CHAPTER-ONE

INTRODUCTION

1.1Background of the study

In the past bank used just to accept deposit form the savers of money and give loans to the user of money. Savers of money are those money units whose earnings exceed expenditure on real assets (land, building, cloths, food etc.) and users of money are thesis units whose expenditure on real assets exceeds their earnings. In such situation deficit units sell their security to surplus units. These securities are financial assets. If entire incomes of units match with investment on real assets no financial are created. The evolution of banking can be traced back to the era when the use of metallic coins as the media of exchange of good and service began storage of metallic coins was a series problem for the common people. Because of the danger of thief and robbery people started leaving gold and silver and metallic coins in the study of reputed person a wealthy merchant or money changer. The custodian had strongbox and other means of safe keeping. He offered this service as favor for his friend or made a charge for it. The depositor had to go personally to custodian for the withdrawal of his money. But this practice was found to be inconvenient.

How did the use of word Bancus become popular? The origin of bank is traced to Latin word Bancus means a bench. European money lender and money changer used to transit their business at bench at benches or tables. They followed the practice of receiving gold and other metals as deposit and issuing receipts. The bench or table used by the trader in money was the symbol of the business of banking or dealing in money.

The success of failure in trading was his bench when a banker railed his bench used to be destroyed by the people.

Origin and growth of Banks in Nepal

The growth of banking in Nepal is not so long in comparison with other developing or developed country. The institutional development in banking system of Nepal is far behind Nepal had to wait for long time to come to the present banking position. The stepwise development of banking in Nepal can narrated as follows:

Nepal Bank Ltd.

Nepal bank ltd (1994, 30th kartik) and was established under the Nepal bank act 1994BS. Its authorized capital was 10 million rupees and issued capital was 25 lakh and paid up capital was 8 lakh 42 thousand.

Nepal Rastra Bank

The Nepal rastra bank was established in 2013BS, Baishakh 14th. Nepal rastra bank act 2012but this act has been replaced and the Nepal Rastra Bank act 2058 is coming very soon.

Rastra Banijya Bank

The Rastra Banijya Bank was established in the government sector in 2002 BS. After connection the commercial bank act 2031 both the Banijya Bank act 2020 and the Rastra Banijya Bank act 2021 were replaced.

Agriculture Development Bank

The Agriculture Development Bank act 2024. It was established in 2024, 7th Magh.

The researcher has attempted to analysis the comparative financial performance of EBL and HBL and their individual strength on the basis of their internal reports and published annual reports. For the purpose, different tools and techniques have been applied to judge the performance of these organizations, drawn out the strength and weakness of the firms and try to prescribe measures to improve the performance of these two banks.

Brief explain of these two banks are given below:

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 10th October 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network and over 250 correspondent banks across the globe. EBL id s joint venture with Punjab National Bank, on of the largest commercial Banks in India.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K. The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies which offer large business potential.

Himalayan Bank Limited.

Himalayan Bank Limited (HBL) is a joint venture bank with Habib bank of pakistan established in 1992. Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible.

All customers are treated with extreme courtesy as valued clients. The Bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

Concept of Commercial Banks

Commercial banks are those institutions which are involved in accepting deposits and advancing loans. Commercial banks perform all the business transactions of a typical bank. It is often said that a banker is on who deals with other peoples money.

Commercial banks, as the name itself signifies, are designed to accept deposit and advance credit t commercial sector. Their operations are mainly commercial in nature and they handle short term finance. But new developments have come up as they are also handling medium term and long term financing. Commercial banks, these days, undertaken numerous kinds of financial activities and provide numerous kinds of financial service. 'A bank is a company which accepts deposits of money from the public, for the purpose of lending or investment, repayable on demand or otherwise.'

The commercial banks receive deposits and lend it to those who need it after executing required document actions and after making the necessary provisions for reserves as per regulations.

Commercial banks are the heart of a financial system, holding the deposits of millions of people, governments and business units. They make fund available through their lending and investing activities to

borrowers; individuals, business houses and governments. Doing so, they facilitate both the flow of goods and services from producer to consumers and the financial activities of the government.

From the above background, commercial banks are generally understood as banks, which involved in collecting other peoples' money and offering various financial solutions to the individual, business and other people. In the present context the commercial banks are not limited to the single act of deposit taking and advancing loans for commercial purpose. They offered various types of financial services.

Functions of Commercial Banks

The major functions of commercial banks are as follows:

1 Deposit collection

Collecting deposit is the primary function of the commercial banks. Commercial banks collect the deposit from the individual, business, government sectors and other institutions. Generally people prefer to deposit their money in banks for safety, convenience and income. Banks provide interest to the depositors. Generally banks deposits are categorized as;

- Current Deposit
- Saving Deposit
- Fixed Deposit
- Call Deposit
- Margin Deposit

2 Advancing Loans

The next important function of commercial banks is advancing loans. Commercial banks offer various types of loan to the individuals, business unit and other institutions. Deposit fund is used for this purpose after allocating necessary amount in cash to meet current and possible upcoming obligations. On the basis of purpose, repayment, requirements etc commercial banks develop various types of loan products having different features. Generally bank loans are categorized as;

- Cash Credit
- Overdraft
- Working Capital
- Term Loan
- Hire purchase Loan
- Consumer (Housing, Auto, Mortgage etc.)

3 Credit Creation

As mentioned above raw material for advancing loans is deposits and from among the collected deposit banks advance the loans to the borrower. These loans taken by borrower are expensed. Finally the same amount comes back to the bank as deposit. Finally the same amount comes back to the bank. This function of the commercial banks is known as credit creation.

The creation of credit depends on the ratio of cash reserves to deposit which is determined by the bank.

4 Trade Finance

Commercial banks provide various facilities to facilitated external and internal trade. Banks have offered various funded and non- funded

facilities to the business. Services like Letter of Credit, Guarantee, Trust Receipt etc are the example of such finance.

5 Discounting Bills

During the course of business, there are several types of bills of exchange, commercial papers and other negotiable instruments used for making transaction. Commercial banks may deal with such instrument. They buy / discount such bills from sellers, companies and brokers (paying less than their value). Commercial bank can earn commission or interest earning from such discounting.

Discounting bill of exchange is one of the familiar methods of granting short- term loans to businessman. In case of credit sale, the buyer may accept the bill and the seller may discount it with a bank.

6 Transfer of Money (Remittance)

Money can be transferred from one place to other through the bank in the following ways. The customer may purchase a bank draft drawn in favour of the payee. The procedure for purchasing a draft from the bank is a simple one. A form for obtaining a draft should be duly filled. The amount payable to the payee along with the commission should be paid into the bank account.

The customer can transfer funds from one place to another through Mail Transfer or Telegraphic Transfer. Mail Transfer is a method by which the customer requests his banker to transfer a portion of the balance in his account to the payee's account, kept in a different place in the same bank for a nominal commission.

7 Agency Function

Commercial banks also perform a number of agency functions for and on behalf of its customers. They handle transaction in share, stock, bonds and debentures for their clients. As requested by their customers, they pay taxes, fees and dues on their behalf as necessary. Following are the main agency functions:

- Collection and payment of credit instruments
- Credit instruments
- Receipts
- Payments
- Attorney

8 General Utility Functions

A number of other functions are carried on by the commercial banks to facilitate the customers.

- Safe Deposit Locker Facilities
- Guarantee Services
- Merchant Banking
- Automatic Teller Machines
- Gift Cheques
- E-Banking

1.2 Focus of the Study

Commercial bank is institutions that deal with money by accepting deposits from public, government establishments, business units, corporate bodies and private organization as well. They make fund available through their lending and investing activities to borrowers'

individuals, business firm, government establishments etc. But in modern era such banks not only deliver those services but also provide extensive service facilities like bank guarantee, letter of credit, issuance of both debit and credit card, ATM, Telebanking etc. The banks support for extensive both the flow of goods and services from the producer to consumer.

The proposed study will focus on the financial evaluation and effectiveness of Everest Bank Limited and Himalayan Bank Limited. The main purpose of this study is to give overall background of financial evaluation of those banks in terms of liquidity, activity, profitability ratio etc.

1.3 Statement of the Problems

Every organization faces many problems when it runs economic activities. Any research is impossible if we do not find specific problem inside the system of an organization. So, finding a problem is a cornerstone of the whole research.

The commercial banks are not making profit as expected. A big share of their profit is derived from the foreign currency fluctuation gain which may have adverse affect on future profitability. They are concentrating their banking business in urban or sub urban areas and their expertise in rural banking in needed to be strengthening. Though the flow of credit to priority and productivity sector is increasing the major challenge to be faced by commercial is too contributed in the up liftman on priority and productivity sector to the highest extend possible. The credit ratios for the same period declined, which may be the results of the decreasing investments opportunities, the total deposit holding of commercial bank

have significantly increased. The search for new horizon for investment has been the most challenging job for commercial banks.

The main problem into where the research is concentrated is to make an inquiry in the case of weakness and inefficiency their liquidity, earning, capital adequacy and growth of EBL and HBL and to make a comparative analysis of the financial statement of these two banks. The study deals with the following issues:

1. How efficiently the commercial banks are managing their financial performance?
2. What does their financial performance indicate? Are they able to meet the financial obligation?
3. To what extent, these banks have been able to raise their productivity?
4. What are the comparative liquidity, capital structure and growth position of these two banks?

1.4 Objective of the study

The basic objectives of this study are to analyze the financial performance of Everest Bank Limited and Himalayan Bank Limited. It tries to evaluation the overall financial performance of EBL and HBL by using various tools such as financial and statistical tools. The main objectives the studies are as follows:

1. To evaluate and analyze the comparative financial performance of EBL and HBL.
2. To analyze the different types of rise and return of EBL and HBL.
3. To evaluate the liquidity, profitability, capital structure, activity and growth position of EBL and HBL.

1.5 Study Area

The area of this study is Everest Bank Limited and Himalayan Bank Limited.

1.6 Limitation of the study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher, this thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master's of Business Studied). The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

1. This study is mainly based on secondary data provided by the Bank. So, the study is concerned on that extent.
2. This study is focused only financial performance analysis of both Banks.
3. This study carried out mostly on the basis of the published financial documents like balance sheet, profit and loss account and other journals, magazines and books etc. these published documents have their own limitations, which are the limitations of this study too.
4. The in given the quantitative aspects of the two banks, qualitative factor are not studied.

1.7 Organization of the study

This research will be divided into five parts which are as follows:

Chapter1- Introduction

Chapter2 – Reviewing literature

Chapter3 – Research methodology

Chapter4- Presentation and analysis of data

Chapter5- Summary, recommendation and conclusion

CHAPTER –TWO

REVIEW OF LITERATURE

Review of literature is foundation of any kinds of research work. It means reviewing research studies or other relevant preposition in the related areas of the study so that all past studies, their conclusion and deficiencies may be known and further research can be conducted. This chapter highlights available literature related to this research, which makes base of knowledge for the study. Review of literature is stock taking of available literature is one's field of research. It comprises conceptual review of related studies. As per the availability, literature review can be done as follows:-

- **Conceptual Framework**
- **Review of related studies**

2.1 CONCEPTUAL FRAMEWORK

Conceptual Framework will drawn from the review of books, newspaper, research papers, periodicals and related website searching. It basically tries to incorporate the basic concept of financial performance analysis. Financial analysis is the process of analyzing various items of financial statement of a firm to ensure its comparative strengths and weaknesses. To evaluate the financial condition and performance of a company, the financial analyst needs certain measures. The measure frequently used is a ratio, or index, relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give experienced, skilled analysts a better understanding of the financial condition and performance of the firm.

2.1.1 Concept of financial analysis:

The type of analysis varies according to the specific interests of the party involved. Trade creditors are interested primarily in the liquidity of a firm. Their claims are short term, and the ability of a firm to pay these claims is best judged by means of a thorough analysis of its liquidity. The claims of bondholders, on the other hand, are long term. Accordingly, they are more interested in the cash-flow ability of the company to service debt over the long run. The bondholder may evaluate this ability by analyzing the capital structure of the firm, the major sources and uses of funds, its profitability over time, and projections of future profitability.

In all aspects of financial analysis that outside suppliers of capital use in evaluating the firm. Management also employs financial analysis for purpose of internal control. In particular, it is concerned with profitability on investment in the various assets of the company and in the efficiency of asset management R.B. Poudel (2064).

2.1.2 Types of Ratios:

Ratio is relationship between two financial variables which is expressed in mathematical forms. It is used to test the short-term as well as the long-term solvency position of the corporate house it also used to test the earning power and the financial soundness of the company. It assists to manage assets effectively and helps for the financial planning and forecasting James C. Van Horn (2007).

For our purposes, financial ratios can be classified into five groups that can be explained in the following manner:-

1. Liquidity Ratios
2. Leverage Ratios\Debt Mgmt Ratios

3. Activity Ratios
4. Profitability Ratios
5. Market value Ratios

- **Liquidity Ratios**

  Liquidity ratios are used to judge a firm's ability to meet short-term obligations. From them, much insight can be obtained into the present cash solvency of a company and its ability to remain solvent in the event of adversities. In fact, analysis of liquidity need the preparation of cash budgets and fund flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current liabilities, provide a quick measure of liquidity. The two primary tests of liquidity are current ratio and quick ratio.

- Current ratio: It is the quantitative relationship between current asset and current liabilities.
- Quick ratio: It is defined as the quantitative relationship between liquid assets and current assets.

  The company should have proper balance of liquidity. It should not be too high and low. Low amount of liquidity cannot meet its obligations, it loss the creditors confidence, performs poor creditworthiness, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad for the company; idle assets. So it is necessary to have proper balance between high and low liquidity.

- **Leverage Ratios**

  Leverage ratios, also called debt management ratios. This ratio helps to test the long-term as well as total solvency position of the company. The

short term creditors are more concern with the firm's debt-paying ability. And long-term creditors are more concern with the firm's long-term financial strength. Hence, a firm should have strong short as well as long-term financial position. Financial leverage ratios or capital structure ratios are calculated to judge the long- term financial position. These ratios measures mix of debt and owners equity in financing the firm's assets. On the light of these facts we analyze following ratios:

- Debt-asset ratio: It is the ratio between total debt and total assets.
- Debt-equity ratio: It is the ratio between total debt and shareholders equity.

  The process of magnifying the shareholders return through the use of debt is called financial leverage

- **Profitability Ratios**

  Profitability ratio helps to test the earning power and the financial soundness of the company. Profitability is the end result of a number of corporate policies and decision. A company should earn profit to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time .This ratios tells us the profit of the firm relative to sales after we deduct the cost of producing the goods sold. It indicates the efficiency of operations as well as how products are priced. The financial manager should continuously evaluate the efficiency of the company in terms of the profits. Generally two types of profitability ratios are calculated:

  Profitability in relation to sales: - On the basis of sales two major ratios are used to measure the profitability of a firm:

- Net profit margin: It is the ratio between net income and sales of a firm.

- Gross profit margin: It is the ratio between gross profit and sales of a firm.

Profitability in relation to investment: - On the basis of investment three major ratios are used to measure the profitability of a firm:

- Return on assets: It is the ratio between net income and total assets.
- Return on Deposit: It is the ratio between net income and total deposit.
- Return on equity: It is the ratio between net income and total equity.
- Return on Investment: It is the ratio between net income and investment.

2.1.3 Importance of Financial Ratio Analysis

Financial ratio analysis is essential to make a meaningful conclusion about what a particular figure in the firm's financial statements is stating in relation to financial performance of the firm. Financial statements analysis involves comparing the firm's performance with that of other firms in the same industry and evaluating trends in the firm's financial position over time. The use of financial analysis helps financial manager to identify deficiencies and take actions to improve performance. The following are the some main importance of the financial ratio analysis Weston and Birgham (1996).

- Ratio analysis simplifies the financial statement. It tells the whole story of change in the financial condition if the business.
- Ratio analysis may be used as a measure for inter- firm and intra- firm comparisons.
- Ratio analysis is also helpful for effecting control of the business.
- Ratio analysis is very useful for decision making for investor and a firm.
- Ratio analysis helps to identify the strength and weaknesses of a firm.

- The ratios are very useful for assessment of liquidity, profitability, and leverage and activity position of the firm. It helps to evaluate the financial position and performance of the company.
- Financial ratios are also signified by the fact that it facilitates the comparison. Basically it serves two types of comparison one includes the comparison of financial performance of a single firm over different point in time; another includes the comparison of financial performance of a firm with that of other firm in the similar industry.
- Ratio analysis is also helpful to analyze creditors.

2.1.4 Use of Financial Ratios

To evaluate the financial condition and performance of a company, the financial analyst needs yardsticks. The yardstick frequently used is a ratio, or index, relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give experienced, skilled analysts a better understanding of the financial condition and performance of the firm than they would obtain from analysis of the financial data alone James C. Van Horn (2007).

- **Trend Analysis** – Financial ratios help us size up a company as to trends and relative to others. Financial ratios also can be computed for projected, or pro forma, statements and compared with presents and past ratios. In the comparisons over time, it is best to compare not only financial ratios but also the raw figures.
- **Comparisons with others**- It involves comparing the ratio of one firm with those of similar firm or with industry average at the same point in time. Such a comparison gives insight in to the relative financial condition and performance of the firm.

- **Some caveats**- The analyst should avoid using rules of thumb indiscriminately for all industries. Similarly, analysis of the deviation from the norm should be based on some knowledge of the distribution of ratios for the companies involved.

2.1.5 Limitation of Ratio Analysis

There is no doubt that financial ratios are powerful tools in analyzing the firm's financial statement. Or, it is a widely technique to evaluate the financial position and performance of a business. But ratios are only the means to reach conclusion and not conclusions in themselves. Financial analysis is the lack of underlying theories to help us identifying which quantities to look at and which standard to use. In addition, some specific limitations of ratio analysis are as follows Rishi R. Gautam (2009).

- It is difficult to decide on the proper comparison.
- Lack of standard formula for working out ratios makes it difficult to compare them.
- The differences in the definitions of items in the balance sheet and the profit and loss statement make the interpretation of ratios difficult.
- The ratios are generally calculated from past financial statements and, thus are mo indicators of future.
- The comparison is rendered difficult because of differences in situations of two companies or of one company over years.
- The current economic conditions are ignored.
- Ratios are qualitative analysis only and normally qualitative factors are needed to draw conclusions.
- Price changes are not taken into account.
- Ratio analysis is only a beginning and it gives only little information about decisions.

- The ratios calculated at a point of time are less informative and defective as the suffer from short- term changes.
- It is guide rather than solution to present problem and future plans.

2.1.6 Users of financial statements and ratio analysis

Financial ratio analysis users are broadly classified into two parties. Internal as well as external parties concerned to a corporate firm. As insider, management and shareholder use financial ratio to assess earning potentiality and overall financial performance of a firm. As outsider, the creditors, government, institutional lenders bondholders carry out financial ratio analysis to have knowledge about short-term solvency position fixed charge payment capacity of the firm. Internal users, primarily the managers of a company are involved in making operating and strategic decision for the business. Internally generated financial reports are, therefore, specially tailored to the unique information needs of an internal decision maker, such as CEO or internal auditor.

External users are individuals not directly involved in the company's operations. These users most relay on information provided by management as a part of the financial reporting process. There are many classes of external users of financial statements. Creditors are bankers, bondholders and creditors look to financial statements for evidence concerning the ability of the borrower to pay periodic interest payments and repay the principle amount when the loan matures. Equity investors include existing and potential shareholders of a company. Existing shareholders need financial information in deciding whether to continue holding the stock or sell it. Potential shareholders need financial information to help in choosing among competing alternative investment.

Merger and acquisition analysts are interested in determining the economic value and assessing the financial and operating compatibility of potential merger candidates.

Auditors use financial analysis techniques in determining areas warranting special attention during their examination of a client's financial statements.

Board of directors, in their role as appointees of shareholders, monitors management's actions.

Regulatory agencies utilize financial statements in the exercise of their supervisory functions, including the Securities and Exchange Commission, which carefully oversees published financial statements for compliance with federal securities laws.

Others users include employees, intermediaries, suppliers and customers. All of these users relay on the analysis of financial statements R. Bhattarai (2009).

2. 2. REVIEW OF RELATED STUDIES:

Generally, in this chapter, previous writings, research and studies related to financial analysis for Nepalese commercial banks. The opinions or views expressed regarding commercial banks and their activities on journal, booklets and magazines, etc. are as follows:

2.2.1 Reviews from Books and Articles

Rishi R. Gautam (2009); "Managerial Finance" It describes the limitations of financial ratio analysis. There are considerable drawbacks associated with the use of financial ratios. However, they should be used

with extreme care and the analyst must work with his or her judgment to understand the quality of financial data rather than quantity.

Bajracharya (1990); "Monetary Policy and Deposit Mobilization in Nepal" It states that the mobilization of the domestic saving is one of main objective of the monetary policy in Nepal and commercial Banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy.

Rajan Bikram Thapa (2010); "Principles and Practices of Nepalese Banking"It describes the meaning and functions of Nepalese commercial banks.

Murari R. Sharma; "Joint Venture Banks in Nepal: Co-existing or crowding out" On his article highlighted that "It would be operated in the country and not to take advantage to them as additional means of new era in banking. However, it will certainly be unfortunate for the country to develop the joint venture banks at the cost of the domestic banks. So for one should admit frankly no different treatment has been extended to the domestic and joint venture bank at least from the government side, which is commendable. If his majesty's Government keeps on the stance of treating the domestic and joint venture banks, equally deposit the latter's bargaining strength and if the joint venture banks also show their alacrity to come forward to share the trails and tribulations of this poor country both types of banks will co-exist, complementing each other and contributing to accelerated development. On the country if the joint venture banks use their straight against trading into the cumber some path of development along with the domestic banks and the government. They will eventually crowd out the domestic banks from the more profitable

urban areas and lucrative urban sectors unless remedying by the determination of the government."

Weston and Birgham (1996); "Managerial Finance" It describes the use and important of financial ratios and comparative ratios analysis for the company.

Pradhan (2006); "Opportunities and Challenges on WTO Accession in Insurance and Banking and Financial Services in Nepal" It explained that Nepal is scheduled to open its banking sector to foreign competition by 2010 A.D. Banking community needs to accepts the challenges and be prepared to enter into global market with proper strategic plan.

In this regard, to get the opportunities, banking sector need to discover geographical comparative improvement for providing financial services globally. International financial center could be established and explored. In order to strengthen them domestic financial institutions and to enlarge the business, merger, and managements contracts, acquisition and management agreement can explored. Local, Bilateral and multilateral integration have already created foundation for global integration which needs to be continuously strengthened in the future too.

This type of integration today is to accept fair competition and achieve development benefit. So the banking industry should be prepared to accept the challenges concerned the opportunities contained there in by enhancing capital.

Manohar Krishna Shrestha "Commercial banks comparative performance evaluation" In his article interprets that joint venture banks are new, more efficient Shaving superior performance of joint venture banks is due to

their stylish technology, skill and banking scheme. Due to the government's branching policy in rural areas and financing regional banking area efficient in rural sector, it creates the better performance. Even though having number of insufficiency, regional banks have to face growing constraints of socio-economic political system in one scale and that of issue and challenges of joint venture banks commanding significant banking business in other scale.

Panta(2006); "Nepal Membership in WTO and Financial Services Sector"

It explains that Globalization and Liberalization have flounced across world no longer it is choice but reality. A financial service is the key sector that underpins global economic growth and plays a major role in the development of infrastructure for trade in goods and services. Liberalization of trade in goods and services, when undertaken in combination with transparent and strong regimes, benefit countries in many ways, with this said there is enormous proportion to gain for Nepal from the liberalization of the financial sector. But revolution and the political instability have raised the risk for foreign investors to invest in the country. Risk ranking of Nepal is at the highest degree.

Norris (2007); "Be Cautious While Licensing a New Foreign Bank"

It considered about the possible impact of foreign banks setting up their branches here said if proper regulations are not made by Nepal Rasta Bank, after that the Nepali banks stand to lose a lot. Banks have been assuming that when foreign banks come in, they will only be interests in wholesale lending. But if the right rules are not set in place, nothing will stop foreign bank, going into the retail sector. They might do it just to kill off competition and monopolies ' the Nepali retail sectors which is profitability given the number if bank making profit in retail business

currently. The solution suggested is to adopted policies to prohibit foreign banks from entering the retail sector.

Ratna R. Bajracharya;"Rastriya Banijya Bank: A comparative performance study" In his article, it conclude that deposit grow at commercial banks is not consistent local banks and better in activate, but they are not much competent in credit expansion. Credit deposit ratio is better in joint venture banks. Non-performing loan is greater in designer banks are forced to open and continue their branches at the rural areas but banks branches at the rural areas but joint venture banks are ready to pay fines for not doing so.

Kim (1993); "International Money and Banking" It defines that commercial banks as "financial intermediaries which offer demand deposit and both of which contain some unique features, which may justify to differentiate them from other financial institutions". Further adds that when commercial banks operate internationally, it faces four distinctive international dimensions, namely the bank's home country; it's facility location, residence of customers and currency denomination of banking products. With a number of suitable combinations of these dimensions, we developed classification of international banking markets, from the offshore market.

Based in theories of direct foreign investment, he had developed an elastic theory of international banking, describing dynamics of three sources of comparative advantage for banks to go abroad, namely, home-country and firm-specific advantages. One main source of home country specific advantages come from the home currency begins used as international money, where as host-country specific advantages stem mainly from the special bank-customers relationship, which is

characterized by the follow –the –customers hypothesis of the product-cycle theory, and internalization theory.

Hodlock and James (2002), "Do Banks Provide Financial Slack?"

It states that the banks have ability to accurately price financial claim, thus including a preference for undervalued firms to choose bank debt as their managerial financial source. They refers to this motivation for using bank debt as the information benefit will be weighted against a variety of contracting cost in a firm's ultimate financing choice.

Rajan B. Poudal and Keshar J. Baral (2064); "fundamentals of financial management" It state that the financial management meaning, scope, nature and importance. A firm exists in an economy with a goal to create value to its owners. To purse its goal the firm performs various activities such as supplying goods and services in the economy. The establishment and operation of a firm requires resources of various types.

Finance was a branch of economics till the closure of nineteenth century. Finance as a spate academic discipline is still evolving. Practicing managers and academicians have been contributing in its expansion and enrichment. At the present state, the academic discipline of finance includes the following specialized areas in its scope.

James C. Van Horne (2007); "Financial Management and Policy"

It describes the concept of financial ratio analysis. To make rational decisions In keeping with the objectives of the firm, the financial manager must have analytical tools. The more useful tools of the financial analysis are the subject of this book.

Sunity Shrestha (1997), “Lending operation of commercial banks of Nepal and its impact on GDP” In her article, has presented the objectives

to make and analysis of contribution of commercial banks lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependant variable and various sectors of lending viz. Agriculture, Industrial, Commercial, Service and general and social sectors as independent variables. A multiple regression technique has been applied to analyze the contribution.

The multiple analyses have shown that all the variables except service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e., there has been positive in GDP by lending of commercial banks in various sectors of economy, except service sector investment. Likewise, Dr. Shrestha has analyzed the financial performance of commercial banks using both descriptive and diagnostic approach. In her study, she has concluded the following points:

- The structures of commercial banks shows that bank invest on the average 75% of their total deposit on the government securities and the resources.
- The analysis of resources position of commercial banks showed quit high percentage of deposit as cash reserve.
- Return ratio of all the banks show that most of the time foreign banks have higher risk of Nepalese banks.
- The debt equity ratios of commercial banks are more then 100% in the most of the period under study period. It led to conclude that the commercial banks are highly leveraged and highly risk. Joint venture

banks had higher capital adequacy ratio but has been dealing everyday.

- Income of analysis of the management achievement foreign banks has comparatively higher total management achievement index.
- Thus comparing all the banks through the time period financial condition and performance are better in joint venture banks than local banks .

2.2.2 Review of Thesis

Sangita Shakya(2000); in her thesis "Comparative Analysis of Financial performance of Selected Joint Venture Banks'. A case study of NGBL & HBL," It has conclude that liquidity ratio of HBL have been higher than NGBL. Profitability ratios of both banks revealed that among various profitability ratios like return on total assets, return on total deposits, the performance of NGBL is better than HBL. HBL has higher return on net worth or shareholder's fund than that of NGBL. She further includes that the activity ratios such as loans and advances to total deposit ratio, total income generating assets of total assets ratio of HBL is higher than NGBL. Total debt to total assets ratios of both the banks exceeded 90% which indicates that both banks are successful in exploiting debt to total assets, however HBL's ratio is higher as compared to NGBL. The capital adequacy position is better in NGBL than HBL.

Further she recommends that NGBL should increase its cash & bank balance as directed by Nepal Rastra Bank.HBL also suggested to increase its capital adequacy ratio above 8%. She strongly recommends to both banks to minimize their operating expenses as far as possible since it contributes to enhance the volume of profits. NGBL is suggested to

utilize more of the deposits in extending loans and advances and HBL should attempt to stabilize the fluctuating loans and advances to total deposit. She further recommends to both banks to extend their banking facilities even in the rural areas providing special loans to the deprived and priority sectors.

Biru Ram Jaishi (2003); "A Study on financial Performance of Joint Venture Banks in Nepal' Study of Five Joint Venture Banks; NBBL, NABIL, SCBNL etc…The main objective of this study has found the trend of deposit and total income, total expenses and net income of these five joint venture banks are increasing. He has conclude that liquidity position of NBBL is better than other banks and can easily pay the current liabilities also that other banks should try to maintain 2:1 liquidity position. The profitability position of SCBNL and NABIL is likely same and better than other banks.SCBNL has higher investibility ratio than other.

Subi Joshi (2003); "A Study of Financial Analysis of Nepal Investment Bank Limited" The main objectives of this study to evaluate the overall financial position, Examine Liquidity, Profitability and ownership ratio and to study the income and expenditure statement if the Bank. On the basis of various analyses, the researcher came out with the following conclusion. The current ratio of the bank over the study period is 1.09 times on average. Therefore, the liquidity position NIBL is in normal standard. The cash and bank balance proposition with respected to the current assets is moderate since the average ratio is 10.17%.The result of the analysis indicates that the share of fixed deposit is high in the total deposit. Saving deposits stand mid way between current and fixed deposits. The analysis indicates that the cash reserve as bank is more than required. Hence, in general this liquidity position of the bank is good

enough to meet the short-term obligation. The debt equity ratio of bank is high, which means the creditor have invested more in the bank than the owners.

Interest earned in comparison to the assets is inadequate. Net profit earned in comparison to the total deposit is relatively low. The result of the analysis indicates that the net profit earned in comparison to total assets is fluctuating. Profit earning and the shareholders equity of NIBL are better. The activity ratio of bank indicates that it had utilized its resources in the best possible way to maximize its wealth. Because the bank has succeed to utilize total deposits in profit generating purpose and the bank had mobilized its total deposit in loans and advance satisfactory.

The EPS of the bank is quite good because through the EPS had fluctuate its average stands 54.16% during the study period. The proportion of earning distributed to the shareholder per share is very low and they are being compensated very slowly. DPR of the bank is decreasing and very low.

Kumar Bhattarai (2005); "A Comparative Study of Financial Performance of Nepal SBI Bank Limited and Everest Bank Limited"

The main objectives of this study is to examine and evaluate the performance of two joint venture bank and reached to the conclusion that total deposit, total investment, loan and advance are net worth have been growing in faster pace in Nepal SBI Bank Limited. But the growth rate of net profit seems faster in EBL which will made the net profit of EBL exceed than that of NSBIBL after three year if past trend continues, the high growth rate of EPS and MVPS will make MVPS of EBL exceed than that of NSBIBL after three year.

Arun pratap (2007); "Financial Performance of Joint Venture Banks in Nepal with reference to Everest Bank Limited" The main objectives of this study are to evaluate liquidity, profitability, capital structure, turnover, cost effectiveness and growth position of EBL and she found that the liquidity position of EBL is efficient. It showed that EBL cannot maintain the convenient standard of current ratio of 2:1.

CHAPTER-THREE

RESEARCH METHODOLOGY

Research methodology is another important part of the thesis writing. Research methodology is a systematic and scientific method or technique that is used in handling a problem by the research. In other word, research methodology provides the various instructions as regards to the methods and process associated with the overall study.

. For the purpose for achieving the objective of study the applied methodology is used. Research is the scientific and systematic process. It includes all types of investigation requiring solution to the problem. The scientific and systematic process of research involves activities of identifying problems, collecting facts and information, tabulating and recording the data, setting hypothesis, analyzing the facts and reaching at certain conclusion with a view to finding answer to the problem.

3.1 Research design

Research is design is a plan outlining is to be gathered for an assessment or evaluation that includes identifying the data gathering methods, the instruments to be used, how the instruments will be administered, and how the information will be organized and analyzed. Considering the objective of the study descriptive and analytical research design has been used.

Descriptive techniques have adopted to interpret performance of EBL&HBL.

For the analytical part, statistical and financial tools have been used with the help of annual report and financial statement published by EBL&HBL.

3.2 Population and sample

This research work is going to conduct about the financial analysis of Nepalese commercial banks. That's why all commercial bank's which are established and operated within the boundary span of Nepal as well as under Nepal bank act; those are population size of this research. So, all 32 commercial banks of Nepal are its population size. Among those 32 commercial banks only 2 commercial banks are selected as the sample of this study by using simple random sampling method. Those sample banks are;

Everest Bank Ltd.

Himalayan Bank Ltd.

3.3 Research Period

In this study, financial data will contain the period of five years from the fiscal year 2006/2007 to 2010/2011 of Everest bank ltd and Himalayan banks Ltd have been collected. The studies of five years data of selected commercial banks show the performance analysis.

3.4 Nature and source of data

This study based on secondary data. The relevant secondary data will obtained from balance sheet and profit and loss account of concerned banks (EBL & HBL) annual reports published on web site of concern bank. Supplementary data and information are collected from number of institution and regulating authorities like www.nrb.org.np data and information are collected from the periodicals, economic journals, managerial magazines and other published and unpublished reports and documents from various source and websites.

3.5 Data processing procedure

The study is basically based on the secondary data. That data are collected in simple from in the initial stage and then properly synthesize, approved, tabulated and calculated to serve the objective of the study.

At first the collected data were systematically studies to identify the required data for the analysis purpose. And then the required data were extracted from those sources as per need of the study. For the purpose, the data have been processed for the analysis the risks and returns of the selected commercial banks. Besides, they have been used for financial performance measure of the selected banks.

3.6 Methods of analysis

Method of analysis is an important part in research work. On the basis of research problem and objectives of the study data and information needed is identified and collected. The collected data are properly processed and arranged in the form of the table for simplicity. To achieve the objective of the study, various financial, statistical and accounting tools have been used in this study. The analysis of data will be done according o to pattern of data available.

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

Financial tools:

Financial tools are very useful to evaluate the performance of any organization. It determines the strengths and weakness of a firm as well as its historical performance and current financial condition. These tools are used for the analysis and interpretation of financial data. The financial

tools employed in this study basically represent ratio analysis, leverage analysis and others.

Ratio analysis

Ratio analysis is the quantitative relationship between two or more sets of financial data derived from income statement and balance sheet. Financial analysis is the process of analyzing relative strengths and weakness of firm's financial position.

Ratio analysis is the essential to make a meaningful conclusion about what a particular figure in the firm's financial statements is stating I relation to financial performance of the firm. Financial statements analysis involves comparing the firm's performance with that of others firms in same industry and evaluating trends in the firm's financial position over time. The use of financial ratio analysis helps financial ratio analysis helps financial manager's to identify deficiencies and take actions to improve performance.

There are various types of ratio that can be used to analyze the financial performance of the firm. In this research only the important and relevant ratios are used to find the financial strength of EBL&HBL.

Liquidity ratio

The ratios used to assess the short- term solvency position of a firm. Liquidity ratios measure the firm's ability to satisfy its short-term commitments out of current or liquidity assets. These ratios focus on current assets and liabilities and are used to ascertain the short-term solvency position of a firm. The two primary test of liquidity are current ratio and quick ratio.

Current ratio

The current ratio is the quantitative relationship between current assets and current liabilities.

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

Current assets those assets which can be converted into cash and bank balance within analysis accounting period such as cash and bank balance.

Current liabilities refer to the short term maturing obligation. This includes as deposit liabilities.

Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm less than 2:1, the solvency position of the firm is not good. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business.

Cash and bank balance to current assets ratio

Cash and bank balance to current assets ratio reflects the portion of cash and bank balance in total of current assets. Cash and bank balance are highly liquid assets than other in current assets portion so this ratio visualizes higher liquidity position than current ratio. This ratio can be calculated by using the following formula:

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

The ratio shows the percentage of readily available fund within the bank. In the present study cash and bank balance represent total of local currency, foreign currencies, cheques in hand and various bank balances in local as well as foreign banks.

Cash and bank balance to total deposit ratio

Cash and bank balance are the most liquid current assets. The ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositors.

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

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

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice-versa. Both higher and lower ratios are not desirable. So, sufficient and appropriate cash reserve should be maintained properly.

Leverage ratio

This ratio is 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, helps to measure the financial contribution of owner and creditors comparatively. These ratio indicates 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 holder, financial institution etc.

The firm should maintain optimal mix of investors and outsiders fund for the benefit of owners and it stability. Following ratios are used to test the optimality of capital structure of EBL&HBL.

Debt assets ratio

This ratio shows the proportion of outside fund used in financing total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. This ratio is calculated by using the following formula:

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

A high debt to assets ratio represents a greater risk to creditors and shareholders and vice-versa.

Debt –equity ratio

It is a test of long- term solvency of the bank. Debt –equity ratio examines the relative claims of creditors and owners against the bank's assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is computed by using the following formula:

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

High ratio shows the creditor's claims are greater then that of owners and low ratio implies a greater claim of owners than creditors. The ratio should be neither too high nor too low.

Profitability ratio

The profitability ratio's, the name suggests measure the operating profitability in terms of profit margin return on equity and return on total investment, reflects the overall efficiency and effectiveness of management. Profitability can be measured in terms of a relationship between net profit and assets. This ratio is also known as profit-to-asset ratio. It measures the profitability of investment. Various ratios can be developed based upon the profit under different circumstances. These different ratios are called profitability ratios, which are required to support the purpose of the profitability ratios calculated in this study are:

Return on total assets ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This ratio is calculated by dividing net profit by total asset as follows:

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

The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice-versa.

Return on total deposit ratio

It helps to find out the profit earned using total deposits. The main financial source of a bank is deposit collection and deposits are mobilized for insurance and advance in other investment to gain profit. It is calculated by using the following formula as follows:

$$\text{Return on Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposits}}$$

Higher ratio represents better utilization of profit and total deposits.

Return on equity ratio

This ratio shows the capacity of the banks to utilize its owner's fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. It is calculated by the following formula :

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

Higher ratio represents the sound management and efficient mobilization of owner's equity.

Return on investment ratio

This ratio measures the percentage of return on total investment. It is calculated by using the following formula as follows:

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

The higher ratio represents the higher efficiency of the bank in utilizing its resources on investment.

Other Ratios

Current assets to share capital Ratio

This ratio represents the proportion of current assets to share capital. It is computed as current asset dividing by share capital.

$$\text{Current assets to share capital Ratio} = \frac{\text{Current asset}}{\text{Share Capital}}$$

Higher ratio indicates greater utilization of current assets out of share capital and vice-versa.

Current assets to borrowing Ratio

This ratio represents the proportion of current assets to borrowing. It is calculated as current assets dividing by borrowing.

$$\text{Current assets to borrowing Ratio} = \frac{\text{Current asset}}{\text{Borrowing}}$$

Current assets to total fund Ratio:

This ratio gives an insight of current assets of the bank in relation to source of total fund. It is calculated as Current assets dividing by total fund

$$\text{Current assets to total fund Ratio} = \frac{\text{Current asset}}{\text{Total Fund}}$$

Current assets to fixed assets Ratios:

This ratio represents the proportion of current assets to fixed assets. It is calculated as current assets dividing by fixed assets.

$$\text{Current assets to fixed assets Ratio} = \frac{\text{Current asset}}{\text{Fixed asset}}$$

Fixed assets to Share capital Ratios:

An accounting ratio obtained by dividing fixed assets by Share capital is called fixed assets to share capital ratios. Higher ratio indicates greater utilization of fixed assets out of Share capital and vice-versa. It is calculated as fixed assets dividing by share capital

$$\text{Fixed assets to share capital Ratio} = \frac{\text{Fixed asset}}{\text{Share capital}}$$

Fixed assets to borrowing Ratios:

Fixed assets to borrowing ratio reflect the percentage of borrowing that has been financed by fixed assets. It is calculated as fixed assets dividing by borrowing

$$\text{Fixed assets to borrowing Ratio} = \frac{\text{Fixed asset}}{\text{Borrowing}}$$

Fixed assets to total fund Ratios:

Fixed assets to total fund ratio represents the proportion of fixed assets to total fund. It is calculated as fixed assets dividing by total fund.

$$\text{Fixed assets to total fund Ratio} = \frac{\text{Fixed asset}}{\text{Total fund}}$$

Fixed assets to Current assets Ratios:

An accounting ratio obtained by dividing fixed assets by current assets is called fixed assets to current assets ratios. Higher ratio indicates greater utilization of fixed assets out of current assets and vice-versa. It is calculated as fixed assets dividing by current assets.

$$\text{Fixed assets to Current assets Ratio} = \frac{\text{Fixed asset}}{\text{Current asset}}$$

Statistical tools

The statistical tools selected for the comparative study of EBL&HBL are as follows:

Arithmetic Mean

The mean or average value is a single value within the range of the data that is used to represent all 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. Average value is obtained by adding together all the terms and by dividing this total by the number of items. The formula is given below:

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

Where,

$\bar{X}$ = Arithmetic average

$\sum x$ = Sum of values of all items, and

N = Number of terms

Standard Deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ{read as sigma}, standard deviation is extremely useful for judging the representatives of the mean.

Standard deviation is represented as:

$$\sigma = \sqrt{\frac{1}{n}\sum\left(X - \bar{X}\right)^2}$$

Where,

σ = Standard deviation

Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation, the greater risk relative to the average

Mathematically,

C.V = $\frac{\sigma}{\overline{X}}$ *100 where,

C.V = Coefficient of Variation

σ= Standard deviation, and

$\overline{X}$= Arithmetic average

Index:

An index is an indictor or represents the changes in the values between two distinct time periods; a base time period and another particular time period. Index is calculated by using the following formula:

$$\text{Index} = \frac{\text{current value}}{\text{Base value}} * 100$$

CHAPTER-FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter the researcher deals with the analysis and interprets the relevant and analysis data of Himalayan Bank and Everest Bank according to the research methodology to attain the objective of this study. During analysis data gathered from various sources have been inserted in tabular form. Using financial and statistical tools the data have been analyzed.

4.1 Financial and Statistical Tools

Financial tools are used to get precise knowledge of a firm which in turn is fruitful in exploring the strengths and weakness of financial policies and strategies. These tools are used for the analysis and interpretation of financial data. The financial tools employed in basically represent ratio analysis, leverage analysis and others.

4.1.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. Difference between current assets and current liabilities is known as working capital, which provides liquidity in business organizations. A commercial bank must maintain a fair liquidity position to satisfy the credit needs of the community, to meet demands for desposit withdrawals, pay matured obligations in time and convert non-cash into cash to satisfy immediate needs without loss to the bank and without consequential impact on long-run profitability of the bank.

Current Ratio

Current ratio indicates the ability of the banks to meet to its current obligation. This ratio measures the liquidity position of the financial institutions. It is calculated by dividing current assets by current liabilities. The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case to banking and seasonal business ratio such as 1:1 etc. The current ratio of EBL and HBL is given in the following table.

Table No 4.1

Current Ratios

Fiscal year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	1.45	-----	-----	1.17	------	------
2007/08	1.39	95.86%	(4.14%)	1.09	93.16%	(6.84%)
2008/09	1.23	84.82%	(11.04%)	1.12	95.73%	2.57%
2009/010	1.38	95.17%	10.35%	1.30	111.11%	15.38%
2010/011	1.54	106.21%	11.03%	1.39	118.80%	7.69%
Mean	1.398			1.214		
S.D.	0.113			0.127		
C.V.	8.11%			10.46%		

Source: Annual Report of EB

This table clearly shows that the current ratios of all the banks are always less than 2:1 but almost equal to 1, or more than 1.

More specifically the current ratio of EBL has ranged between 1.23(2008/09) to 1.54(in 2010/011). Whereas ratio of HBL has ranged between 1.09(2007/008) to 1.39 (in 2010/011).It can be seen that the ratio of both banks are in fluctuating trend due to the standard deviation. During the year 2008/2009 it was in decreasing trend and again in increasing trend in 2010/1011. The current ratio of these banks is below the normal standard, it cannot be concluded that the liquidity position is poor. If the mean ratio is observed it is found that the EBL is higher of than HBL (i.e., 1.398>1.214).The S.D. of EBL is less than HBL (i.e., 0.113<0.127. Similarly, the C.V. of EBL is less than HBL (I.e., 8.11 %< 10.46%). It indicates that the current ratio of EBL is more consistence than HBL. And we can say that the EBL has sound ability to meet its short term obligation.

Cash and Bank Balance to Current Assets Ratio

This ratio reflects the portion of cash and bank balance in total current assets. Higher ratio shows the bank's ability to meet its demand for cash. A high cash and bank balance to current ratio indicates high proportion of the most liquid assets in total current assets. This further indicates the banks' ability to meet daily cash payments for the requirement of their depositors. However, much higher of this ratio is not preferred as the bank has to pay interest on deposits and will increase the cost of fund that might impair their profitability. Likewise, lower of this ratio is detrimental to the bank, as the bank will have hard times to make the payments against the cheques presented by customers. It is computed by dividing cash and bank balance by current assets.

Table No.4.2

Cash and Bank Balance to Current Assets Ratios

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	11.5	-------	-------	17	-------	-------
2007/08	10.3	89.56%	(10.44%)	5.1	30%	(70%)
2008/09	18.4	160%	70.44%	9.3	54.70%	24.70%
2009/010	20.5	178.26%	18.26%	11	64.70%	10%
2010/011	14.6	126.95%	(51.31%)	7.4	43.53%	(21.17%)
Mean	15			9.96		
S.D.	0.044			0.045		
C.V	29.33%			45.18%		

Source: Annual Report of EBL and HBL

Table 4.2 shows the cash and bank balance to total current assets of EBL and HBL, and their means, standard deviations and coefficient of variation during Fiscal Year 2006/07 to 2010/011. Ratio of EBL has ranged between 10.3 in year (2007/08) to 20.5(in 2009/010). Where as ratio of HBL has ranged between 5.1(in 2007/008) to17 (in 2006/007).It can be seen that the ratios of both banks are in fluctuating trend due to the S.D.

The average of the ratio in case of EBL was 15%, while that of HBL was 9.96%, which indicates that liquidity position of EBL, is better in this regards. The coefficient of variation of the above ratios of EBL is 29.33%, which is lower than 45.18% of HBL, which shows that the ratios of EBL were more stable and consistent than that of HBL during the period.

Cash and Bank Balance to Total Deposit Ratio

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio measures the capacity of bank to meet unexpected demand made by depositors. The cash and bank balance to total deposit ratio of EBL and HBL is given in the following table.

Table No.4.3

Cash and Bank Balance to Total Deposit Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	13	-------	-------	15	--------	--------
2007/08	11	84.61%	(15.39%)	4.5	30%	(70%)
2008/09	18	138.46%	53.85%	8.8	58.67%	28.67%
2009/010	21	161.54%	23.08%	10	66.67%	8%
2010/011	15	115.38%	(46.16%)	7.2	48%	(18.67%)
Mean	15.6			9.1		
S.D.	3.97			3.88		
C.V	25.45%			42.64%		

Source: Annual Report of EBL and HBL

From the table-4.3, it is apparent that ratio of cash and bank balance to total deposit ratios of both banks during the study period were fluctuating. The highest of this ratio for EBL during the period was 21% in the year (2009/2010) and the lowest 11% in the year (2007/2008). Similarly, HBL registered the highest ratio of 15%in (2006/2007) and the lowest ratio of

4.5%in the year (2007/2008). During the year 2009/010 it was in increasing trend and again in decreasing trend in 2010/2011.

The mean ratio of EBL has 15.6% which is higher than that of HBL (i.e, 15.6%>9.1%). This shows EBL's more readiness to meet customers' requirement than HBL's.

Since the HBL has maintain lower cash reserve ratios during the study period , therefore EBL was in a better position to meeting the demand of its customers any time on their deposit.

4.1.2 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 owner and creditors comparatively. These ratio indicates 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 holder, financial institution etc.

Debt-Assets Ratio

This ratio exhibits the relationship between creditors fund and owner capital. This ratios show the proportion of outside fund used in financing total assets. It also measures the financial security to the outsiders. Generally, creditors prefer a low debt ratio owners prefer high debt ratio in order to magnify their earnings on the one hand and to maintain their concentrated control over the firm on the other.

Table-4.4

Debt –Assets Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	86.25%	------	-------	91%	------	-------
2007/08	89.42%	103.67%	3.67%	91%	100%	-------
2008/09	92.%	106.67%	3%	89%	97.80%	(2.20%)
2009/010	90.92%	105.41%	(1.26%)	89%	97.80%	-------
2010/011	90.64%	105.09%	(0.32%)	89%	97.80%	-------
Mean	89.85			89.8		
S.D.	3.97			1.095		
C.V	4.42%			1.22%		

Source: Annual Report of EBL and HBL

This table shows that the Debt-Assets ratio of EBL and HBL.EBL's debt-assets ratio over the study period ranged between 86.25% in year (2006/007) to 92% in year (2008/009). Likewise HBL's debt- assets ratio is ranged between 89% in year (2008/011) to 91% in year (2006/2008). In an average EBL registered highest debt to assets ratio (i.e., 89.85>89.8).

From the above analysis that debt to total assets ratio of both banks aren't much satisfactory because the ratio 1:2 where is considered satisfactory has not been maintained by either of the bank

Debt-Equity Ratio

It is a test of long term solvency of the bank. Debt - Equity ratio examine the relative claims of creditors and owners against the bank's assets. It

indicates the contribution of debt capital and equity capital fund to the total investment. High ratio shows that the creditors' claims are greater than those of owners and low ratio implies a greater claim of owners than creditors. The ratio should be neither too high nor too low. Debt-Equity ratio of EBL and HBL is given in the following table.

Table No.4.5

Debt –Equity Ratios

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	15.38%	-------	-------	14.27	-------	--------
2007/08	12.63	82.12%	(17.88%)	13.04	91.38%	(8.62%)
2008/09	15.40	100.13%	18.01%	11.27	78.97%	(12.41%)
2009/010	13.64	88.68%	(11.45%)	11.08	77.64%	(1.33%)
2010/011	13.46	87.52%	(1.16%)	10.37	72.67%	(4.97%)
Mean	14.102			12.01		
S.D.	1.236			1.602		
C.V	8.76%			13.34%		

Source: Annual Report of EBL and HBL

This table shows that the Debt-Equity ratio of EBL and HBL. EBL's has ranged between 12.63 in year (2007/008) to 15.40 in (2008/2009).Where as, HBL has ranged between 11.08 in year (2009/2010) to 14.27 in year (2006/007).

In an average debt-equity ratio of EBL is higher than the HBL (.i.e.14.102>12.01).HBL debt-equity ratio is decreasing trend. The S.D of

EBL is less than the HBL (i.e., 0.113<0.127). Similarly, the C.V of EBL is also less than the HBL (i.e., 8.11 %< 10.46%).

It explains that HBL's ratio is fluctuated over the study period. Similarly, EBL has the highest debt equity ratio in comparison with HBL.

4.1.3 Profitability Ratios:

Profitability is the end result of a number of corporate policies and decisions. It measures how effectively the firm is being operated and managed. Besides owners and man agers, creditors are also interested to know the financial soundness of the firm .owners are eager to know their returns where as managers are interested in their operating efficiency. So they calculate profitability ratios because expectations of both owners and manager are evaluated in terms of profit earned by the firm. Following are the major ratios used to measure the profitability of a firm:

Return on Assets:

The ratio measures the productivity of the assets. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the bank. It measures the efficiency of bank in utilization of the overall operation. Return on Assets ratio of EBL and HBL is given in the following table

Table No.4.6

Return On Assets Ratios

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	1.38%	-------	-------	1.47%	-------	-------
2007/08	1.66	120.29%	20.29%	1.76	119.73%	19.73%
2008/09	1.73	125.36%	5.07%	1.91	129.93%	10.2%
2009/010	2.01	145.65%	20.29%	1.19	80.95%	(48.98%)
2010/011	2.01	145.65%	-------	1.91	129.93%	48.98%
Mean	1.76			1.65		
S.D.	0.26			0.31		
C.V	15.056%			19%		

Source: Annual Report of EBL and HBL

This table shows the ratio of EBL and HBL. EBL's has ranged between 1.38 in year (2006/007) to 2.01 in year (2009/2011).Where as HBL's has ranged between 1.47 in year (2006/2007) to 1.9 in year (2010/2011). It can be seen that the ratios of EBL are in increasing trend and the ratio of the HBL are in fluctuating trend. Comparatively the average return on assets of EBL is higher than the HBL (i.e. 1.76>1.65). EBL has been able to utilize its resources in most profitable project than the HBL. On the basis of standard deviation HBL is higher than the EBL .i.e. (0.31>0.26). Similarly, the coefficient of variation of the ratio of EBL is found to be lowest then the HBL. (i.e.15.06 %< 19%).

Return on - Deposits

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio

represents better utilization of profit. Return on total deposit shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio indicates strong profitability position and vice versa. Return on Deposit ratio of EBL and HBL is given in the following table:

Table No.4.7

Return on Deposit Ratios

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	1.63%	------	-------	1.64%	-------	------
2007/08	1.88	115.33%	15.33%	2.00	121.95%	21.95%
2008/09	1.92	117.79%	2.46%	2.17	132.32%	10.37%
2009/010	2.25	138.04%	20.25%	1.35	82.32%	(50%)
2010/011	2.26	138.05%	0.001%	2.18	132.93%	50.61%
Mean	1.99			1.87		
S.D.	0.27			0.36		
C.V	13.46%			19.40%		

Source: Annual Report of EBL and HBL

EBL's return on deposit over the study period ranged between 1.63 in year (2006/2007) to 2.26 in year (2010/2011). The ratio has recorded an increasing trend over the year. Likewise, HBL's return on deposit over the study period ranged between 1.35 in year (2009/2010) to 2.18 in year (2010/2011). The ratio has recorded an in fluctuating trend over the study period.

In an average, EBL registered highest return on total deposit i.e. (1.99>1.87). The bank was able to earn interest more or this bank was able to utilize posts to profitable project.

Considering coefficient of variation of banks, HBL has relatively higher than EBL i.e. (19.40>13.46). Both banks have maintained profitability. It can be said satisfactory.

Return on Equity Ratios

This ratio revels how profitably the banks have utilized the owner's funds. For the commercial banks, the objective is to earn maximum profit so as to provide reasonable return to the owners. Higher this ratio indicates sound and efficient management. It also indicates towards the favorable condition of wealth maximizations of the bank. Return on Equity ratio of EBL and HBL is given in the following table:

Table No.4.8

Return on Equity Ratios

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	24.67%	------	-------	22.91%	-------	------
2007/08	23.48	95.17%	(4.83%)	25.30	110.43%	10.43%
2008/09	28.98	117.47%	22.30%	24.13	105.32%	(5.11%)
2009/010	30.14	122.17%	4.7%	14.79	64.56%	(40.76%)
2010/011	29.91	121.24%	(0.93%)	22.35	97.55%	32.99%
Mean	27.43			21.89		
S.D.	3.12			4.13		
C.V	11.40%			18.87%		

Source: Annual Report of EBL and HBL

The above table shows that the ratio of EBL has ranged between 23.48% in fiscal year (2007/008) to 30.14% in (2009/010). And the ratio of HBL has ranged between 14.79% in fiscal year (2009/010) to 25.30% in year (2007/008). Both ratios are fluctuated during the study period.

In an average, the mean ratio of EBL is greater than the HBL i.e., (27.43>21.89). It indicates that the EBL was providing highest return to it's shareholder than HBL

From C.V. point of view, HBL has the highest C.V Then EBL i.e., (18.87%>11.40%). It implies that HBL has higher degree of variability or is inconsistent in providing return to their shareholders. In the same period, EBL with lowest C.V has lower degree of variability or is consistent in providing return to its shareholder.

Return on Investment Ratios:

This ratio measures the profitability with respect to total investment. It shows how much the bank has invested it resources and how well or efficiently it has mobilized to generate profit or to get return out of it. It is computed as net profit dividing by total investment.

Net profit means profit after tax and total investment includes investment on government securities, bonds and other investments.

Higher ratio represents the higher efficiency of the bank in utilizing its resources on investment and getting return out of it.

Return on investment ratios of EBL and HBL is given in the following table:

Table No.4.9

Return on Investment Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	5.95%	------	-------	4.15%	-------	------
2007/08	8.92	149.92%	49.92%	4.77	114.94%	14.94%
2008/09	10.74	180.50%	30.58%	8.64	208.19%	93.25
2009/010	16.61	279.16%	98.66%	6.02	145.06%	(63.13%)
2010/011	12.02	202.02%	77.14%	10.18	245.30%	100.24%
Mean	10.85			6.75		
S.D.	3.95			2.57		
C.V	36%			38%		

Source: Annual Report of EBL and HBL

The above table shows that the return on investment ratio of EBL is increasing trend. But the ratio of HBL is increasing from 4.15% (in 2006/07) to 8.64 (in 2008/09) then it is decreasing 6.02 (in 2009/010) and then last year (2010/011) it is increasing 10.18% .EBL has ranged between 5.95% (in 2006/07) to 16.61% (in 2009/010). Mean values of EBL and HBL are 10.85 and 6.75 respectively. Similarly C.V. of EBL and HBL are 36 and 38 respectively. which shows the ratios of EBL are more uniform than that of HBL.

From the above analysis, it concluded that return on investment of EBL is better than that of HBL. It seems that EBL has become able to earn profit by making investment.

Current assets to share capital ratios:

This ratio represents the proportion of current assets to share capital. Higher ratio indicates greater utilization of current assets out of share capital and vice-versa.it is computed as current asset dividing by share capital.

Current assets to share capital ratio of EBL and HBL is given in the following table:

Table No.4.10

Current assets to share capital Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	17.28%	------	-------	32.74%	-------	------
2007/08	13.44	77.78%	(22.22%)	28.24	86.25%	(13.75%)
2008/09	15.17	87.79%	10.01%	20.57	62.83%	(23.42%)
2009/010	13.82	79.98%	(7.81%)	17.80	54.37%	(8.46%)
2010/011	13.47	77.95%	(2.03%)	16.66	50.88%	(3.49%)
Mean	14.64			23.20		
S.D.	1.64			6.98		
C.V	11.19%			30.11%		

Source: Annual Report of EBL and HBL

The above table reveals the current assets to share capital ratio of EBL and HBL from the fiscal year 2006/007 to fiscal year 2010/011.

From the above table it is found that the ratios of EBL are fluctuated and the ratios of HBL are in decreasing trend during the study period. The

ratio of EBL has ranged between 77.78% in year (2007/008) to 87.79% in year (2009/010). The ratio of HBL has ranged between 16.66% in year (2010/011) to 32.74% in year (2006/007).

The mean ratio of HBL is 23.20 where as mean ratio of EBL is 14.64. While compared to C.V between the ratios of these two banks, C.V of EBL found less than the HBL i.e, 11.19 %< 30.11%.

From table it can be concluded that comparatively HBL has high ratio of current assets from the mean ratio.

Current Assets to Borrowing Ratio:

This ratio represents the proportion of current assets to borrowing. It is computed as current assets dividing by borrowing. Current assets to borrowing ratio have been presented in the following table:

Table No.4.11

Current assets to borrowing Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	------	------	-------	112.49	-------	------
2007/08	------	------	------	344.21	305.99%	205.99%
2008/09	107.12	------	------	------	------	------
2009/010	94.22	87.96%	(12.04%)	------	------	------
2010/011	86.98	81.19%	(6.77%)	399.91	355.51%	355.51%
Mean	96.11			285.54		
S.D.	10.20			152.43		
C.V	10.61%			53.38%		

Source: Annual Report of EBL and HBL

The above table shows the current assets to borrowing ratio of two joint venture banks i.e., EBL and HBL.

The above table shows that the ratio of EBL has ranged between 86.98 in (2010/2011) to 107.12 in (2008/009). It has not borrowed since 2006/007 to 2007/008. Similarly, the ratio of HBL has ranged between 112.49 in (2006/007) to 399.91 in (2010/011). It has not borrowed since (2008/009) to (2009/010).

Observing the mean ratio, it is found that the mean ratio of EBL is less than that of the mean ratio of HBL i.e., 96.11<285.54.while compared to C.V between the ratios of these two banks, C.V of EBL found less than the HBL i.e., 10.61 %< 53.38%.

Current assets to total fund Ratio:

This ratio gives an insight of current assets of the bank in relation to source of total fund. Current assets dividing by total fund

Current assets to total fund ratio of EBL and HBL is given in the following table:

Table No.4.12

Current assets to total fund Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	0.97	------	-------	0.79	-------	------
2007/08	0.95	97.93%	(2.07%)	0.79	100%	-----
2008/09	0.90	92.78%	(5.15%)	0.84	86.60%	(13.40%)
2009/010	0.92	94.84%	2.06%	0.83	105.06%	18.46%
2010/011	0.91	93.81%	(1.03%)	0.85	107.59%	2.53%
Mean	0.93			0.82		
S.D.	0.029			0.028		
C.V	3.13%			3.45%		

Source: Annual Report of EBL and HBL

The above table shows that current assets to total fund ratio of HBL has fluctuating trend. But the ratio of EBL has decreasing trend. EBL has ranged between 0.90 (in 2008/09) to 0.97 (in 2006/07). Similarly HBL has ranged between 0.79 (in 2006/08) to 0.85 (in 2010/011).

Mean values of EBL and HBL are 0.93 and 0.82 respectively. Similarly C.V. of EBL and HBL are 3.13% and 3.45% respectively. From the above figure, it is cleared that EBL has higher mean ratios and lower C.V ratios than the HBL.

Current assets to fixed assets Ratios:

This ratio represents the proportion of current assets to fixed assets. It is calculated as current assets dividing by fixed assets.

Current assets to fixed assets Ratio of EBL and HBL is given in the following table:

Table No.4.13

Current assets to fixed assets Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	122	------	-------	46.24	-------	------
2007/08	71.64	58.72%	(41.28%)	39.43	85.27%	(14.73%)
2008/09	78.24	64.13%	5.41%	34.57	74.76	(10.51%)
2009/010	82.32	67.47%	3.34%	33.53	72.51	(2.25%)
2010/011	91.09	74.66%	7.19%	33.68	72.84%	0.33%
Mean	89.06			37.49		
S.D.	19.72			5.45		
C.V	22.14%			14.54%		

Source: Annual Report of EBL and HBL

The above table reveals the current assets to fixed assets ratio of EBL and HBL from the fiscal year 2006/007 to 2010/011.

From the above table it is found that the ratios of EBL fluctuated during the study period and then the ratio of HBL are in decreasing trend. The ratio of EBL has ranged between 71.64 in year (2007/008) to 122 in year (2006/007). Similarly, HBL has ranged between 33.53 in year (2009/010) to 46.24 in year (2006/007). The mean ratio of EBL is higher than the HBL i.e., 89.06>37.49.

Fixed assets to share capital Ratios:

This ratio represents the proportion of fixed assets to share capital. The high ratios indicate the uses of more fixed assets out of share capital and vice-versa. It is computed as fixed assets dividing by share capital.

Fixed assets to share capital ratios are given in the following table:

Table No.4.14

Fixed assets to share capital Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	0.33	------	-------	0.71	-------	------
2007/08	0.43	130.30%	30.30%	0.72	101.41%	1.41%
2008/09	0.41	124.24%	(6.06%)	0.59	83.09	(18.32%)
2009/010	0.36	109.10%	(15.14%)	0.53	74.64	(8.45%)
2010/011	0.33	100%	(9.10%)	0.49	69.01%	(5.63%)
Mean	0.37			0.61		
S.D.	0.046			0.10		
C.V	12.44%			17.05%		

Source: Annual Report of EBL and HBL

The above table shows the fixed assets to share capital ratio of EBL and HBL from the fiscal year 2006/007 to fiscal year 2010/011.

From the above table it is found that the ratios of EBL are fluctuated and the ratios of HBL are in decreasing trend during the study period. The ratio of EBL has ranged between 0.33 in year (2006/007) to 0.43 in year (2007/008). The ratio of HBL has ranged between 0.49 in year (2010/011) to 0.72 in year (2007/008).

The mean ratio of HBL is 0.61 where as mean ratio of EBL is 0.37. While compared to C.V between the ratios of these two banks, C.V of EBL found less than the HBL i.e, 12.44 %< 17.05%.

From table it can be concluded that comparatively HBL has high ratio of fixed assets from the mean ratio.

Fixed assets to borrowing Ratio:

Fixed assets to borrowing ratio reflect the percentage of borrowing that has been financed by fixed assets. The high ratios indicate the uses of more fixed assets out of borrowing and vice-versa. It is computed as fixed assets dividing by borrowing.

Fixed assets to borrowing ratio of EBL and HBL are given in the following table:

Table No.4.15

Fixed assets to borrowing Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	-----	------	-------	2.43	-------	------
2007/08	-----	------	-------	8.73	359.26%	259.26%
2008/09	1.37	------	-------	-----	-----	------
2009/010	1.14	83.21%	(16.79%)	-----	-----	------
2010/011	0.95	69.34%	(13.87%)	11.87	488.48%	488.48
Mean	1.15			7.67		
S.D.	0.210			4.81		
C.V	18.29%			62.68%		

Source: Annual Report of EBL and HBL

The table shows that fixed assets to borrowing ratios of EBL and HBL. The ratio of EBL has an decreasing trend. It has ranged between 0.95in year (2010/011) to 1.37 in year (2008/009). It has not borrowed since (2006/007) to in year (2007/008). Similarly, the ratios of HBL has an increasing trend. It has ranged between 2.43 in (2006/007) to 11.87 in year (2010/011). It has not borrowed since (2008/009) to (2009/2010).

In an average the ratios of HBL is higher than the EBL i.e., (7.67>1.15). While compared to C.V of HBL found more than the EBL i.e., 62.68 %< 18.29%.

Fixed assets to total fund Ratios:

This ratio gives an insight of fixed assets of the bank in relation to source of total fund. It is calculated as fixed assets dividing by total fund.

Fixed assets to total fund ratio of EBL and HBL is given in the following table:

Table No.4.16
Fixed assets to total fund Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	1.71%	------	-------	0.79%	-------	------
2007/08	2.00	116.95%	16.95%	1.33	168.35%	68.35%
2008/09	2.42	141.52%	24.57%	1.15	145.57%	(22.78%)
2009/010	2.48	145.02%	3.5%	1.12	141.77%	(3.80%)
2010/011	2.54	148.54%	3.52%	0.99	125.32%	(16.45%)
Mean	2.23			1.076		
S.D.	0.36			0.20		
C.V	16.14%			18.65%		

Source: Annual Report of EBL and HBL

The above table shows that fixed assets to total fund ratio of HBL has fluctuating trend. But the ratio of EBL has increasing trend. EBL has ranged between 1.71% (in 2006/07) to 2.54 (in 2010/011). Similarly HBL has ranged between 0.79 (in 2006/07) to 1.33 (in 2010/011).

Mean values of EBL and HBL are 2.23 and 1.076 respectively. Similarly C.V. of EBL and HBL are 16.14% and 18.65% respectively. From the above figure, it is cleared that EBL has higher mean ratios and lower C.V ratios than the HBL.

Fixed assets to current assets Ratios:

An accounting ratio obtained by dividing fixed assets by current assets is called fixed assets to current assets ratios. Higher ratio indicates greater utilization of fixed assets out of current assets and vice-versa. It is calculated as fixed assets dividing by current assets. Ratios of EBL and HBL are given in the following table:

Table No.4.16

Fixed assets to current assets Ratio

Fiscal Year	EBL			HBL		
	Ratio	Index	ARPC	Ratio	Index	ARPC
2006/07	0.82%	------	-------	2.16%	-------	------
2007/08	1.39	169.51%	69.51%	2.54	117.59%	17.59%
2008/09	1.28	156.09%	(13.42%)	2.89	133.79%	16.20%
2009/010	1.21	147.56%	(8.53%)	2.98	137.96%	4.17%
2010/011	1.10	134.14%	(13.42%)	2.97	137.50%	(0.46%)
Mean	1.16			2.71		
S.D.	0.22			0.35		
C.V	18.74%			13.10%		

Source: Annual Report of EBL and HBL

The above table reveals the fixed assets to current assets ratio of EBL and HBL from the fiscal year 2006/007 to 2010/011.

From the above table it is found that the ratios of EBL fluctuated during the study period and then the ratio of HBL are in decreasing trend. The ratio of EBL has ranged between 0.82 in year (2006/007) to 1.39 in year (2007/008). Similarly, HBL has ranged between 2.16 in year (2006/007) to 2.98 in year (2009/010).The mean ratio of EBL is less than the HBL i.e., 1.16<2.71. While compared to C.V between the ratios of these two banks, C.V of HBL found less than the EBL i.e., 13.10 %< 18.74%.

4.2 Major findings of the study

Based on the analysis of data, the main findings are given below.

1. Current assets to current liabilities of both banks are in fluctuating trend. The mean ratio of EBL is considerably greater than that of HBL. The mean ratio is observed it is found that the EBL is higher of than HBL (i.e., 1.398>1.214).The S.D. of EBL is less than HBL (i.e., 0.113<0.127. Similarly, the C.V. of EBL is less than HBL (I.e., 8.11 %< 10.46%).

2. Cash and bank balance to current assets ratio of both banks are in fluctuating trend. The mean ratio of EBL is greater than that of HBL. EBL was 15%, while that of HBL was 9.96%, this indicates that the liquidity position of EBL is better in this regards.

3. Cash and bank balance to total deposit ratios of both banks during the study period were fluctuating trend. The mean ratio cash and bank balance to total deposit of EBL is greater than that of HBL. I.e. 15.6%>9.1%).S.D of EBL is slightly greater than the HBL i.e.3.97>3.33. Similarly, the C.V of EBL is lower than the HBL i.e. 25.45 %< 42.64%.

4. Debt assets ratios represent the proportion of total debt to total assets. The analysis shows the ratios of EBL are in fluctuating trend. Similarly, the analysis shows that the ratios of HBL are in more constant and very close to average ratio. The mean ratio of EBL is slightly greater than that of HBL. Mean ratio of EBL is 89.85% and the HBL is 89.8%.

5. Debt equity ratios represent the proportion of total debt to total equity. The debt equity ratios of EBL are fluctuated and the ratios of HBL are in decreasing trend during the study period. The mean ratio of EBL is higher than that of HBL i.e. (14.10%>12.01%). In case of C.V EBL has less then the HBL i.e. (8.11 %< 10.46%).

6. Return on assets ratios represents the proportion of net profit to total assets. The ratios of EBL are increasing trend and the ratios of HBL are fluctuated during the study period. The mean ratio EBL is greater than that of HBL i.e. (1.76%>1.65%). Higher ratio indicates the higher efficiency of the bank in utilizing its overall resources and lower ratio indicates the lower efficiency in utilizing its overall resources to earn profit. It can be concluded that EBL has become successful to earn more profit than HBL by utilizing its assets.

7. Return on deposit ratios of EBL are in increasing trend and the ratios of HBL are fluctuated during the study period. The mean ratio of EBL is higher than that of HBL i.e. (1.99%>1.87%). The higher ratios represent the higher efficiency of the bank in utilizing the deposit and vice-versa. Considering the coefficient of variation of banks, HBL has relatively higher than the EBL i.e. (19.40%>13.46%).

8. Return on investment ratios of EBL are in increasing trend from (2006/007) to (2009/010) then it is decreasing from (2010/011) and the ratios of HBL are fluctuated during the study period. The mean ratio of

EBL is greater than that of HBL i.e. (10.85%>6.75%). The higher ratios represent the higher efficiency of the bank in utilizing its resources on investment and getting return out of it. Similarly, C.V of EBL is less than the HBL i.e. (36 %< 38%), which shows the ratios of EBL are more uniform than that of HBL.

9. Current assets to share capital ratios of EBL are fluctuated and the ratios of HBL are in decreasing trend during the study period. It can be concluded that comparatively HBL is greater than that of EBL from the mean ratio. The mean ratio of HBL and EBL are 23.20% and 14.64% respectively.

10. In case of current asset to borrowing ratio, EBL has not borrowed in 1st two years and then the remaining three years are fluctuated trend. Similarly, HBL also has not borrowed in last two years. The mean ratio of EBL is less than the HBL i.e. (96.11<285.54).

11. Current assets to total fund ratio of EBL has decreasing trend. But the ratio of HBL has fluctuated trend. The mean ratio of EBL is greater than the HBL i.e. (0.93>0.82). And the C.V of EBL and HBL are 3.13% and 3.45% respectively.

12. The current asset to fixed assets ratio of EBL has fluctuated and then the ratio of HBL has decreasing trend during the study period. The mean ratio of EBL and HBL are 89.06% and 37.49% respectively. The mean ratio of EBL is higher than the HBL.

13. Fixed assets to share capital ratio of EBL are fluctuated and the ratio of HBL are in decreasing trend during the study period. The mean ratio of HBL is greater than the EBL i.e. (0.61>0.37). While compared to C.V, EBL found less than the HBL i.e. (12.44 %< 17.05%).

14. The ratio of EBL has decreasing trend. EBL has not borrowed since 2006/007 to 2007/008. Similarly, the ratio of HBL has an increasing trend. HBL has also not borrowed since 2008/009 to 2009/010. The mean ratio of EBL and HBL are 1.15 and 7.67 respectively. And the C.V of EBL and HBL are 18.29% and 62.68% respectively.

15. Fixed assets to total fund ratio of EBL has increasing trend and the ratio of HBL has fluctuated during the study period. The mean ratio of EBL is greater then the HBL i.e. (2.23>1.076).Similarly, the C.V of EBL is less than the HBL i.e. (16.14 %< 18.65%).

16. A fixed asset to current assets ratio of EBL has fluctuated and then the ratio of HBL has decreasing trend during the study period. The mean ratio of EBL and HBL are 1.16 and 2.71 respectively and the C.V of EBL and HBL are 18.74% and 13.10% respectively.

CHAPTER - FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusions and recommendations.

5.1 Summary

A commercial bank means the bank, which deals with exchange currency, accepting deposit, providing loan or investing in various sectors to do other commercial transactions. Therefore, it is cleared that one of the major function of commercial bank is investment policy. There is not so long history of commercial bank in Nepal. Nepal Bank Ltd. is the first commercial bank of the country which was established in 1994 B.S. Then after, many joint venture banks and commercial banks have been established. In the research work, there has been taken two main commercial banks (i.e. Everest Bank Ltd. and Himalayan Bank Ltd.).

Under this study, I have tried to cover the various aspects of selected joint venture banks covering the period of five years from 2006/07, 2007/08, 2008/09, 2009/010 and 2010/011. In the first introductory chapter, the study report has tried to give origin and growth of banks in Nepal, brief profile of the concerned banks, general concepts and functions of commercial banks and the focus of the study, statement of problem, objectives of the study, study area and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are

compiled in the second chapter titled “Review of Literature” of this report.

In third chapter “Research Methodology” I have gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data analyze the financial performance of selected banks Financial ratios to calculate various ratios and Statistical tools such as mean, standard deviation, coefficient of variation, Index and ARPC.

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are compiled in the fourth chapter titled “Data Presentation and Analysis” of the study.

5.2 Conclusion

During the study period of last 5 years that is, 2006/007 to 2010/011 various ratio analysis have been performed to find out the financial performance of EBL&HBL.

This study reveals that the current ratio of EBL& HBL is greater than 1 but EBL has the highest current ratio. It means EBL solvency position is better than HBL. In an average, the cash and bank balance to current assets ratio of EBL is greater then HBL. It indicates that the liquidity position of EBL is better than the HBL. The cash and bank balance of EBL with respect to total deposit is more liquidity than HBL. It indicates that EBL is able to make immediate payments to its depositor. Debt-

Equity ratio of HBL is greater than the EBL. It means HBL creditors' claims are greater then owners. Similarly, the Debt- Assets ratio of EBL has slightly more than the HBL. So that the EBL is better than HBL for owners.

Profit is ultimate output of a commercial bank and it will have no future if it fails to make sufficient profit. When measuring various profitability ratios, i.e. return on total assets ratio, HBL has the lowest ratio then the EBL. It means HBL has not mobilized its assets into profit generating projects. EBL has been successful in earning more net profit by the proper use of its available assets.

. HBL has low mobilization of its deposit into profit generating project and EBL with the slightly higher ratio has been successful in the earning more net profit by the proper use of its available deposit than HBL. In term of investment, HBL has the lowest ratio then the HBL. It indicates that the EBL has become able to earn profit by making investment.

5.3 Recommendation

These finding may be useful for them who are concerned directly or indirectly with the credit policy of the bank. On the basis of above analysis and finding of the study, following suggestions and recommendation can be drawn:

The liquidity position of a bank can be affected by external as well as internal factors which includes overall economic scenario. Based on liquidity ratio analysis, EBL has more cash and bank balance rather than HBL. To maintain liquidity in perfect, all commercial banks have to follow the mid-way i.e. they should invest the idle deposit in productive

sector and on the other hand they have enough cash balance to meet current requirement.

The profitability ratio in case of HBL has lowest with the result of lower profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Since by decreasing costs, profit of any bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.

In case of EBL and HBL, debt financing has always exceeded 80% of the total assets over the review period, which indicates the excessively use of debt finance to total assets. Nevertheless, extensive use of debts capital with the failure in advancing good loans can make vulnerable the solvency position of these banks. Therefore, it is suggested to the JBVs to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.

Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. To some extent, EBL has been successful in providing a better return on equity than HBL. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders.

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www.hbl.com.np

www.nrb.org.np s

APPENDIX

ANNEX - 1
EVEREST BANK LIMITED
Five years Financial Summary (Balance Sheet)

Fiscal Year	**2006/07**	**2007/08**	**2008/09**	**2009/010**	**2010/011**
Cash in Hand	534996791	822989425	944695793	1091500407	1048998721
Balance with Nepal Rastra Bank	1178198197	1080914554	4787163541	5625113849	4706320590
Balance with Banks/Financial institutions	678225606	764067851	432511829	1102200747	367543641
Money at call and Short Notice	------	346000000	------	-----	-----
Investments	4984314586	5059557544	5948480273	5008307589	7743928321
Loan, advance and Bills Purchase	13664081664	18339085562	23884673616	27556356032	31057691462
Fixed Assets	170097452	360512480	427157451	463094391	460258735
Non-Banking Assets	-------	-------	------	------	-----

Other Assets	222660004	376215468	492166151	536187696	851470792
Total Assets	**21432574300**	**27149342884**	**36916848654**	**41382760711**	**46236212262**
Share Capital	518000000	831400000	838821000	1279607490	1391570439
Reserve and Surplus	683515266	1089837580	1364804055	1479530365	1721975617
Debenture and Bonds	300000000	300000000	300000000	300000000	300000000
Loan and Borrowings	--------	-------	312000000	404600000	482000000
Deposit Liabilities	18186253541	23976298535	33322946246	36932310008	41127914339
Bills Payable	26776480	49429700	148655592	145514679	49716572
Proposed and un paid dividend	68146323	140790370	230524766	276252832	576897427
Income Tax Liabilities	15278110	41143107	20522280	(1136458)	26900414
Other Liabilities	1634604580	720443592	378574715	566081795	559237454
Total Capital and Liabilities	**21432574300**	**27149342884**	**36916848654**	**41382760711**	**46236212262**

ANNEX - 2

EVEREST BANK LIMITED

Five years Financial Summary (Profit & Loss Account)

Fiscal Year	**2006/07**	**2007/08**	**2008/09**	**2009/010**	**2010/011**
Interest Income	903411137	1144408308	1548657132	2186814992	3102451484
Interest Expenses	(401397351)	517166241	632609264	1012874353	1572790306
Net Interest Income	**5020137809**	**6272420667**	**9160478668**	**1173940639**	**1529661178**
Commission and Discount	96839264	117718162	150264074	202094446	208123481
Other Operating Income	48902381	67967525	79133767	106403694	142311427
Exchange Income	14397970	28404544	64452378	62526819	47879967
Total Operating Income	**662153401**	**841332298**	**1209898087**	**1544965598**	**1927976053**
Staff Expenses	(70924675)	(8611822 6)	157957084	186919870	226364009
Other Operating Expenses	(143562167)	(177545649)	233766645	292010522	352511231

Exchange Loss	-	-	-----	-	-----
Operating Profit Before Provision for possible Loss	**447666559**	**577668423**	**818174358**	**1066035206**	**1349100813**
Provision for possible losses	(70465665)	(89695764)	99340505	(93084880)	77010625
Operating Profit	**377200894**	**487972659**	**718833853**	**972950326**	**1272090188**
Non-operating Income/loss	2959467	1315211	4519287	5005256	12338972
Write-back from Loan Loss Provision	-	11686657	20201067	8044170	83553461
Profit from regular activities	**380160361**	**500974527**	**743554207**	**985999752**	**1367982621**
Profit/loss from transaction of extraordinary nature	-	(795224)	(18998727)	(5549170)	(61192476)

Profit after inclusion of all types of transaction	380160361	**500179303**	**724555480**	**980450582**	**1306790145**
Provision for Staff Bonus	(34560033)	(45470846)	65868680	89131871	118799104
Provision for Income Tax			**216913302**		**357020130**
-This year	(106753311)	**158299176**	**(9445115)**	**(276864301)**	**-------**
-Up to last year	(1556081)		**207468187**	**24278347**	**(794721)**
Net Profit	**237290936**	**296409281**	**451218613**	**638732757**	**831765632**

ANNEX - 3
HIMALAYANBANK LIMITED
Five years Financial Summary (Balance Sheet)

Fiscal Year	**2006/07**	**2007/08**	**2008/09**	**2009/010**	**2010/011**
Cash in Hand	177242226	278183489	473759695	514223569	632046156
Balance with Nepal	12725430	93584169	23284058	26047909	13906257

Rastra Bank	67	7	21	01	87
Balance with Banks/Financial institutions	307555959	234117704	246361272	747476214	941979378
Money at call and Short Notice	1710023859	518529500	1170793650	308840000	734000000
Investments	11822984558	13340176785	8710690646	8444910165	8769938671
Loan, advance and Bills Purchase	16997997046	19497520482	24793155269	27980628760	31566976755
Fixed Assets	574060430	795309700	952196395	1061870757	1187493049
Non-Banking Assets	12766060	10306683	22694688	------	-----
Other Assets	643967906	565545597	622264633	1054384247	1513144088
Total	**33519141**	**36175531**	**39320322**	**42717124**	**46736203**

Assets	**111**	**637**	**069**	**613**	**884**
Share Capital	810810000	1013512500	1216215000	2000000000	2400000000
Reserve and Surplus	1335689655	1499479102	1903665537	1439205130	1595478273
Debenture and Bonds	360000000	860000000	500000000	500000000	500000000
Loan and Borrowings	235967811	83177913	------	10000000	-----
Deposit Liabilities	30048417756	31842789356	34681345179	37611202274	40920627030
Bills Payable	91303206	102669796	113509140	216158879	31655586
Proposed and un paid dividend	130939748	263076319	162096954	189473600	336842000
Income Tax Liabilities	11913476	19131036	10163115	------	-----
Other Liabilities	494099459	491695555	733327144	761084730	941600995
Total Capital and Liabilities	**335191411 11**	**361755316 37**	**393203220 69**	**427171246 13**	**467362038 84**

ANNEX - 4

HIMALAYAN BANK LIMITED

Five years Financial Summary (Profit & Loss Account)

Fiscal Year	**2006/007**	**2007/008**	**2008/09**	**2009/010**	**2010/011**
Interest Income	1775582617	1963647472	2342198179	3148605196	4326140588
Interest Expenses	767411247	823744838	934778015	1553530687	2414807243
Net Interest Income	**1008171370**	**1139902634**	**1407420164**	**1595074509**	**1911333345**
Commission and Discount	193224228	187819983	284302277	270258732	350365112
Other Operating Income	40328872	62103241	46342872	112346425	12951691
Exchange Income	151637322	207669178	249982606	180278743	195528538
Total Operating Income	**1393361792**	**1597495036**	**1988047919**	**2157958409**	**2586743976**
Staff Expenses	272225308	292213138	360980641	414983894	517591827
Other Operating Expenses	341561021	344320784	398316566	471102966	582209813

Exchange Loss	-	-	1228750712	------	------
Operating Profit Before Provision for possible Loss	**779575463**	**960961114**	**68805514**	**1271871549**	**1486942366**
Provision for possible losses	90688827	6007608	1159945198	692640089	471728863
Operating Profit	**688886636**	**954953506**	**3810145**	**579231460**	**1015213473**
Non-operating Income/loss	3493278	9700477	19484655	12382440	15855933
Write-back from Loan Loss Provision	412654152	(131682971)	1183239998	265542038	228145590
Profit from regular activities	**1105034066**	**1096336954**	**(9973406)**	**857155938**	**1259214996**
Profit/loss from transaction	(315890702)	(52614217)	1173266592	(2585592 6)	102292025

of extraordinary nature					
Profit after inclusion of all types of transaction	**789143364**	**1043722737**	**106660599**	**831300012**	**1361507021**
Provision for Staff Bonus	71740305	94883886	313771258	75572728	123773366
Provision for Income Tax		**312970332**	**340776052**	**246929091**	**344618512**
-This year	**225580154**	**309154392**	**340776052**	**246070406**	**338351341**
-Up to last year		**-**	**568826**	**1454373**	**813229**
Deffered Tax		**3815640**	**(27573620)**	**(595688)**	**5453942**
Net Profit	**491822905**		**752834735**	**508798193**	**893115143**