Worth}}$$

II) Debt to Asset Ratio (Capital Adequacy Ratio)

This ratio indicates the contribution of creditors in financing the assets of the bank. The ratio is calculated by dividing total debt by total assets,

$$\text{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

III) Debt to Capital Ratio

This ratio shows the proportion of long term debt in total capital employed by the bank. This ratio is obtained by, dividing long term debt by total capital of the firm.

$$\text{Debt to Capital Ratio} = \frac{\text{Long term debt}}{\text{Total Capital}}$$

High ratio indicates greater claim of creditors and low ratio indicates less claim of outsiders.

IV) Interest Coverage Ratio

This ratio is also known as time interest earned ratio or debt service ratio. The ratio used to measure the debt servicing capacity of the bank. It indicates the ability of a firm to pay interest charges on its borrowed capital. It is calculated as follows;

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Charge}}$$

Higher ratio is desirable, but too high ratio shows the firm is very conservative in using debt. A lower ratio indicates excessive use of debt.

v) Net Fixed Assets to Long Term Debt Ratio

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are compared to the fixed liabilities. It is calculated as follows;

$$\text{Net Fixed Assets to Long Term Debt Ratio} = \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}}$$

D) Profitability Ratio

This ratio measures the capacity of generating revenue and search for the incomes of the firm. The operating efficiency of the bank and its ability to ensure adequate return to its shareholders depend ultimately on the profit earned by the bank. It measures the success of the firm in terms of profit margin, return on equity, and return on total investment and reflects the overall efficiency and effectiveness of the management. To measure the efficiency of the banks, following major profitability ratios are calculated. Through profitability ratios the lender and investors want to decide whether to invest in a particular business or not. Some of the important profitability ratios are used as follows.

I) Return on Total Assets

This ratio measures the profitability of fund invested in the banks' assets. It measures the return on asset and also measures the efficiency of bank in utilization of the overall assets. The ratio is calculated by dividing the net profit after tax by total assets.

$$\text{Return on Total Assets Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

Net profit refers to the profit after deduction of interest and tax.

II) Net Profit to Total Deposit Ratio

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

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

Higher ratio indicates the index of strong profitability position and lower ratio indicates the funds are not properly mobilizing.

III) Interest Earned to Total Assets Ratio

This ratio shows percentage of interest income as compared to the assets of the bank. This is compared by dividing the amount of interest earned by the total assets of the firms.

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

High ratio indicates the proper utilization of bank's assets for income generating purpose. Low ratio represents unsatisfactory performance.

IV) Cost of Services to Total Asset Ratio

This ratio measures the utilization of assets with cost of services. The ratio is derived by dividing the cost of services by the total assets of the firms.

$$\text{Cost of Services to Total Assets Ratio} = \frac{\text{Cost of Services}}{\text{Total Assets}}$$

V) Du Pont System

Du Pont System shows the relationship between return on investment, assets turnover and profit margin. This chart is called the Du Pont chart because it was first used by the Du Pont Company of the USA. The profit margin times and the total assets turnover is called the Du Pont equation. It gives the rate of return on assets.

$$ROA = \text{Profit Margin} \times \text{Total Assets Turnover}$$

Du Pont analysis is in fact, related with return on equity. It analyzes the ratio related with the factors which affect return on equity i.e. cost assets utilization and leverage.

$$\text{Return on Equity (ROE)} = ROA \times \text{Equity}$$

$$ROE = \text{Profit Margin} \quad \times \quad \text{Total Assets Turnover} \quad \times \quad \text{Equity Multiplier}$$

$$\frac{\text{Net Income}}{\text{Sales}} \quad \times \quad \frac{\text{Sales}}{\text{Total Assets}} \quad \times \quad \frac{\text{Total Assets}}{\text{Common Equity}}$$

So,

$$ROE = \frac{\text{Net Income}}{\text{Common Equity}}$$

3.4.2 Statistical Tools

Various statistical tools may be used for the evaluation of financial performance of the banks such as Correlation Analysis, Measure of Central Tendency, Theory of Dispersion, and Estimation whatever is required. “Statistical analysis is one particular language which describes the data and makes possible to talk about the relations and the difference of the variables. Without the adequate understanding of statistics, the investigator in social science may frequently be like a blind man groping in a dark closet for a black cat that is not there. The method of statistics is useful in an ever widening range of human activities in my field of thought in which numerical data may be had.”(Gupta, Statistical Method,1991-p9.21)

Correlation Analysis

The term correlation analysis is the analysis, which reflect that the variables of the two different data are related or we can say that correlation is the analysis of relation between more than one variable. In this analysis we examine that the data are mutually dependent or not. “When the relation is quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it in a belief formula is known as correlation.” (Gupta, Fundamental of Statistics,1997/098) It deals to determine the degree of relationship between two variables. Among the various methods of finding out coefficient of correlation, in this study Karl’s Person correlation co-efficient (r) method is applied. The result of correlation coefficient (r) is always lies

between +1 and -1, when 'r' is +1 it means there is perfect relationship between two variables and vice versa. When 'r' is -1 it signifies that there is perfectly negative relationship between the variables and when 'r' is 0, it means there is no significant relationship between two variables. Here actual mean method is applied. It is calculated as follows.

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

Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation usually denoted by P.E. is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends up on the conditions of random sampling. It is worked out as:

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

If r is less than its P.E., it is not significant at all. If r is more than P.E., there is significant correlation. And if r is more than 6 times its P.E. and r equals to greater than $\frac{1}{5}$ then correlation is considered as significant.

After reviewing the relevant literatures and highlighting the Research Methodology now the analysis part of the research is going to be undertaken.

Chapter- 4

Presentation and Analysis of Data

Subject matter and objectives of this study have been introduced in the first chapter. In order to achieve those objectives necessary analytical tools and techniques have been discussed in unit “Research Methodology”. In this unit relevant data have been presented and analyzed with reference to financial performance of selected commercial bank.

4.1 Financial Analysis:

Financial analysis is a process of evaluating relationships between component parts of financial statements, i.e., balance sheet and profit and loss account to obtain a better understanding of the banks position and performance. Various financial tools are used in this research for analysis. Although there are more than 200 ratios, but only some selected ratios are used in this study.

4.2 Ratio analysis:

Ratio analysis is very much powerful tool of financial analysis. Financial tools are most frequently and widely used in practice to assess company’s financial performance and condition. Ratio analysis is defined as the systematic use of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two variables. Important ratios can be calculated from balance sheet and profit & loss account, thus calculated financial ratios can be useful for analyzing and assessing the performance and position of the bank, which reflect the relative strength and weaknesses of any particular bank over others. The ratio analysis is the most powerful tool of the financial analysis and it is uses in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank.

4.2.1 Liquidity Ratio

Liquidity ratios measure a corporation's ability to meet its maturing short – term obligations. It is well known fact that assets vary with respect to time and effort required to liquidate them. Liquidity thus refers to 'nearness to cash'. The large size of current assets is associated with high liquidity and low profitability. The practice of holding a large size of current assets is an expensive affair. With too much liquidity, the possibility of its misuse becomes high. On the other hand, too little may lead to severe cash problems, which can result in liquidity to pay debts in time. Liquidity refers to the likelihood of the corporation being able to meet its current financial obligations. If the corporation cannot meet them, its continued existence becomes doubtful. Since the consequences of inappropriate short-term liquidity are serious, great importance has been attached to measures of such liquidity. Following ratios are analyzed in the liquidity ratio.

In this section raw from of data about EBL and NIBL, which are collected from various sources are changed into an understandable presentation using financial as well as statistical tools. This chapter is the heart of my study. This chapter will be of great relevance for my study, as all the findings, conclusions and recommendations are going to be derived from the calculation done in this section. The analyses of data consist of organizing, tabulating and performing financial as well as statistical analysis.

4.2.1.1 Current Ratio

Current Ratio is one of the most widely used measures of liquidity. It measures the degree to which current liabilities. A higher ratio indicates greater assurance of ability to pay current liabilities. A current ratio of 2:1 is generally considered to be an acceptable standard though it is only a rule of thumb standard.

Current ratio is the ratio of current assets to current liabilities. A low ratio indicates that the corporation may not be able to meet short-term obligations. A high ratio indicates excessive current assets leading to under-utilization of the corporation's resources.

Bank is not productive company of any material that's why it has its own nature, which may differ from the other company. Those assets title which may come in current assets are different in nature in banking operation. Symbolically,

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

The following table shows the current ratio, to compare of Nepal Investment Bank and Everest Bank Ltd.

Table #1
Current Ratio (Times)

(In million)

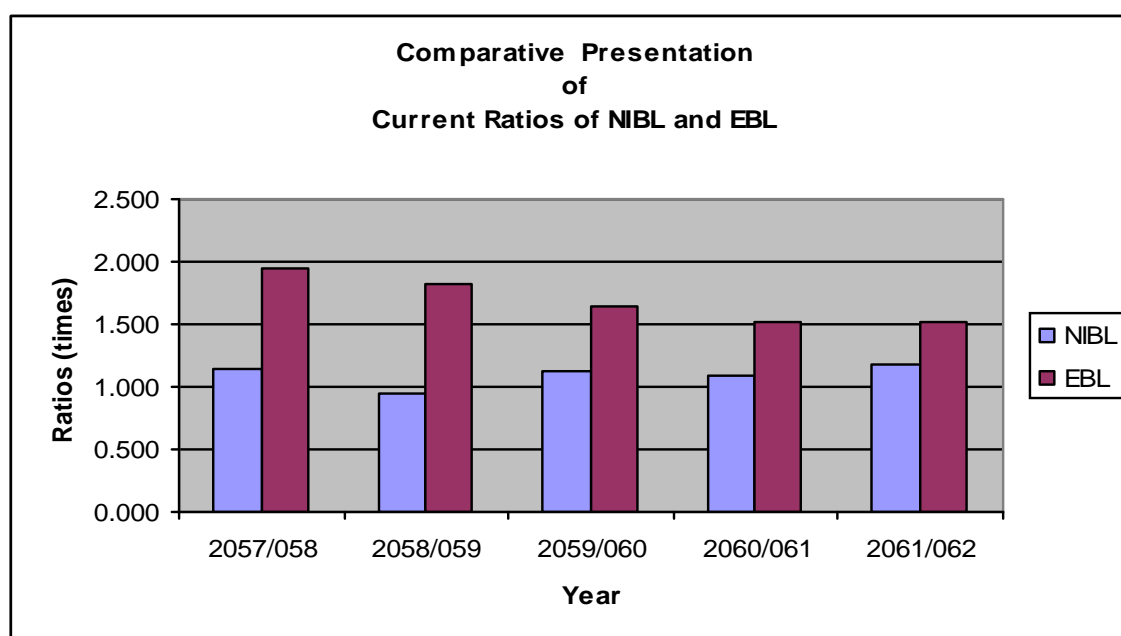
Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	C.A	C.L	Ratio	C.A	C.L	Ratio
2057/058	3,423.61	2999.61	1.1414	5049.8	2598.54	1.9433
2058/059	3340.25	3504.5	0.9531	6359.66	3504.99	1.8145
2059/060	7517.89	6702.89	1.1216	7836.89	4784.63	1.6379
2060/061	11144.2	10231.82	1.0892	9399.96	6170.3	1.5234
2061/062	13967.78	11881.62	1.1756	11629.41	7618.54	1.5265
Average			1.0962			1.6891

(Sources: Appendix 1&3)

From the above table no.1 shows that the average current ratios of the two banks are for below the satisfactory level. NIBL has the fluctuating trend of current ratio, from 1.1414 times to the 1.1756 in the study period of five years keeping the average ratio 1.0962 times. It shows that NIBL's current assets have been increasing in comparison to its current liabilities, this means that this bank's ability to meet short term obligations is increasing over the period of last five years. In the other hand, EBL has the declining trend of current ratio, from 1.9433 times to the 1.5265 times in the study period of five years keeping average ratio as 1.6891 times. EBL's current assets situation is very good which shows that bank's ability to meet short term obligation is increasing over the period of last five years.

The above analysis helps to conclude that EBL has more margin of safety for its creditor in comparison to NIBL and hence the liquidity position of EBL is better than NIBL. Still both banks average ratios are below the satisfactory level (2:1) and they are in declining trend, ratio measures only quantity, not the quality of assets. Since banks have not yet developed the standard of ratio, here 2:1 is accepted just for comparison. Hence we cannot conclude that the current ratio of the selected banks is very poor. They all are following aggressive policy. The comparative graph of current ratios of the selected banks has been presented below.

Figure No.1



4.2.1.2 Quick Ratio

Quick ratio is modified form of the current ratio. Quick ratio established a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can converted into cash immediately or reasonably soon without lose of value. Cash is the most liquid assets. Other assets which are considered to be relatively liquid are included

in quick assets; such as debtors, bills receivables and marketable securities. The quick ratio is found out by dividing quick assets by current liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Higher quick ratio indicates an efficient position for meeting the current obligation. For this study; cash & bank balance and government securities are include in quick assets. The following table shows the current ratio, to compare of Nepal Investment Bank and Everest Bank Ltd.

Table # 2
Quick Ratio (Times)

(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	Q.A	C.L	Ratio	Q.A	C.L	Ratio
2057/058	822.86	2999.61	0.2743	1666.99	2598.54	0.6415
2058/059	563.32	3504.5	0.1607	2131.66	3504.99	0.6082
2059/060	1326.53	6702.89	0.1979	2738.92	4784.63	0.5724
2060/061	3228.02	10231.82	0.3155	3098.24	6170.3	0.5021
2061/062	1535.35	11881.62	0.1292	3150.28	7618.54	0.4135
Average			0.2155			0.5476

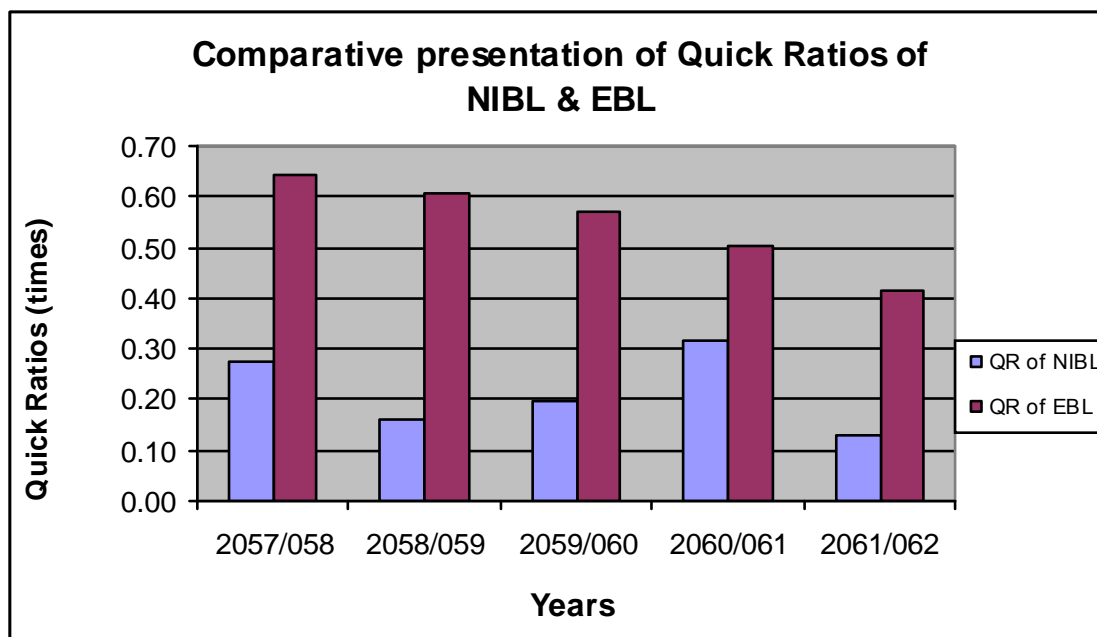
(Sources: Appendix 1&3)

From the above table no.2 shows that the quick ratios of NIBL are always fluctuating over the study period. The average ratio of NIBL is 0.2155.

In Everest Bank, ratios are in decreasing position during the study period. The quick ratio is higher in 2057/058 i.e., 0.6415 and lower in 2061/062i.e., 0.4135. The average quick ratio is 0.5476. The yearly quick ratios of EBL are always higher than NIBL.

The above analysis helps to conclude that the quick ratios of EBL are always better than NIBL, so it shows that EBL has better liquidity position than NIBL.

Figure No. 2



4.2.1.3 Cash and Bank Balance to Current Margin and Other Deposit Ratio (without fixed deposit)

This ratio shows the ability of banks immediate funds to cover their (current margin, call and savings) deposits. It can be calculated by dividing margin and current deposits.

Cash and Bank Balance to current Margin and other Deposit Ratio,

$$= \frac{\text{Cash and bank balance}}{\text{Deposit (Except fixed Deposit)}}$$

Table #3

Cash and Bank Balance to Deposit Ratio (Except Fixed Deposit)

(In million)

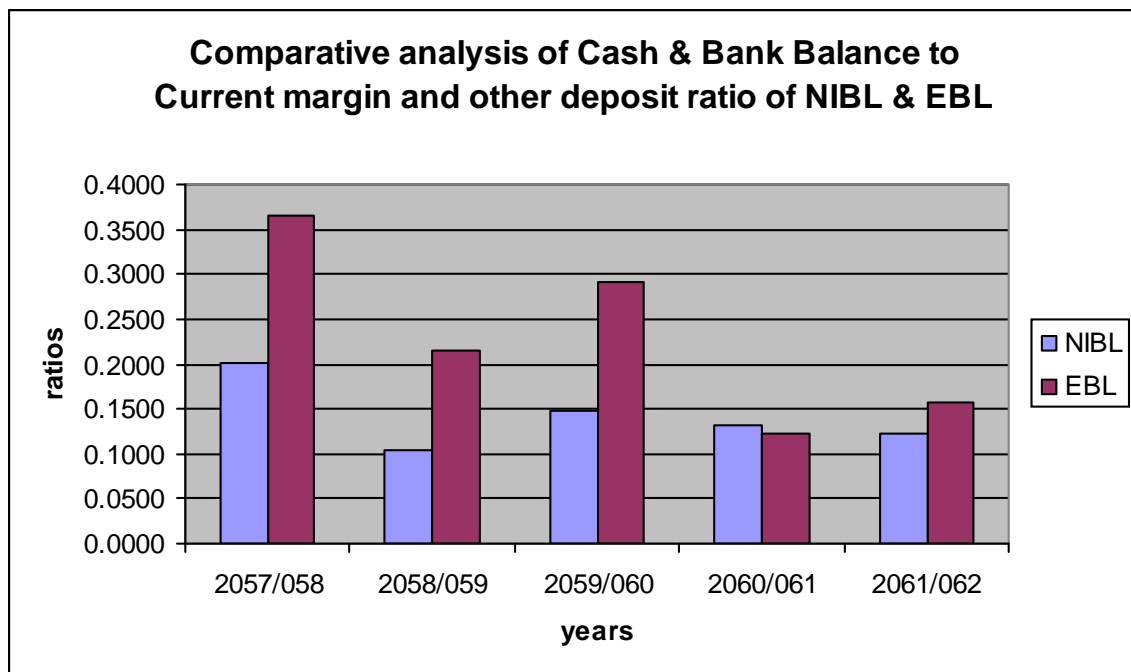
Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	Cash & BB	Deposit	Ratio	Cash & BB	Deposit	Ratio
2057/058	522.86	2597.55	0.2013	834.99	2289.87	0.3646
2058/059	338.92	3228.83	0.1050	592.76	2755.03	0.2152
2059/060	926.5	6244.93	0.1484	1139.57	3900.21	0.2922
2060/061	1226.92	9230.02	0.1329	631.81	5165.94	0.1223
2061/062	1340.48	11022.31	0.1216	1049.99	6693.73	0.1569
Average			0.1418			0.2302

(Sources: Appendix 1&3)

From the above table no.3 shows that the ratios of NIBL as well as EBL are always fluctuating. The highest ratio of NIBL is 0.2013 in the year 2057/058 and the lowest ratio is 0.1050 in the year 058/059. The yearly ratios of EBL are always higher than the NIBL except in year 060/061. In EBL, the ratio is highest in the year 057/058 i.e.,0.3646 and lowest in the year 060/061 i.e., 0.1223.

The above analysis helps to conclude that EBL holds more cash balance than NIBL. The higher ratio of EBL shows that the ability of bank immediate funds to cover its current margin, call and saving deposit better than the same of EBL. In other words the liquidity position of EBL is better than that of NIBL, but large amount of idle cash and bank balance badly affect the profitability of the bank. From the point view of utilizing cash, NIBL has better position than the EBL.

Figure No. 3



4.2.1.4 Saving Deposit to Total Deposit Ratio:

Saving deposit is interest bearing short term deposit. The ratio is developed to find out the proportion of saving deposit, which is interest bearing and short term in nature. It is find out by dividing the total amount of saving deposits by the amount of total deposit, which is given as follows,

$$\text{Saving deposit to Total Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

Table # 4
Saving Deposit to Total Deposit Ratio

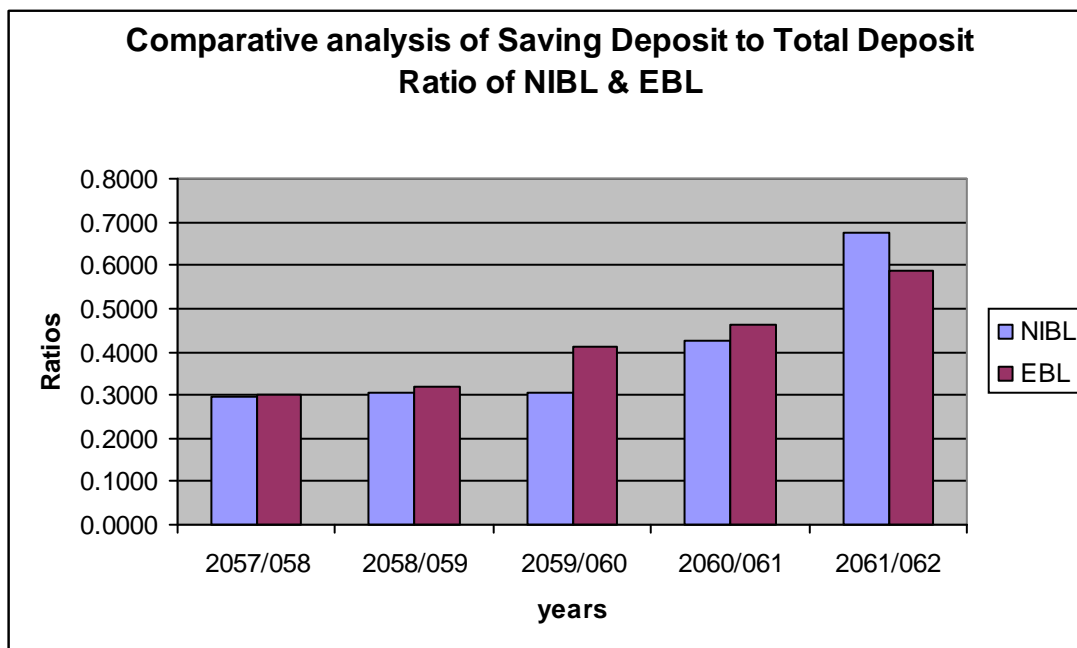
(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	Saving Deposit	Total Deposit	Ratio	Saving Deposit	Total Deposit	Ratio
2057/058	1,259.57	4256.21	0.2959	1384.06	4571.51	0.3028
2058/059	1278.79	4174.76	0.3063	1735.37	5466.61	0.3174
2059/060	2434.05	7922.75	0.3072	2757.45	6694.95	0.4119
2060/061	4886.1	11524.7	0.4240	3730.61	8063.91	0.4626
2061/062	6703.51	9915.77	0.6760	4806.83	8210.78	0.5854
	Average		0.4019			0.4160

From the above table shows that the amount of saving deposits are gradually increasing in both banks during the study period. The saving deposit to total deposit ratio of NIBL is gradually increasing. In Everest bank, the ratios are increasing for all the times.

Saving deposit is short term liabilities but it's nature is long term than current margin and other deposits. So the large portion of saving deposit in total deposit shows the liquidity position of the bank. From the above analysis, saving deposit to total deposit ratio of Everest is better than the NIBL. It indicates the Everest is more liquid bank than NIBL. It also shows that Everest bank pays higher amount of interest on deposit.

Figure No. 4



4.2.1.5 Fixed Deposit to Total Deposit Ratio:

This ratio indicates that, what percentage of total deposit has been collected in form of fixed deposit. High ratio shows better opportunity available to the bank to invest in sufficient profit generating long term loan low ratio mean the cost in short term loan.

The ratio can be expressed as;

$$\text{Fixed deposit to Total Deposit Ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

Table #5

Fixed Deposit to Total Deposit Ratio

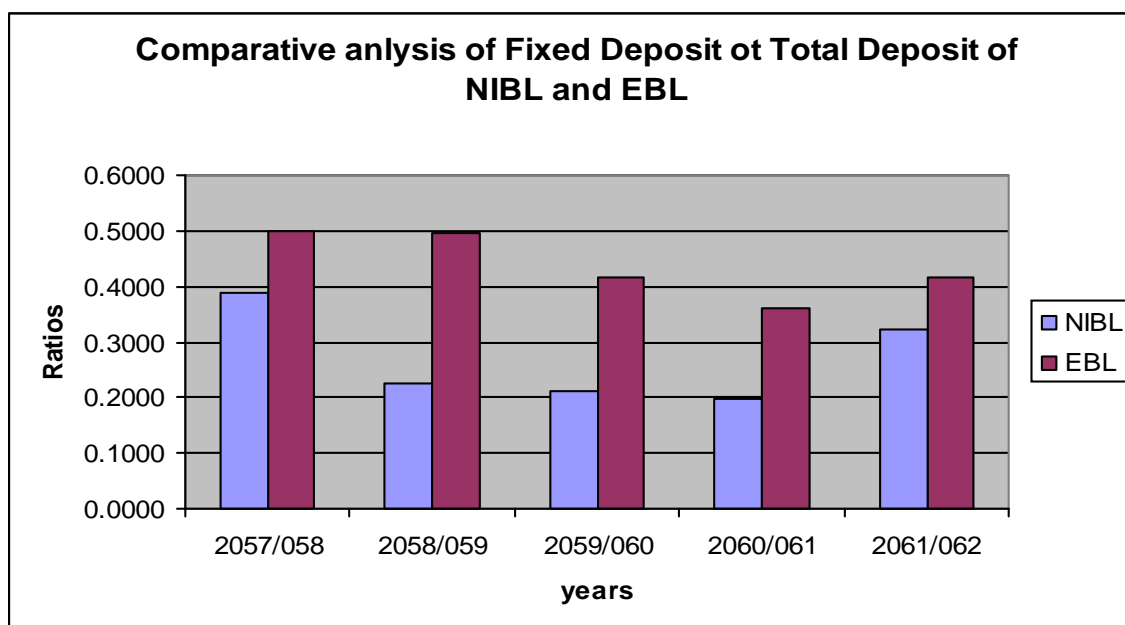
(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	Fixed Deposit	Total Deposit	Ratio	Fixed Deposit	Total Deposit	Ratio
2057/058	1,658.66	4256.21	0.3897	2284.64	4571.51	0.4998
2058/059	945.93	4174.76	0.2266	2711.58	5466.61	0.4960
2059/060	1672.82	7922.75	0.2111	2794.74	6694.95	0.4174
2060/061	2294.68	11524.7	0.1991	2897.96	8063.91	0.3594
2061/062	3212.26	9915.77	0.3240	3403.95	8210.78	0.4146
Average			0.2701			0.4374

From the above table shows that the ratios of NIBL are decreasing first four years during study periods but in last one year the ratio is increased. The ratio is higher in FY 2057/058 i.e;0.3897 and lower in 2060/061 i.e;0.1991.

In Everest Bank, the ratios are decreasing. The average ratio of EBL i.e;0.4222 is higher than it's yearly ratio in last three years during study period and lower than yearly ratio in first two year. The yearly ratio as well as average ratio of EBL is always higher than the same of NIBL.

Figure No. 5



The above analysis helps to conclude that the higher ratio of EBL shows that greater portion of total deposit in EBL has been occupied by fixed deposits in contrast to NIBL. EBL can grab the opportunity to invest the fund in more profitable sector like long term loans.

4.2.2 Activity or Turnover Ratio

This ratios indicate the efficiency with which a comparison employs it's resources. Activity ratios are employed to evaluate the efficiency with which the firm manages

and utilizes its assets. From these ratios it is known that whether the funds employed have been used efficiently in the business activities or not. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over into profit generating assets. Following are the ratios employed to analyze the activeness of the concerned joint venture.

4.2.2.1 Loan & Advances to Total Deposit Ratio:

This ratio measures the extent to which the banks are successful to mobilize the outsider's fund i.e; total deposits in loans and advances for the purpose of profit generation. The comparative ratios of the two banks have been given below;

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposit}}$$

Table #6

Loan & Advances to Total Deposit Ratio

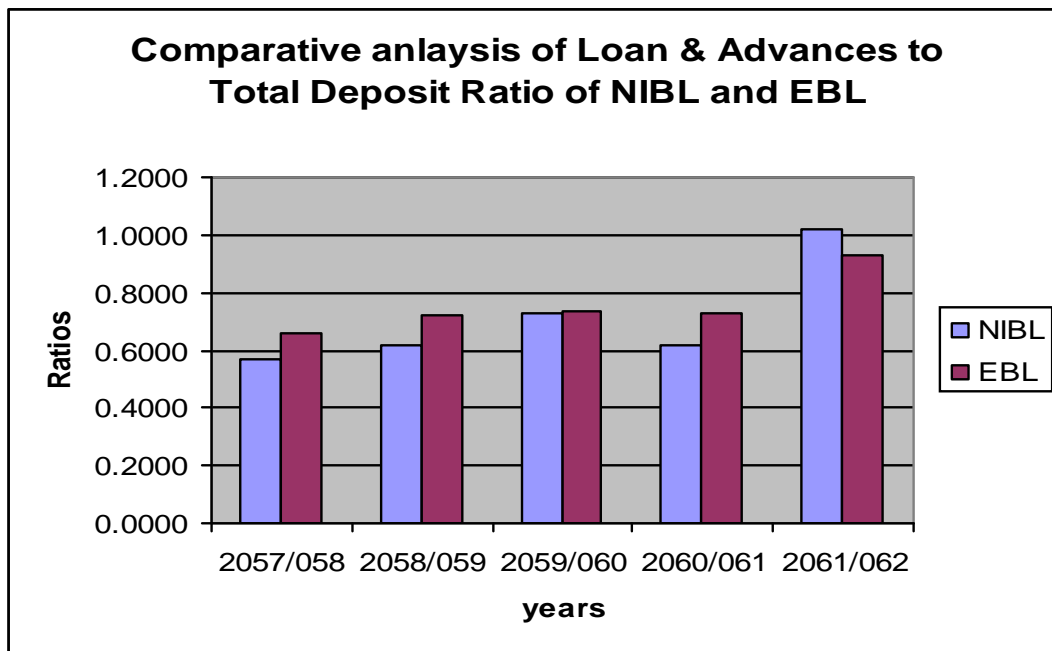
(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	Loan & Advances	Total Deposit	Ratio	Loan & Advances	Total Deposit	Ratio
2057/058	2,429.03	4256.21	0.5707	3005.76	4571.51	0.6575
2058/059	2564.43	4174.76	0.6143	3948.48	5466.61	0.7223
2059/060	5772.14	7922.75	0.7286	4908.46	6694.95	0.7332
2060/061	7130	11524.7	0.6187	5884.12	8063.91	0.7297
2061/062	10126.05	9915.77	1.0212	7618.67	8210.78	0.9279
	Average		0.7107			0.7541

The above mentioned table shows that the NIBL ratios are fluctuating each year where EBL are gradually increasing. The average ratio of NIBL is 0.7107 which is higher than 1st, 2nd & 4th year and lower than 3rd and 5th year of the study period.

In other hand, EBL ratios are less fluctuating. The average ratio is 0.7544, the highest ratio in last year and lower ratio in first year (057/058)

Figure no. 6



This analysis helps us to conclude that the EBL had moderate ratio over the review period of five years. This signifies that EBL had been able to efficiently use the outside fund in profit generating purpose. It had been successful in advancing the favorable position of it's deposit towards loans and advances. But NIBL had not been able to use the outsidess fund in profit generating purpose.

4.2.2.2 Loan & Advances to Fixed Deposit Ratio:

This ratio measures the extent to which the high interest bearing fixed deposit it used in loans and advances for income generating process. It can be calculated as;

$$\text{Loan \& Advances to Fixed Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Fixed Deposit}}$$

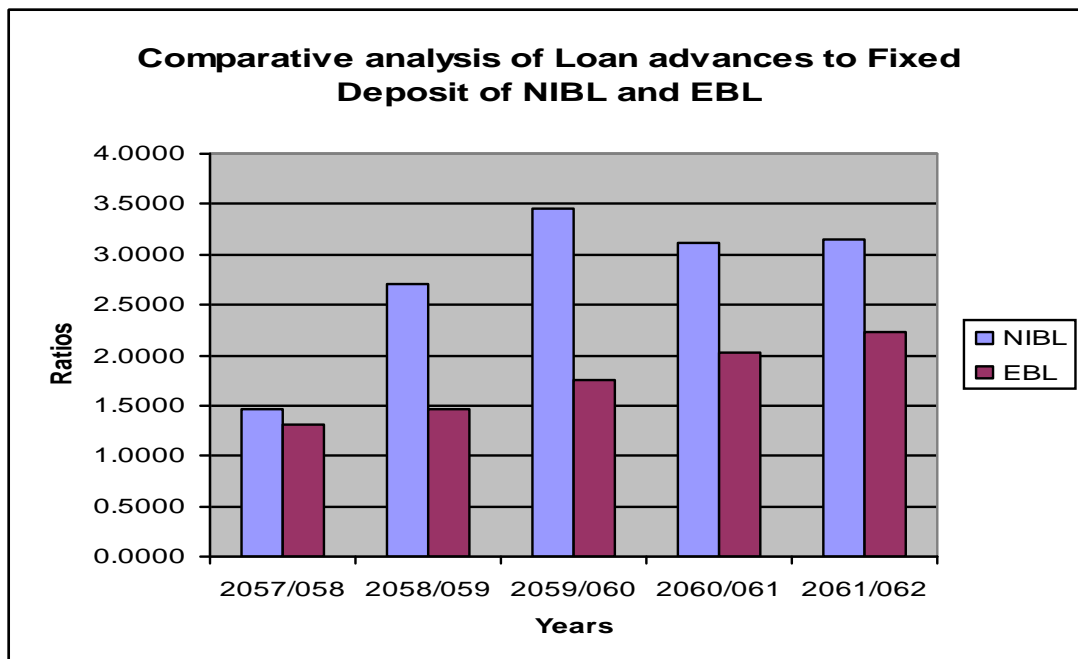
Table #7

Loan & Advances to Fixed Deposit Ratio

(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	Loan & Advances	Fixed Deposit	Ratio	Loan & Advances	Fixed Deposit	Ratio
2057/058	2,429.03	1658.66	1.4645	3005.76	2284.64	1.3156
2058/059	2564.43	945.93	2.7110	3948.48	2711.58	1.4562
2059/060	5772.14	1672.82	3.4505	4908.46	2794.74	1.7563
2060/061	7130.00	2294.68	3.1072	5884.12	2897.96	2.0304
2061/062	10126.05	3212.26	3.1523	7618.67	3403.95	2.2382
Average			2.7771	1.7593		

Figure no. 7



The above table shows the loan and the increasing trend of loan & advances to fixed deposit ratio of NIBL, is increasing in first three years and fluctuate in next two years. The average ratio is 2.7771 which is lowest than last three years and higher than the first two years. In other hand EBL ratios are increasing gradually.

The above analysis helps to conclude that the loan and advances to fixed deposit ratio of NIBL is better than EBL. Because of lower amount of fixed deposit, the ratio becomes higher on NIBL than EBL. The ratio implies that NIBL is utilizing its fixed deposits in loan and advances more efficiently.

4.2.2.3 Loan & Advances to Saving Deposit Ratio:

This ratio measures the utilization of short term interest bearing deposit for income generating purpose i.e; to what extent saving deposit are utilize in generating revenue by providing loans and advance to the client.

$$\text{Loan \& Advances to Saving Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Saving Deposit}}$$

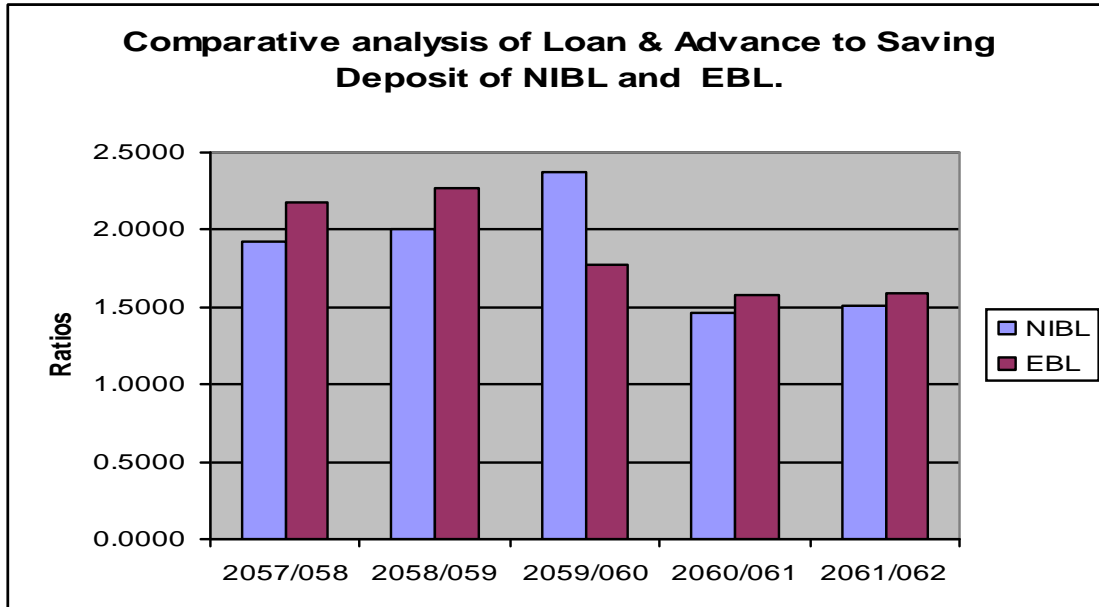
The following table shows the loan and advances to saving deposit ratio of the selected banks.

Table #8
Loan & Advances to Saving Deposit Ratio

(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	Loan & Advances	Saving Deposit	Ratio	Loan & Advances	Saving Deposit	Ratio
2057/058	2,429.03	1259.57	1.9285	3005.76	1384.06	2.1717
2058/059	2564.43	1278.79	2.0054	3948.48	1735.37	2.2753
2059/060	5772.14	2434.05	2.3714	4908.46	2757.95	1.7797
2060/061	7130.00	4886.1	1.4592	5884.12	3730.61	1.5773
2061/062	10126.05	6703.51	1.5106	7618.67	4806.83	1.5850
	Average		1.8550			1.8778

Figure no.8



4.2.3 Leverage / Capital Structure Ratio:

The leverage ratio shows how much of a firm assets are financed by debt and equity. By studying them, one can assess the prospects for future financing. If the firm has employed excessive debt in its capital scheme, additional debt financing will be difficult in future. The firm might have to pay higher ratio of interest. On the other hand, if the firm has employed no debt, or little debt, it reveals the failure to use cheap borrowed capital and raise the shareholders rate of return.

The use of debt also enables the owners to maintain their control over the firm. The firm with high leverage ratio is subject to higher risks and this would, in turn, increase their chances of getting high return. Conversely the firm with low leverage ratio is subject to lower risks and would in turn, decrease their return.

4.2.3.1 Long Term Debt to Net worth Ratio/Debt to Equity Ratio:

Long term debt refers to the amount of fixed deposits and loans of the banks. Long term debts in the form of fixed deposits are high cost liabilities for the bank. This ratio measures the proportion of outsiders and owners fund employed in the capitalization of banks. It is calculated by dividing the fixed obligations of the banks by owners claim. It can be calculated as follows;

$$\text{Long Term Debt to Net Worth Ratio} = \frac{\text{Long term Debt}}{\text{Net Worth}}$$

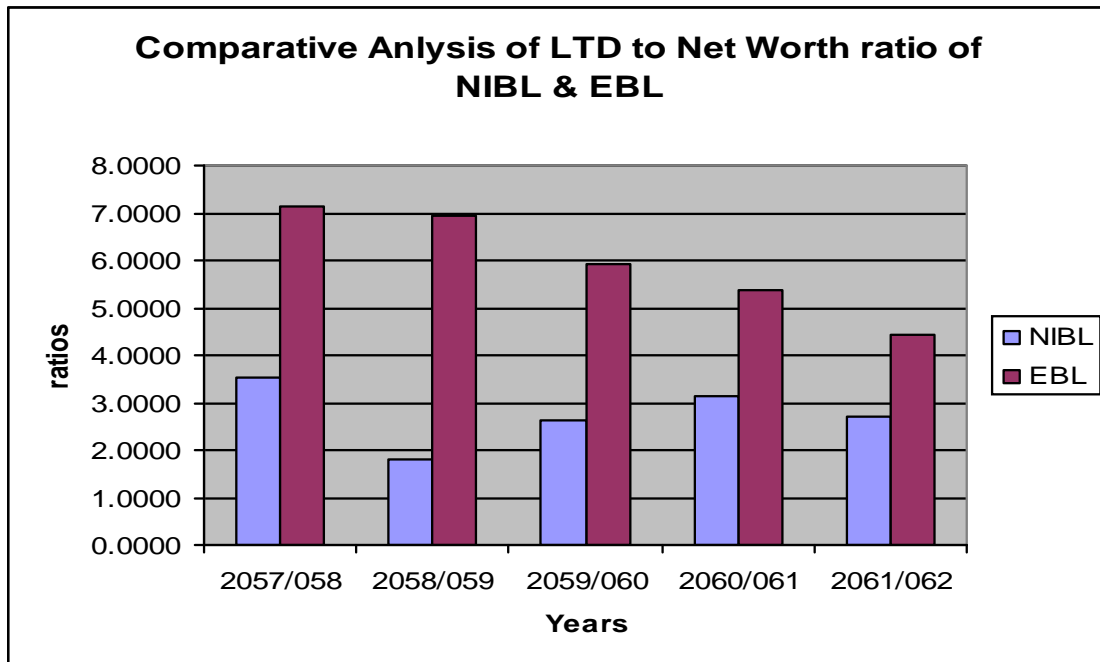
This ratio measures the relative proportion of long term debt in relation to net worth. Long term debt to net worth ratio of the selected bank has been tabulated below;

Table # 9
Long Term Debt to Net worth Ratio

(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	LTD	Net Worth	Ratio	LTD	Net Worth	Ratio
2057/058	1,658.66	469.08	3.5360	2284.64	319.4	7.1529
2058/059	945.93	523.46	1.8071	2711.58	390.91	6.9366
2059/060	1672.82	638.53	2.6198	2794.74	472.83	5.9107
2060/061	2294.68	729.04	3.1475	2897.96	540.33	5.3633
2061/062	3212.26	1180.17	2.7219	3403.95	769.62	4.4229
	Average		2.7665			5.9573

Figure no. 9



From the above table, In the case of NIBL, LTD is fluctuating during study period and net worth is gradually increasing all over the study period. The average ratio of NIBL is 2.7664. For the EBL, LTD is gradually increasing for all over the study period and net worth is gradually increasing for all the time of study period. The average ratio of EBL is 5.9572, the yearly ratio of EBL are very much higher than NIBL. From the above analysis it can be concluded that the long term debt to net worth ratios of EBL are greater than NIBL, which implies that the proportion of outsiders claim in total capitalization is higher in EBL. The large amount of fixed deposits which is long term liabilities makes ratios term very much higher incase of EBL. So EBL has more risky and aggressive capital structure.

4.2.3.2 Debt to Asset Ratio (Capital Adequacy Ratio):

This ratio is calculated by dividing total outsiders' fund by total assets. The ratio of debt to total assets signifies the extent of debt financing on the total assets and measures the financial security to outsiders or creditors. Despite of higher risk, owners of the

bank prefer a high debt ratio because it magnifies their earnings on one hand and enables them to maintain their concentrated control over the bank. The creditors however prefer a low debt ratio as it provides a sufficient cushion against losses in the event of liquidation. Total debt tot total assets ratio of the selected bank over the period tabulated as;

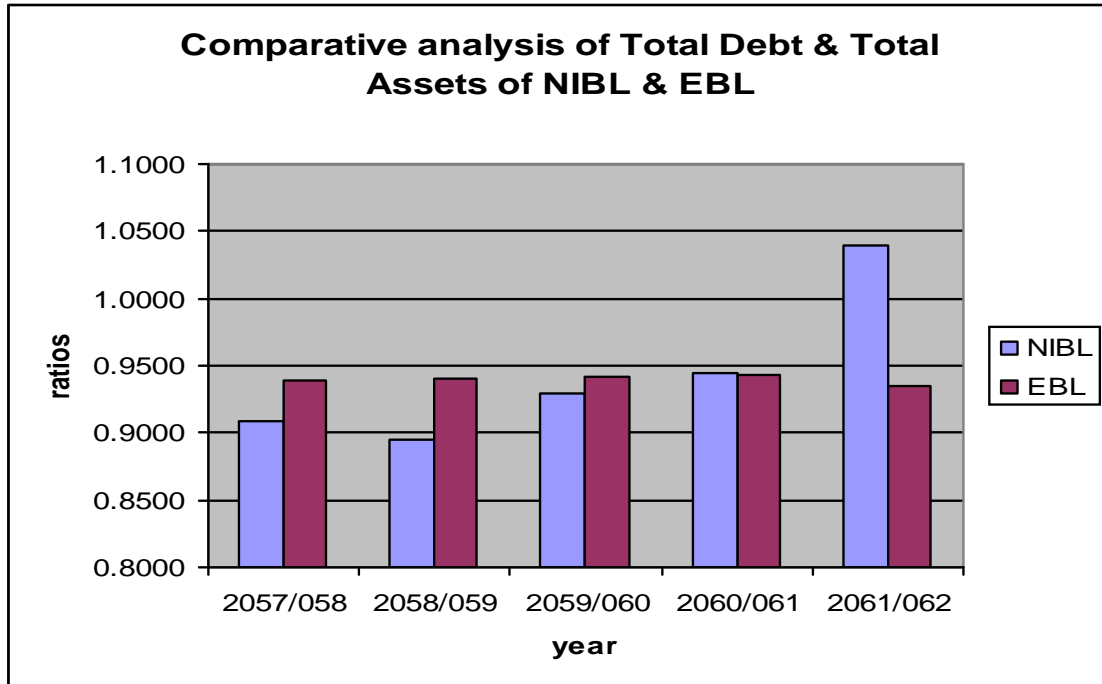
$$\text{Debt to Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Table # 10
Debt to Assets Ratio

(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	TD	T.A	Ratio	TD	T.A	Ratio
2057/058	4,658.27	5127.36	0.9085	4883.18	5202.58	0.9386
2058/059	4450.43	4973.9	0.8948	6216.57	6607.18	0.9409
2059/060	8375.71	9014.24	0.9292	7579.04	8052.2	0.9412
2060/061	12526.46	13255.91	0.9450	9067.67	9608.55	0.9437
2061/062	15093.88	14520.39	1.0395	11022.5	11792.13	0.9347
	Average		0.9434			0.9398

Figure no. 10



From the above table shows that the NIBL ratios are increasing gradually all over the study period except in 058/059. The average ratio is 0.9433 and for EBL in FY 058/059 to 060/062 very close ratio each other and the average ratio is 0.9398. The average ratio of NIBL is higher than EBL.

4.2.3.3 Debt to Total Capital Ratio:

It measures the weight or proportion of debt capital in capital structure. Therefore, a firm can adjust its capital structure to result in a minimum weighted average cost of capital. It is calculated as follows;

$$\text{Debt to Total Capital Ratio} = \frac{\text{Long Term Debt}}{\text{Total Capital}}$$

Where,

Total Capital = LTD + Pref. Stock + Shareholder's equity

The following table shows the debt to total capital ratio of NIBL and EBL.

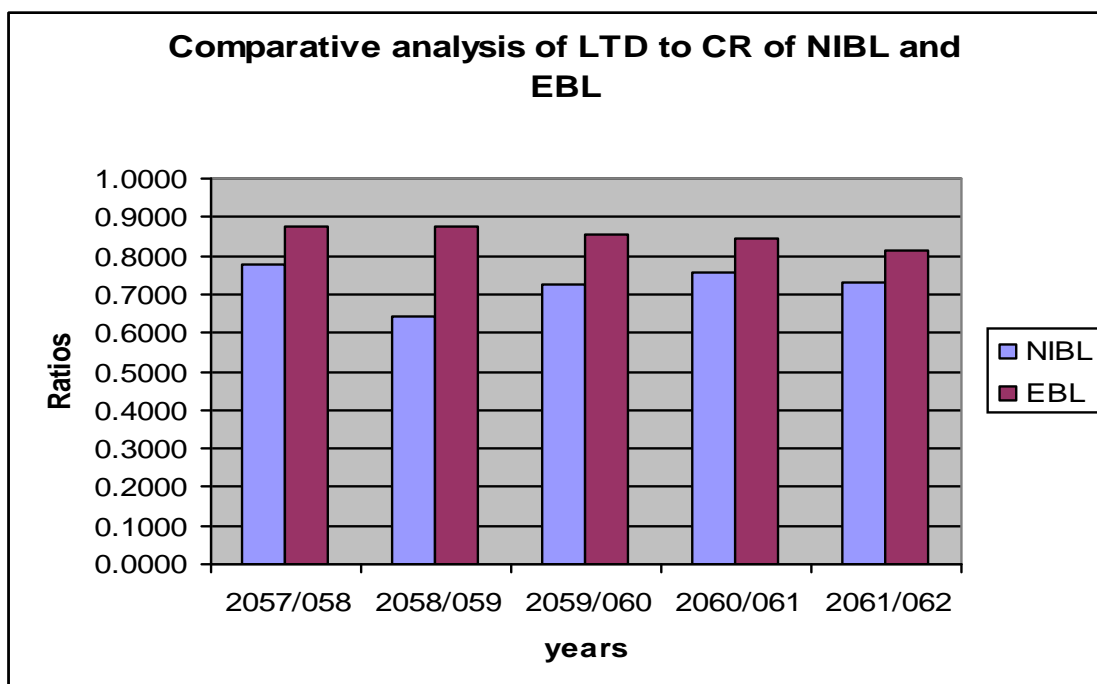
Table # 11

Debt to Total Capital Ratio

(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	LTD	TC	Ratio	LTD	TC	Ratio
2057/058	1,658.66	2127.74	0.7795	2284.64	2604.04	0.8773
2058/059	945.93	1469.39	0.6438	2711.58	3102.49	0.8740
2059/060	1672.82	2311.35	0.7237	2794.74	3267.57	0.8553
2060/061	2294.68	3023.62	0.7589	2897.96	3438.29	0.8428
2061/062	3212.26	4392.43	0.7313	3403.95	4173.57	0.8156
Average			0.7275			0.8530

Figure no. 11



From the above table shows that, the yearly ratios of NIBL are increasing except in the FY 058/059. The average ratio is 0.7275. On the other hand EBL, the yearly ratios are gradually decreasing all over the study periods. The average ratio of EBL is higher than the NIBL. From the above analysis it can be concluded that the debt to total capital ratios of EBL are greater than NIBL which implies that the proportion of outsiders claim is higher in EBL.

And the ratio of NIBL is lower. So, EBL has more risky and aggressive capital structure than NIBL.

4.2.3.4 Net Fixed Assets to Long Term Debt Ratio:

Net fixed assets are applied to both physical and financial assets. This ratio is calculated to find out how many times net fixed assets are in comparison to the fixed liabilities. It is calculated as follows;

$$\text{Net Fixed Assets to LTD Ratio} = \frac{\text{Net Fixed Assets}}{\text{Long Term Debt}}$$

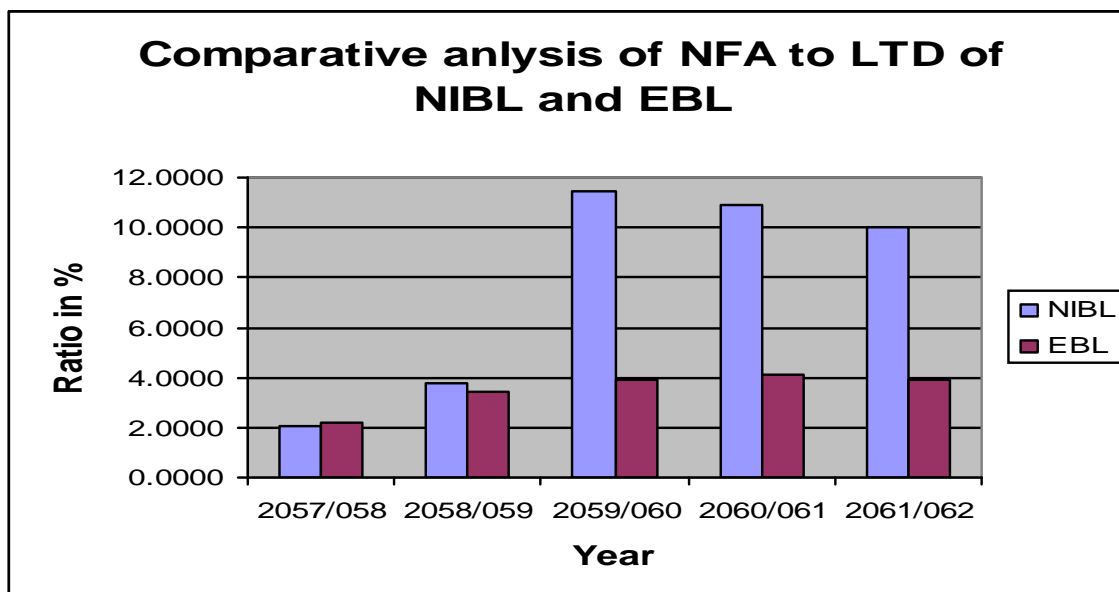
Table # 12

Net Fixed Assets to Long Term Debt Ratio

(In million)

Fiscal Year	Nepal Investment Bank Ltd.			Everest Bank Ltd.		
	NFA	LTD	Ratio%	NFA	LTD	Ratio %
2057/058	34.25	1,658.66	2.0649	50.37	2284.64	2.2047
2058/059	35.89	945.93	3.7941	93.39	2711.58	3.4441
2059/060	191.11	1672.82	11.4244	109.59	2794.74	3.9213
2060/061	249.79	2294.68	10.8856	118.37	2897.96	4.0846
2061/062	320.59	3212.26	9.9802	134.07	3403.95	3.9387
Average			7.6299			3.5187

Figure no. 12



Above figure shows that, the yearly ratio of NIBL are highly fluctuated over the study period. The average ratio of NIBL is 7.6299%. For the EBL, the ratios are increasing all over the study period except in FY 061/062. The average ratio is 3.5186 %. The yearly ratios as well as average ratios of NIBL are higher than EBL. From the above calculation and analysis it can be concluded that the fixed assets covers very lower portion of long term debt in EBL than NIBL.

4.2.4 Profitability Ratios:

In any firm, profitability is a major concern. Profit is the objective of all the policies framed and decisions taken by the management. Profitability ratios reveal an interesting picture of how individual firm has been managed. These ratios enable one to judge the overall performance of the firm. The various profitability ratios, which reflect the operating efficiency of the bank, have been analyzed comparatively.

Profitability ratio has been employed to measure the operating efficiency of the sampled banks. Various ratios can be developed upon the profit under different circumstances. These different ratios are required to support the purpose of the study.

I. 4.2.4.1 Net Profit to Total Deposit Ratio:

Deposits are mobilized for investment loan and advances to the public in generating revenue. The ratio shows the percentage of profit earned from the utilization of the total deposits. The ratio is computed by dividing net profit by total deposit.

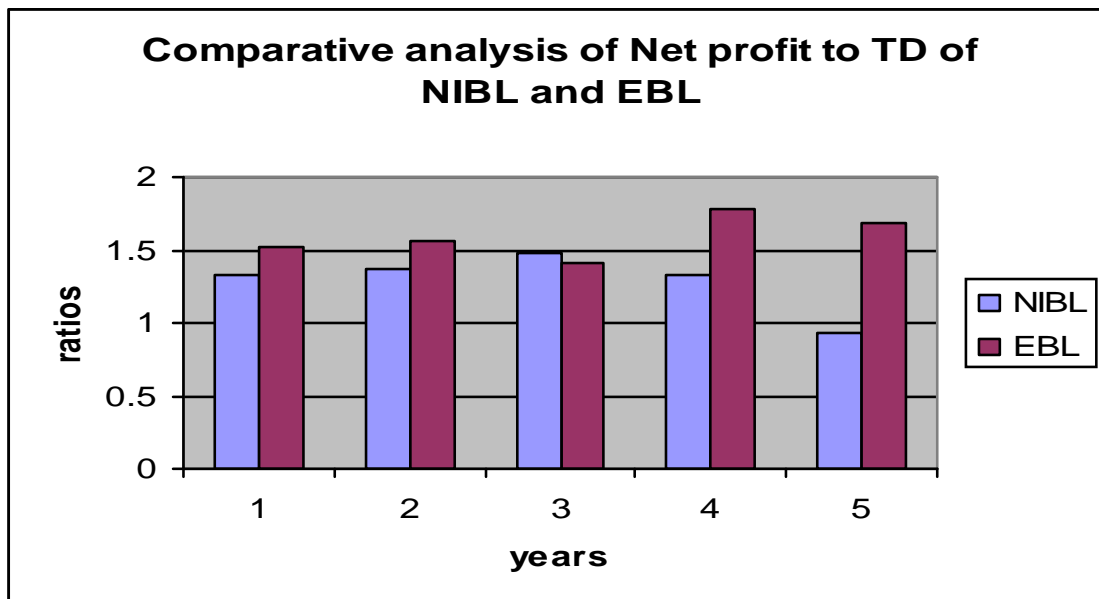
$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Deposit}}$$

The following table shows net profit to total deposit ratio of Nepal Investment Bank Limited (NIBL) & Everest Bank Limited (EBL).

Table # 13
Net Profit to Total Deposit Ratio (%)
(In million)

Fiscal Year	NIBL			EBL		
	Net Profit	Total Deposit	Ratio	Net Profit	Total Deposit	Ratio
057/058	56.39	4,256.21	1.3249	69.7	4,574.51	1.5237
058/059	57.09	4,174.76	1.3675	85.33	5,466.61	1.5609
059/060	116.82	7,922.75	1.4745	94.17	6,694.95	1.4066
060/061	152.67	11,524.60	1.3247	143.57	8,063.91	1.7804
061/062	132.15	14,254.54	0.9271	170.8	10,097.68	1.6915
Average Ratio			1.284			1.5926

Figure no. 13



The above table and graph depicts that the ratio of NIBL & EBL are fluctuating during the study period. The ratio is highest in F/Y 059/060 i.e. 1.4745% and lowest in F/Y 061/062 i.e. 0.9271%. For EBL the ratios are increasing all over the periods except F/Y 059/060. The highest ratio is in F/Y 060/061 and lowest in F/Y 059/060. And the average ratio of NIBL is 1.2837% and EBL has 1.5926%, which shows that the EBL is mobilizing outsiders fund effectively rather than the NIBL.

4.2.4.2 Net Profit to Total Assets Ratio or Return on Total Assets (ROA):

This ratio is very useful for measuring the profitability of funds invested in the bank's assets. The return on assets of profit to assets ratio is calculated by dividing the amount of net profit by the total amount of total assets employed. The ratio can be calculated as follows;

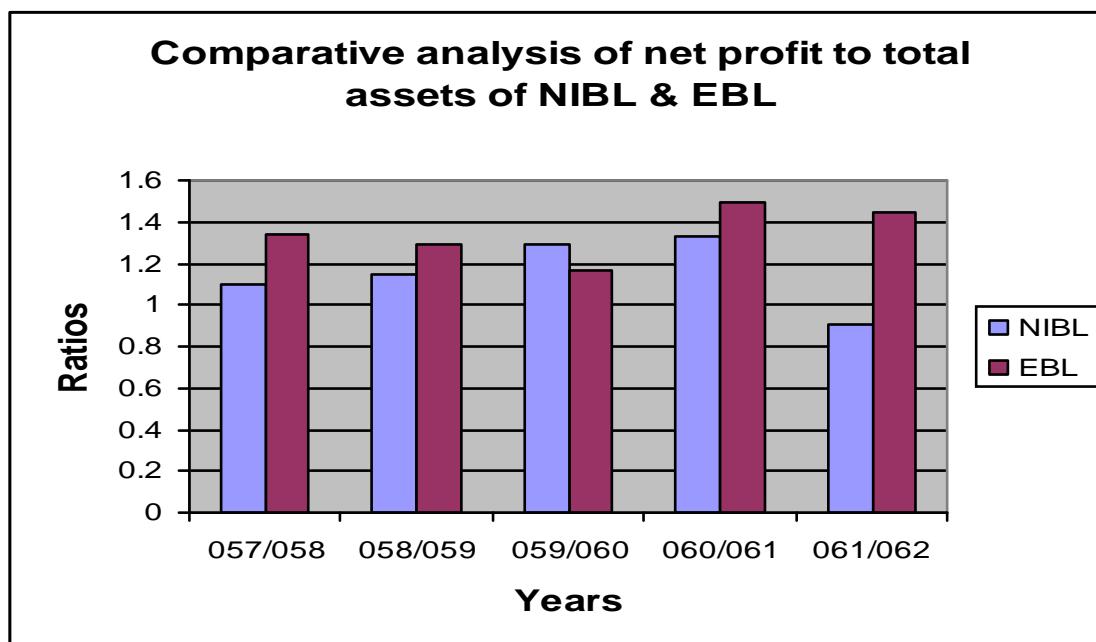
$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

The following table shows net profit to total assets ratio of Nepal Investment Bank Limited (NIBL) & Everest Bank Limited (EBL).

Table # 14
Net Profit to Total Asset Ratio (%)
(In million)

Fiscal Year	NIBL			EBL		
	Net Profit	Total Asset	Ratio	Net Profit	Total Asset	Ratio
057/058	56.39	5,127.63	1.0997	69.7	5,202.58	1.3397
058/059	57.09	4,973.90	1.1478	85.33	6,607.18	1.2915
059/060	116.82	9,014.24	1.2959	94.17	8,052.20	1.1695
060/061	152.67	11,454.38	1.3329	143.57	9,608.55	1.4942
061/062	132.15	14,520.39	0.9101	170.8	11,792.13	1.4484
Average Ratio			1.157			1.3487

Figure no. 14



The above table shows that the overall profitability ratio i.e. net profit to total assets ratio of NIBL is highly fluctuating for the years. The ratio is highest in F/Y 060/061

i.e. 1.3329% and lowest in F/Y 061/062 i.e. 0.9101%. The average ratio of NIBL is 1.1573%. The ratio of EBL is also fluctuating during the study period. The ratio is highest in F/Y 060/061 i.e. 1.4942% and lowest in F/Y 059/060 i.e. 1.1695%. The average ratio is 1.3487%. The average ratio of EBL is higher than NIBL i.e. 1.3487 > 1.1573%.

From the above analysis the overall profitability of NIBL & EBL has not much different in an average. So, it can be concluded that the net profit to total assets of EBL are quite better than NIBL.

4.2.4.3 Interest Earned to Total Asset Ratio :

This ratio is formed to find out the percentage of the investment earned to total assets. This is computed by dividing the amount of interest earned by total assets of the firm.

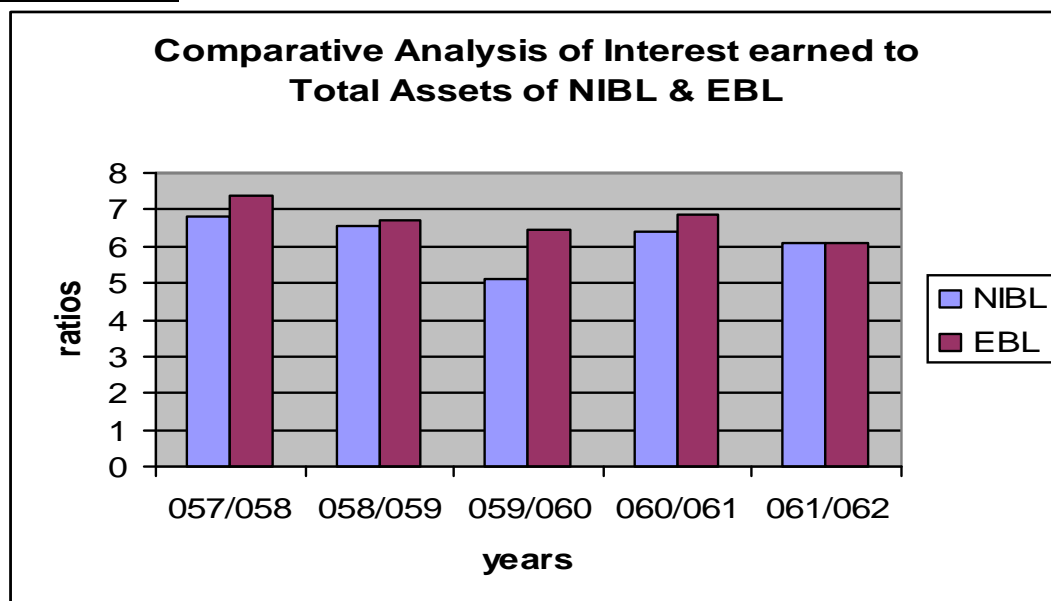
$$\text{Interest Earned to Total Asset Ratio} = \frac{\text{Interest Earned}}{\text{Total Asset}}$$

The following table shows the interest earned to total assets ratio of Nepal Investment Bank Limited (NIBL) & Everest Bank Limited (EBL).

Table # 15
Interest Earned to Total Asset Ratio (%)
(In million)

Fiscal Year	NIBL			EBL		
	Interest Earned	Total Asset	Ratio	Interest Earned	Total Asset	Ratio
057/058	349.75	5,127.63	6.8209	385.02	5,202.58	7.4006
058/059	326.22	4,973.90	6.5586	443.82	6,607.18	6.7172
059/060	459.51	9,014.24	5.0976	520.17	8,052.20	6.46
060/061	731.4	11,454.38	6.3853	657.25	9,608.55	6.8403
061/062	886.8	14,520.39	6.1073	719.29	11,792.13	6.0997
Average Ratio			6.1939			6.7036

Figure no. 15



The above table and graph shows that the interest amounts are increasing all over the period except in F/Y 058/059 of NIBL. The interest earned to total asset ratios of NIBL are decreasing during the third of the period and recovering from last two years. The ratio is highest in F/Y 057/058 i.e. 6.8209% and lowest in F/Y 059/060 i.e. 5.0976%. The average ratio of NIBL is 6.1939%. In EBL, interest amount is gradually increasing over the study period where the ratio is decreasing except in F/Y 060/061. The average ratio of EBL is 6.7036%.

4.2.4.4 Cost Of Service to Total Asset Ratio:

A sound management always tries to utilize its larger amount of assets with minimum cost. This ratio is useful to measure the assets utilization with cost of service. The ratio can be expressed as;

$$\text{Cost of Service to Total Asset Ratio} = \frac{\text{Cost of Service}}{\text{Total Asset}} \times 100$$

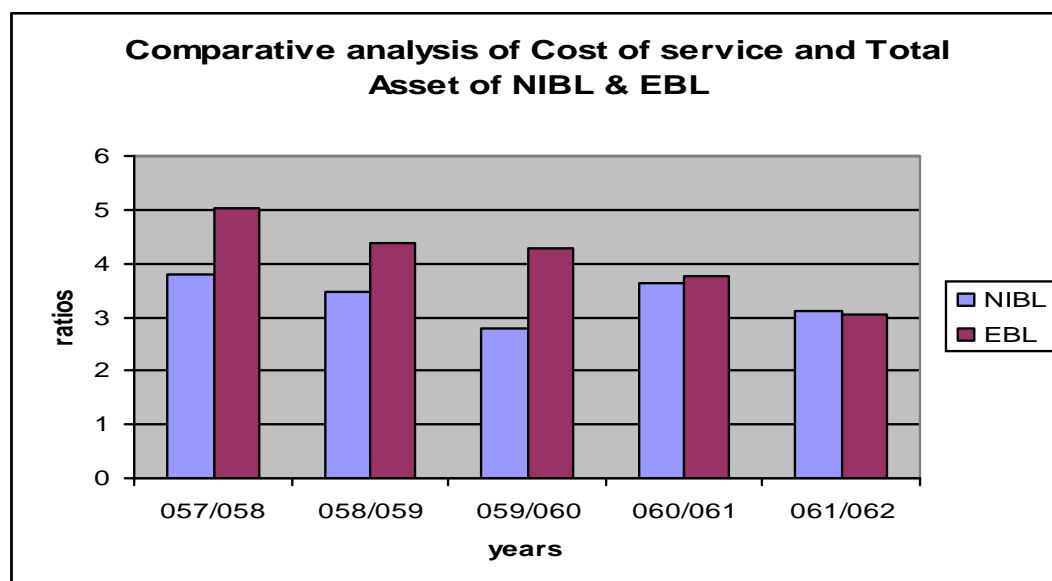
The following table shows cost of service to total assets ratio of Nepal Investment Bank Limited (NIBL) & Everest Bank Limited (EBL).

Table # 16
Cost of Service to Total Asset Ratio (%)

(In million)

Fiscal Year	NIBL			EBL		
	Cost of Service	Total Asset	Ratio	Cost of Service	Total Asset	Ratio
057/058	194.25	5,127.63	3.7883	262.14	5,202.58	5.0387
058/059	172.16	4,973.90	3.4613	289.24	6,607.18	4.3777
059/060	250.5	9,014.24	2.7789	343.78	8,052.20	4.2694
060/061	415.96	11,454.38	3.6314	362.98	9,608.55	3.7777
061/062	451.53	14,520.39	3.1096	360.15	11,792.13	3.0542
Average Ratio			3.3539			4.1035

Figure no. 16



From above calculation shows that the cost of services of NIBL is increasing except in F/Y 059/060. The ratio is fluctuating; the ratio is highest in F/Y 057/058 i.e. 307883%. The average ratio of NIBL is 303539%. For EBL cost of services is increasing every year over the study period, where as the ratio is decreasing. The highest ratio is in F/Y 057/058 i.e. 5.0387%. The increasing rate of cost of services

and total asset is increasing proportionally that's why the ratio is decreasing every fiscal year. The average ratio is 4.1035%.

From the above analysis helps to conclude that cost of services to total assets ratio of EBL is better than that of NIBL which shows that the profitability position of EBL is quite satisfactory in comparison to NIBL.

4.3 Correlation Analysis

Statistical Tools:-

We can use various statistical tools to measure the financial performance of NIBL & EBL. Financial analysis of NIBL & EBL via statistical stools is done with the help of correlation analysis.

Correlation Analysis:-

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measure the degree of relationship between two sets of figures. Among the various methods of findings out co-efficient of correlation Karl Person's method is applied in the study. The result of co-efficient of correlation is always between -1 and +1, when r is + 1, it means that there is perfect relationship between two variables & vice versa. When r is '0' it means there is no relationship between two variables.

4.3.1 Coefficient of correlation between Cash & Bank Balance and Current liabilities.

The most liquid component of current asset is cash & bank balance, which is required to meet the unexpected short term obligation i.e. current liabilities.

To measure the degree of relationship between cash & bank balance and current liabilities, Co- efficient of correlation between cash & balance and current liabilities is used.

Table # 17

Calculation correlation coefficient between Cash & Bank balance (CB) & Current liabilities (CL) of NIBL.

CB(X)	CL(Y)	U=(x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
522.86	2999.61	-348.28	121298.96	-4064.47	16519916.38	+1415573.61
338.92	3504.50	-532.22	283258.13	-3559.58	12670609.78	+1894479.66
929.53	6702.89	55.39	3068.05	-361.19	130458.21	-20006.31
1226.92	10231.78	355.78	126579.41	3167.70	10034323.29	1127004.30
1340.48	11881.623	469.34	220280.03	4817.543	23208720.56	2261065.63
X = 4355.71	Y = 35320.40	U=0	U ² = 754484.58	V=0	V ² 62564028.22	UV= 6678116.89

$$\bar{X} = \frac{\sum X}{N} = \frac{4355.71}{5 \text{ yrs}} = 871.14$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{35320.40}{5 \text{ yrs}} = 7064.08$$

Where,

X = Cash & Bank Balance.

Y = Current Liabilities

N = Number of years.

r = Karl Pearson's coefficient correlation

U = denotes for deviation taken from actual mean of variable X.

V = denotes for deviation taken from actual mean of variable Y

\bar{X} = denotes for mean value of variable 'x'

\bar{Y} = denotes for mean value of variable 'Y'

We have,

$$\begin{aligned} \text{Correlation (r)} &= \frac{\sum UV}{\sqrt{\sum U^2} \sqrt{\sum V^2}} \\ &= \frac{5(6678116.89)}{\sqrt{5 \mid 754484.58} \sqrt{5 \times 62564028.22}} \\ &= \frac{33390584.42}{\sqrt{3772422.9} \sqrt{312820141.10}} \\ &= \frac{33390584.42}{1942.2726 \mid 17686.72} \\ &= \frac{33390584.42}{34352431.86} \\ \dots r &= 0.972 // \end{aligned}$$

Calculation of probable Error (P.E)

$$\begin{aligned}
 S.E &= \frac{1 Z r^2}{\sqrt{x}} = \frac{1 Z (0.972)^2}{\sqrt{5}} = \frac{1 Z 0.944784}{2.23607} \\
 &= \frac{0.055216}{2.23607} \\
 &= 0.02469
 \end{aligned}$$

$$\begin{aligned}
 \dots P.E &= S.E \times 0.6745 \\
 &= 0.02469 \times 0.6745 \\
 &= 0.016653
 \end{aligned}$$

Table # 18

Calculation of Correlation Coefficient between CB & CL of EBL

CB(x)	CL (Y)	U=(x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
834.99	2598.54	-15.10	228.01	02336.67	5460026.689	35283.717
592.76	3504.99	-2571	66100.41	-1430.22	2045529.248	367709.562
1139.57	4784.30	289.71	83931.88	-150.91	22773.828	-43720.136
631.81	6169.71	-218.05	47545.80	1234.50	1523990.25	-269182.72
1049.99	7618.55	200.13	40052.017	2683.34	7200313.556	537016.834
Y = 4249.31	Y= 24676.09	U=0	U ² = 237858.17	V= 0	V ² = 16252633.57	UV = 627107.25

$$\bar{X} = \frac{\sum X}{N} = \frac{4249.31}{5 \text{ yrs}} = 849.86$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{24676.09}{5 \text{ yrs}} = 4935.21$$

$$\begin{aligned}
 r &= \frac{\sum UV}{\sqrt{\sum U^2 \sum V^2}} \\
 &= \frac{\sum UV}{\sqrt{\sum U^2 \sum V^2}} \\
 \dots r &= \frac{UV}{\sqrt{U^2 V^2}}
 \end{aligned}$$

We have,

$$\begin{aligned} \text{Calculation (r)} &= \frac{N \sum UVZ \sum U \sum V}{\sqrt{N \sum U^2 Z(U)^2} \sqrt{N \sum V^2 Z(V)^2}} \\ &= \frac{5 \mid 627107.25 \sum 0 \mid 0}{\sqrt{5 \mid 237858.117 \sum (0)^2} \sqrt{5 \mid 16252633}} \\ &= \frac{3135536.25}{1090.546 \mid 9014.60} \\ &= \frac{3135536.25}{9830845.328} \end{aligned}$$

$$\dots r = 0.318948$$

Calculation of Probable Error (P.E).

$$\begin{aligned} \text{S.E.} &= \frac{1 Z r^2}{U n} \times \frac{1 Z (0.318498)^2}{\sqrt{5}} = \frac{0.898559}{2.236067} \\ &= 0.4018 \end{aligned}$$

$$\begin{aligned} \dots \text{P.E.} &= 0.6745 \times 0.4018 \\ &= 0.2710 \end{aligned}$$

Bank	r	S.E.	PE	P E r	6PEr
NIBL	0.972	0.02469	0.016653	0.01618	
EBL	0.3189	0.4018	0.2710	0.0864	

From above table we can conclude that the, there is positive relationship between cash & bank balance and current liabilities of NIBL because NIBL 'r' is greater than '0' and By considering PE & 'r' value we can say that 'r' is greater than P.E. so the value of 'r' is significant i.e' correlation is significant, where as the value 'r' is 0.3189 in EBL which shows the positive relationship between cash & bank balance & current liabilities. By considering P.E. & 'r' value we can say that 'r' is greater than P.E. the value of 'r' is significant i.e. correlation is significant.

4.3.2. Correlation coefficient between loan & Advance (LA) and Total Deposit (T.D.)

The coefficient of correlation between loan & advances & total deposits measures the degree of relationship between major components of current assets i.e. loan & advances and major sources of found on bank i.e. total deposits. It is computed to justify whether

the deposits are significantly used in loan advances or not and whether is any relationship between loan & advances and total deposit, coefficient of correlation between two variables used. To measure the degree of relationship between loan and advances and total deposit, coefficient of correlation between two variables are used.

Table # 19

Calculation of correlation coefficient between LA and TD of NIBL.

LA(X)	TD(Y)	U= (x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
2429.03	4256.21	-3175.3	10082530.09	-3303.82	10915226.59	10490619.65
2564.43	5174.76	-3039.9	9240992.01	-3385.27	11460052.97	10290882.27
5772.14	7928.75	167.81	28160.196	368.72	133954.43	61874.90
7130.00	11524.70	1525.67	2327668.94	3964.67	1571808.22	6048778.079
10126.05	9915.77	4521.72	20445951.76	2355.74	5549510.94	10651996.67
X = 28021.65	Y = 37800.19	U=0	U ² = 42125303	V=0	V ² = 43779353.04	UV= 3754151.57

$$\bar{X} = \frac{\sum X}{N} = \frac{28021.65}{5 \text{ yrs}} = 5604.33$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{37800.19}{5 \text{ yrs}} = 7560.03$$

Where,

X = Loan and Advances

Y = Total Deposit

N = Number of years.

r = Karl Person's coefficient correlation

U =denotes for deviation taken from actual mean of variable X.

V = denotes for deviation taken from actual mean of variable Y

\bar{X} = denotes for mean value of variable 'x'

\bar{Y} = denotes for mean value of variable 'Y'

We have,

$$\begin{aligned} \text{Correlation (r)} &= \frac{uv}{\sqrt{u^2 \cdot v^2}} \\ &= \frac{37544151.57}{\sqrt{42125303 \cdot 43779353.00}} \\ &= \frac{37544151.57}{4294436.31} \\ &= 0.8742// \end{aligned}$$

$$\begin{aligned}
P.E.(r) &= 0.6745 \times \frac{1Zr^2}{\sqrt{n}} \\
&= 0.6745 \times \frac{1Z(8742)^2}{\sqrt{5}} \\
&= 0.6745 \times \frac{0.23577}{2.236} \\
&= 0.6745 \times 0.10543 \\
&= 0.0711
\end{aligned}$$

$$\begin{aligned}
\text{And } 6 \text{ PEr} &= 6 \times 0.0711 \\
&= 0.4267
\end{aligned}$$

Table # 20

Calculation of Correlation coefficient between LA & TD of EBL.

LA (X)	TD (Y)	U=(x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
3005.76	4574.51	-2067.33	4273853.32	-2405.02	5784121.20	4971969.99
3948.48	5466.61	-1124.61	1264747.65	-1512.92	2288926.92	1701444.96
4908.46	6694.95	-164.63	27103.036	-284.58	80985.776	46850.405
5884.12	8063.91	811.03	657769.66	1084.38	1175879.98	879464.71
7618.67	10097.68	2545.58	6479977.53	3118.15	9722859.42	7937500.27
X= 25365.49	Y= 34897.66	U=0	U ² = 12703451.2	V=0	V ² = 19052773.3	UV= 15537230.39

$$\bar{X} = X \frac{X}{N} = X \frac{25365.49}{5 \text{ yrs}} = X 5073.09$$

$$\bar{Y} = Y \frac{Y}{N} = Y \frac{34897.66}{5 \text{ yrs}} = Y 6979.53$$

$$\begin{aligned}
\text{Correlation (r)} &= \frac{UV}{\sqrt{u^2 \cdot V^2}} \\
&= \frac{15537230.39}{\sqrt{12703451.20 \cdot 19052773.3}} \\
&= \frac{15537230.39}{15557505.45} \\
&= 0.9986
\end{aligned}$$

$$\begin{aligned}
P.E.(r) &= 0.6745 \times \frac{1Zr^2}{\sqrt{n}} \\
&= 0.6745 \times \frac{1Z(0.9986)^2}{\sqrt{5}}
\end{aligned}$$

$$= 0.6745 \left| \frac{1 Z 0.997201}{2.236} \right|$$

$$= 8.4404^{-04}$$

P.E. (r) = .00084404//

$$6 PE r = 6 \times 0.00084404$$

$$= 0.00506//$$

Bank	r	PE(r)	6 PE r
NIBL	0.8742	0.0731	0.4267
EBL	0.9986	0.000844	0.00506

From above table, it can be judge that there is highly positive relationship between Loan & advances and total deposit of NIBL by considering the probable error, it can be say that the value of 'r' is highly significant due to highly value of 'r' than 6 PEr i.e. $0.8742 > 0.4267$ in NIBL where as the value of 'r' is 0.9986 in EBL, and 6 PEr value is 0.00506 which shows highly positive relationship between these two variables. By considering the probable error since the value of 'r' is greater than the value of 6 PEr. Therefore the value of 'r' is significant in EBL.

4.3.3. Correlation coefficient between Loan & advance (LA) & Net profit (NP)

To generate the higher profit, collation of deposit & investing those funds on loan & advance is the basic function of commercial bank. Therefore large amount of loan & advances generate higher profit.

The coefficient of correlation between loan & advances and net profit is to measure the degree of relationship between loan & advance and net profit. To justify the relationship between these two variables, the correlation of the coefficient is computed. In correlation analysis loan & advances is independent.

Table # 21

Calculation of correlation coefficient between LA & NP of NIBL

LA (x)	NP (Y)	U= (x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
2429.03	56.39	-3175.3	10082530.09	-46.63	2174.35	148064.239
2564.43	57.09	-3039.90	9240992.01	-45.93	2109.56	139622.607
5772.14	116.82	-167.18	28160.196	13.79	190.16	2305.412
7130.00	152.67	1525.67	2327668.94	49.64	2464.12	75734.258
10126.05	132.147	4521.72	20445951.76	29.124	848.20	131690.573
X= 28021.65	Y= 515.117	U=0	U ² = 42125303	V=0	V ² = 7786.39	UV= 497417.089

$$\bar{X} = X \frac{X}{N} = X \frac{28021.65}{5 \text{ yrs}} = 5604.33$$

$$\bar{Y} = Y \frac{Y}{N} = X \frac{515.117}{5 \text{ yrs}} = 103.023$$

Where,

X = Loan and Advances

Y = Net Profit

N = Number of years.

r = Karl Person's coefficient correlation

U =denotes for deviation taken from actual mean of variable X.

V = denotes for deviation taken from actual mean of variable Y

\bar{X} = denotes for mean value of variable 'x'

\bar{Y} = denotes for mean value of variable 'Y'

$$\text{Correlation (r)} = \frac{UV}{\sqrt{u^2 \cdot V^2}} = X \frac{497417.089}{\sqrt{42125303 \cdot 7786.39}} = X \frac{497417.089}{572716.36}$$

$$= 0.8685//$$

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

$$= \frac{0.6745 \cdot 1 Z (0.8685)^2}{\sqrt{5}}$$

And,

$$6 \text{ PE } r = 6 \times 0.074118$$

$$= 0.444708//$$

Table No # 22

Calculation of correlation coefficient between LA & NP of EBL.

LA (x)	NP (Y)	U=(x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
3005.76	69.70	-2067.33	4273886.41	-43.01	1850.20	88915.86
3948.48	85.33	-1124.61	1264765.65	-27.384	749.88	30796.32
4908.46	94.17	-164.63	27105.671	-18.544	343.879	3052.89
5884.12	143.57	811.03	657756.684	30.856	952.09	25025.141
7618.67	170.80	811.03	6479936.81	58.086	3373.98	147862.55
X= 25365.49	Y= 563.57	U=0	U ² = 12703451.2	V=0	V ² = 7270.032	UV= 295652.77

$$\bar{X} = \frac{\sum X}{N} = \frac{25365.49}{5 \text{ yrs}} = 5073.09$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{563.57}{5 \text{ yrs}} = 112.714$$

$$\begin{aligned} \text{Correlation (r)} &= \frac{UV}{\sqrt{U^2 \cdot V^2}} \\ &= \frac{295652.77}{\sqrt{12703451.20 \cdot 7270.32}} \\ &= \frac{295652.77}{303904.8458} \\ &= 0.9728 \end{aligned}$$

$$\begin{aligned} \text{P.E. (r)} &= 0.6745 \times \frac{1Z(0.9728)}{\sqrt{5}} \\ &= 0.6745 \times \frac{0.05366}{\sqrt{5}} \\ &= 0.6745 \times 0.02399 \\ &= 0.0161// \end{aligned}$$

$$\begin{aligned} \text{And 6 PE r} &= 6 \times 0.0161 \\ &= 0.09712// \end{aligned}$$

Bank	r	PE(r)	6 PE r
NIBL	0.8685	0.07411	0.4447
EBL	0.9728	0.0161	0.09752

From the above table, it can be found that coefficient of correlation between loan & advances and net profit of NIBL as well as EBL is highly correlated with each other, on the basis of 6PER it can be concluded that value of 'r' is highly significant in both bank. Therefore it can be justified that the loan & advances are significantly generate profit.

4.3.4. Correlation coefficient between Govt. Securities (GS) & Total Deposit (TD).

The coefficient of correlation between government security and total deposit is to measure the degree of relationship between two variables. Although bank utilized its deposits on loan and advanced but some part of idle deposit are invested on govt. security. The objectives of computing correlation coefficient is to decide whether the excess deposit are significantly used in govt. Securities or not and whether there is any relationship between these two variables.

Table # 23

Calculation of correlation coefficient between Govt. Securities (GS) and Total Deposit (TD) of NIBL.

GS (x)	TD (Y)	U=(x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
300.50	4256.21	36.53	1334.44	-3303.828	1091279.45	-120688.836
224.40	4174.76	-39.57	1565.78	-3385.27	11,460,107.14	133955.1339
400	7928.75	136.03	18504.16	368.712	135948.53	50155.8933
200.11	11524.70	-63.86	4078.09	3964.66	1571854.77	-253183.186
194.85	9915.77	-69.12	4777.57	2355.73	5549473.256	-162828.057
X= 1319.86	Y= 37800.19	U=0	U ² = 30260.04	V=0	V ² = 43,779,353.15	UV= -352589.0467

$$\bar{X} = \frac{\sum X}{N} = \frac{1319.86}{5 \text{ yrs}} = 263.97$$

$$\bar{Y} = \frac{Y}{N} = \frac{37800.19}{5 \text{ yrs}} = 7560.038$$

Where,

X = Government Securities

Y = Total Deposit

N = Number of years.

r = Karl Person's coefficient correlation

U = denotes for deviation taken from actual mean of variable X.

V = denotes for deviation taken from actual mean of variable Y

\bar{X} = denotes for mean value of variable 'x'

\bar{Y} = denotes for mean value of variable 'Y'

$$\begin{aligned} \text{Correlation (r)} &= \frac{UV}{\sqrt{U^2 \cdot V^2}} \\ &= \frac{2352589.0467}{\sqrt{30260.04 \cdot 43779353.15}} \\ &= \frac{2352589.0467}{1150984.352} \end{aligned}$$

$$\text{Correlation (r)} = -0.3063//$$

$$\begin{aligned} \text{PE (r)} &= 0.6745 \times \frac{1 \cdot Z(0.3063)^2}{\sqrt{5}} \\ &= 0.6745 \times 0.405268 \\ &= 0.2733// \end{aligned}$$

$$\text{And } 6 \text{ PE } r = 6 \times (0.2733) = 1.640//$$

Table # 24

Calculation of correlation coefficient between Govt. Securities (GS) and Total Deposit (TD) of EBL.

GS (x)	TD (Y)	U= (x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
823	4574.51	-882.594	778972.168	-2405.02	5784121	2122656.222
1538.90	5466.61	-166.694	27786.889	-1512.92	2288927	252194.6865
1599.35	6694.95	-106.244	11287.787	-284.58	80985.78	30234.917
2466.43	8063.91	760.836	578871.41	1084.38	1175880	825035.3417
2100.29	10097.68	394.696	155784.93	3118.15	9722859	1231572.587
X= 8527.97	Y= 34897.66	U=0	U ² = 1552703.186	V=0	V ² = 19052773.3	UV= 4461693.755

$$\bar{X} = \frac{X}{N} = \frac{8527.97}{5 \text{ yrs}} = 1705.594$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{34897.66}{5 \text{ yrs}} = 6979.53$$

Where,

$$\text{Correlation (r)} = \frac{UV}{\sqrt{U^2 \cdot V^2}}$$

$$= \frac{4461693.755}{\sqrt{1552703.186 \cdot 19052773.3}}$$

$$r = 0.8203$$

$$\text{PE (r)} = 0.6745 \times \frac{1 Z(0.8203)^2}{\sqrt{5}}$$

$$= 0.6745 \times 0.14629$$

$$= 0.09867$$

$$6\text{PE r} = 6 \times 0.09867$$

$$= 0.59204$$

Bank	r	PE(r)	6 PE r
NIBL	- 0.3063	0.2733	1.640
EBL	0.8203	0.09867	0.59204

From the above table shows that correlation coefficient between govt. securities and total deposit value 'r' is - 0.3063 in NIBL which shows negative relationship between the two variables. By considering the probable error 'r' value is less than P.E. value - 0.3063 < 0.2733. So it can be said that there is no correlation between the variables.

But on the other hand, in EBL correlation coefficient between govt. securities and total deposit value 'r' is 0.8203 and 6PEr value is 0.59204 which shows that value of 'r' is significant and correlation between two variables is significant.

4.3.5. Calculation of correlation coefficient of correlation between Net worth (NW) & Net Profit (NP).

To measure the degree of relationship between net worth and net profit, the coefficient of correlation is used. The purpose of computing the correlation between these two variables is to justify whether the bank has utilized the investors fund efficiently or not to realize the return.

Table # 25

Calculation of correlation coefficient between NW (X) & NP (Y) of NIBL.

NW (x)	NP (Y)	U=(x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
469.08	56.39	-238.976	57109.528	-66.633	4439.95	15923.6878
523.46	57.09	-184.596	34085.68	-65.933	4347.16	12170.968
638.53	116.82	-69.526	4833.86	-6.203	38.477	431.269
729.04	152.67	20.48	419.4304	29.647	878.944	607.170
1180.17	232.147	472.144	222891.63	109.124	11908.047	5118.968
X= 3540.28	Y= 615.117	U=0	U ² = 319330.127	V=0	V ² = 21612.578	UV= 80652.062

$$\bar{X} = \frac{\sum X}{N} = \frac{3540.28}{5 \text{ yrs}} = 708.056$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{615.117}{5 \text{ yrs}} = 123.023$$

Where,

X = Net Worth

Y = Net Profit

N = Number of years.

r = Karl Person's coefficient correlation

U =denotes for deviation taken from actual mean of variable X.

V = denotes for deviation taken from actual mean of variable Y

\bar{X} = denotes for mean value of variable 'x'

\bar{Y} = denotes for mean value of variable 'Y'

$$\text{Correlation (r)} = \frac{UV}{\sqrt{U^2 \cdot V^2}}$$

$$= \frac{80652.062}{\sqrt{319330.127 \cdot 21612.578}}$$

$$= \frac{80652.062}{83075.55}$$

$$\dots r = 0.9708 //$$

$$PE(r) = 0.6745 \times \frac{1 Z r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 Z (0.9708)^2}{\sqrt{5}}$$

$$= 0.01735$$

And, $6PEr = 6 \times 0.01735$
 $= 0.104156//$

Bank	r	PE(r)	6 PE r
NIBL	1.0746	-0.04668	-0.2800
EBL	0.9708	0.01735	0.104156

From the above table, it can be reveals that the coefficient of correlation between NW& NP is 1.0746 in NIBL which shows that the perfectly positive relation between two variables and 'r' value 1.0746 is greater than 6 PEr value i.e. -0.2800 it shows that the 'r' value is significant.

On the other hand EBL's 'r' value is greater than zero i.e. 0.9708 which shows positive relationship between two variable and it can conclude that value of 'r' i.e. 0.9708 is more than 6PEr value i.e. 0.104156. Therefore there is significant relationship between net worth & net profit.

4.3.6. Correlation coefficient between Total deposit (TD) and Net profit (NP)

The primary function of bank is to collect deposits and mobilize it for investment, loan & advances to the public for generating profit. The purpose of measuring correlation between total deposit & net profit is to measure the degree of relationship between these two valuables.

Table No # 26

Calculation of correlation coefficient between TD & NP of NIBL.

TD (x)	NP (Y)	U=(x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
4256.21	56.39	-3303.83	10915279.5	-66.698	4448.6232	220358.72
4174.76	57.09	-3385.28	11460107.1	-65.998	4355.736	223421.577
7928.75	116.82	368.712	135948.539	-6.268	39.287824	-2311.08682
11524.7	152.67	3964.662	15718544.8	29.582	875.094724	117282.631
9915.77	232.47	2355.732	5549473.26	109.382	11964.4219	257674.678
X= 37800.19	Y= 615.44	U=0	U ² = 43779353.15	V=0	V ² = 21683.163	UV= 816426.569

$$\bar{X} = \frac{\sum X}{N} = \frac{37800.19}{5 \text{ yrs}} = 7560.038$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{615.117}{5 \text{ yrs}} = 123.023$$

Where,

X = Total Deposit

Y = Net Profit

N = Number of years.

r = Karl Person's coefficient correlation

U = denotes for deviation taken from actual mean of variable X.

V = denotes for deviation taken from actual mean of variable Y

\bar{X} = denotes for mean value of variable 'x'

\bar{Y} = denotes for mean value of variable 'Y'

$$\begin{aligned} \text{Correlation (r)} &= \frac{UV}{\sqrt{U^2 \cdot V^2}} \\ &= \frac{815944.64}{\sqrt{43779353.15 \cdot 21612.57}} \\ &= 0.8388// \end{aligned}$$

$$\begin{aligned} \text{PEr} &= 06745 \times \frac{1 Z r^2}{\sqrt{n}} \\ &= 0.894// \end{aligned}$$

$$6\text{PEr} = 0.5364$$

Table No # 27

Calculation of correlation coefficient between TD & NP of EBL.

TD (x)	NP (Y)	U= (x- \bar{X})	U ²	V=(Y- \bar{Y})	V ²	UV
4574.51	69.70	-2405.02	574121.20	-43.01	1850.20	103439.91
5466.61	85.33	-1512.92	2288926.926	-27.384	749.88	41429.80
6694.95	94.17	-284.58	80985.776	-18.544	343.879	5277.25
8063.91	143.57	1084.38	1175879.98	30.856	952.09	33459.629
10097.68	170.80	3118.15	9722859.42	58.086	3373.98	181120.860
X= 34897.66	Y= 563.57	U=0	U ² = 19052773.3	V=0	V ² = 7270.032	UV= 364727.4499

$$\bar{X} = \frac{\sum X}{N} = \frac{34897.66}{5 \text{ yrs}} = 6979.53$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{563.57}{5 \text{ yrs}} = 112.714$$

$$\begin{aligned} \text{Correlation (r)} &= \frac{UV}{\sqrt{U^2 \cdot V^2}} \\ &= \frac{364727.4499}{\sqrt{19052773.3 \cdot 7270.032}} \\ &= 0.9799// \end{aligned}$$

$$\begin{aligned} \text{PE (r)} &= 0.6745 \times \frac{1 Z r^2}{\sqrt{n}} \\ &= 0.6745 \times \frac{1 Z (0.9799)^2}{\sqrt{5}} \\ &= 0.01195// \end{aligned}$$

$$\begin{aligned} 6\text{PE (r)} &= 6 \times 0.01195 \\ &= 0.07171// \end{aligned}$$

Bank	r	PE(r)	6 PE r
NIBL	0.8388	0.0894	0.5364
EBL	0.9799	0.01195	0.07171

From above analysis, NIBL 'r' is greater than '0' i.e. 8388 which shows the positive relation between two variables as well as 'r' is greater than 6PER i.e. 0.8388 > 0.5364 which shows the 'r' value is significant.

In other hand EBL 'r' is 0.9799 which shows the positive relationship between two variables.

It can be called that the correlation coefficient between total deposit & help profit and of both banks are positively related with each other. By considering the probable error, the value of r is highly significant. It shows that both banks have utilized the total deposit effectively.

Chapter 5

Summary, Findings and Recommendation

5.1 Summary

In the present day of world economy, resource mobilization is vital and challenging work. Joint venture banks are the mechanism through which resources are mobilized and flow from non-productive sectors to productive sectors. Joint venture banks are important for the economic development of a mixed economy follower like Nepal. They have introduced new technology in banking system to mobilize the saving of community. Joint venture bank has been helpful in transferring foreign investment and advance technology, experience, skills etc.

Nepal, as being a developing country, it has no long history of joint venture banks; it has been taking steps toward it. The liberal trade and investment policies have facilitated joint venture banks to invest in Nepal.

In financial sector, there are various commercial banks established as joint venture. The performance of joint venture banks are very good in competitive financial market, in comparing with other banks. The intense competition among banks and lack of sufficient investment opportunities has created threats to the banks. That is why; the study has been conducted to evaluate the comparative analysis of financial performance of joint venture banks; i.e. Nepal Investment Bank Ltd and Everest Bank Ltd. To fulfill these objectives, an appropriate research methodology has been developed. It includes the ratio analysis as financial tools and trend analysis, correlation coefficient and test of hypothesis as statistical tools.

The major ratio analysis consists of; liquidity position, efficiency position, capital structure position and profitability position. Under these various ratios and their trend

position are studied. Karl Person's correlation coefficient 'r' is calculated and analyzes, In order to test the relationship between the various components of financial tools. Some null hypothesis is also formulated for the purpose of study i;e "There is no significant difference between the financial performance of Nepal Investment Bank Ltd and Everest Bank Ltd."

The data of 5 years from fiscal year 2057/058 to 2061/062 are derived from balance sheet and profit & loss a/c of NIBL and EBL.

In this chapter the key findings of the analysis, conclusions and some suggestion and recommendations are presented below;

5.2 Major Findings

The following findings have been derived from the analysis and interpretation of the data, during the study period.

1. Liquidity Position

The current ratio of the both banks is below the ratio stated standard. It may be accepted as satisfactory, but it signifies that the banks have the poor liquidity position. The banks may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of the liabilities may lead the banks to lose their goodwill.

In terms of liquidity position of cash and bank balance with respect to total deposit, which is commonly called quick ratio in financial terms, EBL has outperformed than NIBL. The proportion 1:1 is considered reasonable for general business. In the present study, no banks have maintained this criterion of 1:1. But banks, as being financial institution and dealing in cash, it may not require to maintain this proportion. The hypothesis test shows that the mean ratio of two banks does not differ significantly.

In terms of fixed deposit to total deposit ratio, EBL has outperformed than NIBL. More proportionate fixed deposit offers the opportunity to invest in more productive sectors like loan and advances, marketable securities, treasury bills etc.

Since, the saving deposit ratio to total deposit ratio is bit higher in EBL than NIBL. It indicates the bank has spend a lot of amount in saving deposit as interest on deposit though the bank raise more funds from saving deposit, the profitability may reduce by the interest amount.

2. Activity/ Efficiency Ratio

In the context of utilizing total deposits, EBL has been successful to convert the collected deposits into loan and advances given to the client to earn more income. So, it indicates the better performance of EBL and NIBL.

However in terms of loan and advances to fixed deposit ratio, NIBL has outperformed than EBL, during the study period. But in the case of loan and advances to saving deposit, EBL has the higher ratio.

3. Capital Structure/ Leverage Ratio

Capital structure ratio of both banks indicates highly leveraged capital structure.

Total debt to equity ratio of both banks reveals that the claims of the outsiders exceed for more than those of the owners over the bank's assets. Comparatively, EBL has high ratio, which introduce a situation of inflexibility in the firm's operation due to the increasing interference and pressures from creditors.

Debt assets ratio shows that both of the banks have used higher proportion of debt in their capital. The average ratio of NIBL is higher than EBL by 0.36%. It means that it's creditors have supplied some percentage of the firms total financing. Very high debt to total assets ratio reflects the aggressive financial policy of both banks, which has exposed them to more risks. Highly levered capital structure is profitable as long as the share of interest is less than earning per share.

Since, the net fixed assets covers very low portion of long term debt in NIBL as well EBL. Large portion of long term debt is used in current assets of both banks. However net fixed assets of NIBL covers high portion of long term debt than EBL.

4. Profitability Position

It indicates the degree of success in achieving desired profit level.

Return on assets of EBL is slightly greater than NIBL by 0.19%. The higher ratio of EBL conveys the message of an efficient use of the total assets in generating profits. However, the net profit to total assets ratio of both banks are not so much satisfactory. The annual decreasing ratios signify slow growth of these banks.

In an average, EBL has higher net profit to total deposit ratio than NIBL and EBL also has higher yearly ratio than NIBL. Therefore it can be concluded that the EBL has better performance on mobilization of total deposits.

As revealed by higher interest earned to total asset ratio of EBL, EBL seemed to be in better position, for income generation.

Cost of services to total assets ratio is also higher in EBL.

Analysis of coefficient of correlation between loan and advances and net profit of NIBL as well as EBL indicates that there is positive relationship between these two variables. Coefficient of correlation between net worth and net profit of both banks indicates positive picture, which indicates that the management can increase the owner's capital base to increase return.

Correlation analysis reveals that coefficient of correlation between total deposit and net profit, remained highly significant in NIBL. It signifies that NIBL is successful to utilize it's resources more efficiently.

Cash and bank balance and current liabilities are also significantly in NIBL and EBL, which correlated with coefficient value 0.972 and 0.319 respectively. It shows that holding of cash and bank balance is related with current liabilities.

Correlation between government securities and total deposits of NIBL is highly significant. But it is not significant in EBL. It shows that there is close relationship between government securities and total deposits in NIBL.

5.3 Recommendation

The suggestions and recommendations are based on the analysis of the financial performance as well as on the review of related literature.

1. Liquidity is most for every company and unless and until the firm is capable of prompt payment of wages, salaries, creditors, etc, it might influence the overall performance in no time. Therefore the banks should consider seriously about the unsatisfactory liquidity position and should ascertain whether this situation is a threat of normal in banking sector.
2. NIBL and EBL have increase the debt asset ratio up to 94.34% and 93.98% respectively; whereas 40% debt ratio is called better one in general. Too much debt often leads to financial difficulty, which eventually might cause bankruptcy. Also, the increasing debt might decrease the company's credit worthiness in the market. Therefore NIBL as well as EBL should try to decrease liabilities so far as possible.
3. Mobilization of outsiders fund is important to earn profit for commercial banks. Therefore the total deposits should be utilized efficiently. Through the net profit to total deposit ratio of EBL is higher than NIBL in average as well as higher yearly ratio except in F/Y 059/060. Therefore both banks should mobilize the total deposit efficiently, in profit generating sectors.
4. Return on assets of both banks has not so much difference in an average. The profitability position of both banks has quite satisfactory. Therefore both banks should maintain their profitability position by effective utilization of their fund of assets.
5. For utilizing deposits adequately, interest rate for loan advances should reduce by the both banks, which helps them to remain more competitive.

6. Since, inflation rate of Nepal is reaches to 8 %, so both banks should increase their interest rate on deposits more than inflation rate. It will motivate the depositors and the banks can collect more deposits and can develop the banking habit among the people.

7. Joint Venture Banks of Nepal are concentrated only in urban areas. Most of the people of the country live in rural and suburban area. Therefore both banks should increase the no. of branches in order to assist development of the country. It will contribute to the fulfillment of the government's objective of people's participation in economic development. By expansion of the branches more resources will be mobilized and can collect more funds as deposit and the banks will be capable to earn high profit.

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Appendix-1
Nepal Investment Bank Limited
Five Years Balance Sheet

(Rs. In million)

Particular	2057/058	2058/059	2059/060	2060/061	2061/062
Assets:					
Current Assets:					
Cash & Bank Balance	522.86	338.92	926.53	1,226.92	1,340.48
Money at call & Short Notice	-	-	40.00	310.00	140.00
Loan & Advances	2,429.03	2,564.43	5,772.14	7,130.00	10,126.05
Govt. Securities	300.50	224.40	400.00	2,001.10	1,948.50
Interest Receivable	103.50	55.64	83.47	77.01	81.58
Misc. Current Assets	67.72	156.86	295.75	399.17	331.17
Total Current Assets	3,423.61	3,340.25	7,517.89	11,144.20	13,967.78
Fixed Assets:					
Fixed Assets (Gross)	83.94	84.56	245.55	326.88	427.15
Less: Depreciation	49.69	48.67	54.44	77.09	106.55
Net Fixed Assets	34.25	35.89	191.11	249.79	320.6
Investment on share & Others	1,670.27	1,597.76	1305.24	1861.38	1985.68
Misc. Assets	-	-	0	0	0
Total Fixed Assets	1,704.52	1,633.65	1,496.35	2,111.17	2306.28
Total Assets	5,128.13	4,973.90	9,014.24	13,255.37	16,274.06
Saving Deposit	1,259.57	1,278.79	2,434.05	4,886.10	6,703.51
Current Deposit & Other	1,337.98	1,950.04	3,815.88	4,343.92	4,338.80
Short - term Loan	120.00	98.50	6.83	361.54	350.00
Bills Payable	5.18	6.82	31.63	57.84	15.01
Tax Provision	-	-	-	-	-
Staff Bonus	10.43	8.68	18.91	25.72	37.08
Dividend Payable	5.38	1.81	1.69	5.24	5.88
Defered Liabilities	29.25	40.22	16.25	19.50	13.91
Miscellaneous Current Liabilities	231.82	119.64	377.65	531.96	417.44
Total Current Liabilities	2,999.61	3,504.50	6,702.89	10,231.82	11,881.62
Fixed Deposit	1658.66	945.93	1672.82	2294.58	3212.26
Long Term Liabilities	0	0	0	0	0
Net Worth	469.8	523.46	638.53	729.04	1180.17
Total Capital & Liabilities	5,128.07	4,973.89	9,014.24	13,255.44	16,274.05

Appendix -2
Nepal Investment Bank Limited
Profit & Loss Account

(In million)

Particular	057/058	058/059	059/060	060/061	061/062
Operating Income:					
Interest Earned	349.75	326.22	459.51	731.4	886.8
Commission & discount	16.2	16.2	40.81	55.75	93.55
Exchange Income	49.83	42.86	50.83	87.98	102.51
Dividend	0	0	0	0	0
Others	5.8	30.4	26.29	36.82	6.19
Total Operating Income	421.58	415.68	577.44	911.95	1089.05
Cost of Services :					
a) On Borrowing	2.05	2.12	5.91	16.18	3.72
b) On Deposit	161.1	128.32	183.3	310.03	350.81
Interest Paid	163.15	130.44	189.21	326.21	354.53
Salaries allowances & P.F	31.1	41.72	61.29	89.75	97.004
Total Cost of Services	194.25	172.16	250.5	415.96	451.534
Provision for Bad Debts	0	0	0	0	140.41
Provision for Bonus	10.43	8.68	18.91	25.72	37.075
Other General Expenses	114.25	151.25	126.5	23.4	150.12
Total Expenses	318.93	332.09	395.91	465.08	779.139
Gross Profit	102.65	83.59	181.53	446.87	309.911
Depreciation	8.82	8.59	11.87	217.17	32.794
Operating Income:	93.83	75	169.66	229.7	277.12
Income from other sources	0	3.1	0.49	1.77	56.57
Pre-tax profit	93.83	78.1	170.15	231.47	333.687
Provision for tax (40%)	37.53	31.24	68.06	78.8	100.1061
Net Profit	56.30	46.86	102.09	152.67	233.58

Appendix-3
Everest Bank Limited
Five Years Balance Sheet

(Rs. In million)

Particular	2057/058	2058/059	2059/060	2060/061	2061/062
Assets:					
Current Assets:					
Cash & Bank Balance	834.99	592.76	1,139.57	631.81	1,049.99
Money at call & Short Notice	240.08	86.13	-	187.45	570.00
Loan & Advances	3,005.76	3,948.48	4,908.46	5,884.12	7,618.67
Govt. Securities	823.00	1,538.90	1,599.35	2,466.43	2,100.29
Interest Receivable	94.23	105.29	122.74	145.26	159.78
Misc. Current Assets	51.74	88.10	66.77	84.89	130.68
Total Current Assets	5,049.80	6,359.66	7,836.89	9,399.96	11,629.41
Fixed Assets:					
Fixed Assets (Gross)	72.98	125.95	159.78	186.01	221.045
Less: Depreciation	22.61	32.56	50.19	67.64	86.97
Net Fixed Assets	50.37	93.39	109.59	118.37	134.08
Investment on share & Others	78.72	118.97	54.62	69.22	28.64
Misc. Assets	23.64	35.16	51.1	21.02	0
Total Fixed Assets	152.73	247.52	215.31	208.61	162.72
Total Assets	5,202.53	6,607.18	8,052.20	9,608.57	11,792.12
Liabilities:					
Saving Deposit	1,384.06	1,735.37	2,757.95	3,730.61	4,806.83
Current Deposit & Other	905.81	1,019.66	1,142.26	1,435.33	1,886.90
Short - term Loan	80.00	81.77	-	-	300.00
Bills Payable	11.62	2.13	22.10	22.03	17.77
Tax Provision	32.35	-	0.33	11.25	3.31
Staff Bonus	11.34	14.15	15.10	23.46	28.08
Dividend Payable	1.63	1.64	1.29	7.36	10.93
Defered Liabilities	8.39	152.40	158.64	140.00	-
Miscellaneous Current Liabilities	163.34	497.87	686.96	800.26	564.72
Total Current Liabilities	2,598.54	3,504.99	4,784.63	6,170.30	7,618.54
Fixed Deposit	2284.64	2711.58	2794.74	2897.96	3403.95
Long Term Liabilities	0	0	0	0	0
Net Worth	319.4	390.91	472.83	540.33	769.62
Total Capital & Liabilitites	5,202.58	6,607.48	8,052.20	9,608.59	11,792.11

Appendix -4
Everest Bank Limited
Profit & Loss Account

(In million)

Particular	057/058	058/059	059/060	060/061	061/062
Operating Income:					
Interest Earned	385.02	443.82	520.17	657.25	719.29
Commission & discount	30.56	36.77	61.5	74.33	78.13
Exchange Income	16.5	45.41	32.21	27.79	27.07
Dividend	0	0	0	0	0
Non Operating Income	32.04	13.78	20.2	23.82	2.97
Total Operating Income	464.12	539.78	634.08	783.19	827.46
Cost of Services :					
a) On Borrowing	0.71	3.09	1.44	0.63	0.87
b) On Deposit	235.29	253.96	304.97	313.81	298.69
Interest Paid	236	257.05	306.41	314.44	299.56
Salaries allowances & P.F	26	32.19	37.37	48.53	60.59
Total Cost of Services	262	289.24	343.78	362.97	360.15
Provision for Bad Debts	0	0	0	0	88.92
Provision for Bonus	11.34	14.15	15.1	23.46	28.08
Other General Expenses	81.07	100.1	121.07	167.77	107.94
Total Expenses	354.41	403.49	479.95	554.2	585.09
Gross Profit	109.71	136.29	154.13	228.99	242.37
Depreciation	8.91	10.06	19.5	19.74	21.11
Operating Income:	100.8	126.23	134.63	209.25	221.26
Income from other sources	1.39	1.14	1.25	1.87	31.47
Pre-tax profit	102.19	127.37	135.88	211.12	252.73
Provision for tax (40%)	32.35	42.04	41.71	67.55	81.91
Net Profit	69.84	85.33	94.17	143.57	170.82