CHAPTER -I
INTRODUCTION

1.1 Background of the Study

Generally performance denotes the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract. Performance analysis can be defined as Examination of various financial performance indicators (such as return on assets and return on equity) in comparison with the results achieved by the competing firms of about the same size.

The term 'Bank' derived from Latin word 'Bancus' which refers to the bench on which the banker would keep the money and his records. In general Banking, the business of providing financial services to consumers and businesses. A broader definition of a bank is any financial institution that receives, collects, transfers, pays, exchanges, lends, invests, or safeguards money for its customers. This broader definition includes many other financial institutions that are not usually thought of as banks but which nevertheless provide one or more of these broadly defined banking services. These institutions include finance companies, investment companies, investment banks, insurance companies, pension funds, security brokers and dealers, mortgage companies, and real estate investment trusts.

Banking services are extremely important in a free market economy. Banking services serve two primary purposes. First, by supplying customers with the basic mediums-of-exchange (cash, checking accounts, and credit cards), banks play a key role in the way goods and services are purchased. Without these familiar methods of payment, goods could only be exchanged by barter (trading one good for another), which is extremely time-consuming and inefficient. Second, by accepting money deposits from savers and then lending the money to borrowers, banks encourage the flow of money to productive use and investments. This in turn allows the economy to grow. Without this flow, savings would sit idle in someone's safe or pocket, money would not be available to borrow, people would not be able to purchase cars or houses, and

businesses would not be able to build the new factories the economy needs to produce more goods and grow. Enabling the flow of money from savers to investors is called financial intermediation, and it is extremely important to a free market economy. In a narrow concept bank is an financial intermediaries only but in a broad Bank is an service providing profit making organization.

The first commercial bank, Nepal bank limited was established in 1994 B.S. It was established under special banking act 1994 having elementary function of commercial bank. It was established by the Investment of Nepal government and general public having 51% and 49% respectively. In the established period it had 10 million authorized capital 2.5 million issue capital and 0.842 million paid up Later in 2012 B.S. the central bank (Nepal Rastra Ban) was established with an objective of supervising, protecting and directing the function of commercial banking activities. The first another commercial bank fully owned by Nepal government, names as Rastriya Banijya Bank got established in 2022 B.S. The establishment of joint venture bank gave a new horizon to the financial sector of the country. Since 1984 Joint Venture banks were established under company act and their shares were listed in Nepal stock exchange limited (NEPSE). The focus of the study is that commercial bank whose share listed in NEPSE.

Banking sector is the most dynamic part of economy, which collects unused funds and mobilizes in needed areas. It is the heart trade, commerce industry. In Nepalese context, commercial banks have comparatively good performance among the public limited companies. Because most of the banks are counted within the top ten positions among the listed companies on the basis of amount traded, number of transaction, market capitalization etc.

1.1.1 Sample of Banks

Introduction of NIBL

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers,

professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage as Rastriya Banijya Bank.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).

NIBL believe that, which is managed by a team of experienced bankers and professionals having proven track record. It is sure that the choice of a bank will be guided among other things by its reliability and professionalism.

Everest Bank Limited (EBL)

This was established in 1994 in joint venture with Panjab National Bank Limited of India. Despite the cut-throat competition in the Nepalese Banking sector, Everest Bank has been able to maintain a lead in the primary banking activities loans and deposits. Legacy of Everest lives on in an institution that is known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as premium savings account, EBL proprietary card and millionaire deposit scheme besides services such as ATMs and Tele Banking were first introduced by EBL. Therefore, the banks stand for the innovations that we bring about in this country to help out customers besides modernizing the banking sector. Hence, it is celebrating its 15^{th} anniversary successfully in the competitive market.

1.2 Statement of the Problem

Investors should make rational investment decision. For this purpose, knowledge for analysis of common stock is essential. Investor's attitude and perceptions are also considerable for rational investment decision. Many investors are manipulated and

exploited by the financial institution and other market intermediaries since they are unknown about norms of security market.

In the context of Nepal investors are also facing the problems of lack of the institutions to provide adequate information about the investment options.

As every business is established with a view to maximize earnings/profits. In the present competitive environment in banking and every sector it is very difficult to obtain expected earning/profits. Every commercial bank has to follow by the regulations and provision made by Nepal Rastra Bank. They have to maintain specific capital structure, Infrastructure, Cash Reserve Ratio, Credit Creation Limitation, Liquidity ratio etc. The major problems in Nepalese banking sector are as follows:

- Whether or not banking sector is able to maintain different ratios?
- What level of ratios has to maintain by bank?
- What are the papers hassles in different banking activities?
- Why recruitment of professionals is not transparent and fair?
- What type of role a bank has to play for emerging new business?
- To what extents these banks are able to raise and maintain their profitability?
- Whether sample banks are more effective and efficient in mobilization of fund for better financial performance?
- Is there any stability in performance of the sample banks?

1.3 Objectives of the Study

Commercial banks are established with intention of earning profit so that the wealth their shareholder is maximized and earning depends upon efficient the mobilization resources. Financial analysis is tools for measuring the successes of any business performance. All the detail financial information or bank is shown by the financial analysis. Therefore the main objectives of this study are to analyze, examine and interpret the financial position of EBL and NIBL with the help of ratio analysis and other portfolios. In addition the study tries to evaluate the efficiency and progress of the sample banks comparatively.

The specific objectives of the study can be pointed out as follows:

- To study and compare of financial performance of Everest Bank Limited and Nepal Investment Bank Limited.
- To determine the growth rate of both the banks in terms of deposit, loan and advances, investment and profitability.
- To evaluate the stability in earning of both the banks.
- To depict the relationship between these two banks in terms of deposit, investment, profit by using co-relation, regression and trend analysis tools.
- To make conscious both the bank in mobilization of their resources (investment) in productive sectors.

1.4 Significance of the Study

The banking sector is one of the major sectors of the country. It helps to emerge new business in industries by providing different facilities to businessmen. It provides different facility so that businessmen can run their business smoothly. At present context, a offers wide range of facility such as any branch banking facility, Internet banking and SMS banking, ATMs and Tele-banking, Small business enterprises loan, pre-paid visa card, L/C , Bank Guarantee etc. These all facility including other temporary facility has made people life very convenience and easy.

1.5 Limitations of the Study

At first, this study is focusing only a partial fulfillment of MBS program. Hence limitations of this study are as follows:

- The study will cover only eight fiscal year historical data of EBL and NIBL.
- The study will be based on the secondary data.
- The study will depend upon the true response and the data provided by the management of the banks on it website.
- Time and resources lack are the main limitation to the study.
- This study would only concern with fulfilling in partial requirement in masters of business studies (MBS).

1.6 Organizational of the Study

Chapter-I: Introduction

The first chapter of the study is introduction, which highlighted the basic information of the research area, various problems, objectives, importance, limitations and organization of the study.

Chapter-II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas by earlier scholars in related areas. It also establishes that the study as link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III: Research Methodology

The third chapter refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes the various research methods (i.e. research design, source of data, data collection techniques, data collection methods).

Chapter-IV: Presentation and Analysis of Data

The developed information has finished in required form in fourth chapter. Information is presented and analyzed (i.e. both primaries as well as secondary source) by using various financial and statistical tools in specified form to meet the stated objective of study.

Chapter-V: Summary, Conclusions and Recommendations

On the basis of the results from data analysis, the researcher concluded about the research work. Besides, it also gives important suggestions to the concerned organization for better improvement.

CHAPTER - II
REVIEW OF LITERATURE

The chapter is categorized under three main heading. Conceptual framework is concern with fundamental of supportive text that will ensure the interpretation whether it is under the principles and doctrine of the theories related to the topic. Review of related studies is about the studies is about the studies of previous thesis, related books and previous researches in similar topics. The last is research gap, which will describe the difference between the previous thesis and current thesis.

2.1 Conceptual Framework

2.1.1 Meaning of Financial Analysis

Financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to be invested in. The financial analysis is often concerned on the income statement, balance sheet, and cash flow statement. IN addition, one key area of financial analysis involves extrapolating the company's past performance into an estimate of the company's future performance.

The relationship between two accounting figure, expressed mathematically is known as ratio. In financial analysis a ratio is used as an index or yardstick for evaluation of the financial position and performance of a firm. Absolute figures are valuable but they are standing alone convey no meaning unless compared with other. Accounting ratio shows inter-relationship among various data supplied by financial statements are worked out, they are known as accounting ratios.

Every business organizations are established to earn profit .so the Banks are also established to earn profit for its shareholders and other stakeholders. Profit is necessary for long-term existence of any business. An investor always invests their money on profitable business to achieve revenue profit and capital growth as well. Financial statements are the indicator of business performance whether it is profitable or not. Therefore, financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characteristics of a firm. Different types of financial statement analysis can be used on the basis of this

researcher's objectives. Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern. Financial performance is the main indicator of success or failure of the company.

"The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements, by making comparison of various components and by examining their content. Financial managers can use this as the basis to plan future financial requirements by means of forecasting and budgeting procedures" *(Hampton; 1998:95).*

"Financial analysis is used primarily to gain insight in to operating and financial problems conforming the firms, with respect to these problems, we must be careful to distinguish between the cause of problem and symptom of it". It is thus an attempt to direct the financial statements in to their components on the basis of purpose in hand and establish relationship as between these components on the one hand as between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization" *(Hampton; 1998:99).*

"Financial analysis is the process of determining financial strengths and weakness analysis of company by establishing strategic relationship between the components of analysis balance sheet and other operative data" *(Pandey; 1994:96).*

"Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness" *(Weston and Brigham; 1992:78).*

"Financial statement analysis is largely analysis study of relationship among the various factors in analysis business as disclosed by the single set of statement and

analysis study of the trend of these factors as shown in analysis series of statement" *(Van Horn, 1997:118).*

"Financial analysis is process of identifying the financial strength and weakness of the firm by property establishing relationship between the items of the balance sheet, which represents analysis snapshot of the firm's financial position analysis at analysis moment in time and next income statement, that depots analysis summary of the firm's profitability overtime" *(Van Horn, 1997:120).*

"The analysis of financial statement is an important aid to financial analysis. It is helpful in assessing the financial position and profitability of analysis business concern" *(Pandey; 1979:500).*

"It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm's management, as reflected in the financial records and reports" *(Hampton; 1998:98).*

"It is both analytical and judgmental process that helps answer questions that have been posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved in the related importance of the issue and on the nature and reliability of the information available *"(Hamton; 1992:100-1).*

"Financial analysis is to analyze the achieved statements to see if the result meets the objectives of the firm, to identify problems, if any, in the past or present and/or likely to be in the future, and to provide recommendation to solve the problems*"(Pradha; 2000:120).*

Thus, financial analysis stands for the process of examining the results achieved by the concerned bank with the line of its budget and industry average. Basically it is concerned with the evaluation of relationship among the presented data on the financial statements. Financial statements contains the following statements.

- Statement of financial position (Balance Sheet)
- Statement of financial performance(Income Statement)
- Statement of cash flow statement(cash flow)
- Statement of changes in equity
- Notes to the Account

So, the financial analysis is totally based on the above statements and they are also the indicator of the performance of the concerned banks.

2.1.2. Significance of Financial Analysis

"Significance of analysis lies on the objectives of financial analysis of any firm. Different groups associated with the concern perceive the facts discovered by the analysis differently. The facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness are interpreted based on objective in the hand. Such an analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, inter-financial control system and bargaining strategy for funds from external sources" *(Agrawal; 1993:582).*

The importance of Financial Analysis is as follows:

a) Useful in Financial Position Analysis

Ratio analysis is an important technique of financial analysis. It is also reveal the financial position of the concern. This helps the bank, insurance company and other financial institutions in leading and making investment decision.

b) Useful in Comparison of Performance

Through accounting ratio comparison can be made between one departments of a firm with another of the same firm in order to evaluate the performance of various departments in the firm. Manager is naturally interested in such comparison in order to know the proper sand smooth functioning of such department. Ratio also helps to make any change in the organization structure.

c) Useful in Forecasting Purposes

If accounting ratio is calculated for a number of years then a trend is established. This trend helps in setting up at future plans and forecasting. The ratio calculation of past year works as a guideline for the future.

d) Useful in Communication

Ratio analysis provides the information about strength and weakness of concern (firm) to the internal and external parties.

e) Useful for Decision in Making Classification of Ratio

- Liquidity ratio
- Capital structure ratios (Average ratio)
- Activity ratios
- Profitability ratios

The parties that are benefited by the results or conclusion draw from the analysis of financial performance can be enumerated as:

- Shareholders
- Management
- Creditors
- Economist
- Labor union

a) Shareholders

The shareholders, who have invested their money in the firm's shares, are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company, the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. However, they are curious to sell the shares in case of poor performance.

b) Management

The responsibility of the management can be assessed by as follows:

Are the resources of the firm used effectively and efficiently?

Is the financial condition of the firm shall enough?

Based on past facts firms can anticipate their future. Hence, management can measure the success or otherwise of a company's operations, determine the relative efficiency of various departments; process and products appraise the individual's performance and evaluate the system of internal audit.

c) Creditors

The creditors can find out the financial strengths and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time, the suppliers of long-term debt focus upon the firm's long-term solvency and survival. A lending bank through and analysis of these statements can decide whether the borrower retains the capacity of refunding the principle and paying interest in time or not.

d) Economist

The economist diagnoses the prevailing status of business and economy. Economists analyze the financial statements of any firm. The government agencies analyze them for the purpose of price regulation, rate setting and similar other purpose.

e) Labor Union

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. To motivate the labors they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore, the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available *(Srivastav; 1993:45).*

2.1.3 Financial Performance Analysis of Bank

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficit units. Unlike other non-banking financial companies, commercial

banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily regulate them. Analysis of banks financial statement is different from threat of other companies due to the special nature of assets and liabilities *(Paudel; 2053: 64-69)*.

Balance sheet profit and loss account and the accompanying notes are the most widely aspects of financial statements of the bank. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans, advances and investment and paid in deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission and discounts, foreign exchange income, dividend on investment, other service charge etc.

The users of financial statements of bank require relevant, reliable and comparative information to evaluate the financial performance and position and hence make economic decision regarding the bank. According to Commercial Bank Act 1974 the audited balance sheet and profit and loss account must be published in the leading national newspaper for the information of general public.

Most of the users of financial statements seek to assets the bank's overall performance. Following factors affect the evaluation of bank overall performance:

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system.
- Managerial decisions taken by the top management regarding interest rate, lending policies exchange rates etc.
- Environment changes such as changes in Technology, Government, Competition, and Economy etc.

2.1.4 Tools of Financial Analysis

The fundamental of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and technique of financial statement analysis, each of which is used according to purpose for which the analysis is carried out. The widely technique used is as follows:

- Ratio Analysis
- Statement of changes in financial position
- Cash flow statement

Among them ratio analysis is used by most companies. Therefore in this study we discuss only about ratio analysis.

2.1.5 Ratio Analysis

Ratio refers to the mathematical relationships among the variables which are produce by the management. Management is responsible to safeguard company assets on behalf of shareholders and they have to prepare financial statement to discharge his responsibility by virtue of his position. So, his actual responsibility and company's actual performance can be analyzed by using ratios. So we can take some definition to define ratio analysis.

"Ratio refers to the numerical or quantitative relationship between two items or variables. In simple language ratio is one number expressed in terms of another and can be worked out by dividing the number to the other. Therefore ratio is the expression of one figure in terms of another. It is a expression of the relationship between mutually independent figures. It is a simple mathematical expression of the relationship of one item to another. A ratio helps to the researcher to make qualitative judgment about the firm's financial position and performance" *(Khan, and Jain; 1998: 80).*

"Ratio analysis is an important way to state meaningful relationships between components of financial statement. Ratios are guided or shortcuts that one useful in evaluation the financial position and operations of a company and in comparing then to previous year or to other business concerns. The term ratio refers to the numerical

or quantitative relationship between two variables. The rational of ratio analysis lies in the fact that it makes related information comparable"*(Khan, and Jain; 1996: 80).*

"Ratio analysis is a technique of analysis and interpretation of financial statement evaluates the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis" *(Dangol; 2052:12).*

"Ratio analysis is an analytical tool of financial analysis, which helps in identifying strength and weakness of business concerns. It is an important way to state meaningful relationship between components of financial statements. The primary purpose of ratio is to point out area for further investigation. Ratio analysis has been a major tools used in the interpretation and evaluation of financial statements since late 1800 A.D.

"Ratio analysis involves comparison for a useful interpretation of the financial statement. Ratio is the quantitative relationship between items. A ratio is defined as and indicated quotient of two mathematical expressions and is the relationship between two or more thing" *(Van Horn, 1997: 753).*

"Ratio analysis involves basic understands of comparison to a useful interpretation of the financial statements. A single ratio by itself does not indicate favorable or unfavorable condition of a firm unless it is compared to some appropriate standard. Selection of a proper standard of comparison is a most important element of the ratio analysis. Ratio analysis provides guides specially in spotting trends toward better or poor performance and in finding out significant deviation from any average or relatively applicable standard" *(Dangol; 2052:370).*

2.1.6 Types of Ratio

Ratio is less meaning in isolation, so we need to compare it with budgeted figure either it is establish internally such as budgeted or past performance of the company and externally by industry average.

A single ratio itself does not indicate favorable or unfavorable condition. It should be compared with some standard as:

- Time series analysis
- Cross-sectional analysis
- Industry analysis
- Perform analysis

(Pandey; 1979:97)

Among the large number of financial ratio existing they have been categorized into following group:

- Liquidity ratio
- Activity ratio
- Profitability ratio
- Leverage ratio

a) Liquidity Ratio

Liquidity ratios give insight into the present cash solvency of the firm and its ability to remain solvent in the event of adversities. It is the comparison between the short-term obligation and the short firm resources. In case of bank, liquidity management is widely used to analyze liquidity position of banks.

"Liquidity ratio measures the ability of firm to meet its current obligations. In fact, analysis of liquidity needs the preparation of cash budget and cash and fund, but liquidity ratio, by establishing a relationship between cash and other current assets to current obligation, provides a guide measure of liquidity" *(Pandey; 1979:145).*

"Banks can experience lack of liquidity when cash outflows (due to deposit withdraws, loans etc.) exceed cash inflows (new deposits loan repayments etc.).They can resolve any cash deficiency either by creating additional liabilities or by selling assets" *(Pandey; 1979:147-148).*

A bank should ensure that it does not suffer from lack of liquidity and it does not have excess liquidity. Both conditions of liquidity are unfavorable for a bank.

To analyze the ability of banks, the following ratios are calculated:

- Current ratio
- Cash and bank balance to Total deposit ratio
- Cash and bank balance to Current ratio

b) Activity Ratio/Assets and Investment Management

Traditionally, assets and investment management ratios have been called activity ratios or turnover ratios. Whatever designation, the idea is to measure how effectively the firm utilizes the investments and the economic resources at its command.

"Investments are made in order to produce profitable sales, achieving profitable sales, therefore, involves making sound investments. At the practical level, this involves comparisons between the sales and the investment in various assets accounts. The methodology postulates an optimal relationship between sales and the various types of asset investment" *(Weston and Copland: 1992:199).*

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

- Loan and advances to Total deposit ratio
- Loans and advances to Fixed deposit ratio
- Loans and advances to Total working fund ratio
- Total investment to Total deposit ratio
- Investment on government securities to Total working fund ratio
- Investment to Shares and debenture to Total working fund ratio

c) Profitability Ratio

Profit is the difference between total revenues and total expenses. Profit is the ultimate aim of any commercial entity and a commercial bank is also a commercial entity. So it will have no future if it fails to make sufficient profits .Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of

profit. The profitability ratios in this study are calculated to measure the operating efficiency and performance of two banks comparatively.

The future stream of cash flows is the result of a large number of policies and decisions. We start with historical data about cash flow and profitability but emphasize that these represent only the starting point. Further strategic and operating analysis is required to make meaningful projections for the future *(Weston and Copland: 1992:200).*

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

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

d) Leverage Ratio

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

In practice, leverage is approached in two ways. One approach examines balance sheet ratios and determines the extent to which borrowed funds have been used to finance the firm. The other approach measures the risks of debt by income statement ratios designed to determine the number of times fixed charges are covered by operating profits. These sets of ratio are complementary, and most analysts examine both *(Weston and Copland: 1992:203).*

Following are ratios, which are used in this study:

- Debt Asset Ratio
- Debt Equity Ratio

2.2 Review of Journals/Articles

In this section we review the articles which were published in newspapers and journals. The articles were written by professionals and exports and it will help us to form opinion about the topics.

Poude (2065), in his article on the topic of Financial statement analysis which comprises Balance sheet, profit and loss a/changes in shareholder equity and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and profit and loss a/c. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet item.

Interest received on loans and advance and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statement of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank's financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Poudel, the principle objectives of analyzing financial statement are to identify: Liquidity, Profitability and Solvency. Most of users of the financial statements are interest in assessing the bank's overall performance which is affected by the following factors:

- The structure of balance sheet and profit and loss account.

- Operating efficiency and internal management system.
- Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.
- Environmental changes (Technology, Government, Competition and Economy)

The other factors to be considered in analyzing the financial statement of bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy of bank is assessed on the basis of risk-weighted assets. It indicates a bank's strength and solvency. Bank facing with capital adequacy problem may increase capital or reduce assets or reallocate 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 in to cash to meet deposit withdrawals and other current obligations. It is also important view of survival and growth of a bank.

Poudel (2053), in the article, *" Present Condition of Financial Companies"* has presented with compared to the commercial bank, the interest rate is relatively high that is provided and accepted by finance companies. The financial companies should not be confined only in the valley. They should extend their services to the rural sectors of hill and terai to reduce regional imbalance. The collection of deposit and loan investment done by the commercial banks also to sustain themselves in the environment of competitions, they should introduce novel technology and equipment's to collect deposits and investments. They should learn from the draw banks, failure and success of commercial banks to effectively maintain as alternative status.

Poudel (2057), give more emphasis of financial performance of financial companies in the article "An Overview Financial Companies of Nepal". He had written that at the time 1996, the ratio of capital funds to deposits have been increasing over the time but to of this, it is substantially below than the authorized level of deposit mobilization, which is ten times of the capital base. Never the less, some of the finance companies have even mobilize the deposits by more than ten times of their

capital base by violating the regulatory norms issued by NRB. The credit / deposit ratio has remained quite high leaving the room for doubt about the quality of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase housing and term loans are the major sectors, which all together received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since the varying factor, it is too early to evaluate the performance of financial companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

Pradhan (2062), in his article, he analyzed the topic of *"Transaction Analysis of Financial Companies in Nepal"*. He has concluded that the finance companies are centered in the city as like commercial banks. If this trends remains, the central bank is to consider novel strategy. However, financial and banking transaction don't take place in zero, it favors of financial intermediaries. The emergence of closure of financial companies in market economy in common sense. But keeping in mind, the social and economic structure of our country, we should not turn a deaf ear to regional balance.

Shrestha (2064), in the article *"Capital Adequacy of Bank in the Nepalese Context"* has suggested that the banks deal in highly risky transactions to maintain strong capital base. He concluded that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak degree of risk associated with them are subject to changes country wish, bank wish and time period wise.

2.3 Review of Thesis

Bhushal (2004), A thesis entitled *"Financial Performance Analysis of Commercial Banks in Nepal in the Framework of Camel (A Comparative Study of Kumari Bank Ltd and Machhapuchhre Bank).*

The Main Objectives of the Study

- To analyze capital adequacy of KBL and MBL.

- To assess the quality of assets of KBL and MBL.
- To evaluate whether KBL and MBL is managing its expenses with respect to incomes
- To study the trend of earning performance made by KBL and MBL.
- To measure the liquidity position of KBL and MBL.

The Major Findings of the Study

- Higher average return on equity ratio.
- Higher average earning per share ratio.
- Capital adequacy ratios meet the standard.
- ROE below the benchmark (15%).
- Net interest margin have met the benchmark (3 to 4%).
- Earning per employee ratio is in increasing trend.

Main Recommendations of the Study

- Total capital adequacy ratio is adequate. It should maintain.
- Assets quality ratio at satisfactory level.
- Liquidity position is low so it should increase.
- Total expenses to total income ratio is fluctuating. It should try to constant.

Chand (2006), A thesis entitled *"Financial Performance Analysis CAMEL TEST of NABIL.NIBL, SCBNL)"*.

Main Objectives of the Study

- To analyze capital structure and capital adequacy position.
- To assess assets management system, profitability and liquidity.
- To assess organizational investments, social responsibilities and services.
- To provide the suggestion on the basis of the findings.

Major Findings/Recommendations of the Study

- Study indicates that people value high quality of services of private sector commercial banks.
- Majority of population is found still unaware of all products and services that are affected by commercial banks.

- Minimum balance requirement to open saving a/c should decrease to attract many customers.
- Each commercial bank should increase interest on deposit.

Sangel (2007), A thesis entitled *"Comparative Analysis of Financial Status & Performance Evaluation of HBL and NABIL Bank"*

Main Objectives of the Study

- To analyze capital adequacy and liquidity position of the banks.
- To analyze quality of assets and evaluate risk weighted assets.
- To evaluate the level, trend and stability of HBL and NABIL.

Major Findings/Recommendations of the Study

- The total capital adequacy ratio is fluctuating.
- Assets composition remained largely in the loan and investment.
- The both banks managerial and operating efficiency since the total expenses to total revenue ratio are in decreasing trend.

Sherstha (2007), a thesis entitled *"Financial Performance Analysis of Commercial Banks of NIBL and NABIL)*

Main Objectives of the Study

- To conduct cash flow analysis and measure the operating efficiency, stability and profitability.
- To measure the ability to meet the short term and long term obligations.
- To pint out the week and strength areas of the business performance.
- To analyze financial strength and weakness.

Major Findings of the Study

- Liquidity ratio shows that the liquidity position of NIBL is better than NIBL.
- NABIL has utilized the debt more than NIBL.
- Total deposit and total assets are higher in NIBL than that of NABIL.

Main Recommendations of the Study

- Banks are suffered from liquidity position.

- Bank can earn more by adding debt in its capital structure.
- Managerial efficiency and assets utilization position of the sampled banks seems unsatisfactory.
- Profitability position of NIBL is much weaker than NABIL.
- Banks are suggested to review their overall capital structure and investment portfolio to make better combination of capital structure.
- The banks are suggested to not limit their activities within the urban areas only.

In this way review of literature is important before selecting topic so that after selecting topic we can justify the topic by suggesting new findings.

K.C. (2008), has conducted a thesis on a topic *"Comprehensive Financial Performance Analysis of Everest Bank and Bank of Kathmandu".* He has mainly focused his study on comparing & analyzing liquidity, profitability, solvency and activity ratio analysis as well as reviewing the government policies related to banking industry of Nepal.

The Main Objectives of his Study are

- To compare the financial ratios of sampled banks in terms of liquidity, capital adequacy, capital structure, activity and Profitability.
- To evaluate the trends of growth of in total deposit, loan and advances and net profit.
- To examine the relationship between key financial variables such as total deposit and net profit, total deposit and total investment and net worth and net profit of the sampled banks.
- To review the government policies related to banking industry of Nepal.

Time period covered by it was five years data from 2001/02 to 2005/06. Necessary data and other information have been collected from the secondary sources of data.

The Major Finding of the Study

- The cash reservation of the banks was maintained as per the directives of NRB.So,BOK is utilizing its liquid assets better than EBL.

- EBL has maintained liquidity as per financial standard than BOK so, BOK has poor in the liquidity.
- EBL and BOK appeared highly levered and capital structure of EBL is a little riskier than BOK
- Earning generating capacity of EBL,s assets is far better than BOK. Management of EBL is successful to utilize their resources efficiently and effectively.

The Recommendations of this Study are:

- EBL has maintained liquidity as per financial standard but BOK is not able to meet the standard So EBL can be recommended to utilize the excess amount of current assets on secured and highly liquidity investment and BOK is to increase the liquidity capacity to meet immediate and short term obligations.
- Capital structures of both banks are highly are highly levered so it is recommended to introduce new products with high quality services, adopt new technology, made adjustment interest rate as per situation.
- To meet their objectives and goals it is recommended to open new branches at new potential urban areas to collect more deposit and to increase investment as well as shareholders wealth.

Ghimire (2008), A thesis entitled "*Financial Performance of Joint Venture Banks (with Special Reference to SCBNL and NABIL Bank)".*

Main Objectives of the Study

- To find out operational efficiency of SCBNL and NABIL bank.
- To analyze the different types of risk associated with the banks.
- To find out the compliance of NRB directives.
- To provide suggestions and recommendations on the basis of study.

Major Findings/Recommendations of the Study

- Unable to earn a satisfactory level of profit.
- Leverage ratio to increase so increasing debt financing will generate profit through the utilization of deposits.
- Unsatisfactory liquidity level.

- EPS and DPS should increase by increasing MPS.
- Operating income level is not satisfactory so increase operating efficiency.
- CRR are below the standard of NRB directives.

Bhandari (2010), study entitled *" A Comparative Financial Performance Analysis of Himalayan Bank Limited and Everest Bank Limited"* concludes that the liquidity position of both the banks is below the normal standard of 2:1 (i.e. Unsatisfied), comparatively this ratio of Everest Bank is better on an average. Both the banks are found to be efficient in utilized most of their total assets. Based on the findings of analysis, the research suggest finding out the root cause of weak liquidity position to improve the liquidity position of both banks. Similarly both the banks are suggested to maintain proper balance of total debt to shareholders fund.

He also suggests that both banks should utilize the resources to utilize the resources more efficiently for profit generating sectors.

Shakya (2010), through his thesis *"Financial Performance of Nepal SBI Bank Limited and Everest Bank Limited "* concluded that the liquidity position of these two banks is sound. Nepal SBI Bank has better utilization of resources in income generating activity than Everest Bank Limited. Interest earned to total assets and return on net worth of Everest Bank is higher than Nepal SBI Bank. He concludes overall profitability position of Everest Bank is better than Nepal SBI Bank.

Tiwari (2010) , has conducted a thesis on *"Financial Performance Analysis as Tools for Profit Planning"*. He attempts to analysis the financial performance with the help of financial analysis of EBL, Nabil and BOK.

The Main Objectives of this Study are:

- To find out the relationship between total investment, loan and advances, deposits, net profit and outside assets.
- To identify the Investment priority sectors of commercial banks.
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposits utilization and its projection for five years of commercial banks

- To provide suggestions and possible guidelines to improve investment policy and its problems.

The Major Findings of the Study are:

- Current assets of all three banks i.e. EBL, Nabil & BOK are satisfactory.
- The ratio of cash & bank balance to total deposit and current assets of EBL is higher than that of Nabil & BOK.
- Nabil has not invested funds in government securities than that of other banks which shows that Nabil has kept relatively funds as cash and bank balance which does not earn any returns.
- Profitability ratios of Banks are not satisfactory, if resources held ideal bank have to bear more cost and result would be lower profit margin.
- The investment policy of EBL is good in every aspect as studied

Above but the consistency in the above investment sector is in equilibrium states. He found the bank focuses much of its attention to one sectors leaving other sectors untouched and balance it effectively as to have the optimal performance of the bank

Now, in Nepal many banks & other financial institutions are functioning to collect the deposits and invest money somewhere in the productive sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The recommendations of this study are as follows:

- In commercial banks the liquidity position affects external & internal factors such as saving for investment situations, central banks are recommended to improve current assets and mobilize cash and bank balance in profitable as loan and advances.
- Investment in government securities such as Treasury bills, development bonds, saving certificates etc. are free of risk and highly in nature. So. Nabil is recommended to invest its fund in government securities instead of keeping them idle.

- In the light of growing competition in the banking sectors the business of the bank is customer oriented. It should strengthen and active its marketing function as it is an effective part of attracting and retaining customers. The bank should develop on innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient way.
- EBL, s investment policy is satisfactory so EBL is recommended to touch all the sectors.

Shrestha (2012), has conducted a thesis on a topic of *"Financial Performance of Commercial Banks and A Case Study of NBIL, NIBL & NICB".* He attempts to analyze the financial performance of NBIL, NIBL & NICB with the help of ratio analysis.

The Main Objectives of the Study

- To determine the liquidity, profitability, leverage, efficiency of capital adequacy position of Nabil bank, NIB& NIC banks
- To perform SWOT analysis of the above three banks.
- To provide necessary suggestion and recommendations for betterment of the above three banks.

Major Findings of the Study

From the point of view of profitability the three banks are at the satisfactory level but they have poor liquidity position especially current and quick ratios, which are below the prescribe standard. In summary, financial performance of sample banks are seemed satisfactory. In comparison, profitability, turnover position, capital structure, and other indicators (EPS, P/E ratio and MVPS to BVPS) are better than in Nabil as compared to NIB & NIC whereas capital adequacy and assets quality ratio is better in NIC than Nabil & NIB. In totality, Nabil bank is better as compared to NIB & NIC because Nabil is less risky than two banks and it is successful to attract the investor and have strong management. In other word Nabil bank investing in less risky sector. Total operating income and financial indicators between the three sampled banks do not differ significantly except the net working capital, leverage and Capital adequacy position.

The Main Recommendations of the Study

- The three banks could not maintain the conventional standard of liquidity and quick ratios. It indicates the poor liquidity position in these three banks especially in Nabil &NIB. It may create the problem of working capital if they need to pay the short obligation at demand with the delay in payment of liabilities of banks may lose their goodwill. So the three banks are recommended to maintain the adequate net working capital.
- Government securities such as treasury bills, development bonds, saving certificates etc. are risk free investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this study, it has found that the sampled bank have made some amount of fund in government securities. ButNabil, NIB and NIC are recommended to invest more funds in Government securities instead of keeping them idle.

Research Gap

Commercial Bank invests its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra Bank and guidelines and policy of their own bank. Financial statements have to prepare according to the direction of NRB. Nepal Rastra Bank's policy and guidelines are changing according time to time. So, the up to dated study over the changes of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data and analysis is done within the latest guidelines and curriculum of Nepal Rastra Bank.

No research has been undertaken regarding the comparative analysis of financial performance between the Everest Bank and Nepal Investment Bank. Some researcher has done the comparative studies of other joint venture bank. But within this bank, study is not found. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank.

EBL and NIBL are the leading joint venture commercial banks of the country having the huge market share and its investment activities and these banks has significant

impact on developing the economy of the country. Every year the financial performance of changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders.

CHAPTER - III
RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. It describes the methods and process applied in the entire study. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It consists of research design, population and sampled source of data, data processing procedure and tools & techniques of analysis of data.

3.1 Research Design

A research design is the logical and systematic planning and direction of a piece of research. Research design is like blue-print to the researcher. There are different views regarding research design but overall it contains whole report contents. It is the overall plan of proposal study to specify the appropriate research method and procedures for obtaining specific finding valid objectively accurate and economically as possible.

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is the plan, structure and strategy on investigations conceived for obtaining answers to research questions and to control variances to achieve the objective of this study, descriptive and analytical research designs have been used. Some statistical and accounting tools have also been applied to examine facts and descriptive techniques have been adopted to evaluate financial performance of the banks.

3.2 Nature and Sources of Data

This study is conducted on the basis of secondary data. The data relating to investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss account of the concerned Bank's annual reports published on wed sites of concern banks. Supplementary data and information are

collected from number of institutions and regulating authorities like Nepal Rastra Bank, website www.nepalstockexchange.com and different related website.

According to the need and objectives, all the secondary data are compiled, processed and tabulated in time series. In order to judge the reliability of data provided by banks and other sources, they were complied with the annual reports' of auditor.

Similarly, various data and information are collected from the periodicals, economic journals, managerial magazines and other published and unpublished reports and documents from various sources and websites.

3.3 Population and Sample

The large group about which the generalization is made is called the population under study or the universe and small portion on which the study is made is called the sample of the study. There are altogether twenty five commercial banks in Nepal. In this study, the focus will be on the analytical and comparative study of financial performance of EBL and NIBL. There are so many commercial banks in the market but it is impossible to study all of them so two commercials bank has been selected for the analysis among them on the basis of reputation of the banks and to limit on organization. So the study is based on sample based on sample basis not on the population.

It is not possible to study all the data related with all bank of Nepal. There are altogether twenty-five listed commercial banks in the country and their stocks are traded actively in stock market. So the financial analysis of listed two banks is being compared with that average of the same, which are selected from population. From the above listed commercial banks are considered as population. To calculate industry average the selected sample are as follows:

- Everest Bank Ltd. (EBL)
- Nepal Investment Bank Ltd. (NIBL)

3.4 Data Collection Procedure

As explained in previous chapters, the main sources of secondary data are the reports of the Banks published in their respective annual general meetings and web site www.nepalstockexchange.com and relevant bank's website. In addition to that some of the relevant data are also collected from the non-bank financial statistics published by the non-bank regulation department of Nepal Rastra Bank.

3.5 Methods of Analysis

To achieve the objectives of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data will be done according to pattern of data available. With the available tools and resources, analytical statistical tools such as Karl Person's coefficient of correlation, simple & multiple regression as well as corresponding hypothesis are adopted in this study. Similarly some strong accounting tools such as ratio analysis and trend analysis have also been used for financial analysis.

The various calculated results obtained through financial, accounting and statistic tools are tabulated under different headings. Then they are compared with each other to interpret the results.

3.5.1 Financial Tools

There are various financial tools to measure the performance of a organization. The following financial tools have been used for the analysis:

3.5.1.1 Ratio Analysis

The relationship between two accounting figures expressed mathematically is known as a financial ratio "Ratio analysis is used to compare a firm's financial performance and status to that of other firms or to itself over time. " From the help of ratio analysis, the qualitative judgment can be done regarding financial performance of a firm. In this study, following ratios are calculated and analyzed.

3.5.1.1.1 Liquidity Ratio

A name denotes the liquidity refers to the ratio between liquid assets and liability. The ability of firm to meet its obligation in the short term is known as liquidity. The

ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short term strength of the business. In order to ensure short-term solvency, the company maintain adequate liquidity. But liquidity ratio must be optimum. If the company maintain unnecessary high liquidity ratio then it may adversely effect in the profitability of the company will invest all its assets in safe liquid assets, which can lose the opportunity to earn high profit. Means everybody knows that investing all assets in safe liquid assets doesn't have a good return. As well as high liquidity may lead tied up cash in the current assets. In the other hand if a company doesn't maintain adequate liquidity then it will result in bad credit ratings, less creditors, confidence, eventually may lead to bankruptcy. Thus the company should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding risk.

a) Current Ratio

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

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

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

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

b) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ration measures percentage of most liquid fund with the bank to make immediate payment to the

depositors. This ratio is computed by dividing cash and bank balances by total deposit. This can be presented as follows:

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

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

c) Cash and Bank Balances to Current Assets

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

$$\text{Cash and Bank Balances to Current Assets} = \frac{\text{Current and Bank Balance}}{\text{Current Assets}}$$

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

d)Assets Management Ratio (Activity Ratio)

Activity ratio evaluates the efficiency with which the firm manages and utilizes its assets. This ratio is also known as turnover ratio. It measures how effectively the company employees the resources at its command. Funds are creates by the

collection of share as debt from the owner, creditors and outside parties. Those funds are invested in various kinds of assets to generate profits or income. Activity ratios are the creditors of a concern with regard to its efficiency in assets management, hence they often referred to as efficiency ratio are computed to assess finance companies in utilizing available resources.

e) Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsiders' fund (Total deposit) for the profit generating purpose on the loans and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund and vice-versa. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given as below:

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

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

2. Loans and Advances to Fixed Deposit Ratio

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

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

f) Loans and Advances to Total Working Fund Ratio

Loan and advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loan and advances on the working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund. This is sated as below:

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

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

g)Total Investment to Total Deposit Ratio

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

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

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

h) Investment on Government Securities to Total Working Fund Ratio

The ratio measures to what extent, Banks are successful in mobilizing their total working fund on different types of govt. securities to grow income. All the deposits of Banks should not be utilized as loans and advances and other credits form liquidity as well as company's security point of view. That's why some of the investments should be invested in such kind of investments that has lower risk in comparison to loans. If the ratio found to be better then it will be assumed that the investment of the bank but other side there will be problem on liquidity. So there should be tradeoff between

them. This ratio is calculated by dividing investment on government securities by total working fund.

Investment on Government Securities to Total Working Fund Ratio

$$= \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

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

$$\text{Total Working Fund} = \frac{\text{Investment on Shares and Debentures}}{\text{Total Working Fund}}$$

3.5.1.2 Profitability Ratios

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

a) Net Profit to Total Assets

Net profit refers the profit after interest and taxes. It is also known as Return on total assets (ROA). This ratio evaluates the efficiency of company in utilizing and mobilizing of assets and its survival. It is useful for measurement of the profitability of all financial resources invested in the bank assets. It also provides the necessary

foundation for company to deliver a good return on equity. Higher return on assets (ROA) indicates higher efficiency in utilization of total assets and vice-versa. ROA is calculated by dividing the amount of net profit by the total assets.

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

b) Net Profit to Total Deposit Ratio

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

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

C) Net Profit to Net worth Ratio

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

$$\text{Net Profit to Net worth Ratio} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

d)Total Interest Earned to Total Working Fund Ratio

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

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

e) Total Interest Paid to Total Working Fund Ratio

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

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

3.5.1.3 Leverage Ratios

This ratio is also called solvency ratio or capital structure ratio. A firm should have strong short-term as well as long-term financial position. To judge the long term financial position of the firm, these ratios help to measure the financial contribution of owners and creditors comparatively. These ratios indicate the situation of the capital structure, which is calculated to measure the company's ability of using debt for benefit of shareholders. Long-term creditors like debenture holders. Financial institutions etc. are more interested to the firm's long-term financial wealth, debt servicing capacity ad strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary debt ratio tell us the relative proportions of capital contribution by creditors and owners.

a) Debt-Assets Ratio

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

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

b) Debt Equity Ratio

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

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

3.5.1.4 Capital Adequacy Ratio

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

a) Shareholders Fund to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund. Generally this ratio measures the fund claims of owners of the bank over its assets. A high ratio indicates that out of total assets shareholders have more controlled owner command and vice-versa. This ratio is calculated by dividing shareholders fund by total assets which is presented as follows:

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

b) Shareholders Fund to Total Deposit Ratio

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

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

3.5.1.5 Market Value Ratio (Growth Ratio)

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

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

Where,

FV = Future Value

PV = Present Value

r = Rate of interest

n = No. of year

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

a) Net Profit

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

NP = OI – (TE+IP+T)

Where,

NP = Net profit after tax and interest

OI = Operating Income

TE = Total Expenditure

IP = Interest Paid

T = Taxes

b)Earning Per Share

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

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

Where,

EPS = Earning per share

NPAIT = Net profit after interest and tax

PD = Preference Dividend

n = Number of equity shares

c) Dividend Per Share

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

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

Where,

DPS = Dividend per share

TDD = Total distributed dividend

n = No. of common share outstanding

3.5.2 Statically Tools

Various statistical tools related to this study will be drawn out to make the conclusion more reliable according to the available financial data. For this following statistical tools are used.

a) Arithmetic Mean

The average value is a single value within the range of the data that is used to represent all of the values in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. Since average represents the entire data, its value lies somewhere in between the two average. Among them I use the arithmetic mean, which is more popular to denote particular type of average. It is obtained by dividing sum of obtain observations by the number of items which is presents as follows:

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

Where,

X = Arithmetic average

$\sum x$ = Summation for total values of the variable / observation

n = Number of items

b)Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is also known as root mean square deviation for the reason that the square root of the mean of the standard deviation from the arithmetic mean. It is also denoted by the small Greek Letter ∂ (Sigma).The standard deviation measures the absolute dispersion/ or variability of a distribution. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just the opposite. Hence, standard deviation is extremely useful in judging the representative of the mean.

Symbolically,

$$\sigma = \sqrt{\frac{\sum d^2}{n}}$$

Where,

∂ = Standard deviation

$\sum$d2 = Sum of squares of the deviation measured from the arithmetic average

n = Number of items

c) Coefficient of Variation (C.V.)

The co-efficient of variation is the corresponding relative measure of dispersion, comparable across distribution, which is defines as the ratio of the standard deviation to the mean expressed in resulting percentage. It is used in such problems where we want to compare the variability of two or more than two series. The series for which the co-efficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable, or less homogeneous. On the other hand, the series for which co-efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous.

We can denote this by following formula,

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

Where,

CV = Coefficient of Variation

∂ = Standard deviation

x = Mean /Average

3.5.2.1 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 co-efficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and -1. When r = +1.it means there is perfect relationship between two variables and vice-versa. When r = 0, it means there is no relationship between two variables. The Pearson's formula is:

$$r = \frac{n\sum dxdy - \sum dx \times \sum dy}{n\sum dx^2}$$

Where,

r = Coefficient of correlation

x = Independent variable

y = Dependent variable

N = No. of periods

3.5.2.2 Probable Error of the Co-efficient of Correlation

After the calculation of co-efficient of correlation the next thing is to find out the extent to which it is dependable. For this purpose the probable error of the coefficient of correlation is calculated. It the probable error is added to and subtracted from the co-efficient of correlation it would be give two such limits with in which we can reasonably except the value of co-efficient of correlation to vary. The formula for finding out the probable of error of the Karl Pearson's co-efficient of correlation is :

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

Where,

P. E. r = Probable error of co-efficient of correlation

R = Co-efficient of correlation

N = Number of pairs of observations

In order to conclude whether the co-efficient of correlation is significant or not. The following points should be kept in mind

- If the co-efficient of correlations is less than it probable error, it is not at all significant.
- It the co-efficient of correlations is more than six times of probable error, it is definitely significant.
- It the probable error is not much and it the co-efficient of correlation is 0.5 or more it is generally to be significant.

3.5.2.3 Coefficient of Determination

The Co-efficient of determination is the measure of the degree of linear association or correlation between two variables, one of which happens to be independent and other being dependent variable. In other words, co-efficient of determination measures the percentage of total variation in dependent variable explained by independent variable. The co-efficient of determination can have value ranging from zero to one. A value of one can occur only if the unexplained variation is zero which simply means that all the data points in the scatter diagram fall exactly on the regression line. Co-efficient of determination is the square of the Co-efficient of correlation.

Symbolically,

$R^2 = (r)^2$

Where,

R^2 = Co-efficient of Determination

R = Co-efficient of correlation

3.5.2.4 Trend Analysis

Trend analysis describes the average relationship between series where the one series related to time and other series to the value of the variable. It is generally shows that the line of the best-fit or straight line is obtained or not. The line of the best fit describes the changes in a given accompanying a unit change in time. Another word, it gives the best possible mean values of dependent variable for a given value of independent variable.

For calculation of the "line of the best fit" following equation should be kept in mind.

$Yc = a + bx$

Where,

Yc = The Estimated value of Y for given value of x obtained from the line of Regression of Y on X

a = "Y = Intercept" / mean of Y value

b = "slope of line / rate of change

x = The variable in time series analysis represent time.

The term best fit is interpreted in accordance with the principle of least squares which consists in minimizing the sum of squares of the residual or the errors of estimates i.e. the deviation between the given observed value of the variable and their corresponding estimated values as given by the line of best fit.

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

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

3.5.2.5 Regression Analysis

Sometimes, the correlation between two variables may be insufficient to determine reliable estimation equation. Yet, if we add the data from more independent variables we may be able to determine an estimating equation that describes the relationship with greater accuracy. In regression analysis, we use independent variables utilizing more of the information available to us to estimate the dependent variable.

3.5.2.6 Testing of Hypothesis

The method of statistics, which help in arriving at the criterion for such decision, is called test of hypothesis or statistical decision-making. A hypothesis is analysis assumption that make about the population parameter. Alternatively, a hypothesis is a conjectural statement of the relationship between two or more variables. Hypothesis statement should be able to show the relationship between variables.

The test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of the sample drawn from the population. The computed value of the statistics may differ from the hypothetical value of parameter due to sampling fluctuation. If the difference is small, it has arisen due to sampling fluctuations. Hence the difference is considered to be insignificant and the hypothesis is accepted. If the difference is large, it has not arisen due to sampling fluctuations but it is due to some other reasons. Hence the difference is considered to be significant but it is due to some other reasons. Hence the difference is considered to be significant and the hypothesis is rejected. Thus the test of hypothesis discloses whether the difference between the computed statistic and hypothetical parameter is significant or not.

There are different types of hypothesis, among them t-test is to test the validity of our assumption, if sample size is less than 30, t-test is used. For applying t-test in the context of small sample, the 't' value is calculated first and compared with the table value of 't' at a certain level of significance for value of 't' exceeds the table value (say 0.05) we infer that the difference is significant at 5% level. But if't' is less than the concerning table value of the't' the difference is not treated as significant.

H0: There is no significant difference between two samples means $\bar{x}1$ and $\bar{x}2$.

H1: There is significant difference between two samples means $\bar{x}1$ and $\bar{x}2$.

CHAPTER – IV
DATA PRESENTATION AND ANALYSIS

In this chapter data of sample banks are presented and analyzed according to the objectives set in the introduction chapter. To make a data more realistic and complete qualitative and quantitative analysis is done through different financial ratio and statistical analysis. However there are many ratios but due to some sort coming and constraints, only selected ratios have been taken for analyzing the strength and weakness of the sample banks.

This chapter also helps for presenting a major finding, proper recommendation for researcher, which needs to define in next chapter. In this way analysis effort is made to make proper linkage of every chapter.

In order to find out the strengths and weakness and financial performance of the sampled banks various ratios and variable have been calculated that are as follows:

4.1 Ratio Analysis

Ratio Analysis is the expression of the relationship between the mutually independent figures. It shows the quantitative relation between two variables. Simply it is calculated as dividing one variable by another variable.

There are various types of financial ratio which are used by different field for different purpose. Such as creditors, investor, financial institutions and management of the firm. In this analysis following ratio are analyze and interpret for the past eight year for the sample banks.

4.1.1 Liquidity Ratio

A bank should maintain its satisfactory liquidity position to satisfy the short-term credit needs of the community, to meet demands for deposits, withdraws, pay maturity obligation in time and convert non-cash assets into cash to satisfy immediate needs without loss to bank and consequent impact in long run profit. Liquidity ratio measures the short-run solvency of the firm.

4.1.1.1 Current Ratio

Current ratio indicates the ability of the company to meet its current obligation. This is the broad measurement of liquidity position of the Banks. In other words, it measures the availability for current assets for meeting current liabilities. This ratio is also known as working capital ratio. Following table shows the comparative current ratio for eight years.

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

Table 4.1

Current Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Current Assets	Current Liabilities	Ratio (times)	Current Assets	Current Liabilities	Ratio (times)
2004/05	9444.95	7195.96	1.3125	12019.3	11,531.62	1.0423
2005/06	11599.13	10454.14	1.1095	15383.82	13951.73	1.1026
2006/07	16278.17	14,304.40	1.1380	20324.58	17396.03	1.1683
2007/08	21729.28	18481.93	1.1757	31028.08	27191.83	1.1411
2008/09	30541.2	27051.25	1.1290	44549.82	36380.78	1.2245
2009/10	35,911.35	27478.76	1.3069	47533.63	34807.54	1.3656
2010/11	38032.01	27278.73	1.3942	49825.26	33488	1.4879
2011/12	47401.56	38628.33	1.2271	54261.29	38031.23	1.4268
Mean			1.2241			1.2449
S.D.			0.0784			0.1521
C.V. (%)			6.4054			12.2100

Source: Appendix- 5

Table 4.1 indicates the current ratios of the sample banks. The ratio of EBL is in fluctuating order that is from 1.10 to 1.39 in fiscal year 2004/05 to 2011/12 throughout the study period. Similarly, current ratio of NIBL is in fluctuating order. The highest ratio is in the year 2010/11 which is 1.48 and lowest is 1.04 in the year 2004/05. Since the mean ratio of NIBL is above 1:1 which indicates the successful management of current assets over current liabilities whereas EBL has also above 1:1 mean ratio which means it has also maintained the current obligation. As concern with

liquidity and consistency EBL seems to be in better position than NIBL which is by the lower CV (6.4054).

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

The main purpose of this ratio is to examine the bank's liquidity capacity on the basis of cash and bank balance. The following table shows the cash and bank balance to total deposit ratio of selected sample banks.

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

Table 4.2

Cash and Bank Balance to Total Deposit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Cash and Bank Balance	Total Deposit	Ratio (times)	Cash and Bank Balance	Total Deposit	Ratio (times)
2004/05	857.40	10097.69	0.0849	1340.49	14,254.60	0.0940
2005/06	1,293.51	13802.45	0.0937	2336.52	18927.31	0.1234
2006/07	2,391.43	18186.91	0.1315	2441.51	24488.86	0.0997
2007/08	2,667.97	23976.3	0.1113	3754.93	34451.73	0.1090
2008/09	6,164.36	33322.95	0.1850	7917.99	46698.1	0.1696
2009/10	7,818.81	36932.31	0.2117	6815.88	50094.72	0.1361
2010/11	6,122.85	41127.92	0.1489	8140.36	50137.94	0.1624
2011/12	10,363.30	50006.1	0.2072	11803.75	57010.24	0.2070
Mean			0.1468			0.1376
S.D.			0.0480			0.03670
C.V. (%)			32.69			26.71

Source: Appendix 5

Table 4.2 shows the fluctuation on cash and bank balance to total deposit ratio of the sample banks. During the study of Eight years period, the ratio of EBL is ranged between 0.08 in 2004/05 to 0.21 in 2011/12, NIBL is ranged between 0.094 in 2004/05 and 0.207 in 2011/12. It shows that EBL has maintained the highest mean ratio which is 0.1468 than NIBL. This shows that EBL has successfully maintained

the higher cash and bank balance to total deposit ratio. It also means that EBL is successful in meeting the daily cash requirement.

Even though NIBL fail to maintain a higher cash balance which is shown by low mean ratio 0.1376. But it has also failure to maintain a consistency level in utilizing the cash balance than EBL. This consistency is measured by lowest C.V. (26.71) which is higher than that of EBL. NIBL mean is 0.1376 and CV is 26.71% which indicate the lower balance and higher consistency. Holding low cash and bank balance can have a positive impact on the goodwill and reputation of the bank to fulfill the demand of the profit holder and higher cash balance can have a positive impact on the customer. Therefore banks should maintain the enough liquidity.

4.1.1.3 Cash and Bank Balance to Current Assets Ratio

This ratio measures at what level of cash and bank balance they have out of total current assets. The cash and bank balance are the most liquid assets in terms of other current assets. It also shows that the bank ability to pay to the depositors.

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

Table 4.3

Cash and Bank Balance to Current Assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Cash and Bank Balance	Current Assets	Ratio (times)	Cash and Bank Balance	Current Assets	Ratio (times)
2004/05	857.40	9444.95	0.0908	1340.49	12019.3	0.1115
2005/06	1,293.51	11599.13	0.1115	2336.52	15383.82	0.1519
2006/07	2,391.43	16278.17	0.1469	2441.51	20324.58	0.1201
2007/08	2,667.97	21729.28	0.1228	3754.93	31028.08	0.1210
2008/09	6,164.36	30541.2	0.2018	7917.99	44549.82	0.1777
2009/10	7,818.81	35,911.35	0.2177	6815.88	47533.63	0.1434
2010/11	6,122.85	38032.01	0.1610	8140.36	49825.26	0.1634
2011/12	10,363.30	47401.56	0.2186	11803.75	54261.29	0.2175
Mean			0.1589			0.1508
S.D.			0.0464			0.0331
C.V. (%)			29.18			22.071

Source: Appendix 5

The above table 4.3 shows that the ratio of EBL is ranged between the 0.0908 in 2004/05 and 0.2186 in 2011/12 with mean ratio of 0.1589; NIBL is ranged between the 0.1115 in 2004/05 and 0.2175 in 2011/12 with mean ratio of 0.1508.

Since, the mean ratio of EBL is higher than that of NIBL.It supports the conclusion that EBL has been successful in maintaining its higher cash and bank balance to current assets ratio, but it doesn't mean that it has mobilized its more fund in profitable sectors. It actually means that EBL can meet its daily cash requirement. In contrast NIBL has lower mean ratio because it may have invested their fund in more productive sectors. Moreover, EBL is unsuccessful to maintain a stability of cash and bank balance in comparison to NIBL which is indicate by higher C.V. (29.18%).

4.1.1.4 Loan and Advances to Current Assets Ratio

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

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

Table 4.4

Loan and Advances to Current Assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Loan and Advances	Current Assets	Ratio (times)	Loan and Advances	Current Assets	Ratio (times)
2004/25	7618.67	9444.95	0.8066	10126.06	12019.3	0.8425
2005/06	9801.31	11599.13	0.8450	12776.21	15383.82	0.8305
2006/07	13664.08	16278.17	0.8394	17286.43	20324.58	0.8505
2007/08	18339.09	21729.28	0.8440	26996.3	31028.08	0.8701
2008/09	23884.67	30541.2	0.7820	36241.21	44549.82	0.8135
2009/10	27556.36	35911.35	0.7673	40318.31	47533.63	0.8482
2010/11	31057.69	38032.01	0.8166	41095.51	49825.26	0.8248
2011/12	35910.97	47401.56	0.7576	41636.99	54261.29	0.7673
Mean			0.8073			0.8309
S.D.			0.0328			0.029
C.V. (%)			4.06			3.49

Source: Appendix 5

Table 4.4 shows that the ratio of EBL is ranged between the 0.8066 in 2004/05 and 0.7576 in 2011/12 with mean ratio of 0.8073. NIBL is ranged between 0.8425 in 2004/05 and 0.7673 in 2011/12 with mean ratio 0.8309.

As the mean ratio of NIBL is higher than that of EBL which is 0.8309 which indicates that NIBL has invested more in loan and advances than that of EBL However, as the C. V. of EBL is higher than that of NIBL which is 4.06% indicates that the bank is unsuccessful in maintaining a stability of loan and advance in comparison to the NIBL.

4.1.1.5 Fixed Deposit to Total Deposit Ratio

This ratio measures the proportion of fixed deposit out of total deposit a bank has collected. This analysis is useful to bank for long-term investment strategy. If a bank is able to know this ratio it may invest the fixed deposit amount proportion in long-term investment sector for higher return.

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

Table 4.5

Fixed Deposit to Total Deposit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Fixed Deposit	Total Deposit	Ratio (times)	Fixed Deposit	Total Deposit	Ratio (times)
2004/05	3403.96	10097.69	0.3371	3212.29	14254.6	0.2254
2005/06	4242.35	13802.45	0.3074	5412.97	18927.31	0.2860
2006/07	5626.66	18186.91	0.3094	7516.69	24488.86	0.3069
2007/08	6446.18	23976.3	0.2689	7944.23	34451.73	0.2306
2008/09	7049.98	33322.95	0.2116	11633.38	46698.1	0.2491
2009/10	10440.28	36932.31	0.2827	16825.15	50094.72	0.3359
2010/11	15061.94	41127.92	0.3662	18378.12	50137.94	0.3666
2011/12	13007.48	50006.1	0.2601	20057.12	57010.24	0.3518
Mean			0.2929			0.2940
S.D.			0.045			0.0516
C.V. (%)			15.35			17.566

Source: Appendix 5

Table 4.5 shows that the ratio of EBL is ranged between the 0.3371 in 2004/05 and 0.2601 in 2011/12 with mean ratio of 0.2929. NIBL is ranged between the 0.2111 in 2005/06 and 0.3069 in 2009/10 with mean ratio of 0.2456.

Since the mean ratio of NIBL is higher than that of EBL which is 0.2456, means that the bank is successfully able to collect larger amount of fixed deposit out of total deposit than that of EBL. This could be advantage to the banks if it could utilize the fixed deposit in productive sector. This could bring an opportunity to invest in higher return sector. The NIBL bank has unsuccessful to maintain a stability of fixed deposit in comparison to the EBL which is indicated by higher C. V. (17.57%).

4.1.2 Leverage Ratios or Capital Structure Ratio

Leverage ratio is also one of the major ratios to know about the financial performance of any institution. This ratio reveals the proportion of funds used by the institution either from the creditor's side or from owner side. In order to maintain healthy financial position any institutions need to maintain proper proportion of debt and equity capital. A capital structure of an institution is very important in terms of sustainability, liquidity and profitability.

4.1.2.1 Debt-equity Ratio

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

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

Table 4.6

Debt-equity Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Total Debt	Total Equity	Ratio (times)	Total Debt	Total Equity	Ratio (times)
2004/05	3,703.96	832.62	4.4486	3562.29	1180.17	3.01845
2005/06	4,542.35	962.81	4.7178	5962.97	1415.44	4.21280
2006/07	5,926.66	1201.52	4.9326	8316.69	1878.12	4.42820
2007/08	6,746.18	1921.24	3.5114	8994.23	2686.79	3.34757
2008/09	7,661.98	2203.63	3.4770	12722.18	3907.84	3.25555
2009/10	11,144.88	2759.14	4.0393	17912.47	4585.40	3.90641
2010/11	15,843.94	3113.55	5.0887	19708.89	5159.76	3.81973
2011/12	13,007.48	4177.31	3.1138	21674.70	6049.93	3.58264
Mean			4.1661			3.6964
S.D.			0.6037			0.454
C.V. (%)			16.65			12.2800

Source: Appendix 5

Table 4.6 shows that ratio of EBL is fluctuating throughout the study period. The ratio is ranged between 3.1138 in 2011/12 and 5.0088 in 2010/11 with mean ratio of 4.1661. In the same way the ratio of NIBL is ranged between 3.01845(2004/05) to 4.4282(2006/07) with mean ratio of 3.6964. The mean ratio of NIBL is lower than that of EBL. It declared that NIBL has lower debt cost and higher investment from equity fund. The ratios of both banks are in fluctuation mode. The higher debt investment brings a higher cost to the banks and high financial gearing due to high amount of debt.

The C.V. of EBL and NIBL are 16.65 and 12.28 respectively. Therefore NIBL has lower C.V. which indicates that NIBL has consistency in debt equity ratio.

4.1.2.2 Debt-assets Ratio

It measures proportion of the creditor's funds used by the institution to acquire the assets. The increased proportion of debt indicated the high level of risk or burden to the institution. The debt is considering more risky and cheaper source of financing. The debt financing has a risk that needs regular payment of interest in any condition

whether it is in profitable and short of cash. It will increase financial risk to the business. The debt assets ratios of the sample banks are as below;

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

Table 4.7

Debt-assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd..			Nepal Investment Bank Ld.		
	Total Debt	Total Assets	Ratio (times)	Total Debt	Total Assets	Ratio (times)
2004/05	3,703.96	11732.54	0.3157	3562.29	16274.08	0.2189
2005/06	4,542.35	15959.30	0.2846	5962.97	21330.14	0.2796
2006/07	5,926.66	21432.58	0.2765	8316.69	27590.84	0.3014
2007/08	6,746.18	27149.35	0.2485	8994.23	38872.85	0.2314
2008/09	7,661.98	36916.86	0.2075	12722.18	53010.80	0.2400
2009/10	11,144.88	41382.78	0.2693	17912.47	57305.41	0.3126
2010/11	15,843.94	46236.22	0.3427	19708.89	58356.65	0.3377
2011/12	13,007.48	55813.12	0.2331	21674.70	65756.86	0.3296
Mean			0.2722			0.2814
S.D.			0.0408			0.076
C.V. (%)			14.99			34.73

Source: Appendix 5

Table 4.7 shows that debts financing of both sample banks are high. The ratios are not very fluctuation. The highest ratio of EBL is 0.3427 in 2010/11 with mean ratio of 0.2722 which is lower mean ratio than NIBL. The ratio of NIBL is ranged between 0.2189 to 0.3377 in 2004/05 to 2011/12 respectively. NIBL has a higher mean ratio than that of EBL. The C.V. of EBL and NIBL are 14.99% and 34.73% respectively. Above statement conclude that the debt financing of EBL is higher than that of NIBL. EBL uses high proportion of debt and they are successful in maintaining a consistency. EBL has more consistency than NIBL due to lower C.V.

4.1.2.3 Coverage Ratio

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

$$\text{Coverage Ratio} = \frac{\text{Provision for Possible Loan Losses}}{\text{Loans and Advances}}$$

Table 4.8

Coverage Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Provision for possible losses	Loans and Advances	Ratio (times)	Provision for possible losses	Loans and Advances	Ratio (times)
2004/05	88.93	7618.67	0.0117	140.41	10126.06	0.0139
2005/06	70.46	9801.31	0.0072	103.81	12776.21	0.0081
2006/07	89.69	13664.08	0.0066	129.72	17286.43	0.0075
2007/08	99.34	18339.09	0.0054	135.99	26,996.30	0.0050
2008/09	93.08	23884.67	0.0039	166.20	36241.21	0.0046
2009/10	77.03	27556.36	0.0028	93.06	40318.31	0.0023
2010/11	98.29	31057.69	0.0032	267.33	41095.51	0.0065
2011/12	252.05	35910.97	0.0070	743.72	41636.99	0.0179
Mean			0.0060			0.0082
S.D.			0.0027			0.0048
C.V. (%)			44.93			58.9

Source: Appendix 5

From the above comparative table 4.8 the ratios of both banks are highly fluctuating. The mean ratio of NIBL is higher than EBL which is not good for the bank. The higher ratio indicates the larger amount of losses for the banks out of loans and advances invested. EBL has more consistency due to its lower C.V. of 44.93% than EBL.

4.1.3 Activity Ratios or Assets and Investment Management Ratio

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

4.1.3.1 Loan and Advances to Total Deposit Ratio

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

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

Table 4.9

Loan and Advances to Total Deposit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Loan and Advances	Total Deposit	Ratio (times)	Loan and Advances	Total Deposit	Ratio (times)
2004/05	7618.67	10097.69	0.7524	10126.06	14254.60	0.7104
2005/06	9801.31	13802.45	0.7672	12776.21	18927.31	0.6750
2006/07	13664.08	18186.91	0.7905	17286.43	24488.86	0.7059
2007/08	18339.09	23976.30	0.6793	26,996.30	34451.73	0.7836
2008/09	23884.67	33322.95	0.6590	36241.21	46698.10	0.7761
2009/10	27556.36	36932.31	0.6835	40318.31	50094.72	0.8048
2010/11	31057.69	41127.92	0.7557	41095.51	50137.94	0.8196
2011/12	35910.97	50006.10	0.8625	41636.99	57010.24	0.7303
Mean			0.7438			0.7507
S.D.			0.0633			0.049
C.V. (%)			8.51			6.52

Source: Appendix 5

From above comparative table 4.9, it reveals the consistency of ratio during the study period of eight years of the sample banks. In fiscal year 2008/09 and 2007/08 EBL has registered the lowest ratio (0.6590) and highest ratio (0.6793) respectively with mean ratio of 0.7438 which is the lower than that of NIBL. Similarly NIBL has registered the highest ratio (0.8196) in year 2010/11 and lowest ratio (0.6750) in year 2005/06 with mean ratio of 0.7507. NIBL has higher mean ratio of 0.7507 which shows that they are successful in mobilizing the loan and advances to profitable sector with respect to total deposit whereas EBL is less successful in comparison to other sample banks.

As concern with the consistency, EBL is failed to maintain the consistency in comparison to NIBL because it has higher C.V. (8.51%) whereas NIBL has (6.52%).It shows that NIBL is able to maintain the stability in investing through loan and advance that of EBL.

4.1.3.2 Loan and Advances to Fixed Deposit Ratio

This ratio measures the effectiveness of mobilizing loan and advance in respect with fixed deposit. Fixed deposits are high interest bearing obligation whereas as loan and advance are the major sources of investment to generate income for the commercial banks. The following table displays the ratio of loan and advances to fixed deposit ratio of the sample banks.

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

Table 4.10

Loan and Advances to Fixed Deposit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Loan and Advances	Fixed Deposit	Ratio (times)	Loan and Advances	Fixed Deposit	Ratio (times)
2004/05	7618.67	3403.96	2.2382	10126.06	3212.29	3.1523
2005/06	9801.31	4242.35	2.3103	12776.21	5412.97	2.3603
2006/07	13664.08	5626.66	2.4285	17286.43	7516.69	2.2997
2007/08	18339.09	6446.18	2.8450	26,996.30	7944.23	3.3982
2008/09	23884.67	7049.98	3.3879	36241.21	11633.38	3.1153
2009/10	27556.36	10440.28	2.6394	40318.31	16825.15	2.3963
2010/11	31057.69	15061.94	2.0620	41095.51	18378.12	2.2361
2011/12	35910.97	13007.48	2.7608	41636.99	20057.12	2.0759
Mean			2.5840			2.6293
S.D.			0.394			0.474
C.V. (%)			15.24			18.03

Source: Appendix 5

Table 4.10 shows that both banks has fluctuation ratio throughout the study period. EBL has increasing order of ratio from fiscal year 2004/05 to 2011/12 ..The highest recorded ratio of EBL is 2.7608 in year 2011/12 and the lowest recorded ratio is

2.0620 in year 2010/11 with mean ratio of (2.5840).NIBL has also fluctuating ratio ranged between (3.3982) and (2.0759) in year 2007/08 and 2011/12 respectively with mean ratio of (2.6293).

Thus above table clearly indicate that loans and advances are being effectively and properly utilized by NIBL than EBL with respect of fixed deposit which shows the higher mean ratio. In terms of consistency, NIBL is unsuccessful in maintaining the stability in investing in loan and advances with respect to fixed deposit, which is indicate by higher C.V. 18.03%.

4.1.3.3 Loan and Advances to Total Assets Ratio

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

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

Table 4.11

Loan and Advances to Total Assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Loan and Advances	Total Assets	Ratio (times)	Loan and Advances	Total Assets	Ratio (times)
2004/05	7618.67	11732.54	0.6493	10126.06	16274.08	0.6222
2005/06	9801.31	15959.30	0.6141	12776.21	21330.14	0.5989
2006/07	13664.08	21432.58	0.6375	17286.43	27590.84	0.6265
2007/08	18339.09	27149.35	0.6754	26,996.30	38872.85	0.6944
2008/09	23884.67	36916.86	0.6469	36241.21	53010.80	0.6836
2009/10	27556.36	41382.78	0.6658	40318.31	57305.41	0.7035
2010/11	31057.69	46236.22	0.6717	41095.51	58356.65	0.7042
2011/12	35910.97	55813.12	0.6434	41636.99	65756.86	0.6331
Mean			0.6506			0.6584
S.D.			0.0067			0.0140
C.V. (%)			1.028			2.128

Source: Appendix 5

Table 4.11 presented above shows that the ratio of EBL is ranged between (0.6493) in year 2004/05 to (0.6434) in year 2011/12, NIBL ratio is ranged between (0.6222) in year 2004/05 to 0.6331 in year 2011/12. The ratios are in fluctuating trend. As the mean ratio of NIBL is higher (0.6584) which indicates that it has invested larger amount in loan and advance than that of EBL. In terms of consistency, EBL has maintain a successful consistency level that that of NIBL which indicated by lower C.V. 1.028%.

4.1.3.4 Long-term Investment to Total Deposit Ratio

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

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

Table 4.12

Long-term Investment to Total Deposit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Long-term Investment	Total Deposit	Ratio (times)	Long-term Investment	Total Deposit	Ratio (times)
2004/05	2128.93	10097.69	0.2108	3934.19	14254.60	0.2760
2005/06	4200.52	13802.45	0.3043	5602.87	18927.31	0.2960
2006/07	4984.32	18186.91	0.2741	6505.68	24488.86	0.2657
2007/08	5059.56	23976.30	0.2110	6874.02	34451.73	0.1995
2008/09	5948.48	33322.95	0.1785	7399.81	46698.10	0.1585
2009/10	5008.34	36932.31	0.1356	8635.53	50094.72	0.1724
2010/11	7743.95	41127.92	0.1883	7423.11	50137.94	0.1481
2011/12	7863.63	50006.10	0.1573	10438.49	57010.24	0.1831
Mean			0.2075			0.2124
S.D.			0.0533			0.05425
C.V. (%)			25.68			25.54

Source: Appendix 5

Table 4.12 reflects that the ratio of EBL is ranged between (0.2108) to (0.1573) in year 2004/05 to 2011/12 with mean ratio of (0.2075), NIBL ratio is ranged between (0.2760) to (0.1831) in year 2004/05 to 2011/12 with mean ratio of 0.2124. The NIBL has a higher mean ratio than EBL which indicates it has successfully invested in long-term investment out of total deposit. A large proportion of investment in long-term investment may bring a higher return to the institution. Moreover NIBL has successfully maintained to its consistency in comparison to EBL which is lower that is 25.54%.

4.1.3.5 Performing Assets to Total Assets Ratio

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

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

Table 4.13

Performing Assets to Total Assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Performing Assets	Total Assets	Ratio (times)	Performing Assets	Total Assets	Ratio (times)
2004/05	2128.93	11732.54	0.1815	3934.19	16274.08	0.2417
2005/06	4200.52	15959.30	0.2632	5602.87	21330.14	0.2627
2006/07	4984.32	21432.58	0.2326	6505.68	27590.84	0.2358
2007/08	5059.56	27149.35	0.1864	6874.02	38872.85	0.1768
2008/09	5948.48	36916.86	0.1611	7399.81	53010.80	0.1396
2009/10	5008.34	41382.78	0.1210	8635.53	57305.41	0.1507
2010/11	7743.95	46236.22	0.1675	7423.11	58356.65	0.1272
1011/12	7863.63	55813.12	0.1409	10438.49	65756.86	0.1587
Mean			0.1818			0.1867
S.D.			0.043			0.049
C.V. (%)			24			26.2

Source: Appendix 5

From the above table 4.13, the ratio of EBL is ranged between 0.1210 to 0.2632 in year 2004/05 to 2011/12, NIBL is ranged between 0.1272 to 0.2627 in the year

2004/05 to 2011/102 with mean ratio of 0.1867. NIBL has a higher mean ratio of 0.1867 which indicates higher investment in performing assets than EBL. Short-term investment are very important for any institution for its working capital and other short-term needs. The C.V. of EBL is lower than that of NIBL which shows the more consistency.

4.1.3.6 Performing Assets to Total Debt Ratio:

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

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

Table 4.14

Performing Assets to Total Debt Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Performing Assets	Total Debt	Ratio (times)	Performing Assets	Total Debt	Ratio (times)
2004/05	2128.93	3,703.96	0.5748	3934.19	3562.29	1.1044
2005/06	4200.52	4,542.35	0.9247	5602.87	5962.97	0.93961
2006/07	4984.32	5,926.66	0.8410	6505.68	8316.69	0.78224
2007/08	5059.56	6,746.18	0.7500	6874.02	8994.23	0.76427
2008/09	5948.48	7,661.98	0.7764	7399.81	12722.18	0.58165
2009/10	5008.34	11,144.88	0.4494	8635.53	17912.47	0.4821
2010/11	7743.95	15,843.94	0.4888	7423.11	19708.89	0.37664
2011/12	7863.63	13,007.48	0.6045	10438.49	21674.70	0.4816
Mean			0.6762			0.6891
S.D.			0.1606			0.02358
C.V. (%)			23.75			34.21

Source: Appendix 5

Table 4.14 reveals that the ratio of EBL is in fluctuating trend. The ratio of EBL is ranged between 0.4494 in year 2009/10 to 0.9247 in year 2005/06. Similarly the ratio of NIBL is ranged between 0.3766 in year 2010/11 to 1.1044 in year 2004/05 with higher mean ratio of 0.6891 than that of EBL. The higher mean ratio indicates that the

NIBL has used higher outsider's investment than EBL. In terms of C.V. NIBL has unsuccessfully maintained its consistency due to its higher C.V. which is 34.21%

4.1.4 Profitability Ratio

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

4.1.4.1 Personnel Expenses to Total Income Ratio:

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

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

Table 4.15

Personnel Expenses to Total Income Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Personnel Expenses	Total Income	Ratio (times)	Personnel Expenses	Total Income	Ratio (times)
2004/05	60.59	864.2	0.0701	97	1114.63	0.0870
2005/06	70.93	1066.51	0.0665	111.05	1450.72	0.0765
2006/07	86.12	1371.52	0.0628	145.37	1933	0.0752
2007/08	157.96	1867.22	0.0846	187.15	2648.84	0.0707
2008/09	186.92	2570.89	0.0727	225.72	3806.58	0.0593
2009/10	226.35	3596.65	0.0629	279.85	5299.39	0.0528
2010/11	293.13	4786.58	0.0612	326.54	6462.32	0.0505
2011/12	352.05	5658.55	0.0622	340.11	6738.42	0.0505
Mean			0.0678876			0.0653174
S.D.			0.0074			0.013
C.V. (%)			10.88			19.93

Source: Appendix 5

Table 4.15, the ratio of EBL is ranged between 0.0612 in year 2010/11 to 0.0846 in year 2007/08 with mean ratio of 0.0678, NIBL ratio is range between 0.0505 in year 2011/12 to 0.0765 in year 2005/06 with mean ratio of 0.0653. The ratio of EBL are in increasing trend which shows either bank has increase employees pay scale or it has open different branches which has increased its ratio. Employee point of view they desire high ratio, however high ratio is unfavorable to the bank though it functions as catalyst for employees working spirit. The mean ratio of EBL is higher than that of NIBL which indicates the bank has well paid to its employee. Moreover in terms of consistency also EBL has maintained its consistency level which reveals by the lower C.V. of 10.88%.

4.1.4.2 Office Expenses to Operating Profit Ratio

This ratio depicts ratio of office operating expenses regarding total operating income that affects the further cost decisions of the firm.

$$\text{Office Expenses to Operating Profit Ratio} = \frac{\text{Office Expenses}}{\text{Operating Profit}}$$

Table 4.16

Office Expenses to Operating Profit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Office Expenses	Operating Profit	Ratio (times)	Office Expenses	Operating Profit	Ratio (times)
2004/05	129.07	374.97	0.344214	182.92	480.16	0.380956
2005/06	143.56	450.63	0.318576	200.22	648.5	0.308743
2006/07	177.55	590.68	0.300586	243.43	858.67	0.283497
2007/08	233.77	842.88	0.277347	313.15	1156.42	0.270793
2008/09	292.01	1079.09	0.270608	413.88	1480.01	0.279647
2009/10	352.51	1445	0.243952	433.59	2032.1	0.21337
200/11	383.11	1574.47	0.243326	456.06	2059.38	0.221455
2011/12	467.29	1965.88	0.2377	468.86	2115.04	0.221679
Mean			0.2795			0.2725
S.D.			0.0363			0.05236
C.V. (%)			13			19.22

Source: Appendix 5

From the above comparative table 4.16, the ratio of EBL is in fluctuating trend which is 0.2377 in year 2011/12 to 0.3442 in year 2004/05 with mean ratio of 0.2795, NIBL ratio is ranged between 0.2133 in year 2009/10 to 0.3809 in year 2004/05 with mean ratio of 0.2725. EBL has the higher mean ratio than that of NIBL that is 0.2795 which is not favorable for the bank. As high ratio is the indicator of higher level of operating expenses. So low ratio is favorable to bank as it reflects the operational efficiency. Moreover, EBL is also successful to maintained its consistency level due to its lower C.V. that is 13%.

4.1.4.3 Net Profit to Total Deposit Ratio

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

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

Table 4.17

Net Profit to Total Deposit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Net Profit	Total Deposit	Ratio (%)	Net Profit	Total Deposit	Ratio (%)
2004/05	168.21	10097.69	0.0166583	232.13	11274.44	0.02058905
2005/06	237.3	13802.45	0.0171926	350.21	13864.55	0.02525938
2006/07	296.43	18186.91	0.0162991	501.41	17473.58	0.02869532
2007/08	451.21	23976.30	0.018819	696.79	27204.29	0.02561324
2008/09	638.73	33322.95	0.0191679	900.62	35965.34	0.02504133
2009/10	831.77	36932.31	0.0225215	1265.97	34535.54	0.03665702
2010/11	931.32	41127.92	0.0226445	1176.64	32936.46	0.03572454
2011/12	1090.56	50006.10	0.0218085	1039.34	37992.46	0.02735648
Mean			0.0194			0.0281
S.D.			0.0025			0.0052
C.V. (%)			12.69			18.33

Source: Appendix 5

Table 4.17 reveals the net profit to total deposit ratio are in fluctuating situation of both banks. The ratio of EBL has ranged between 0.0166 in year 2004/05 to 0.02264

in year 2010/11 with mean ratio of 10.0194, NIBL ratio has ranged between 0.02058 in year 2004/05 to 0.03665 in year 2009/10 with mean ratio of 0.0281. NIBL has the higher mean ratio with 0.0281. The above statement indicates that NIBL has better performance in utilizing deposit to earn a higher profit than EBL as it has higher mean ratio of 10.0281. As far as consistency level, EBL has successful in maintaining consistency in mobilizing total deposit to earn the profit with lower C.V. of 12.69%.

4.1.4.4 Net Profit to Total Assets Ratio

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

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

Table 4.18

Net Profit to Total Assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Net Profit	Total Assets	Ratio (%)	Net Profit	Total Assets	Ratio (%)
2004/05	168.21	11732.54	0.014337	232.13	16274.08	0.014264
2005/06	237.3	15959.30	0.0148691	350.21	21330.14	0.016419
2006/07	296.43	21432.58	0.0138308	501.41	27590.84	0.018173
2007/08	451.21	27149.35	0.0166196	696.79	38872.85	0.017925
2008/09	638.73	36916.86	0.0173019	900.62	53010.80	0.016989
2009/10	831.77	41382.78	0.0200994	1265.97	57305.41	0.022092
2010/11	931.32	46236.22	0.0201427	1176.64	58356.65	0.020163
2011/12	1090.56	55813.12	0.0195395	1039.34	65756.86	0.015806
Mean			0.0170925			0.017729
S.D.			0.0024			0.0023
C.V. (%)			14.3			13.12

Source: Appendix 5

From comparative table 4.18, it can be seen that the both bank have consistency ratio. The ratio of EBL is ranged between 0.0138 and 0.0201 in year 2004/05 and 2011/12 respectively with mean ratio of 0.0195, NIBL ratio has ranged between 0.0142 and 0.0220 in year 2004/05 and 2011/12 respectively with mean ratio of 0.0177. The highest recorded ratio of EBL is 0.0201 in year 2009/10 and lowest is 0.91 in year 2005/06. Similarly, the highest recorded ratio of NIBL is 1.82 in year 2010/11 and lowest is 0.0138 in year 2006/07. From the above statement it can be concluded that the both bank profit have been increasing in comparison to previous year. Moreover EBL has a highest mean ratio with 0.0177 which determined that EBL is successful in earning the net profit with efficient utilization of total assets with comparison to NIBL. But NIBL is successful to maintain the consistency profit which is shown by lower C. V (13.12%).

4.1.4.5 Return on Net Worth

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

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

Table 4.19

Return on Net Worth

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Net Profit	Net Worth	Ratio (%)	Net Profit	Net Worth	Ratio (%)
2004/05	168.21	832.62	0.202025	232.13	1180.17	0.196692
2005/06	237.3	962.81	0.246466	350.21	1415.44	0.2474213
2006/07	296.43	1201.52	0.246712	501.41	1878.12	0.2669744
2007/08	451.21	1921.24	0.234854	696.79	2686.79	0.2593392
2008/09	638.73	2203.63	0.289854	900.62	3907.84	0.2304649
2009/10	831.77	2759.14	0.30146	1265.97	4585.40	0.2760871
2010/11	931.32	3113.55	0.299118	1176.64	5159.76	0.2280416
2011/12	1090.56	4177.31	0.261068	1039.34	6049.93	0.1717937
Mean			0.260195			0.2346018
S.D.			0.03258			0.0335
C.V. (%)			12.52			14.28

Source: Appendix 5

Table 4.19 reveals that both sample banks have fluctuating ratio. The highest ratio recorded in year 2009/10 with (0.3014) and lowest is in year 2004/05 with (0.2020), NIBL has highest recorded ratio in year 2009/10 with (0.2761) and lowest in year 2011/12 with (0.1718).The mean ratio of EBL is 0.2602 and NIBL ratio is 0.2364. The EBL has the highest mean ratio than that of NIBL which defined that they got a better achieving on increasing a net profit by mobilizing on resources of shareholder's equity. On the other side, NIBL has a lower mean ratio which indicates it less successful in earning a net profit by utilizing a shareholder's equity due to its lower mean ratio.

Moreover, EBL has lower CV of 12.52% which indicates that EBL earning is also consistent than NIBL.

4.1.4.6 Total Interest Earned to Total Assets Ratio

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

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

Table 4.20

Total Interest Earned to Total Assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Interest Earned	Total Assets	Ratio (times)	Interest Earned	Total Assets	Ratio (times)
2004/05	719.29	11732.54	0.061307	886.8	16274.08	0.0544916
2005/06	903.41	15959.30	0.056607	1172.74	21330.14	0.0549804
2006/07	1144.41	21432.58	0.053396	1584.99	27590.84	0.0574462
2007/08	1548.66	27149.35	0.057042	2194.28	38872.85	0.0564476
2008/09	2186.81	36916.86	0.059236	3267.94	53010.80	0.0616467
2009/10	3102.45	41382.78	0.07497	4653.52	57305.41	0.0812056
2010/11	4331.03	46236.22	0.093672	5803.44	58356.65	0.0994478
2011/12	4959.99	55813.12	0.088868	5982.64	65756.86	0.0909812
Mean			0.0681			0.0696
S.D.			0.014			0.0169

C.V. (%)		21.58		24.4

Source: Appendix 5

Table 4.20 reveals the total interest earned to total assets ratio. The ratio of EBL is ranged between (0.0533) in year 2006/07 to (0.0936) in year 2010/11 with mean ratio of (0.0681), NIBL ratio is ranged between (0.0544) in year 2004/05 to (0.0994) in year 2010/11 with mean ratio of (0.0696).The highest recorded ratio of EBL is (0.0936) in year 2010/11 and NIBL is (0.0994) in year 2010/11.The mean ratio of NIBL is higher than that of EBL which indicates that the bank has earned more interest. Since the C.V of NIBL is significantly higher than that of EBL which shows the less consistency in earning interest by mobilizing total assets effectively.

4.1.4.7 Total Interest Paid to Total Assets Ratio

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

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

Table 4.21

Total Interest Paid to Total Assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Interest Paid	Total Assets	Ratio (times)	Interest Paid	Total Assets	Ratio (times)
2004/05	299.57	11732.54	0.025533	354.55	16274.08	0.02178618
2005/06	401.39	15959.30	0.025151	490.95	21330.14	0.02301673
2006/07	517.17	21432.58	0.02413	685.53	27590.84	0.02484629
2007/08	632.61	27149.35	0.023301	992.16	38872.85	0.02552321
2008/09	1012.87	36916.86	0.027437	1686.97	53010.80	0.03182314
2009/10	1572.79	41382.78	0.038006	2553.85	57305.41	0.0445656
2010/11	2535.87	46236.22	0.054846	3620.34	58356.65	0.06203817
2011/12	2873.33	55813.12	0.051481	3814.41	65756.86	0.05800779
Mean			0.033736			0.03645089
S.D.			0.012			0.01523
C.V. (%)			35.7			41.79

Source: Appendix 5

The table 4.21 shows the comparative analysis of total interest paid to total assets. The ratio of EBL is ranged between (0.0233) in year 2007/08 to (0.0548) in year 2010/11 with mean ratio of (0.0337) whereas NIBL ratio has ranged between (0.02178) in year 2004/05 to (0.06203) in year 2010/11 with mean ratio of (0.0364).The highest ratio of EBL is (0.0548) in year 2010/11 and NIBL has (0.06203) in year 2010/11. The table reflects that NIBL has higher mean ratio which indicates that it has paid larger interest. Even though NIBL has paid higher interest and it has also unsuccessful to maintained consistency level which indicates its higher C.V. of 41.79% than EBL.

4.1.4.8 Return on Capital Employed Ratio

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

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

Table 4.22

Return on Capital Employed Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Net Profit	Total Capital	Ratio (times)	Net Profit	Total Capital	Ratio (times)
2004/05	168.21	4536.58	0.037079	232.13	4742.46	0.0489472
2005/06	237.3	5505.16	0.043105	350.21	7378.41	0.0474642
2006/07	296.43	7128.18	0.041586	501.41	10194.81	0.0491829
2007/08	451.21	8667.42	0.052058	696.79	11681.02	0.0596515
2008/09	638.73	9865.61	0.064743	900.62	16630.02	0.0541563
2009/10	831.77	13904.02	0.059822	1265.97	22497.87	0.0562707
2010/11	931.32	18957.49	0.049127	1176.64	24868.65	0.0473142
2011/12	1090.56	17184.79	0.063461	1039.34	58627.82	0.0177278
Mean			0.051373			0.0475893
S.D.			0.0098			0.012
C.V. (%)			19.1			25.31

Source: Appendix 5

Table 4.22 reflects the ratio trends of both banks. The ratio of EBL is ranged between (0.0370) to (0.0647) in year 2004/05 to 2011/12 respectively with mean ratio of (0.0513), NIBL ratio is ranged between (0.0177) in year 2011/12 to (0.0596) in year 2007/08 with mean ratio of (0.0475).The highest recorded ratio of EBL and NIBL are (0.0647 and (0.0596) respectively. Similarly the lowest recorded ratio of EBL and NIBL are (0.0370) and (0.0177) respectively. The mean ratio of EBL is higher than that of NIBL which indicates the efficiency of the firm on the utilization of total capital. A higher ratio is an indication of the better utilization of capital employed. Hence, higher ratio is preferable for the company. In terms of consistency also NIBL has unsuccessful to maintain which indicates by its significant higher C.V. of 25.31%.

4.1.5 Capital Adequacy Ratio

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

4.1.5.1 Shareholder's Fund to Total Deposit Ratio

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

Table 4.23

Shareholder's Fund to Total Deposit Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Net Worth	Total Deposit	Ratio (times)	Net Worth	Total Deposit	Ratio (times)
2004/05	832.62	10097.69	0.0824565	1180.17	14254.60	0.082792
2005/06	962.81	13802.45	0.0697565	1415.44	18927.31	0.074783
2006/07	1201.52	18186.91	0.0660651	1878.12	24488.86	0.076693
2007/08	1921.24	23976.30	0.0801308	2686.79	34451.73	0.077987
2008/09	2203.63	33322.95	0.0661295	3907.84	46698.10	0.083683
2009/10	2759.14	36932.31	0.074708	4585.40	50094.72	0.091535
2010/11	3113.55	41127.92	0.075704	5159.76	50137.94	0.102911
2011/12	4177.31	50006.10	0.083536	6049.93	57010.24	0.10612
Mean			0.0748108			0.087063
S.D.			0.0065			0.011
C.V. (%)			8.73			12.87

Source: Appendix 5

Table 4.23 shows the capital adequacy ratio of both sample banks are fluctuating. The ratio of EBL is ranged between the 0.06606 (2006/07) to 0.08245(2004/05) with mean ratio of 0.0748, NIBL ratio is ranged between the 0.0747(2005/06) to 0.106(2011/12) with mean ratio of 0.08706. The highest recorded ratio of EBL and NIBL are 0.08245 and 0.106 respectively. Similarly the lowest recorded ratio of EBL and NIBL are 0.06606 and 0.0747 respectively. The mean ratio of NIBL is higher than EBL which indicates the capital base of bank is stronger.

In the same way C.V. of EBL and NIBL are 8.73% and 12.87% respectively. Therefore the stability in capital strength of EBL is good due to lower C.V. of 8.73%.

4.1.5.2 Shareholder's Fund to Total Assets Ratio

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

Table 4.24

Shareholder's Fund to Total Assets Ratio

(Rs. In Million)

Fiscal Year	Banks					
	Everest Bank Ltd.			Nepal Investment Bank Ld.		
	Net Worth	Total Assets	Ratio (times)	Net Worth	Total Assets	Ratio (times)
2004/05	832.62	11732.54	0.0709667	1180.17	16274.08	0.0725184
2005/06	962.81	15959.30	0.0603291	1415.44	21330.14	0.0663587
2006/07	1201.52	21432.58	0.0560604	1878.12	27590.84	0.0680704
2007/08	1921.24	27149.35	0.0707656	2686.79	38872.85	0.0691174
2008/09	2203.63	36916.86	0.0596917	3907.84	53010.80	0.0737178
2009/10	2759.14	41382.78	0.0666736	4585.40	57305.41	0.0800169
2010/11	3113.55	46236.22	0.0673401	5159.76	58356.65	0.0884177
2011/12	4177.31	55813.12	0.0748446	6049.93	65756.86	0.0920045
Mean			0.065834			0.0762777
S.D.			0.0061			0.0089
C.V. (%)			9.28			11.78

Source: Appendix 5

Table 4.24 shows that the control over total assets by shareholder's fund is high in NIBL which is shown by higher mean ratio. The ratio of NIBL is ranged between 0.0663(2005/06) to 0.0920(2011/12) with mean ratio of 0.0762, EBL ratio is ranged

between 0.0596(2006/07) to 0.0748(2011/12) with mean ratio of 0.0658. The highest ratio of EBL is 0.0748 recorded in year 2011/12 and 0.0920 of NIBL in year 2011/12. Similarly the lowest recorded ratio of EBL is 0.0596 in year 2006/07 and 0.0663 of NIBL in the year 2005/06.As the mean ratio of EBL is lower than that of NIBL which indicates that it has less control over assets by shareholder's fund. Since NIBL has higher C.V (11.78%) which indicates it has more inconsistency than EBL.

4.2 Statistical Analysis

4.2.1 Coefficient of Correlation Analysis

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

4.2.1.1 Correlation between Total Deposits and Loan and Advances

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

Table 4.25

Correlation between Total Deposits and Loan and Advances

(Rs. In Million)

Fiscal Year	Banks			
	Everest Bank Ltd.		Nepal Investment Bank Ltd.	
	Total Deposit (x)	Loan & Advances (y)	Total Deposit (x)	Loan & Advances (y)
2004/05	10097.69	7618.67	14254.60	10126.06
2005/06	13802.45	9801.31	18927.31	12776.21
2006/07	18186.91	13664.08	24488.86	17286.43
2007/08	23976.30	18339.09	34451.73	26,996.30
2008/09	33322.95	23884.67	46698.10	36241.21
2009/10	36932.31	27556.36	50094.72	40318.31
2010/11	41127.92	31057.69	50137.94	41095.51
2011/12	50006.10	35910.97	57010.24	41636.99
R	0.998		0.9931	
r2	0.996004		0.98624761	
P.E.(r)	0.0009		0.003288	
6 * P.E.(r)	0.005719		0.01973	
Level of Significance	Significant		Significant	

Source: Appendix 6

The coefficient of correlation for both banks found to be almost '1' which indicates there is proportion relationship between the total deposit and loans & advances for both banks. While testing 6 P.E.r for both banks found to be significant as the value of 'r' is greater than 6P.E.r which implies that there found to be perfect correlation between the total deposits and loan and advances. It shows that the loan & advances and the total deposit to loan and advances efficiently.

4.2.1.2 Correlation between Total Deposit and Long-term Investment

Investment is also a measures part of banks to mobilize the collected deposit. By investing in different profitable area like shares and debenture, government securities banks maximize the profit. Therefore it is important to study the relation between the deposit and investment. For this analysis deposit is taken as independent variable(x) and investment (y) is taken as dependent variable. This analysis measures the degree of relationship between these two variables. Besides this, it will justify whether the deposits are significantly used in proper way or not and whether there is any relationship in between these two components. The following table exhibits the

coefficient of correlation (r) between deposits and total investment, coefficient of determination (r2), probable error (P.E. r).

Table 4.26

Correlation between Total Deposit and Long-term Investment

(Rs. In Million)

Fiscal Year	Banks			
	Everest Bank Ltd.		Nepal Investment Bank Ltd.	
	Total Deposit (x)	Long-term Investment (y)	Total Deposit (x)	Long-term Investment (y)
2004/05	10097.69	2128.93	14254.60	3934.19
2005/06	13802.45	4200.52	18927.31	5602.87
2006/07	18186.91	4984.32	24488.86	6505.68
2007/08	23976.30	5059.56	34451.73	6874.02
2008/09	33322.95	5948.48	46698.10	7399.81
2009/10	36932.31	5008.34	50094.72	8635.53
2010/11	41127.92	7743.95	50137.94	7423.11
2011/112	50006.10	7863.63	57010.24	10438.49
R	0.8958		0.9118	
r2	0.80245764		0.83137924	
P.E.(r)	0.047		0.0402	
6 * P.E.(r)	0.2825		0.2412	
Level of Significance	Significant		Significant	

Source: Appendix 6

The coefficient of correlation for the EBL found to be more than 0.677% which indicates there is proportion relationship between the deposits & investment for the banks. While testing 6P.E.r for the both banks found to be significant as the r value of the bank is greater than 6P.E.r which implies that there is perfect correlation between deposit and long-term investment. This shows that the both sample banks are successful investment with respect to deposit. Both sample bank's investment is depends upon the deposit.

4.2.1.3 Correlation between Long-term Investment and Net Profit

Following table shows the relation between the investment and net profit. As we say in above investment is done in different profitable area to maximize the profit.Net profit is the key to survive the banks. Without profit banks cannot sustain in the market. Therefore it is necessary to measure the degree of relationship between these

two variables. For this study long-term investment (x) is taken as independent variable and net profit(y) is taken as dependent variable. The following table shows the coefficient of correlation between (r), coefficient of determinants (r2) and probable error P.E.r between investment and net profit of the banks.

Table 4.27

Correlation between Long-term Investment and Net Profit

(Rs. In Million)

Fiscal Year	Banks			
	Everest Bank Ltd.		Nepal Investment Bank Ltd.	
	Long-term Investment (x)	Net Profit(y)	Long-term Investment (x)	Net Profit(y)
2004/05	2128.93	168.21	3934.19	232.13
2005/06	4200.52	237.3	5602.87	350.21
2006/07	4984.32	296.43	6505.68	501.41
2007/08	5059.56	451.21	6874.02	696.79
2008/09	5948.48	638.73	7399.81	900.62
2009/10	5008.34	831.77	8635.53	1265.97
2010/11	7743.95	931.32	7423.11	1176.64
2011/12	7863.63	1090.56	10438.49	1039.34
R	0.8711		0.8269	
r2	0.75881521		0.68376361	
P.E.(r)	0.05747		0.07537	
6 * P.E.(r)	0.3448		0.4522	
Level of Significance	Significant		Significant	

Source: Appendix 6

The coefficient of correlation of the EBL is found to be 0.87 which indicates that there is high degree of positive correlation between investment and net profit, NIBL coefficient of correlation is found to be 0.83 which indicates perfectly positive correlation. While testing 6P.E. r of EBL found to be significant as the value of r is higher than 6P.E.r whereas NIBL is also found to be significant as the value of r is greater than the value of 6P.E.r.

4.2.1.4 Correlation between Loan and Advances and Net Profit

Loan and advances also plays a vital role in earning the profit. By mobilizing the deposit in loan & advances banks earns the profit. So, it is necessary to study the relation between these two variable loan & advances and net profit. Following table

shows the coefficient of correlation(r), coefficient of determinants (r2) and probable error between loan & advance and net profit of the banks. For this study loan and advances (x) is taken as independent variable and net profit (y) is taken as dependent variable.

Table 4.28

Correlation between Loan and Advances and Net Profit

(Rs. In Million)

Fiscal Year	Banks			
	Everest Bank Ltd.		Nepal Investment Bank Ltd.	
	Loan and Advances (x)	Net Profit(y)	Loan and Advances (x)	Net Profit(y)
2004/05	7618.67	168.21	10126.06	232.13
2005/06	9801.31	237.3	12776.21	350.21
2006/07	13664.08	296.43	17286.43	501.41
2007/08	18339.09	451.21	26,996.30	696.79
2008/09	23884.67	638.73	36241.21	900.62
2009/10	27556.36	831.77	40318.31	1265.97
2010/11	31057.69	931.32	41095.51	1176.64
2011/12	35910.97	1090.56	41636.99	1039.34
R	0.995		0.9753	
r2	0.990025		0.95121009	
P.E.(r)	0.002383		0.001162	
6 * P.E.(r)	0.021		0.06977	
Level of Significance	Significant		Significant	

Source: Appendix 6

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

4.2.2 Trend Analysis

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

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

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

4.2.2.1 Trend Analysis of Total Deposit

The part of this analysis will analyze net profit to total deposit of banks for eight years from 2004/05 to 2011/12 and projection for next five years i.e. 2012/13 to 2016/17. The following table exhibits the trend values of net profit to total deposit of banks for thirteen years.

Table 4.29

Trend Analysis of Total Deposit

(Rs. In Million)

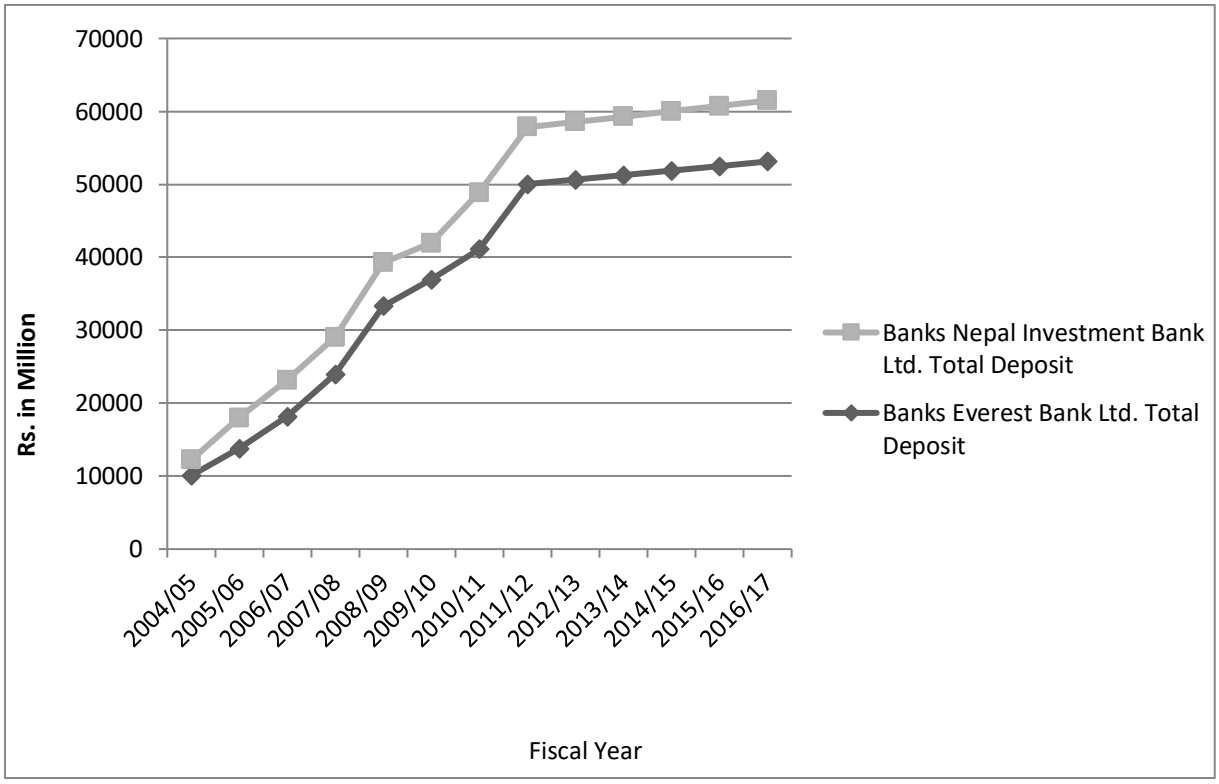
Fiscal Year	Banks	
	Everest Bank Ltd.	Nepal Investment Bank Ltd.
	Total Deposit	Total Deposit
2004/05	10097.69	2128.93
2005/06	13802.45	4200.52
2006/07	18186.91	4984.32
2007/08	23976.30	5059.56
2008/09	33322.95	5948.48
2009/10	36932.31	5008.34
2010/11	41127.92	7743.95
2011/12	50006.10	7863.63
2012/13	50616.87	7956.22
2013/14	51235.10	8049.90
2014/15	51860.88	8144.68
2015/16	52494.30	8240.58
2016/17	53135.46	8337.60

Source: Appendix 8

The above comparative table 4.29 exhibits that trend values of the both of the banks are in increasing trend. Among the sample banks, NIBL has a higher increasing trend of total deposit in past. The total deposit forecasted for the next five years based on past years of EBL are 50616.87,51235.10,51860.88,52494.30 and 53135.46 for the year 2012/13 to 2016/17 respectively. Similarly, NIBL total deposit for next five years is 7956.22, 8049.90, 8144.68, 8240.58 and 8337.60 from 2012/13 to 2016/17.

Figure 4.1

Trend Analysis of Total Deposit



4.2.2.2 Trend Analysis of Loan & Advances

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

Table 4.30

Trend Analysis of Loan & Advances

(Rs. In Million)

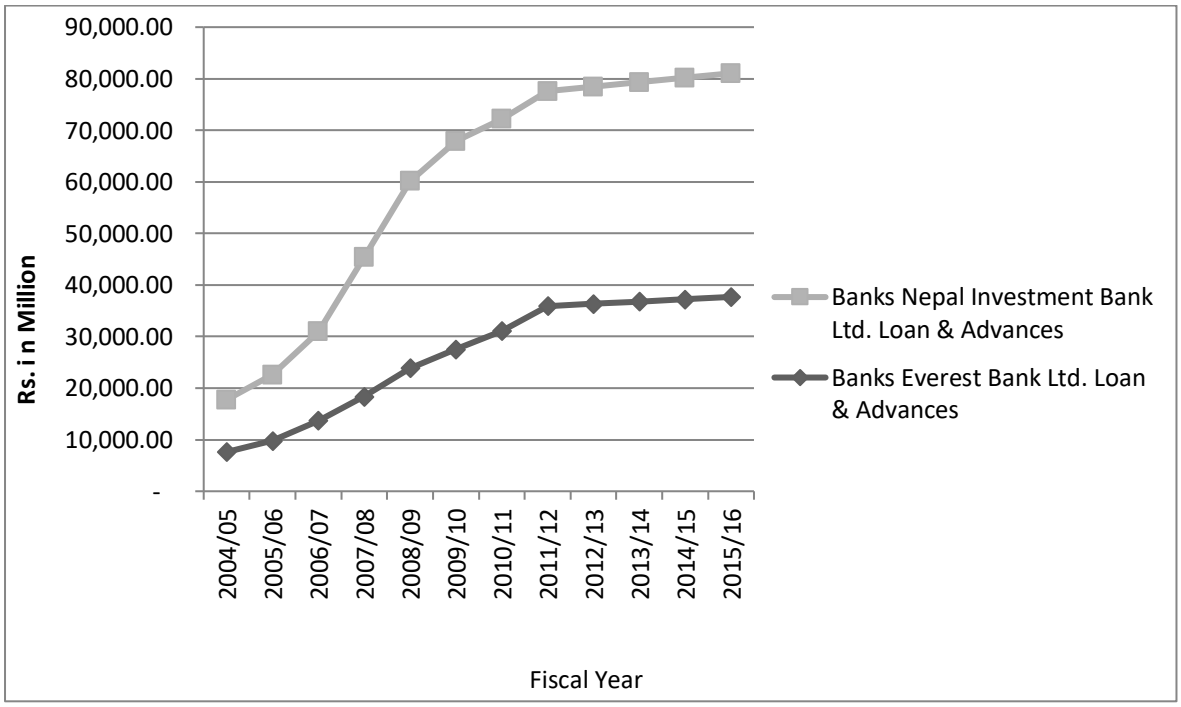
Fiscal Year	Banks	
	Everest Bank Ltd.	Nepal Investment Bank Ltd.
	Loan & Advances	Loan & Advances
2004/05	7,618.67	10,126.06
2005/06	9,801.31	12,776.21
2006/07	13,664.08	17,286.43
2007/08	18,339.09	26,996.30
2008/09	23,884.67	36,241.21
2009/10	27,556.36	40,318.31
2010/11	31,057.69	41,095.51
2011/12	35,910.97	41,636.99
2012/13	36,346.88	42,060.78
2013/14	36,788.08	42,488.89
2014/15	37,234.63	42,921.36
2015/16	37,686.61	43,358.22

Source: Appendix 8

The comparative table 4.30 shows that both banks has an increasing trend of net profit with respect to loan & advances. Among then, NIBL has a higher trend of loan & advances than EBL.

Figure 4.2

Trend Analysis of Loan & Advances



4.2.2.3 Trend Analysis of Long-term Investment

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

Table 4.31

Trend Analysis of Long-term Investment

(Rs. In Million)

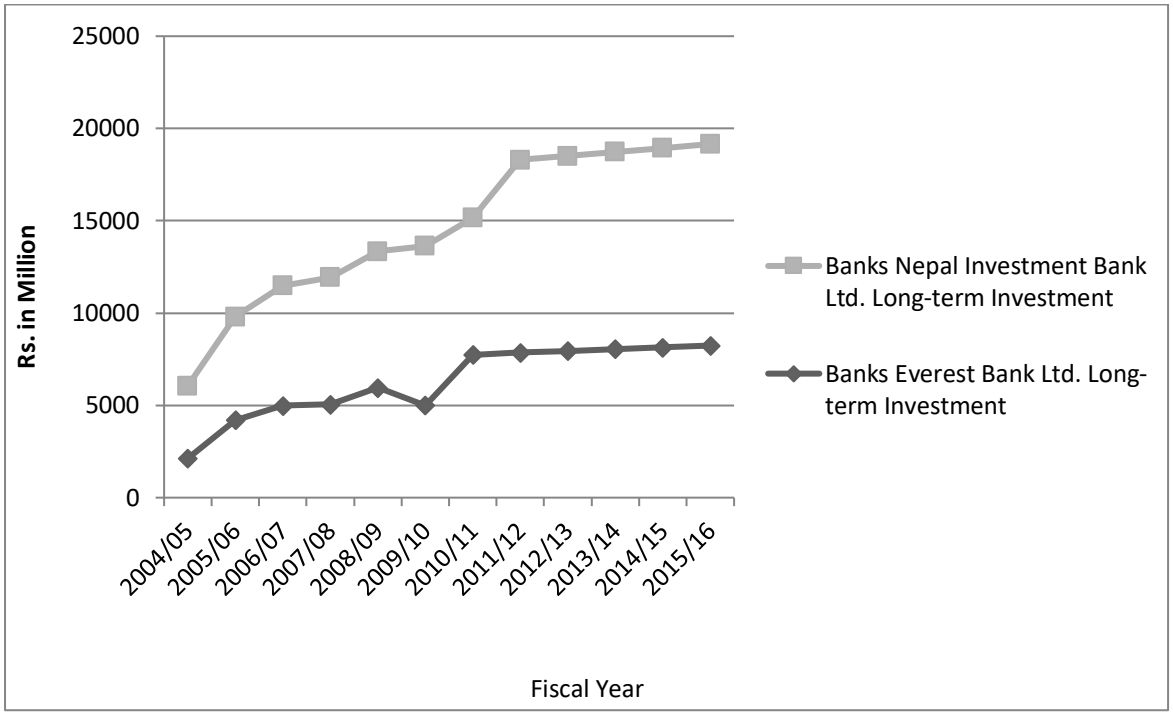
Fiscal Year	Banks	
	Everest Bank Ltd.	Nepal Investment Bank Ltd.
	Long-term Investment	Long-term Investment
2004/05	2128.93	3934.19
2005/06	4200.52	5602.87
2006/07	4984.32	6505.68
2007/08	5059.56	6874.02
2008/09	5948.48	7399.81
2009/10	5008.34	8635.53
2010/11	7743.95	7423.11
2011/12	7863.63	10438.49
2012/13	7956.22	10556.42
2013/14	8049.90	10675.67
2014/15	8144.68	10796.28
2015/16	8240.58	10918.25

Source: Appendix 8

The above comparative table shows the trend of long term investment from 2004/05 to 2011/12 actual data and next five year forecast. It shows the effect of investment to the net profit.

Figure 4.3

Trend Analysis of Long-term Investment



4.2.3 Simple Regression Analysis

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

4.2.3.1 Regression analysis between Net Profit and Total Deposit

The focal point of this analysis is to determine the relation between net profit and total deposit. Obviously, it seems that as total deposit increases the net profit of the banks need to increase. So, in this analysis net profit is considered to be dependent variable and total deposit as independent variable. The relation between net profit and total deposit can be present mathematically as below:

N.P. = a + b T.D.

Where,

N.P. = Net Profit

T.D. = Total Deposit

Table 4.32

Regression analysis between net Profit and Total Deposit

(Rs. In Million)

S. No.	Banks	Intercept(a)	Regression Coefficient(b)	R	t-test
1	EBL	2994.21	29.7	0.9936	5.95
2	NIBL	6044.67	25.43	0.9536	6.74

Source: Appendix 7 &9

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

The above table exhibits the estimation of net profit on the basis of total deposit. The regression coefficient of net profit and total deposit of both bank are positive which determine that increase in the total deposit ultimately increases Net Profit. The coefficient of correlation found to be highest in case of EBL almost '1' which indicates proportionate change in net profit as increase or decrease in total deposit for the bank. NIBL has lower correlation in comparison to EBL but it is also almost '1'. In case of t-test the variables the both banks got significance at 5% level of significant. This shows that there is high correlation between net profit and total deposit of EBL and NIBL.

4.2.3.2 Regression Analysis between Net Profit and Loan and Advances

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

N.P. = a + b. LA

Where,

N.P. = Net Profit

LA = Loan and advances

Table 4.33

Regression Analysis between net Profit and Loan and Advances

(Rs. In Million)

S. No.	Banks	Intercept(a)	Regression Coefficient(b)	r	t-test
1	EBL	3866.16	29.47	0.99	5.99
2	NIBL	2520.13	33.47	0.97	6.24

Source: Appendix 7 &9

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

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

4.2.3.3 Regression Analysis between Net Profit and Long-term Investment

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

Table 4.34

Regression Analysis between Net Profit and Long-term Investment

(Rs. In Million)

S. No.	Banks	Intercept(a)	Regression Coefficient(b)	r	t-test
1	EBL	2922.98	4.20	0.87	7.61
2	NIBL	3889.23	4.17	0.83	9.67

Source: Appendix 7 &9

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

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

4.3 Major Finding of the Study

The main findings of the study are carried out on the basis of the analysis of financial data of Banks which are as follows:

- During the eight years study period of the sampled banks the current ratio found to be in fluctuate trend. It is well known that the standard current ratio is 2:1. Among sample bank the current ratio of NIBL dominates the respective current liability which indicates that NIBL is capable in paying the current obligation. Therefore NIBL has a highest liquidity ratio than EBL.EBL has low current ratio, but it does not mean that it failed to maintain the liquidity position. From point of view of working policy EBL is found to be very much aggressive. However average of both banks shows the satisfactory level of current ratio.
- EBL found to be in better position to maintain the cash and bank balances to total deposit ratio than NIBL. But it doesn't mean that it has mobilized its more

funds in profitable sector. It actually means that it can meet the daily cash requirement to make payments of the customer. EBL has higher mean ratio which means it may unable to invest the more fund in the productive sector. But both banks have a highly fluctuation ratio during the study period.

- As we analyze the loan and advance to current ratio the mean ratio of NIBL is higher than that of EBL which indicates it has given more loan and advances. It indicates that the banks has successful in the utilization of its current assets by making investment in order to maximize its profit. The mean ratio of EBL is comparatively low to NIBL which indicates the lower utilization of current assets which is not worthy to the bank.
- NIBL is successful to collect larger amount of fixed deposit out of its total deposit which is indicated by its higher mean ratio than that of EBL. It actually means the bank can invest in long-term profitable sector for higher return which will ultimately maximize the profit of the banks. On the other hand, EBL has lower ratio which indicates the lower fund collection for fixed deposit and will be limited for long-term investment which will ultimately impacts on its profit.
- The debt-equity ratios of the both banks are in highly fluctuation trend. The mean ratio of EBL is higher than NIBL which indicates that more of the funds invested in the business are provided by the outsider not the owners which is more risky. But comparatively NIBL has lower debt-equity ratio which shows that more funds invested in the business are provided by the owners. Moreover NIBL has lower C.V. which indicates it has successfully able to maintain consistency in comparison to EBL.
- Debt-assets ratios of both banks are very consistent. The mean ratio of EBL is negligible lower in comparison to NIBL. Although EBL has more consistency due to its lower C.V. This ratio shows the proportion of debt out of its total assets. NIBL has higher debt proportion as its mean ratio is higher than EBL.
- The mean coverage ratio of EBL is lower than NIBL which indicates smaller amount of possible losses for the bank. A bank has to be careful in lending to maximize its possible profits. On the other hand, NIBL has comparatively higher coverage mean ratio which indicates the higher amount of possible losses. Moreover, NIBL is also unable to maintain its consistency which indicates its higher C.V.

- The loan and advances to total deposit ratio of both bank found to be at satisfactory level and maintain the good consistency in ratio. However NIBL has a higher mean ratio it shows that NIBL's liquidity position with respect to this ratio is more satisfactory than EBL.As the C.V of NIBL is also lower than that of EBL which indicates the more consistency.
- The mean value of NIBL of loan and advances to fixed deposit ratio is higher than that of EBL which indicates the effective mobilization of loan and advance with respect to fixed deposit. As commercial bank has to pay higher interest on fixed deposit so it has to mobilize it effectively to generate income. But the consistency level of NIBL is worse than EBL which is indicated by its higher C.V.
- The both sample banks are successful to mobilize the funds as loan and advances with respect to total assets. However comparatively during the eight years of study period NIBL has a higher mean ratio than EBL which indicates that they are the better investor. As concern to consistency, EBLhas maintain better level than NIBL which is indicated by its lower C.V of 15%.
- The proportion of mobilizing the deposit in investment is measured by the long-term investment to total deposit ratio. The mean value of NIBL the long-term investment to total deposit ratio is higher than EBL which indicates that it has mobilize the deposit effectively. Moreover EBL is also successful to maintain consistency level in comparison to NIBL which is 25.68% Vs 25.54%.
- EBL has higher investment in performing assets which shows by its higher mean value. Performing assets are the assets which are invested for short-term investment. Short-term investment plays vital role for working capital need and short-term needs. As concern of consistency level EBL has maintained better level than NIBL.
- The performing assets to total debt ratio measures the proportion of amount invested of outsider's in performing assets. NIBL has the higher mean value, which indicates that larger amount of investment in performing assets of outsider's than EBL. But, EBL has effectively maintained its consistency level than NIBL, which is indicated by its lower C.V.
- As we compare the Eight years study period of both banks the mean value of personnel expenses to total income of EBL found to be higher than NIBL which

indicates that it has spent larger amount on employees. As concern of stability EBL has effectively managed better consistency level than NIBL which indicates by its lower C.V.

- The office expenses to operating profit ratio shows the proportion of office expenses out of its operating profit. The mean value of the ratio of EBL is higher than NIBL which indicates larger amount of expenses on office. As concern of consistency level NIBL has failed to maintain its consistency level than EBL due to its significant higher percentage of C.V(13% vs 19%).
- Net profit to total deposit ratio of NIBL is higher than EBL which is indicated by higher mean value. As concern of consistency level EBL has maintained successfully better level than NIBL which is indicated by its lower C.V.
- The both sample banks are able to earn the profit on total assets. As the mean value of net profit to total assets ratio of NIBL is higher than EBL the bank is in better position. Moreover the C.V of NIBL is lower than EBL which indicates it has maintained successfully its consistency level. The consistency level of this ratio indicates consistency of earning on total assets which is very important for banks.
- The mean ratio of net profit to net worth of EBL is higher than NIBL which indicates that earning level of EBL is higher. Moreover, EBL is successful to maintain its consistency level in comparison to NIBL but there is negligible variation in percentage of C.V(12% vs.14%).
- Even though all sample banks seem to earn the interest on total assets, NIBL has successful in earning the higher interest but failure to maintain consistency in earning. EBL has comparatively lower earning and higher consistency level.
- EBL seems to be successful to collect its assets from less expensive sources of fund in comparison to NIBL as the mean value is lower. In terms of consistency, EBL has maintained better consistency level than NIBL in spite of higher interest payment sources of fund.
- EBL has higher mean value of return on capital employed ratio which indicates that the capital employed has been used properly but NIBL has lower. Moreover the consistency level maintained by EBL is also better than NIBL which is indicated by its significantly lower C.V.

- The capital adequacy ratio of NIBL is higher than EBL which is shown by its higher mean value of shareholder's fund to total deposit ratio. But it has unable to maintain better level of consistency than EBL which is indicated by its higher C.V.
- NIBL has achieved the higher shareholder's fund to total assets ratio, which means they have more assets out of the shareholder's fund. The C.V. percentage of NIBL is higher than EBL which shows that it has unable to maintain its consistency level.
- The positive correlation between deposit and loan and advances are found of both banks. The correlation between the deposit and loan and advances are perfect as there is significant between them. It means that the both banks provided the loans and advances from its deposit. Banks are successful in mobilizing the deposit as loan and advances.
- There is the perfect positive correlation between the deposit and investment of both banks. It shows that both sample banks have effectively mobilize its deposit on investment. In another word it can be said that investment is depends upon the deposit.
- Both banks are successful in earning the net profit from it's investment which means that there is a positive correlation between the investment and net profit in both bank.
- The both sampled banks are successful in earning the net profit by mobilizing the loan and advances. The correlation between the loan and advances and net profit are found to be perfectly positive.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Industrialization is an important factor for achieving the basic objective of a country's economic and social progress. Industrialization not only provides necessary products and services to the community but also create employment opportunities. Industrial development thus has a multiplier effect on the economy. Banking industries have been regarded as one of the component of economy. It transfers the scattered funds collected from saving of the public into various productive sectors. Economic activities remains halt in absence of banking industries as it plays the role of catalyst for economic development of the country in the developing country where there prevail unorganized transactions. It helps to enhance economic activities of the country by providing capital funds for the smooth operation of business activities, create employment opportunities, investing agriculture, industry. At present there are altogether thirty two commercial banks operating in the country among which EBL and NIBL has occupied wide range of the business due to access to most of the corner of the country. Slowly private banks are also initiating to move toward every corner of the country but due to prevailing political crisis they are not being able to meet their objects to reach to every corner of the country. Due to increasing competition banks are forced to innovate new products to their customer and they are also shifting from traditional service procedure to various sophisticated services like ATM card, debit card, credit card, housing loan, educational loans, vehicle financing.

Economic development of a country cannot be imagined without the development of commerce and industry. No doubt, banking promotes the development of commerce to its extreme, as banking itself is the part of commerce. Though the economic growth was as snail speed in earlier year, it had caught its full sailing with the restoration of democracy in the country. These days Nepal has been facing several economic problems due to the unrest condition.

In this study the objective functions, policies and strategies of foreign participated private commercial banks have been emphasized and analyze of their financial

performance. Here the main finding of the study is the financial performance of these two sample banks has been presented. The financial data, statement of eight consecutive years i.e. 2004/05 to 2011/12 has been examined for the purpose of the study. The study is mainly based on the primary and secondary data, which have been processed first and analyzed comparatively. From this analysis of financial performance of both the banks the following findings are made.

Financial analysis is the process of determining the significant operation and financial characteristics of a firm from accounting data. It shows the relationship between the various component which can be found in balance sheet and profit and loss account. The analyzed statements contain that information which is useful for management, shareholder, creditors, investors, depositors etc. As in other industries banking industries also need financial analysis, as it is crucial for evaluating and analyzing the performance of the particular company as compare to the other and also from the previous performance of the same company.

5.2 Conclusion

The study completely based on secondary data accumulated from websites. The study covers only two banks EBL and NIBL among various banks but the sample banks are the leading banks among commercial banks. The study is based on Eight fiscal year from 2004/05 to 2011/12. Research Methodology followed to achieve the objective of the study and which constitute research design, sources of data, population and sample, data collection procedure and method of analysis. Moreover, financial and statistical tools has been used according to the requirement to achieve the targeted result.

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

customers satisfaction, objective to use advanced technology, private commercial banks have been able to attain their objectives within short span of time.

5.3 Recommendations

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

- Bank should maintain liquidity ratio to avoid solvency risk and to follow the NRB guidelines. Bank should not invest all the deposit as loan and advances as per NRB guidelines some percentage of cash should hold for fulfilling the regular cash demand of the customers. The standard liquidity ratio is 2:1. The depositor may demand the money any time so; banks should always be ready for that demand. In this research none of sample banks maintained the standard ratio they had aggressive working capital policy. Therefore both sample banks should modify their working capital policy to maintain the standard ratio.
- NIBL may face liquidity problem and may not be able to pay obligation when they fall due. So, 'NIBL is suggested that it should maintain on the standard ratio of cash and bank to total deposit because its cash and bank to total deposit is less than EBL.
- NIBL has higher Loan and advances to current assets ratio which indicates it invested higher amount of loan and advances to its customer in respect holding cash and bank. .So NIBL should try to minimize the ratio to minimize the risk of solvency due to liquidity.
- Financial risk of NIBL is higher than EBL. So, I would like to recommend NIBL that they should decrease its Debt-Equity ratio either by reducing Debt or increasing Equity to reduce financial risk.
- NIBL is less effective on its loan sanction because it has created higher coverage ratio for loan its indication can be found by higher proportion of loan loss provision. So, it should assess creditworthiness before granting the loan to its client.

- EBL has less mobilization of total deposit to loan and advances than NIBL. The purpose of loan and advances is to generate income for the banks. So, EBL should increase a loan and advance on different productive sectors.
- Fixed deposits are deposited for longer period and need to pay higher interest. Therefore fixed deposit can use for long time investment and generate income for the bank. Since mobilization of fixed deposit by EBL is lower than NIBL. They should mobilize its fixed deposit to different productive sector to increase profit
- NIBL is successful to invest their total deposit on long term investment. So EBL is suggested to invest deposit on long term investment to increase its profit because profit is key of success of any business. The bank also cannot survive without the profit. So; they should keep in the mind for profit maximization. But in long-term business bank also should be concern with the shareholder's wealth maximization as they are investor of the bank and owner as well. Over the study period, NIBL is successful to earn more profit than EBL with consistency in profit. So it is recommended to EBL that it may cut down its operating expenses or imply other profit maximization tools.
- NIBL should reduce its non-performing assets to increase its profit by reducing non-performing assets and by investing on performing assets.
- Personnel expenses of EBL is higher than NIBL in comparison of Total income and it refers EBL has over staffing or less experienced or non- expert employees. It leads requirement of training to employees or modern time saving tools whichever is suitable to gear-up speed of business process. Such as automation on work process, IT use on business process and so on.
- EBL is successful to maintain stability on interest earning either it has low interest earning with respect of total assets. So I would like to recommend NIBL that it should maintain consistency on its interest earning.
- NIBL paid a higher interest on their capital than EBL which mean that they used more creditors' funds or paid higher interest rate on their capital. So they need to use equity fund rather than debt or should pay a lower interest rate. Although the interest paid by EBL is lower and it is also successful to maintain its consistency level as well.

- The operating expenses of EBL are higher than NIBL although it couldn't make profit as made by EBL so they should analyze other factors which maximize their profits.

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APPENDICES

Appendix 1

Balance Sheet of Everest Bank Limited

(NPR in million)

Particular	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**
Share capital	518.00	518.00	518.00	831.4	1030.47	1279.61	1391.57	1761.13
Reserved fund	314.62	444.81	683.52	1089.84	1173.16	1479.53	1721.98	2416.18
A)Total shareholder capital	**832.62**	**962.81**	**1,201.52**	**1921.24**	**2203.63**	**2759.14**	**3113.55**	**4177.31**
Deposit(Except fixed)	6693.73	9560.1	12560.25	17530.12	26272.97	26492.03	26065.98	36998.62
Other liability	457.59	763.56	1,633.93	720.44	391.02	566.08	559.24	897.38
Bills payable	17.77	15.81	26.78	49.43	148.66	145.52	49.72	692.39
Proposed & dividend payable	23.56	114.67	68.15	140.79	218.08	276.25	576.89	30.65
Income Tax Liability	3.31	-	15.29	41.15	20.52	-1.12	26.90	9.29
B) Total current liabilities	**7195.96**	**10454.14**	**14,304.40**	**18481.93**	**27051.25**	**27478.76**	**27278.73**	**38628.33**
Fixed Deposit	3403.96	4242.35	5626.66	6446.18	7049.98	10440.28	15061.94	13007.48
Borrowing	-	-	-	-	312.00	404.60	482.00	-
Debenture & Bond	300.00	300.00	300.00	300	300.00	300.00	300	-
C) Long Term Debt	**3703.96**	**4542.35**	**5926.66**	**6746.18**	**7661.98**	**11144.88**	**15843.94**	**13007.48**
Total liabilities(A+B+C)	**11,732.54**	**15,959.30**	**21,432.58**	**27149.35**	**36916.86**	**41382.78**	**46236.22**	**55813.12**
ASSETS								
Cash Balance	192.59	259.35	534.99	822.99	944.69	1,091.50	1048.99	1700.99
Bank Balance	857.40	1293.51	1856.44	1844.98	5219.67	6727.31	5073.86	8662.31
Money at call & short notice	570.00	66.96	-	346	-	-	-	-
Loan, Advances & Bills purchased	7618.67	9801.31	13664.08	18339.09	23884.67	27556.36	31057.69	35910.97
Other Assets	206.29	178	222.66	376.22	492.17	536.18	851.47	1127.29
A) Total Current Assets	**9444.95**	**11599.13**	**16278.17**	**21729.28**	**30541.2**	**35,911.35**	**38032.01**	**47401.56**
Fixed Assets	134.09	152.09	170.09	360.51	427.18	463.09	460.26	547.93
Investment(Long-term)	2128.93	4200.52	4984.32	5059.56	5948.48	5008.34	7743.95	7863.63
Non Banking Assets	24.57	7.56	-	-	-	-	-	-
B) Total Fixed Assets	**2287.59**	**4360.17**	**5154.41**	**5420.07**	**6375.66**	**5471.43**	**8204.21**	**8411.56**
Total Assets(A+B)	**11732.54**	**15,959.30**	**21432.58**	**27149.35**	**36916.86**	**41,382.78**	**46236.22**	**55813.12**

Appendix 2

Balance Sheet of Nepal Investment Bank Limited

(NPR In Million)

Particulars	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12
Capital & Liabilities Share Capital (Paid up Capital @ 100)	587.74	590.59	801.35	1203.92	2407.07	2409.1	3011.37	3766.15
Reserve Funds	592.43	824.85	1076.77	1482.87	1500.77	2176.3	2148.39	2283.78
A.TotalShareholder capital/Net Worth	**1,180.17**	**1415.44**	**1878.12**	**2686.79**	**3907.84**	**4585.4**	**5159.76**	**6049.93**
Deposit (Except Fixed)	11,042.31	13514.34	16972.17	26507.5	35064.72	33269.57	31759.82	36953.12
Other Liability	474.31	287.63	347.52	488.2	709.98	860.37	1117.66	924.48
Bills Payable	15.00	18.82	32.4	78.84	82.34	38.14	8.25	2.98
Proposed & Dividend Payable	-	121.63	43.65	93.21	485.45	602.27	602.27	150.65
Income tax Liabilities	-	9.32	0.295	24.08	38.29	37.19	-	-
B.Total Current Liabilities	**11,531.62**	**13951.73**	**17396.03**	**27191.83**	**36380.78**	**34807.54**	**33488**	**38031.23**
Fixed Deposit	3212.29	5412.97	7516.69	7944.23	11633.38	16825.15	18378.12	20057.12
Borrowing	350	-	-	-	38.8	37.32	280.77	567.58
Debentures and Bond	-	550	800	1050	1050	1050	1050	1050
C. Long-term Debt	**3562.29**	**5962.97**	**8316.69**	**8994.23**	**12722.18**	**17912.47**	**19708.89**	**21674.7**
Total Liabilities (A+B+C)	**16,274.08**	**21330.14**	**27590.84**	**38872.85**	**53010.8**	**57305.41**	**58356.65**	**65755.86**
Assets:								
Cash Balance	374.27	562.56	763.98	1464.48	1833.46	1525.44	1718.67	**1963.97**
Bank Balance	966.22	1773.96	1677.53	2290.45	6084.53	5290.44	6421.69	9839.78
Money at call & Short Notice	140	70	362.97	-	-	-	150	205.36
Loan, advances & Bills Purchased	10126.06	12776.21	17286.43	26996.3	36241.21	40318.31	41095.51	41636.99
Other Assets	412.75	201.09	233.67	276.85	390.62	399.44	439.39	615.19
A.Total Current Assets:	**12019.3**	**15383.82**	**20324.58**	**31028.08**	**44549.82**	**47533.63**	**49825.26**	**54261.29**
Fixed Assets	320.59	343.45	759.46	970.09	1060.71	1136.25	1108.45	1056.44
Investment (Long-term)	3934.19	5602.87	6505.68	6874.02	7399.81	8635.53	7423.11	10438.49
Non Banking Assets			1.13	0.75	0.38	-	-	-
B. Total Fixed Assets	**4254.78**	**5946.32**	**7266.26**	**7844.86**	**8460.9**	**9771.78**	**8531.56**	11494.93
Total Assets (A+ B)	**16274.08**	**21330.14**	**27590.84**	**38872.85**	**53010.8**	**57305.41**	**58356.65**	**65756.86**

Appendix 3

Profit & Loss A/C of Everest Bank Limited

(NPR In Million)

Particular	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Income:								
Interest Income	719.29	903.41	1144.41	1548.66	2186.81	3102.45	4331.03	4959.99
Commision & Discount	78.13	88.16	117.72	150.26	202.09	208.12	203.47	233.57
Other operating Income	31.48	48.91	67.97	79.13	106.41	142.31	148.06	179.82
Exchange Gain	27.08	23.07	28.41	64.45	62.53	47.88	46.26	109.68
Other Income	8.22	2.96	13.01	24.72	13.05	95.89	57.76	175.49
A.Total Income	**864.2**	**1066.51**	**1371.52**	**1867.22**	**2570.89**	**3596.65**	**4786.58**	**5658.55**
Expenses:								
Interest Expenses	299.57	401.39	517.166	632.61	1012.87	1572.79	2535.87	2873.33
Gross Profit(A-B)	**564.63**	**665.12**	**854.354**	**1234.61**	**1558.02**	**2023.86**	**2250.71**	**2785.22**
Less:Other Operating Expenses								
Staff Expenses	60.59	-70.93	-86.12	-157.96	-186.92	-226.35	-293.13	-352.05
Office Expenses	129.07	-143.56	-177.55	-233.77	-292.01	-352.51	-383.11	-467.29
Operating Profit	**374.97**	**450.63**	**590.684**	**842.88**	**1079.09**	**1445**	**1574.47**	**1965.88**
Less:Non Operating Expenses								
Loss from Extra Ordinary Activities	-5.25	-	-0.79	-18.99	(5.00)	-61.19	-12.05	-
Exchange Loss	-	-	-	-	-	-	-	-
Bad Debt written off	-	-	-	-	-	-	-	-
Provision for Possible loss	-88.93	-70.46	-89.69	-99.34	-93.08	-77.03	-98.29	-252.05
Provision for Staff Bonus	-28.08	-34.56	-45.47	-65.87	-89.7	-118.79	(133.10)	-155.8
Provision for Income Tax	(84.50)	-108.31	(158.30)	-207.47	-252.58	-356.22	-399.71	-467.47
Total Non Operating Expenses	**-206.76**	**(213.33)**	**(294.25)**	**-391.67**	**-440.36**	**-552.04**	**-643.15**	**(875.32)**
Net Profit After Tax	**168.21**	**237.30**	**296.43**	**451.21**	**638.73**	**831.77**	**931.32**	**1,090.56**

Source: Annual Report of the Bank

Appendix 4

Profit & Loss A/C of Nepal Investment Bank Limited

(NPR In Million)

Particulars	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12

Income:								
Interest Income	886.8	1172.74	1584.99	2194.28	3267.94	4653.52	5803.44	5982.64
Commission & Discount	93.55	115.94	163.9	215.29	262.79	242.89	269.43	319.67
Other operating income	25.57	35.9	47.32	66.38	87.57	168.31	152.98	157.78
Exchange Gain	102.52	125.75	135.36	165.84	185.33	224.06	228.08	264.17
Other Income	6.19	0.39	1.43	7.05	2.95	10.61	8.39	14.16
A. Total Income	**1114.63**	**1450.72**	**1933**	**2648.84**	**3806.58**	**5299.39**	**6462.32**	**6738.42**
Expenses:								
B. Interest Expenses	-354.55	-490.95	-685.53	-992.16	-1686.97	-2553.85	-3620.34	-3814.41
Gross Profit [A – B]	**760.08**	**959.77**	**1247.47**	**1656.72**	**2119.61**	**2745.54**	**2841.98**	**2924.01**
Less: Other Operating expenses:								
Staff Expenses	-97	111.05	145.37	-187.15	**-225.72**	-279.85	-326.54	-340.11
Office Expenses	-182.92	200.22	243.43	-313.15	-413.88	-433.59	-456.06	-468.86
Operating Profit	**480.16**	**648.5**	**858.67**	**1156.42**	**1480.01**	**2032.1**	**2059.38**	**2115.04**
Less: Non-operating expenses	-	-	-	-	-	-	-52.86	-1.73
Loss from extra –ordinary activities		-	-	-	-	-	-	-
Bad debt written off	30.99	10.71	66.78	101.58	114.65	50	106.63	267.69
Provision for possible losses	-140.41	-103.81	-129.72	-135.99	-166.2	-93.06	-267.33	-743.72
Provision for staff bonus	-37.08	-50.49	-72.34	-101.99	**-129.8**	-180.82	-167.8	-148.84
Provision for income tax	-101.53	-154.38	-221.98	-323.23	-397.98	-542.25	-501.38	-449.1
Net Profit after tax	**232.13**	**350.21**	**501.41**	**696.79**	**900.62**	**1265.97**	**1176.64**	**1039.34**

Appendix 5

Calculation of Mean, Standard Deviation & Coefficient of Variance

Fiscal Year	**Everest Bank Ltd.**			**Nepal Investment Bank Ld.**					
	Loan and Advances	**Total Assets**	**Ratio (times)**	**Loan and Advances**	**Total Assets**	**Ratio (times)**	**Nepal Investment Bank Ltd.**		
							Mean	**X-Mean**	**(X-Mean)^2**

2004/05	7618.67	11732.5	0.6493624	10126.06	16274.08	0.62222012	0.6584	-0.0362	0.00131
2005/06	9801.31	15959.30	0.6141441	12776.21	21330.14	0.5989745	0.6584	-0.0594	0.00353
2006/07	13664.08	21432.6	0.6375378	17286.43	27590.84	0.62652786	0.6584	-0.0319	0.00102
2007/08	18339.09	27149.4	0.6754891	26,996.30	38872.85	0.69447699	0.6584	0.03608	0.0013
2008/09	23884.67	36916.9	0.6469854	36241.21	53010.80	0.6836571	0.6584	0.02526	0.00064
2009/10	27556.36	41382.8	0.6658895	40318.31	57305.41	0.703569	0.6584	0.04517	0.00204
2010/11	31057.69	46236.2	0.6717178	41095.51	58356.65	0.70421297	0.6584	0.04581	0.0021
2011/12	35910.97	55813.1	0.6434145	41636.99	65756.86	0.63319614	0.6584	-0.0252	0.00064
Mean			**0.6506**			**0.6584**			0.11212
S.D.			**0.0067**			**0.0140**		**S.D.**	**0.01401**
C.V. (%)			**1.028**			**2.128**		**C.V.**	**2.12857**

Everest Bank Ltd.

X	**Mean**	**(X-Mean)**	**(x-Mean)^2**
0.649362	0.6506	-0.00123763	1.532E-06
0.614144	0.6506	-0.0364559	0.001329
0.637538	0.6506	-0.0130622	0.0001706
0.675489	0.6506	0.0248891	0.0006195
0.646985	0.6506	-0.00361458	1.307E-05
0.66589	0.6506	0.015289532	0.0002338
0.671718	0.6506	0.021117757	0.000446
0.643414	0.6506	-0.00718551	5.163E-05
			0.0535264
		S.D.	**0.0066908**
		C.V.	**1.0284051**

Appendix 6

Calculation of Correlation, Coefficient, P.E & 6P.E

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[\, n\Sigma x^2 - (\Sigma x)^2 \,][\, n\Sigma y^2 - (\Sigma y)^2 \,]}}$$

Correlation coefficient between total Long-Term investment & Net Profit of Everest Bank Ltd.

X	Y	XY	X^2	Y^2
2128.93	168.21	358107.3153	4532342.945	28294.6041
4200.52	237.3	996783.396	17644368.27	56311.29
4984.32	296.43	1477501.978	24843445.86	87870.7449
5059.56	451.21	2282924.068	25599147.39	203590.4641
5948.48	638.73	3799472.63	35384414.31	407976.0129
5008.34	831.77	4165786.962	25083469.56	691841.3329
7743.95	931.32	7212095.514	59968761.6	867356.9424
7863.63	1090.56	8575760.333	61836676.78	1189321.114
42937.73	4645.53	28868432.2	254892626.7	3532562.505

Putting the value on the formula of r

We will get the following result.

r=0.87

r^2=0.76

P.E=0.057

6P.E.=0.34

6P.E. is less than calculated correlation between two variables. So, it is significant.

Appendix 7

Regression coefficient of Net Profit & Long Term Investment

Here,

Net Profit=X

Long Term Investment =Y

We have,

Regression Formula:

Regression Equation(y) = a + bx

Slope(b) = $(N\Sigma XY - (\Sigma X)(\Sigma Y)) / (N\Sigma X^2 - (\Sigma X)^2)$

Intercept(a) = $(\Sigma Y - b(\Sigma X)) / N$

Calculation of Mean & standard deviation of EBL & NIBL

Everest Bank Ltd.				**Nepal Investment Bank Ltd.**			
X	**Mean of X**	**X-Mean**	**(X-Mean)**	**Y**	**Mean of Y**	**Y-Mean**	**(Y-Mean)^2**
168.21	580.69	-412.48	170139.75	2128.93	5367.22	-3238.29	10486522.12
237.3	580.69	-343.39	117916.692	4200.52	5367.22	-1166.7	1361188.89
296.43	580.69	-284.26	80803.7476	4984.32	5367.22	-382.9	146612.41
451.21	580.69	-129.48	16765.0704	5059.56	5367.22	-307.66	94654.68
638.73	580.69	58.04	3368.6416	5948.48	5367.22	581.26	337863.19
831.77	580.69	251.08	63041.1664	5008.34	5367.22	-358.88	128794.85
931.32	580.69	350.63	122941.397	7743.95	5367.22	2376.73	5648845.49
1090.56	580.69	509.87	259967.417	7863.63	5367.22	2496.41	6232062.89
580.69125	Mean of X		104367.985	5367.216	Mean of Y		3054568.07
S.D.			323.060343	S.D			1747.73

To find correlation between Net Profit and Long Term Investment

Everest Bank LTD				
X	**Y**	**XY**	**X^2**	**Y^2**
168.21	10097.69	1698532.435	28294.6041	101963343.3
237.3	13802.45	3275321.385	56311.29	190507626
296.43	18186.91	5391145.731	87870.7449	330763695.3
451.21	23976.30	10818346.32	203590.4641	574862961.7
638.73	33322.95	21284367.85	407976.0129	1110418997
831.77	36932.31	30719187.49	691841.3329	1363995522
931.32	41127.92	38303254.45	867356.9424	1691505804
1090.56	50006.10	54534652.42	1189321.114	2500610037
$\sum X$= 4645.53	$\sum Y$= 227452.63	$\sum XY$= 166024808.1	$\sum X^2$= 3532562.505	$\sum Y^2$= 7864627986

Nepal Investment Bank LTD				
X	Y	XY	X^2	Y^2
232.13	3934.19	913243.5247	53884.3369	15477850.96
350.21	5602.87	1962181.103	122647.0441	31392152.24
501.41	6505.68	3262013.009	251411.9881	42323872.26
696.79	6874.02	4789748.396	485516.3041	47252150.96
900.62	7399.81	6664416.882	811116.3844	54757188.04
1265.97	8635.53	10932321.91	1602680.041	74572378.38
1176.64	7423.11	8734328.15	1384481.69	55102562.07
1039.34	10438.49	10849140.2	1080227.636	108962073.5
$\sum X$= 6163.11	$\sum Y$= 56813.7	$\sum XY$= 48107393.18	$\sum X^2$= 5791965.424	$\sum Y^2$= 429840228.4

Putting the value on correlation formula, we can get the following value.

Correlation of EBL=0.87

Correlation of NIBL=0.83

Putting the above calculated value on byx formula, we can get the following value.

byx of EBL=4.20

byx of NIBL= 4.17

We can find the value of a by simplifying the above formula. The value of a will be:

EBL's a=2922.98

NIBL's a=3889.23

Appendix 8

Finding a Growth Rate

$$G = \sqrt[n]{\frac{\text{Variable at end yea}}{\text{Variables n yrs ago}}} - 1$$

Growth rate of EBL=1.011774

Growth rate of NIBL=1.011297

Fiscal Year	Banks	
	Everest Bank Ltd.	Nepal Investment Bank Ltd.
	Total Deposit	Total Deposit
2004/05	10097.69	2128.93
2005/06	13802.45	4200.52
2006/07	18186.91	4984.32
2007/08	23976.30	5059.56
2008/09	33322.95	5948.48
2009/10	36932.31	5008.34
2010/11	41127.92	7743.95
2011/12	50006.10	7863.63
2012/13	50616.87	7956.22
2013/14	51235.10	8049.90
2014/15	51860.88	8144.68
2015/16	52494.30	8240.58
2016/17	53135.46	8337.60

Appendix 9

T-test

$$t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}} \quad \begin{matrix} \mapsto \\ \mapsto \\ \mapsto \end{matrix} \quad \frac{\text{difference between means}}{\frac{\text{variance}}{\text{sample size}}}$$

Level of significance at 5%

If table value is lower than calculated value, there will be significant relation between those variables.