

A STUDY ON  
FINANCIAL RATIO ANALYSIS  
OF  
NEPALESE COMMERCIAL BANKS  
(With reference to Himalayan Bank Ltd. and Everest Bank Ltd.)

A Thesis

Submitted By:

JAYA RAM PHONJU

Nepal Commerce Campus

Campus Roll No.: 185/066

T.U. Regd. No.: 7-2-408-171-2006

Symbol No.: 250486

Submitted To:

Office of the Dean

Faculty of Management

Tribhuvan University

In partial Fulfillment of the Requirement for the Degree of  
Master's Degree in Business Studies (MBS)

New Baneswor, Kathmandu

October, 2014

RECOMMENDATION

This is to certify that the thesis

Submitted by:

JAYA RAM PHONJU

Entitled

FINANCIAL RATIO ANALYSIS

OF

NEPALESE COMMERCIAL BANKS

With reference to Himalayan Bank Ltd. and Everest Bank Ltd.

has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

.....

Mr. Tej Raj Pokharel  
(Thesis Supervisor)

.....

Mr. Rajeshwor Neupane  
(Thesis Supervisor)

.....

Dr. Sushil Bhakta Mathema  
(Head of Research Department)

.....

Jyoti Pandey  
(Campus Chief)

VIVA-VOCE SHEET

We have conducted viva-voce examination of the thesis  
presented by:

JAYA RAM PHONJU

Entitled

FINANCIAL RATIO ANALYSIS

OF

NEPALESE COMMERCIAL BANKS

With reference to Himalayan Bank Ltd. and Everest Bank Ltd.

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for the degree of Master's Degree in Business Studies (MBS).

VIVA-VOCE COMMITTEE

Head, Research Department	.....
Member (Thesis Supervisor)	.....
Member (Thesis Supervisor)	.....
Member (External Expert)	.....

Date : .....

## DECLARATION

I hereby declare that the work reported in this thesis entitled “FINANCIAL RATIO ANALYSIS OF NEPALESE COMMERCIAL BANKS (With reference to Himalayan Bank Ltd. and Everest Bank Ltd.) submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is entirely my own work in the form of partial fulfillment of the requirement for the degree of Master’s Degree of Business Studies (MBS) under the supervision of my thesis supervisor Mr. Rajeshwor Neupane and Mr. Tej Raj Pokharel of Nepal Commerce Campus.

.....

Jaya Ram Phonju

Researcher

Nepal Commerce Campus

Campus Roll No. : 185/066

T.U. Regd. No.: 7-2-408-171-2006

2nd Year Exam Symbol No.: 250486

## ACKNOWLEDGEMENTS

In this 21<sup>st</sup> era, practical knowledge of any subject is undeniably indispensable and inevitable for better qualification of the study to specific courses. It would be out of question to gain a deeper understanding on any subject matter in the dearth of practical knowledge. From the proposal writing to completed thesis, the need of detail study on topic, review of literature, data collection and analysis, designing appropriate research design and drawing the summary and conclusion is not easy job as we think. This study is a result of the efforts of all who inspire, guide and help me from the initial phase to final of the study.

I am profoundly grateful to my supervisor, lecturer Rajeshwor Neupane and Tej Raj Pokharel, and my respected teacher, Mr. Kishor Hakuduwal for their inspiration, guidance and motivation in course of preparation of this study. Their relentless observation on my work and guidance despite of their occupied schedule is what I'll always owe to them. I can't stay without giving hearty gratitude to Campus Chief, Jyoti Pandey and Head of the Research Department, Prof. Dr. Sushil Bhakta Mathema My sincere thanks go to librarian, other staffs of campus and friend Anita for their help and providing sound environment for the study.

Likewise, I must take this opportunity to thank my colleagues and all the possible key stakeholders for their valuable inputs and precious time.

Last, but not the least, it will be my self-centeredness if I forget my family for their praiseworthy support as well as all the visible and invisible hands supported to bring this thesis in this form.

Thanks you all once again.

Jaya Ram Phonju

## TABLE OF CONTENTS

Viva-Voce Sheet	
Recommendation	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
List of Abbreviations Used	
	Page No.
<b>Chapter I</b>	1-6
INTRODUCTION	<b>1</b>
1.1 Background of the Study	1
1.2 Profile of the Selected Banks	2
1.2.1) Himalayan Bank (HBL)	2
1.2.2) Everest Bank Limited (EBL)	3
1.3 Statement of the Problem	3
1.4 Objectives of the Study	5
1.5 Significance of the Study	5
1.6 Limitations of the Study	6
1.7 Organization of the Study	6
<b>Chapter II</b>	8-35
REVIEW OF LITERATURE	<b>8</b>
2.1 Conceptual Framework	8
2.1.1 Financial Statement Analysis	8
2.1.2 Ratio Analysis	9
2.1.3 Advantages of Ratio Analysis	11
2.1.4 Limitations of Ratio Analysis	12
2.1.5 Financial Ratio	13
2.1.6 Standard Financial Ratios	14
2.1.7 Interdependence of Ratios	18
2.1.8 Trends over Time for Ratio Analysis	19

2.1.9 Concept of Commercial Bank	20
2.1.9.1 Functions of Commercial Banks	22
2.2 Review of Journals and Articles	28
2.3 Review of Thesis	30
2.4 Research Gap	35
<b>Chapter III</b>	<b>36-47</b>
<b>RESEARCH METHODOLOGY</b>	<b>36</b>
3.1 Research Design	36
3.2 Population and Sample	36
3.3 Data Collection Procedure	36
3.4 Tools for Data Analysis	37
3.4.1 Financial Tools	37
3.4.2 Statistical Tools	45
<b>Chapter IV</b>	<b>47-92</b>
<b>DATA PRESENTATION AND ANALYSIS</b>	<b>47</b>
4.1 Secondary Data Analysis	47
4.1.1 Capital Adequacy Analysis	47
4.1.1.1 Capital Adequacy Ratio	47
4.1.1.2 Debt-Equity Ratio	49
4.1.2 Asset Quality Analysis	51
4.1.2.1 Risk Weighted Assets to Total Assets Ratio	51
4.1.2.2 Non Performing Loan to Total Loan Ratio	53
4.1.2.3 Loan Loss Provision to Total Loan Ratio	54
4.1.3 Earning or Profitability Analysis	57
4.1.3.1 Return on Shareholders' Equity (ROE) Ratio	57
4.1.3.2 Return on Assets (ROA) Ratio	59
4.1.3.3 Return on Total Deposit Ratio	61
4.1.3.4 Interest Earned to Total Assets Ratio	63
4.1.3.5 Earning Per Share (EPS)	65
4.1.3.6 Dividend Per Share (DPS)	66
4.1.3.7 Dividend Payout Ratio	68
4.1.3.8 Earnings Per Employee	70
4.1.4 Liquidity Analysis	71
4.1.4.1 Cash Reserve Ratio	72
4.1.4.2 Cash at Vault to Total Deposit Ratio	73

4.1.4.3 Liquid Fund to Total Deposits Ratio	74
4.1.5 Efficiency Ratios	76
4.1.5.1 Credit to Total Deposits Ratio	76
4.1.5.2 Total Operating Expenses to Total Operating Revenue Ratio	78
4.1.5.3 Non-Interest Bearing Deposit to Total Deposits Ratio	80
4.1.5.4 Sectorial Income to Total Income Ratio	81
4.1.5.5 Weighted Average Cost of Fund	84
4.1.5.6 Weighted Average Interest Rate Spread	86
4.1.7 Lending Capacity of Bank as per NRB Criteria	87
4.1.7.1 Credit to Deposit and Core Capital Ratio	87
4.2 Correlation of ROE and ROA with Other Financial Ratios	89
4.3 Major Findings of the Study	92
<b>Chapter V</b>	<b>96-100</b>
SUMMARY, CONCLUSION AND RECOMMENDATIONS	<b>96</b>
5.1 Summary	96
5.2 Conclusion	97
5.3 Recommendations	98

Bibliography

Appendices

## **LIST OF TABLES**

<b><u>Table No.</u></b>	<b><u>Name of the tables</u></b>	<b><u>Page No.</u></b>
Table 2.1	List of Commercial Banks in Nepal	21
Table 4.1	Capital Adequacy Ratio	47
Table 4.2	Debt-Equity Ratio	49
Table 4.3	Risk Weighted Assets to Total Assets Ratio	51
Table 4.4	Non Performing Loan to Total Loan Ratio	53
Table 4.5	Loan Loss Provision to Total Loan Ratio	55
Table 4.6	Return on Shareholders' Equity Ratio	57
Table 4.7	Return on Assets Ratio	60
Table 4.8	Return on Total Deposit Ratio	62
Table 4.9	Interest Earned to Total Assets Ratio	63
Table 4.10	Earning Per Share	65
Table 4.11	Dividend Per Share	66
Table 4.12	Dividend Payout Ratio	68
Table 4.13	Earning Per Employee	70
Table 4.14	Cash Reserve Ratio	72
Table 4.15	Cash at Vault to Total Deposit Ratio	73
Table 4.16	Liquid Fund to Total Deposits Ratio	75
Table 4.17	Credit to Total Deposits Ratio	77
Table 4.18	Total Operating Expenses to Total Operating Revenue Ratio	78
Table 4.19	Non-Interest Bearing Deposit to Total Deposits Ratio	80
Table 4.20	Sectorial Income to Total Income Ratio	83
Table 4.21	Cost of Fund (in %)	84
Table 4.22	Weighted Average Interest Rate Spread (in %)	86
Table 4.23	Credit to Deposit and Core Capital Ratio	88
Table 4.24	Lending Capacity of Bank as per NRB Criteria	89
Table 4.25	Karl Person's Correlation Coefficients	90
Table 4.26	Karl Person's Correlation Coefficients	91

## LIST OF FIGURES

<b><u>Figure No.</u></b>	<b><u>Name of the Figures</u></b>	<b><u>Page No.</u></b>
Figure 4.1	Capital Adequacy Ratio	48
Figure 4.2	Debt-Equity Ratio	50
Figure 4.3	Risk Weighted Assets to Total Assets Ratio	52
Figure 4.4	Non Performing Loan to Total Loan Ratio	53
Figure 4.5	Loan Loss Provision to Total Loan Ratio	56
Figure 4.6	Return on Shareholders' Equity Ratio	58
Figure 4.7	Return on Assets Ratio	60
Figure 4.8	Return on Total Deposit Ratio	62
Figure 4.9	Interest Earned to Total Assets Ratio	64
Figure 4.10	Earning Per Share	65
Figure 4.11	Dividend Per Share	67
Figure 4.12	Dividend Payout Ratio	69
Figure 4.13	Earning Per Employee	70
Figure 4.14	Cash Reserve Ratio	72
Figure 4.15	Cash at Vault to Total Deposit Ratio	74
Figure 4.16	Liquid Fund to Total Deposits Ratio	75
Figure 4.17	Credit to Total Deposits Ratio	77
Figure 4.18	Total Operating Expenses to Total Operating Revenue Ratio	79
Figure 4.19	Non-Interest Bearing Deposit to Total Deposits Ratio	81
Figure 4.20	Cost of Fund	85
Figure 4.21	Interest Rate Spread	86
Figure 4.22	Credit to Deposit and Core Capital Ratio	88

## LIST OF ABBREVIATIONS USED

ADB	Asian Development Bank
ATM	Automatic Teller Machine
BFI	Bank and Financial Institution
BOK	Bank of Kathmandu
B.S.	BikramSambat
CAR	Capital Adequacy Ratio
CDR	Credit to Deposit Ratio
CEO	Chief Executive Officer
CRR	Cash Reserve Ratio
C.V.	Coefficient of Variation
DPS	Dividend Per Share
EBL	Everest Bank Ltd
EPS	Earning Per Share
FY	Fiscal Year
G.D.P.	Gross Domestic Product
Himalayan/ HBL	Himalayan Bank Ltd.
IDRBT	Institute for Development and Reasearch in Banking Tecnology
JV	Joint venture
LLP	Loan Loss Provision
NBL	Nepal Bangladesh Bank
NPA/L	Non Performing Assets/Loan
NPAT	Net Profit after Tax
NRB	Nepal Rastra Bank
NSBL	Nepal SBI Bank
PNB	Punjab National Bank
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk Weighted Assets
S.D.	Standard Deviation
S.E	Share Holder Equity