CHAPTER ONE

INTRODUCTION

1.1 Background of Study

According to neoclassical economists, the stock of capital of a nation increases through the process of net investment. Net investment is the difference between the net national income and how much of the income the nation spends on consumption in the same accounting period. Once capital accumulation enhances the production capacity of a nation, there is no gainsaying that it is most essential to any growth and development process of an economy. It is this idea that formed the basis of virtually all growth models that emerged since the era of the neoclassical school. The central assumption underlying the neoclassical thinking is that once an economy converges at its steady-state, the growth rates of per capita income, consumption, investment and capital stocks are all equal to the exogenous state of technological progress. Whereas fiscal policy does not affect the steady-state growth rate in neoclassical model, in endogenous growth models, fiscal policy does influence the steady-state growth rate. As a result of this, these models have some inherent dynamics which enable fiscal policy to play a recognisable role in the process of economic growth

Capital accumulation plays an important role in accelerating the economic growth of a nation, which in terms is basically determined, among others, by saving and investment propensities. However, the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped in to the circle of poverty. So, the basic problem for the developing countries is raising the level of saving and thus investments. The basis for the financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision- making. The financial information of an enterprise

is contained in the financial statement or accounting reports.

"Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision. *" Bernstein and Wild (1998)"*

Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn, it diminishes our uncertainty in decision-making. It does not lesson the need for expert judgment but rather establishes an effective and systematic basis for making business decisions. Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance, strength, and weakness of the firm, many types of tools and techniques are used.

Ratio analysis is one of the very popular and widely used tools of financial analysis. Ratio analysis is done with different ratios. Which are calculated from the accounting data contained in the financial statement? It is the primary tool for examining the firm's financial position and performance. Ratios are used as yardstick for evaluating the financial condition and performance of the firm. Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has form a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. Indicators of the last decade shown that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also compels. This constitutionals network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

The adoption of the market economy has given birth to too many private commercial banks in the country as said earlier. So far, all these banks are doing very well in the slowdown in the economy, interest rates are falling down. All the banks are with funds and looking for safe and profitable avenues to invest in it.

It has been 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 profiles of these two banks are given below:

Everest Bank Limited (EBL)

Everest Bank Limited (EBL) was established in 1994 and started its operations with a view and objective of extending professionalized and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Sector Bank of India having 109 years of banking history with more than 4400 offices all over India and is known for its strong systems and procedures and a distinct work culture. The local Nepalese promoters hold 50% stock in the Bank's equity, while joint venture partner PNB contributes 20 % of equity whereas the public holds remaining 30%. The bank’s

authorized capital; issued capital and paid-up capital are Rs. 1,000,000,000.00; Rs. 729,800,000.00 and Rs. 831,400,000.00 respectively.

Himalayan Bank Ltd. (HBL)

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident and Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in the near future. Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients.

Himalayan Bank Limited was registered in 2049/10/05 and started its operation on the same date. Its authorized capital is Rs 2,000,000,000.00 issued capital is 1,013,510,000.00 and paid up capital is 1,216,215,000.00. It is the first bank to register after the democratic government of Girija Prasad Koirala which adopted liberal economic policy and called foreign investment in all sectors except defense and communication. 80 % of the investment of this bank is made from Nepalese investors and 20% from foreign investors. The share is listed in Nepal Stock Exchange Ltd on 2050/03/21 BS.

1.2 Statement of the Problem

Commercial banks plays vital roles to collect money in the state. Generally, commercial banks are required by the central bank to earmark a portion of their loan portfolio to priority lending for agriculture, cottage industry, services etc., which includes 0.25% to 3% to the deprived sector (poor population). Under this obligation, commercial banks can

lend directly to individuals or self-help groups, charging a 8-10% interest rate, or provide wholesale funds or equity to microfinance providers serving the poor in Nepal.

Two thirds of the priority and deprived sector lending and investment are provided by the two public commercial banks, Nepal Bank Limited and Rastriya Banijya Bank. Until recently the priority lending was set at 12% of the loan portfolio. It is now being phased out, ending completely in 2011, while the 3% deprived sector requirement will stay in place, and therefore loan and investment in microfinance with it. As of mid July 2003, Rs.22,605 million were affected to the priority sector, while Rs. 3,563 million allocated to deprived sector lending, from which 132.6 million was in the form of equity. Under this requirement, investments made by commercial banks in the Rural Microfinance Development Center, an apex organization providing wholesale fund to microfinance, can be seen as a new link between the formal finance sector and microfinance.

In modern days, especially in Nepal, Banks are being considered not only as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well. In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors. As a result, we see a rapid growth in the numbers of commercial banks in the country and of course, the rapid increments in numbers of commercial banks in small country like Nepal. It has created tough and bottle neck competition among bankers. T hus the present study will make a modest attempt to analyze investment policy of Everest Bank Ltd. and Himalayan Bank Ltd. In this study, Everest Bank investment policy is analyzed comparing it with Himalayan bank. Following are the major problems that have been identified for the purpose of this study.

- Do the Everest Bank and Himalayan Bank utilize their available fund?
- Whether these commercial banks are able to meet obligations?

- In which way do these banks are managing to increase the value for sustainability or otherwise?
- Is Everest Bank fund mobilization and investment policy more effective and efficient than Himalayan Bank?
- Are they maintaining sufficient liquidity position?
- How these banks have been managing their position relating to the liquidity?
- How these banks are being able to utilize the fund?
- In which way do these banks are managing to increase the value for sustainability or otherwise?
- What are the operational results to their profitability?
- What is the relationship between total deposit and total investment over the year?
- To what extent the operating profit is related to interest earned?
- To what extent these banks have been successful in minimizing the non-performing assets?

1.3 Objectives of the Study

The Primary objectives of this study is to make comparative analysis of the financial performance of two joint venture banks namely Everest Bank Limited and Himalayan Bank Limited and to recommended suggestion for the improvement of state of affairs. Some of other objectives are:

- To explore the strength of financial performance of selected banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To analyze price earning, market value to book value per share and dividend payout.
- To examine the earning and profitability position of selected banks.

- To assess the relationship between total deposit and total investment.
- To determine the relationship between interest earned and operating profit.

1.4 Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. The financials published by the banks give the meaningful picture to the public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study is mainly compare the financial performance of EBL and HBL which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data presentation and analysis finds different and weakness of the selective banks which is recommended to the banks for their further improvement.

Banking Institutions definitely contribute and play an important role for domestic resource mobilization, economic development and maintains economic confidence of various segments and extends credit to people.

- This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, and public knowledge.
- This study helps and justify for finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies.
- This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.5 Limitation of the Study

Following are the major limitations of this thesis.

- This thesis is based on secondary data collected from concerned banks. Thus, the

result of the analysis depends on the information provided by them.

- This study covers two commercial banks only viz. Everest Bank Ltd and Himalayan Bank Ltd. only.
- The thesis is limited to analyze seven years period i.e. from FY (2004/2005 - 2010/2011) B.S.
- Standard normal performance level is not available especially in Nepalese context. So, an interpretation of data depends upon common sense. In thesis context, concerned experts are also consulted.
- The source of data i.e. published annual report and internet web site is assumed to be correct.
- SPSS software and modern techniques of data analysis are not used. This thesis has been done manually.

1.6 Organization of the Study

The study on the comparative financial analysis of EBL and HBL has been divided into five chapters viz. Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendation.

Chapter 1: Introduction

The introduction chapter, it describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter 2: Review of Literature

In this second chapter, it explains about the concept and historical background of commercial bank in Nepal and also the joint venture banks, the brief explanation of Ratio Analysis has been presented. The relevant and pertinent literature and various studies have also reviewed.

Chapter 3: Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools and techniques to measure the financial performance EBL and HBL.

Chapter 4: Presentation and Analysis of Data

In this fourth chapter, the data required for the study has been presented analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very lucid manner.

Chapter 5: Summary, Conclusion and Recommendation

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the two banks under review.

At the beginning of the thesis viva voce sheet, recommendation, declaration, acknowledgement, table of content and abbreviation are also submitted. And finally, bibliography and appendix are presented at the end of the study.

CHAPTER TWO
REVIEW OF LITERATURE

Literature refers to the detail of anything. Review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. In the course of research, review of existing literature would help the researcher to find out what studies have been conduct and what remaining to go with. In this section relevant contents related with the topic of the study are mentioned or arranged like, concepts of banks commercial banks.

For the purpose of the study, this chapter is categorized under three major headings, which are discussed as below:

- Conceptual Frame Work
- Review of Related Articles & Thesis
- Issues and Gaps

2.1 Conceptual Framework

As this study is related to financial analysis of Everest Bank Limited and Himalayan Bank Limited, following aspects of analysis are reviewed in sequential manner.

- Concept of banking
- Concept of commercial bank
- Concept of joint venture bank
- Concept of financial performance
- Concept of financial analysis
- Objectives of financial analysis

2.1.1 Concept of Banking

Bank is a financial institution, which plays a significant role in the development of a country. "Banking institutions are inevitable for the resources mobilization and all around development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people" (Grywinshki, Ronald, 1993; 87) "The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy" (Shrestha, 1993;32)

Banks are institutions whose debits-usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. It is different from other financial institutions in the sense that they cannot create credit through they may be accepting deposits and making advances. Banking institution is in dispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in the advanced country. Various types of banking institutions are performing different functions. There is for instance the central bank, which controls the entire currency and credit of the county. It is the organ of government that undertakes the major financial operations and by other means influence the behavior of financial institutions so as to support the economic policy of the government. Similarly, commercial banks also perform different functions by accepting the deposits and advancing loan etc. but in modern times, commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. The commercial banks have become the heart of

financial system as they hold the deposit of the people, government and business units and investing activities to individuals, business firm and government.

2.1.2 Concept of Commercial Bank

Financial intermediaries play significant role to the development of national economy. They influence saving and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sector that boosts the trade and industry and at least development of the country's economy. Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, borrowing funds and advancing loan. In addition to these primary functions, commercial banks collect cheques and bills, open letter of credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

Specially, commercial bank deals with the activities of trade, commerce industry and agriculture. The main objective of commercial bank is to mobilize ideal resources in productive area after collecting them from scattered sources for profit maximization. Banking is an institution, which deals with money credit. It accepts deposits from publics, makes fund available to those who need them and helps in remittance of fund from one place to another. They perform several financial monetary and economic activities to accelerate the economic growth of the country. With these resources and bank's own capital, bank disburse loan or extend credit and also invest in securities. According to the "Ordinary Banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person or corporation to another; giving bank deposits in exchange for bill of exchange, bonds the secured or unsecured." Sayers (1970:30)

The Commercial Bank Act 2031 defines a commercial bank as a, "Bank which deals

in exchanging currency, accepting deposits, giving loans and doing commercial transaction." A commercial bank is a bank which exchanges money, deposits money, accept deposits, grants loan and performs commercial bank functions and which is not a bank meant for cooperative agriculture, industries as per such specific functions. A Commercial bank performs four major functions like, "Receiving and handling deposits, handling payment for its clients, granting loan and investment and creating money by extension credit." According to US Law, "Any institution offering deposits subject to withdrawal on demand and making loans of a commercial banks or business nature is a bank." So, the importance of banking as the nerve center of economic development can't be over emphasized and it is said that bank which are the need of and great wealth of the country have got to be kept very scared.

Commercial Banks are the heart of financial system they hold the deposits of many people, government establishments, business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy. (Read, Cotler, Will, Smith, (1976;39). In content of Nepal, commercial banks are operated under "Commercial Bank Act 2031 B.S.", In addition to Commercial Bank Act, Nepal Rastra Bank also lays down other many directives.

2.1.2.1 Historical development of Banking System in Nepal

"Banking concept existed even in the ancient period when the rich people used to issue the common people against the providers of safe keeping of their valuable items on the presentation of the receipt: the depositors would get bank their gold and valuables of the paying a small amount of safe keeping and saving" *(Paul. A. Samuelson 1973; 27)*

The history of banking in Nepal can be described as a component of gradual and economic sphere of the Nepalese life. Even the financial system is still in evolutionary phase. Though establishment of banking industry was very recent, some crude bank operation was in practice even in ancient times. In Nepalese history, it was recorded that “Shankhadhar” a merchant introduced the new era known as “Nepalese Sambat” from Kantipur in 880 A.D. after having paid all the outstanding debt of the country. This shows basic of money lending practice in ancient Nepal. In 11th century during Malla Regime there was an evidence of professional moneylenders and bankers. It is further believed of professional moneylenders and bankers. It is further believed that money-lending business; particularly for financing the foreign trade with Tibet became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have changed exorbitant rate of interest and other extra dues on loans advanced.

The establishment of the "Tejarath Adda" by prime minister "Ranoddip Singh" during the year 1877 AD was fully subscribed by government of Kathmandu valley, which played vital role in the banking system, was regarded as the father of the modern banking institution. The prime task of "Tejarath Adda" was granting of loans and safeguarding of total national deposits. At that time, Indian currency was commonly used in most part of Terai. The primary task of the Tejarath Adda" was to attract the deposits in government exchequer at the beginning but later on public was also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities and collateral. Although the institution did not accept any deposits, it had played an important role n development process of banking system in Nepal.

The main defects of this institution showed that there was no further financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving mobilization, the "Adda" faced financial problems making it impossible to charter to the

country. Udyog Parished (Industrial Development Board) was constituted in 1936 A.D. One year after its establishment, it formulated the "Company act" and "Nepal Bank Act" in 1937 A.D.

In the year 1994 B.S. the establishment of Nepal Bank Limited, with the Imperial Bank of India came into existence under "Nepal Bank Act 1993 B.S." as the first commercial bank of Nepal. At that time Nepalese economy was characterized by the existence of dual currency system (Indian and Nepalese), which was effecting economic stability and development of nation. Thus, the need of establishment of the central bank required great urgency. As result, Nepal Rastra Bank was established as central bank of country on 13th Kartik 2013 under NRB Act 2012 with the authorized capital of Rs. 10 million fully subscribed by government.

Integrated and speedy development of the country is possible only when the competitive banking services reach nook and corners of the country. To cope this situation government setup Rastriya Banijya bank in 2022 B.S. as a fully government owned commercial bank. With the come up of RBB, banking services spread to both urban as well as rural area. Agriculture Development Bank was established for the promotion of agriculture sector in country. When the government adopted liberal and market oriented economic policy in the mid 80's Nepal allowed the entry of foreign banks of joint venture basis with foreign capital, technology and experience. Nepal Arab Bank Ltd. was the first joint venture bank established on 2041 B.S. under the commercial bank act 2031. With the opening of NABIL the door of opening joint venture banks was opened to the private sector.

2.1.2.2 Function of Commercial Bank

The most important function of a commercial bank is to mobilize deposits from the public. Depending upon the nature of deposits, funds deposited with bank also earn interest. The second important function of a commercial bank is to grant loans and

advances. A loan is granted for a specific time period. Generally, commercial banks grant short-term loans. An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting or both. Besides the functions of accepting deposits and lending money, banks perform a number of other functions .These is as follows –

- Issuing letters of credit, travelers' cheques, circular notes etc.
- Undertaking safe custody of valuables, important documents, and securities by providing safe deposit vaults or lockers.
- Providing customers with facilities of foreign exchange and remittance service.
- Transferring money from one place to another; and from one branch to another branch of the bank.
- Standing guarantee on behalf of its customers, for making payments for purchase of goods, machinery, vehicles etc.
- Collecting and supplying business information.
- Issuing demand drafts and pay orders.

2.1.3 Concept of Joint Venture Bank

A joint venture is an association of two or more persons or enterprises to make the operation highly effective with their collective effort. Joint Venture Banks are the commercial banks firmed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods & services. Joint Venture Banks are an innovation in finance and it is growing stage, mostly in developing country, foreign investment plays a significant role for economic development by flowing capital, technology, skills, managerial efficiency and others. When two or more than two independent firms

mutually decide to participate in a business venture, contribute to the total equity more or less capital and establish a new organization, it is known as Joint Venture.

"A business contract of management effort between two person, companies or organizations involving risk and benefit sharing." (Ahuja,1994; 174). "A Joint Venture Bank is joining of forces between two or more enterprises for the purchase of carrying out a specific operation i.e. industrial and commercial investment production or trade" (Gupta, 1984; 15). The joint venture is common variant for expansion. "A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization" (Jauch and Glueck, 1988; 232) this thought identified the joint venture as a mutual understanding among two or more firms then bringing a new enterprise in existence. Basically, they are constant about the ownership of new firms. In what proportion they are, going to contribute ownership is also decided mutually. " The existence of foreign joint venture bank has presented an environment of healthy competition among the existing commercial banks. The increased competition had led to improve their quality and has caused an extension of services by simplifying procedures and training". (Chopras, 1990; 231) "HMG's deliberate policy of allowing foreign JVB's to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their balanceable capacity through competition efficiency, modernization via computerization and prompt customer service". (Shrestha, 2041;44)

Joint venture banks have been contributing a lot towards the promotion and expansion of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. In this way, JVBs are successful to bring healthy competition among banks, increase in foreign investment, promote and expand import export trade, introduce new techniques and technologies. A joint venture is an association of two or more persons or parties having exceptional advantages in specific operation is undertaken to make the operation highly remunerative with their

collective efforts. In 1980's government introduced "Financial Sector Reforms" which facilitated the establishment of Joint Venture Banks (JVBs), which gave a new horizon to the Nepalese Banking Sector. Joint Venture Bank, especially with foreign banks, was expected to bring technology; modern management as well as foreign capital in banking industry besides export and import trades. Since these banks being new, urban based and run by foreign management, they started their operations with the accumulated system which could attract the elite group of business community due to their prompt service, modern management.

Firms within a country as well as operating in different countries may participate in a venture that happens to be more common firms in different countries. The foreign joint venture banks with full-fledged banking functions in Nepal are formed under Company Act 2021 B.S. and operated under the Banijya Bank Act 2031 B.S. Joint Venture Bank have been established for trading to achieve mutual exchanges of goods and services, for sharing comparative advantages by performing joint investment schemes between Nepalese investors, financial and non-financial institutions as well as private investors and their parents banks. The parent banks that have experience in highly mechanized and efficient modern banking services in the many part of the world have come to Nepal with superior technology, advanced management skills and international network of banking. Joint Venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under supervision, controlling and direction of Nepal Rastra Bank. Nepal Arab Bank Limited was the first joint venture bank of Nepal, established in 29th Ashad 2041 B.S. until now there are nine joint venture banks operating in different parts of the country.

2.1.3.1 Role and function of Joint Venture Banks

With the entry of foreign joint venture banks with foreign collaboration advanced managerial skills, international network personalized manpower, and modern computerized technology have created serious challenges to the existence of the

traditionally running inefficient domestic state owned banks. JVBs are able to provide quality-banking service at the cheaper costs. At same time JVBs create the opportunity and environment to the domestic bank to improve their style of doing business by modernizing themselves and sharpening the internal strength. JVBs have already been providing a dynamic and vital role for the development of the efficient financial market as well as for successful mobilizing and utilizing financial resources in the country, which can be illustrated in the following headings;

i) Providing Advanced Banking Services

The joint venture banks are expert and efficient for practicing new methods of doing banking business like computerization, providing tele-banking facility, automated teller machine (ATM), 24 hours banking services, any branch banking facility, premium saving account (PSA), free life insurance of account holders, and other many attractive facilities.

ii) International Management Network

The top level-management of the JVB is either from foreign country or supported by foreign parent institutions for expertise and professional services. And the management is able to formulate policy and strategy according to Nepalese economic climate with the participation of native promoters. Such management system can be a model example to the domestic banks that are operating traditionally.

iii) Creation of Healthy Competition in the Banking Industry

In the post liberalization period the introduction of the JVBs has ended the monopoly of the two domestic banks namely NBL and RBB and brought satisfactory fair competition in the banking business, which results the competitive advantages to customers. Efficiency of the financial market is the backbone of the economy. The advent of the JVBs has contributes much to the direction of domestic saving as well as to the efficiency of funds flow into the economy, which surely would not have

been possible through the government's conservative and restricting free competition policy.

iv) Advantage of Foreign Investment

The JVBs play a remarkable role in making available foreign financial resource for the investment. They act as mediators between foreign investors and native investors and promoters. That will help for the promotion of the trade and commerce in the country. Recently, the JVBs are being criticized, as they only want to operate in urban and suburban areas rather than to rural ones driven by profit motive. However the JVBs have been contributing much in the direction of the development and modernization of the efficient banking system, financial system, domestic saving and creation of the employment opportunities.

2.1.4 Concept of Financial Performance

Financial performance analysis means the analysis of financial activities of the company directed towards achieving its value maximizing objective. For the better financial activities, effectives, effective and efficient decisions are necessary and those better financial activities contribute excellent financial performance which in turn results to growth of the organization.

Financial performance analysis can be defined as the heart of financial decision. The growth and development of an enterprise is fully affected by financial performance and financial performance of an enterprise is correct when true facts and figures are sort out. Business organizations are inspired to generate profit. The value of profit earned is also one of the major indications of a good financial performance of a firm.

According to the Robinson, (1951:21-22) "Profit earned by the firm is the main financial performance indicators of business enterprises." Financial performance analysis is an analysis of better understanding of forms positions i.e. its strength and

weakness. Thus, it involves the use of various financial statements. First, the balance sheet which represents the firm's financial position at the moment and then comes income statement which represents the summary of firms profitability over a time.

Financial performance analysis as a part of financial management is the main indicator of success and failure of the firm. Its decision plays a vital role to increase the profitability by analyzing past performance and efficiency of the firm from accounting data and financial statements. Profit is essential for a firm to survive, grow in long run as well as to maintain capital adequacy through retained earnings. However, profit can't solely predict the financial performance of the firm.

Financial condition of the business firm should be sound from the point of view of shareholders and stakeholders and financial institution and nation as a whole. However, financial aspects are one of the most neglected aspects of the public enterprises in Nepal. However, joint venture banks have been analyzing their financial performance in order to take corrective actions in timely manner, but which has also been limited within the banks themselves. In Nepalese context, commercial banks are playing vital role in economic growth of the. Therefore, it would be clear and transparent to analyze the financial performance of these leading foreign joint venture banks of Nepal by using various measuring financial tools to know about their earning and the utilization of the earnings to boost up the economic expansion of the country.

Financial performance analysis can be considered as a spirit of the financial decisions. The growth and development of any business firm is directly influenced by the financial policies. Rational evaluation of the financial performance management in public enterprises is too much involved in record keeping, raising necessary funds and maintaining relationship with the bank or other financial institutions. But a financial aspect is one of the most neglected aspects of public enterprises in Nepal. However joint venture banks have analyzed financial performance for their corrective action.

But their analysis is limited with the bank themselves. Financial performance as a part of financial management, there are different institutions that affect or are affected by the decision of the firm.

Management of the firm is interested in all aspects of financial analysis to adopt food financial management system for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the liquidity positions of the firm. Long term creditors are more interested in the cash flow ability of the enterprise to service debt over a long run. All the concerned groups are directly or indirectly interested about the financial performance of the firm.

The absolute accounting figures are reported in the financial statement, balance sheet, profit and loss account and other statements do not provide a meaningful understanding of the performance and financial position of the firm. Thus financial analysis is the main qualitative judgment process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit & Loss Account.

Joint venture bank of Nepal is profit making business institutions. So the profit earned by a joint venture commercial bank in Nepal is the main financial performance indicator of the bank. However, it cannot exclusively forecast the performance of the bank by analyzing the profitability status only. Every aspects of the financial analysis are to be considered for financial performance of the bank.

2.1.5 Concept of Financial Analysis

Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail the accounting information given in the financial statement to gain better understanding of the firm's financial position and performance. It is performed to determine the liquidity,

solvency, efficiency and profitability position of the organization. It gratifies the need of the concerned parties like potential investors, shareholders, government, general public, short term as well as long term creditors and management itself about their vested interest providing them with adequate information. "Ratio analysis is such a powerful tool of financial analysis that through its economic and financial position of a business unit can be fully x-rayed." (Kothari,1991:487).

"Financial Analysis is a process if identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and the profit and loss Account." (Pandey) Financial Analysis of a firm consists different kinds of indicators out of which financial statement analysis, ratio analysis, sources and uses of funds are the major indicators to measure the strength & weakness of a firm. But here the study is mainly focused on the ratio analysis and some other financial indicators to analyze the financial position & performance of bank. A quantitative judgment of the financial performance and financial position of the firm should be made from viewpoint of the firm's investment. "A ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between two or more figure." (Source: en.wikipedia.org/wiki/Ratio)

Financial analysis is a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of trend of these factors as shown in a series of statements. By establishing a strategic relationship between the items of a balance sheet and income statement and operative data, the financial analysis unveils the meaning and significance of such items. The analysis of financial statement is necessary, the reason is that balance sheet, profit and loss account and fund flow statements even are successful to fulfill their targets but they cannot meet the requirement of different interests. To obtain the meaningful information according to own need, they should be analyzed. Ratio Analysis is widely used.

It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and the current financial condition can be determined.

The function of financial analysis of institution can be broken down into three major decisions a firm can make; the investment decision, the financing decision and the dividend decision. An optimal combination of the three decisions will be maximizing the value of the firm.

A powerful and most widely used tool of financial analysis is ratio analysis. A ratio is a relationship between two accounting figures expressed mathematically; the term ratio refers to the numerical or quantitative relationship between two items. The type of relationship can be expressed as percentage, fraction and proportion to number. Ratio helps summarize large quantities of financial data and to make qualitative judgment about the performance. (Source: http://www.ask.com/questions-about/Importance-of-Ratio-Analysis)

2.1.5.1 Objectives of Financial Analysis

Basically there are three major objective of financial analysis.

- To select the pieces of financial information that is relevant to a particular problem.

- To fit these into a coherent picture of the problem in relation to the firms aims and financial resources.

- To suggest alternative solution to the problem.

As a matter of facts the objective of analysis depends upon the analyst as quality if the data available.

2.2 Review of Related Study

Here, in this part, the reviews of related studies conducted for the preparation of the study are presented. Various review of journals, articles and master's degree theses have been presented below:-

2.2.1 Review of Journals and Articles

Relevant related articles and journals relating to the different aspects of commercial bank will help to conduct this study smoothly. So some of the articles relating to banking sectors are given below;

The number of commercial banks increased dramatically after the democratically elected government adopted the liberal and market oriented economic policy. (Thapa, 2051:17)

After liberalization and globalization of the world economy the economic transaction such as trading and commerce, industrial and banking activities have grown up tremendously. Likewise, an international trade of the developing country has also boosted up. But on the other hand, the increasing competitiveness has also increased various type of risk in every business, including banking sector. To manage with their risk, the banks in favor of their clients have adopted strategies relating to treasury management. (Shrestha, 2055, P-20)

An article Joint Venture Banks in Nepal published in 1999 Vol. XI P-36. It focused that despite the increase in numbers, the joint venture banks are concentrated in urban centers, especially in major cities, with will all their headquarters in Kathmandu. This trend has resulted two ways effect on the operation of the government owned commercial banks in Nepal. First, the comparatively attractive interest rate and service promptness of these private banks have drawn the public deposit's to their side

there by reducing financial liabilities of the former, Second, as a result of reduction in financial liabilities government operated commercial banks have been forced to shut down some of their branches in remote area of the country. Nevertheless, look at the activities of these joint venture banks provide a boost into the tremendous aid they provide to the national economy. They have been instrumental in mobilizing capital more efficiently and to be a larger extent especially, and they have been more helpful in funding the private sectors.

Tamrakar (2000) in the article, *"The government has called up on foreign investors to explore the unique business opportunities lying in the Himalayan Country"*. While addressing at business meeting at Hanover, Germany on September 9th 2000, he states that government is committed to encourage every type of investment, which can ultimately contribute for the industrial development of the country. Informing the gathering that various 37 investors of nations have invested 592 projects during last ten years industrial production, tourism and service sectors have been prime attraction of foreign investors.

Bhagat highlights on his article entitle "*Issue in Banking Reforms*", that the commercial banks generally registered under the company act but operated under the commercial bank act does not provide for the registration of the bank. Here commercial bank act should be a made independent from the provision of the company act. Further he mentions that banks capital adequacy guidelines prescribed under certain basic criteria or parameter. However, there should not be any discrimination between new and old commercial banks in meeting capital adequacy guidelines such as a minimum paid up capital and increasing paid up capital over the time period.

Shrestha (2004), has analyzed the financial performance of the commercial banks using descriptive and diagnostic approach. In her study she has concluded the points

as below;

- Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposits on GDP has also been seen increasing. The assets holding of commercial banks are growing with 42.12% rate that is supposed to be higher for a developing country. It can be concluded that the commercial banks in Nepal are performing their function of collecting the domestic property.
- The structural ratio of commercial banks shows that banks invest on the average 75% of their total deposits on government securities and the shares of other financial institutions.
- The analysis of reserve position of commercial banks showed quite high percentage of deposit as cash reserve.
- The debt equity ratio of commercial banks is more that 100% in most of the time period under study period. It leads to conclude that the commercial banks are highly leverage and highly risky. Joint venture banks had higher capital adequacy ratio but has been declining every year.
- Return ratios of all banks show that most of the time foreign banks have higher return as well as higher risk that the government owned banks.
- In case of the analysis of management achievement, foreign banks were found to have comparatively higher risk than local banks.

According to the Banking Supervision report 2010 of NRB concludes that, the capital of the Nepalese banking industry has depicted a favorable trend during 2009/10. There are various reasons for this improvement. The banks, during the period, on an average have performed well and some of them have raised capital from the market, which improved the overall capital position of the industry. All banks, except for three private banks were able to post handsome profits. Some banks were able to distribute cash dividends and bonus shares to its shareholders. At the same time, some banks raised finance from the market through issue of right shares while Lumbini Bank

raised equity capital through initial public offering during the year.

Banking Supervision Annual Report (2010): Nepal Rastra Bank concludes that, Banks are gradually starting to realize that, in today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that banks can exploit to establish a competitive edge. Since most banks offer comparable products and services, they should continually search for a competitive advantage that will attract new customers and help them retain existing ones. Banks are therefore, looking to develop innovative products and services to maintain superior customer service levels while at the same time remaining profitable. With the number of market players in the rise, the competition has been obviously growing in the banking industry. The most obvious effect of the rising competition can be seen in the interest rates offered by the banks. The banks, which some years ago, used to charge rates in the range of 15 to 20 percent, have dramatically reduced their interest rates to 8 to 12 percent, in order to remain competitive. Banks are now gradually shifting towards IT based solutions to enhance service delivery in order to address customer concerns. More and more banks are embracing E-banking and provision of ATMs to reduce long queues in banking hall. In addition, some of the banks have launched mobile phone banking services which facilitates several account enquiry tools, including account balances, thereby, minimizing the need for customers to visit banking halls. This drive towards IT based solutions will continue to gather momentum in the future as banks will find it be very difficult to survive in the ever growing competition without some form of competitive advantage. Another trend observed in banking industry in 2004/05 is the shift towards multiple banking relationships explored by large corporate houses. In order to remain competitive, Banks are seen to be increasingly encouraging business houses to transact with them. This has lead to a creation of large volume of unutilized limits with the bank and in order to get a large piece of the pie banks are increasingly accepting risks, which they otherwise would not have taken. The unyielding competition has also leaded the banks to accept collaterals that are more risky and

unsecured. The volume of loans against the hypothecation of stocks, receivables and other assets are on the rise. In the absence of statute for registration of charges (hypothecation) in the current assets, the risk of over financing is eminent and banks are exposed to a higher degree of risk.

2.2.2 Review of Thesis

In addition to financial performance analysis, there are various studies on financial aspects, which deal with the context on Nepalese commercial joint ventures banks. Previous studies relating to Nepalese banking sector have been the most relevant sources and assistants for this study. The major findings of the approach used in these important studies are reviewed briefly.

Khatiwada (2007) had conducted a research on topic *"Financial Performance Analysis of Butwal Power House Company Limited"*. The main objective of his research is comparative examining the overall performance like to analyze the liquidity, capital structure, leverage , soundness of profitability and ownership ratio of Butwal Power House Company Limited, through financial Analysis. Main objective of this study is to provide recommendation and suggestions to Butwal Power House Company Limited on the basis of findings. Necessary data and other informations are collected from the secondary sources of data. Various findings of the research were;

- Liquidity analysis indicates better liquidity position of Butwal Power House Company Limited or it is in strong credibility position.
- Leverage/Capital Structure analysis indicated that it is not enough to access a good profit, higher profitability in the company.
- Activity/Turnover ratio indicated increment in ration but not satisfactory.

The research had the following recommendations mentioned below:

The company is in strong credibility position. It should enjoy capital of less cost by borrowing fund. The company has kept very high liquidity ratio. The investment in

current assets is excessive which should be controlled. Capital employed turnover ratio is not found good in the study period. To achieve higher profit, the utilization and good management of capital employed is necessary. The company does not use debt capital so leverage ratios are not calculated and decision regarding capital structure cannot be given.

Niraula (2008) had conducted a research on topic *"An Evaluation of Financial Performance of Finance Companies in Nepal"*. The main objective of the research is to examining the technique of financial analysis such as liquidity, activity, profitability ratios of Finance Companies in Nepal. Various findings in this research are stated below:

- The liquidity position of Finance Companies is below the normal standard and also inconsistency in liquidity policy.
- The Finance Companies should utilize their risky assets and shareholders fund to gain profit margins. Similarly they should reduce their expenses and should try collect cheaper fund being more profitable.
- Asset Management Ratio indicates that Finance Companies are utilizing fund properly to get fair return.

The research had the following recommendations:
Financial Companies need to manage their investment portfolio efficiently. It should be managed under the dynamic implication of financial market. Finance Companies should carefully examine safety principle as well as sources for repayment, capital structure, requirement and credit worthwhile of a borrower for providing credits. In other words, credit manager should evaluate credit risk by considering well known form C's of credit i.e. character, capacity, capital and collateral.

There are various services provided by Finance Companies for the customer. Among them the use of funds towards higher purchase and housing finance must be shifted

towards the business and industrial financing. These activities must be taken by finance companies to shift their investment and credit strategy to the productive sectors such as industrial and business sectors of the economy.

Koirala, 2008 conducted a thesis titled *"A Study on Financial Performance of Nepal Telecom (NT)"* concludes that NT is maintaining the good liquidity position. There is positive growth of operating profit maintained by NT. Capital Employed Ratio shows that the huge amount of long debt is not efficiently employed in generation of revenue. NT has to compete with many private sectors such as UTL, NCELL to speed up the communication in the country.

Recommendations of the research can be described as follows:
Due to political as well as the past turbulent political and security situation in the country, NT is deliberately going slowly. NT has to start restore its damage structure and show that it can act as a catalyst in the economic growth of the country. NT has huge amount of receivables, this shows that reliable policy is not adapted by receivables management boards for collection the receivables. So NT should make appropriate decision regarding credit terms, credit standard and credit policy. The company should be more autonomy and senior management should be more professional.

Singh (2008) had conducted a research on a topic, *"Financial Performance of Insurance Companies in Nepal. United Insurance Company Limited (UICL),"* NECO Insurance Company Limited, Nepal Insurance Company Limited and Himalayan General Insurance Company Limited (HGICL) are selected. It is found that the current ratio of selected insurance companies is highly fluctuated. Investment in total assets indicates that the creditors of all insurance companies are in safe side. There is fluctuating trend of net profit of all the companies.

The research had the following recommendations:

The current ratio of NICL, HGICL and NIL are maintained about the standard i.e.2:1. But UICL has above the standard. Therefore UICL is suggested to maintain the current ratio to 2:1 standard. All insurance companies have unsatisfactory level of cash to current liabilities ratio. Therefore, all companies are suggested to increase their cash or to decrease current liabilities to improve short-term solvency position. Insurance companies should emphasis on the promotional activities like advertising, price discount, personal selling and gifts and bonuses etc. This may enhance the sale of insurance policies.

K.C. (2008) had conducted a research on a topic "*Financial Performance of Joint Venture Banks (With special reference to Standard Chartered Bank Limited (SCBL) and Nabil Bank Limited*". In the research, various findings had been pointed out; Return on total assets ratio of all the selected companies is decreasing year by year. Both the banks under study have been able to earn positive profit but not to the satisfactory level. Comparatively, loans and advances to total deposit ratio, loans and advances to saving deposit ratio, loans and advances to fixed ratio of Nabil Bank Limited is more efficiently utilizing the outside funds in extending credit for profit generation. Both banks are successful to comply the NRB directives regarding the capital adequacy ratio of commercial banks for the study period.

Pandey (2009), in the thesis entitled "*A comparative analysis of financial performance of Nabil Bank Ltd, Investment Bank Ltd and Standard Chartered Bank Ltd*" has pointed out following objectives: To evaluate the liquidity position of selected banks. To evaluate the activity and operation with reference to mobilization of the collected funds. To analyze price earning, Market value to book value per share and dividend payout. To identify the relationship between total deposit and total investment. Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as below: NIBL and SCBNL seem to have held more cash and bank balance rather than Nabil bank. The profitability ratio increase of NIBL has lowest with the result of lower

profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Based on activity ratio analysis it is found that all the selected joint venture banks except SCBNL have emphasized in issuing loan and advances. However, as we know that the increasing bottleneck competition and worsening economic condition has attributing this area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.

Sadula (2010), in the thesis entitled "*Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL, NABIL"* has pointed out following objectives: to evaluate Liquidity position of these Banks, to analyze comparative financial performance of these banks, to study comparative position of selected banks, to offer a package of suggestion to improve the financial performance. Major Findings of this study are - Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders. And Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

The research had the following recommendations:
SCBL should be more serious to improve the efficiency in utilizing its deposit in loan and advance for generating the profit. Both banks should be stabilized after proper diagnosis to the root cause of unsatisfactory liquidity. Earnings per Share (EPS) and Dividend per Share (DPS) attract the investors. Nabil Bank Limited pays less EPS and DPS than SCBL. So it is suggested that Nabil Bank Limited should increase the market price of the share so that EPS should be increased.

2.3 Research Gap

The previous thesis reviewed for the preparation of the study has been based on previous years' data. At the time of preparation of this study, the time and scene has changed. New data has been used for analysis; and contemporary among commercial banks Everest Bank Limited and Himalayan Bank Limited has been selected for analysis.

The scene in the commercial banks' working ground has changed in many ways. There is growing competition; on the other hand, the country's risk has been increasing due to recent volatility in the present political and social situations. The study is also unique because it has tried to show the circumstances and effects of positive and negative profits of the selected bank.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the technique to achieve the stated objectives of the study. This chapter studies how research to be conducted, how the research is made effective and what are the steps of research so that the study and goal of the related study can be easily achieved. Especially research refer sequential step's to be followed by researcher at the time of solving problem or studying the concerned subject matter in detail that include following steps.

- Research design
- Sources and types of data
- Population and sample
- Data procedure
- Method of data analysis

3.2 Research Design

A research design is the framework or plan that guides the computation and analysis of the data gathered for the study purpose. Basically, this study deals with the financial performance analysis of Everest Bank and Himalayan. Hence, analytical as well as descriptive approach have been used to evaluate the financial performance of the bank and obtained stated objectives.

3.3 Sources and Types of Data

To conduct this study, secondary data are taken from annual reports of related office and their websites. So the major sources and types of data include these published sources,

- Financial statement of Everest Bank Limited and Himalayan Bank Limited
- Annual report of the bank
- Different previous studies
- Related bulletins, reports, periodically published by various government bodies.

3.4 Population and Sample

At present, there are 31 commercial banks are operating in Nepal. Among them 13 are joint venture banks. They constitute the population sample. Among of them, Everest Bank Limited and Himalayan Bank Limited are selected for the study of Financial Analysis. Five years data are taken to conduct the study from 2005/06 to 2009/10.

3.5 Data Procedure

Various data obtained through different sources can't be used directly for the analysis in their original form. So, they have been rechecked, re-evaluated, edited and tabulated to bring them into appropriate form for the analysis purpose. The researcher made the collected data trust worthier getting them form authorized sources.

Moreover, different graph charts are presented according to necessity to interpret visually. The data are tabulated according to subject matter and they are shown in table in sequential way. Similarly, the financial ratios are also used for the analysis and interpretation of the financial performance of selected sample.

3.6 Method of Data Analysis

In order to ascertain actual financial position of any firm, various analytical tools can be used. It is true that suitable or appropriate tools, according to the nature of statement and data make the analysis more effective and significant for achieving these objective basically two sorts of tools can be used, financial and statistical the researcher has therefore, applied these tools extensively.

3.6.1 Financial Tools

As this study is related to financial performance analysis financial tools are more useful they help to identify the financial strength and weakness of the firm in spite of various financial tools available the research has primarily stressed on ration analysis assuming it the most suitable tools.

Lawrence, (1998), "A Ratio is simply a number expressed in terms of other number and it expressed the quantitative relation between any two Variables." Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit and loss account or balance sheet. It provides information relation to strength and weaknesses of financial data in relation to others. However, the researcher has employed his utmost effort to use as many ratios as possible to reach the point of true financial position of the banks. These ratios include the following.

Liquidity Ratios
Activity Ratios
Capital adequacy Ratios
Capital Structure Ratios
Profitability Ratios
Invisibility Ratios
Income and Expenditure Analysis

A) Liquidity Ratios

Liquidity Ratio measures the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. A very high degree of liquidity is also bad, idle cash earn nothing. So, it is necessary to a firm to maintain optimum level of liquidity. A bank is subject to a minimum cash reserve requirements (CRR) imposed by central bank to

ensure minimum amount of total assets to meet unexpected withdrawals. The following ratio has been applied to find out liquidity position of the banks.

i) Current ratio
ii) Cash and bank balance to total deposit ratio.
iii) NRB balance to current and saving deposit ratio
iv) Cash and bank balance to current and saving deposits ratio
v) Fixed deposit to total deposit ratio

i) Current Ratio

The current ratio is the ratio of total current assets to total current liabilities and measures the short-term solvency of a firm. It is calculated by dividing current assets by current liabilities.

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

Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm includes cash , bank balance, investment in treasury bills, discounts, overdrafts, short-term advance loans, foreign currency loan, bills for collection, customer acceptance, outstanding expenses, divided payable, provision for taxation. Although there is no hard and fast rule for measuring this ratio, conventionally a CR ratio of 2:1 is the considered satisfactory.

ii) Cash and bank balance to total deposit ratio (CBBTDR)

This ratio is calculated by dividing cash bank balance by total deposits.

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

Total deposits consist of current deposits, saving deposit, fixed deposit money at call

and short notice and other deposits. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of the bank but very high ratio is not favorable the bank because doesn't produce appropriate profit to bear the high interest.

iii) NRB balance to current and saving deposit ratio (NRB-CSDR)

This ratio is computed by using this formula.

$$\text{NRB} - \text{CSDR} = \frac{\text{NRB Balance}}{\text{Current and Saving Deposits}}$$

Commercial Banks are required to hold certain proportion of current and saving deposits in NRB's account. It is to ensure the smooth functioning and sound liquidity position of the Bank. As per the directive of Nepal Rastra Bank, the required ratio of 8 percent must be kept as NRB balance. This means the ratio measures whether the bank is following the direction of NRB or not.

iv) Cash and Bank Balance to Current and Saving Deposits Ratio (CBBCSDR)

This ratio is calculated by dividing cash and bank balance by current and saving deposits.

$$\text{CBBCSDR} = \frac{\text{Cash and Bank Balance}}{\text{Current and Saving Deposits}}$$

Cash and bank balance includes cash in hand, foreign cash in hand, other cash items, balance with domestic bank and balance held in foreign banks. On the other hand current and saving deposits consist of all types of deposits excluding fixed deposits.

This ratio measures the ability of bank to meet its immediate obligation. High ratio normally indicates sound liquidity position of the bank but too high ratio is not good as it reveals the under utilization of fund.

v) Fixed deposit to Total Deposit Ratio (FDTDR)

This ratio determined by dividing fixed deposits by total deposits.

$$\text{FDTDR} = \frac{\text{Fixed Deposit}}{\text{Total Deposits}}$$

It indicates the percentage between total deposits. High ratio shows better opportunity available to the bank to invest in sufficient profit generating long-term loans but low ratio indicates vice versa.

B) Activity Ratios

Activity ratios are also known as assets management ratios. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. Mostly, activity ratio is used to evaluate managerial efficiency and proper utilization of assets.

i) Investment to total deposit ratio
ii) Loans and advances to total deposit ratio.
iii) Loan advances to total assets ratio
iv) Total income generating assets to total assets ratio

i) Investment to Total Deposit Ratio (ITDR)

This ratio is computed by dividing investment by total deposits. This can be stated as:

$$\text{ITDR} = \frac{\text{Investment}}{\text{Total Deposits}}$$

The numerator includes government's treasury bills, development bonds, company shares and other investments. This ratio presents how efficiently the resources the banks have been utilized. High ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

ii) Loans and Advances to Total Deposits Ratios (LATDR)

This ratio is calculated by using following formula.

$$\text{LATDR} = \frac{\text{Loans and Advances}}{\text{Total Deposits}}$$

Loans and advances consists of loans, advances cash credit overdrafts local and foreign bills purchased and discount. It indicates the proportion of total deposits invested in loan and advances. High ratio indicates greater use of deposits in loans and advances but low ratio may be the cause of ideal cash or use of fund in less productive sector. Very high ratio shows the poor liquidity position.

iii) Loans and Advances to Total Assets Ratio (LATAR)

This ratio is obtained by dividing loans and advances by total assets.

$$\text{LATAR} = \frac{\text{Loans and Advances}}{\text{Total Assets}}$$

Total Assets include total assets of balance sheet items.

This ratio indicates what proportion of total assets has been used in loans and advances. Higher ratio means effective of total assets in loans and advances.

iv) Total Income Generating Assets to Total Assets Ratio (IGATAR)

This ratio is calculated by dividing Total income generating assets by total assets.

$$\text{IGATAR} = \frac{\text{Total Income Generating Assets}}{\text{Total Assets}}$$

Income generating assets are those assets, which are invested for generally income.

This includes loans, advances; bills purchased and discounted investment and money at call or short notice. This ratio shows what percentage of the total assets has been invested for income generation. High ratio indicates sound profitability position and greater utilization of assets.

C) Capital Adequacy Ratios

The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.

So a firm should maintain an optimum level of cash. For maintaining optimum cash by the CBS NRB directs the commercial banks to increase or decrease or fix a certain percentage of capital funds out of total deposits.

i) Total Net Worth to Total Assets Ratio
ii) Net Worth to Total Deposit Ratio

i) Net Worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets.

$$\text{NWTAR} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

This ratio measures the percentage of shareholder fund in relation total assets owned by banks. High ratio shows greater contribution of investors' fund and strong capital position.

ii) Net Worth to Total Deposit Ratio (NWTDR)

This ratio is calculated by using the following formula.

$$\text{NWTDR} = \frac{\text{Net Worth}}{\text{Total Deposits}}$$

It indicates the percentage of net worth in relations to the total deposits collected in the bank. The direction of the central bank has maintained or not by the bank, is the yardstick to measure the position.

D) Capital Structure Ratios

Capital structure ratios also known as leverage ratios are the measures of long-term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm. These ratios are calculated to measure the long-term financial position of the bank.

Specially, structure ratio and coverage ratio have been calculated and interpreted under capital structure ratio. The first ratio deals with the composition of debt and equity capital where as to second show the relationship between shareholders' fund and total assets of the banks. These two categories of ratio, particularly, include the following.

i) Debt to Equity Ratio

ii) Total Debt to Total Assets Ratio

iii) Interest Coverage Ratio.

i) Debt to Equity Ratio (DER)

This ratio can be calculated in this way.

$$\text{DER} = \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

This ratio shows the relationship between debt capital and equity capital. High debt

equity ratio indicates greater financing by debt holders than those of equity holders. From the creditor's view-point, high debt-equity ratio of the banks is more risky to them. It means the bank may fail to satisfy creditors.

ii)Total Debt to Total Assets Ratio (TDTAR)

This ratio can be calculated in this way.

$$\text{TDTAR} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

This ratio can be denotes the relationship between total debt and total assets of the banks. The higher ratio indicates the greater portion of the outsiders' and investment in term of the bank's assets.

iii) Interest Coverage Ratio (ICR)

This ratio is computed by dividing earnings before income and tax by interest. This ratio evaluates the debt serving capacity of the banks.

$$\text{ICR} = \frac{\text{EBIT}}{\text{Interest}}$$

The higher ratio shows that the bank can pay the interest easily.

E) Profitability Ratios

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.

Under this category the researcher has calculated the following ratios to obtain the

stated objectives of the study.

i) Return on Total Assets Ratio
ii) Return On Equity Ratio
iii) Interest Earned to Total Assets Ratio
iv) Total Interest Expenses to Total Interest Income Ratio
v) Return on Total Deposits Ratio

i) Return on Total Assets Ratio (ROTA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently is the assets of a firm able to generate more profit are measured by this ratio is calculated by dividing NPAT by Total Assets. This ratio provides the foundation necessary for a company to deliver a good return on equity.

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

The increasing Ratio shows favorable situation for the banks. The higher ratio is also shows that the bank could manage their overall operations, but the lower ratio shows vice-versa.

ii) Return on Equity Ratio (ROE)

This ratio measures, how much profit is earned by utilizing funds of total equity by the firm. As the commercial bank, the objectives of joint venture bank are to earn profit so as to provide a reasonable return to the owners. Total shareholders' equity consists of preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses. This ratio can be computed as Net profit after tax (NPAT) divided by average total shareholders' equity.

$$ROE = \frac{\text{Net Profit After tax}}{\text{Total Equity}}$$

iii) Interest Earned to Total Assets Ratio (IETAR)

The ratio indicates how much interest mobilizing the assets in the bank has generated. Interest is the main source of income of banks' interest received from generally loan and advances overdraft and investment in securities. This ratio can be computed as interest earned divided by total assets.

$$IETAR = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa.

iv) Total Interest Expenses to Total Interest Income Ratio (TIETIIR)

This ratio can be computed by using the following formula.

$$TIETIIR = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

The numerators consist of total interest paid on deposits liabilities, loan and advances and other deposits. The denominator comprises total interest earned or retained from loan and advances, cash credit and overdraft, government securities, interbank and other investment. This ratio indicates how much interest expenses have been made in relation to interest income received. The higher ratio shows unfavorable profitability situation of the bank.

v) Return on Total Deposits Ratio (RTDR)

This ratio measures the level of NPAT by using total deposits. It measures the

relationship between NPAT and total deposits with an ability of a firm to utilize maximum of deposits to earn much profit. This ratio is computed by dividing NPAT by Total Deposits.

$$RTDR = \frac{\text{Net Profit After Tax}}{\text{Total Deposits}}$$

F) Invisibility Ratios

An analysis of invisibility ratio helps the investors to know about the performance of the banks. Therefore, following ratio have been calculated to test earning capacity of the banks to last earning capacity of the bank.

i) Earnings Per Share (EPS)

ii) Dividend Per Share (DPS)

iii) Tax Per Share (TPS)

iv) Dividend Pay Out Ratio (DPR)

i) Earnings per Share (EPS)

This ratio is calculated by dividing earning available to common stockholders by number of outstanding share of common stock.

$$EPS = \frac{\text{Earning Available to Common Stockholders}}{\text{No.of outstanding share of Common Stock}}$$

High ratio shows the sound profitability position of the bank. It is favorable for the investor too.

ii) Dividend per Share (DPS)

This ratio can be obtained by using following formula.

$$EPS = \frac{\text{Earning paid to the Shareholders}}{\text{No.of outstanding share of Common Stock}}$$

This ratio shows per rupee earning actually distributed to common stock holders per

share held by them. High ratio is favorable for the shareholders.

iii) Tax per Share (TPS)

Tax per Share is obtained by dividing tax paid to government by number of common share outstanding.

$$TPS = \frac{\text{Tax paid to Government}}{\text{No.of outstanding share of Common Stock}}$$

This ratio shows the contribution of shareholders for the economic development. Higher TPS indicates the better profitability position of the bank.

v) Dividend Pay Out Ratio (DPR)

It measures the relationship between the earning belonging to the ordinary shareholders and the dividend paid to them. This ratio can be calculated by dividing the total dividend paid to the owners by the total profit/earning available to them.

$$DPR = \frac{\text{Dividend per Share}}{\text{Earning per Share}} \times 100\%$$

G) Income and Expenditure Analysis

There are so many items in debit and credit side in income and expenditure or profit and loss account. This tool has been used to separate the income and expenditure in to main sub headings. So this helps to compare nature of income and expenditure. Different proportions of the income and expenses have been separated according to their homogenous nature. Under the income analysis there will four headings, interest incomes, commission & discount, foreign exchange income & other income. In expenses analysis it is divided into major four sub-headings, i.e. interest expenses, staff expenses, office operation expenses and bonus facilities.

3.6.2 Statistical Tools

Although various statistical tools are available to analyze the obtained data, the researcher has selected the most suitable and commonly usable tools to extract trustworthy financial decision.

A) Arithmetic mean

B) Least square linear trend

C) Karl Pearson's co-efficient of correlation

D) Probable error

A) Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. Average is the typical values around which other items of distribution congregate. In general, if x_1, x_2, x_3, ……., x_n are the given number of observation, their arithmetic mean can be obtained by:

$$\mathbf{f(x)} = \frac{x_1 + x_2 + x_3 + \ldots\ldots\ldots\ldots\ldots + x_n}{n} = \frac{\Sigma x}{n}$$

Where, f(x) denotes arithmetic mean, n denotes the no. of periods and x_1, x_2 and x_n are the individual observations.

B) Least Square Linear Trend

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular functions, the values increases or decreases by absolute amount per unit of time. The linear trend values from a series in arithmetic progression.

It combines by following notations.

$$y = \mathbf{a} + \mathbf{b}\, x$$

Where,

y = the value of dependent variable

a= intercept of trend line

b=slope of trend line

x = value of the independent variable i.e. time where they are put in normal equation, these equations can be developed

$$\Sigma x = na + b\Sigma x$$

$$\Sigma xy = a\Sigma x + b\Sigma x^2$$

Since Σx =0,

a= $\frac{\Sigma y}{n}$ and b= $\frac{\Sigma xy}{\Sigma x^2}$

The constant **a** is simply equal to the mean of **y** value and constant **b** given the rate of change.

This is s mathematical method, which is widely used in practice. It is applied for finding out a trend line for those series, which change periodically in absolute amount.

C) Karl Pearson's Correlation Coefficient.

Out of several mathematical method of measuring correlation, the Karl Pearson's coefficient of Correlation is most widely used in practice to measure the degree of relationship between two variables. So, is measured by following formula using two variables or series x and y .

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

Where, r = Correlation Coefficient

Σxy = sum of product of observations in two series, x and y

Σx = sum of observation in x series

Σy = sum of observation in y series

Σx^2 =sum of square of observations in x series

Σy^2 =sum of square of observations in y series

The value of this coefficient (r) can never be more than 1 or less than -1. Thus +1 and -1 are limits of the coefficient. Here, r= +1 implies that there is perfect positive correlation between the two variables. But r= -1 implies that there is perfect negative correlation between the variables. If it has a Zero Value (r = 0), it denotes no correlation between the variables. If the obtained value lies outside the limit ±1, this implies that there is some mistake in calculation.

D) Probable Error of Correlation

Probable error of correlation is an old testing the reliably of an observed value of correlation coefficient. It is calculated to find the extent to which correlation coefficient is dependable as it depends upon the condition of random sampling probable error of correlation coefficient denoted by P.E (r) is obtained as

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

Where, r = Correlation Coefficient

n= no. of pairs of observation

Standard error reason for taking 0.6745 is that in a normal distribution Vn 5 % of observation lie in range ju± 10.675 <x Where juanda denotes the population mean and standard deviation.

P.E. (r) is used to test it an observed value of sample correlation coefficient is significant of any correlation in population.

If r is less than its P.E (r < P.E) it is not all significant correlation. If r is more than its P.E (r <6 P.E) there is correlation.

If r is more than 6 times its P.E and greater than ±0.5, than it is considered correlation.

CHAPTER FOUR
PRESENTATION AND ANALYSIS OF DATA

In this chapter, data collected from secondary sources are presented and analyzed by using financial and statistical tools. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performance of selected joint venture banks, ratio analysis, correlation analysis and trend analysis are used in this study.

4.1 Financial tools

In this study, financial tools have been grouped into liquidity ratio, profitability ratio, activity ratio and leverage ratio etc.

4.1.1 Liquidity Ratio

For analyzing the financial performance of the banks, liquidity ratio is one of the powerful tools. Whether the company is able to meet its current obligation is judged by liquidity ratio.

A. Current Ratio

The current ratio is measure of the firm's short-term solvency. It indicates the availability of current assets in rupees for each one rupee of current liabilities. A ratio of greater than one means that the firm has more current assets than current liabilities. Current ratio measures the relationship between current assets and current liabilities.

Table 4.1

Analysis of Current Ratio

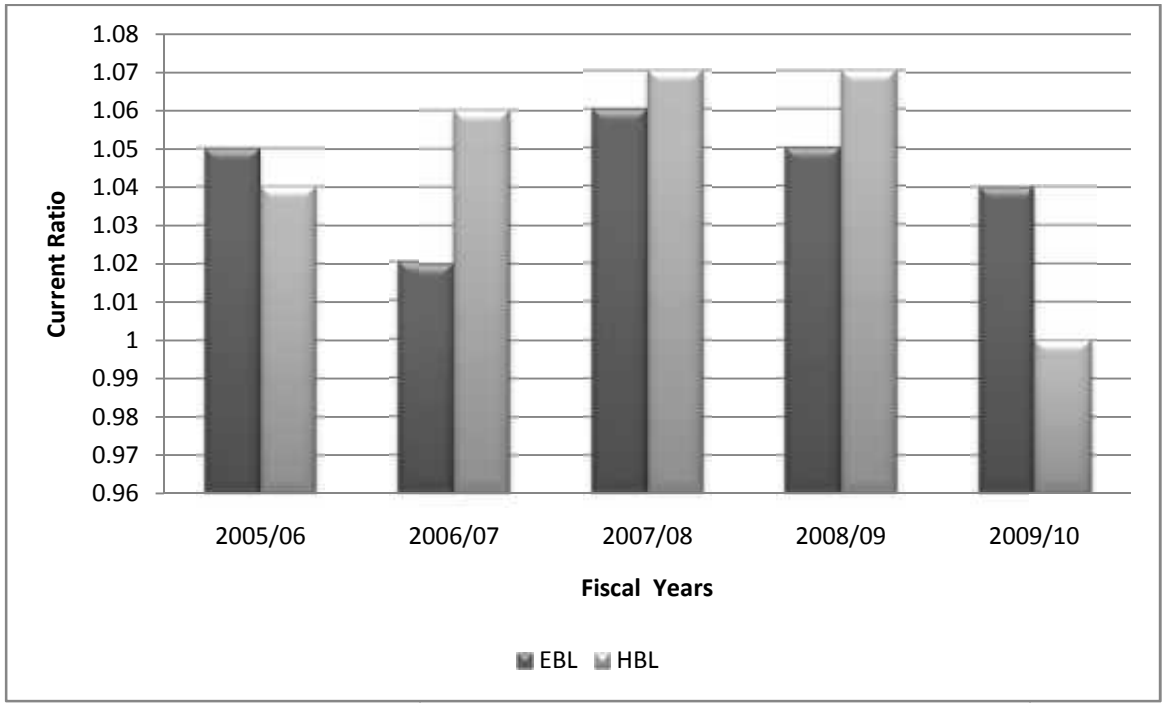
(In times)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1.05	1.02	1.06	1.05	1.04	1.04	0.01414	1.059
HBL	1.04	1.06	1.07	1.07	1.00	1.05	0.02646	2.52

(Source: Annex 1)

Figure 4.1

Analysis of Current Ratio



In the above table and figure, current ratio has been calculated dividing current assets by current liabilities. The above table shows that the current ratio of all the banks is below the normal standard of 2:1. On an average basis, current ratio of HBL & EBL is 1.05 & 1.04 respectively. From S.D point of view, HBL has the highest S.D of 0.02646. Next to it there is EBL with S.D of 0.01414.. It implies that HBL has high fluctuation (less homogeneity) with respect to current assets to current liabilities.

B. Cash and Bank Balance to Total Deposit Ratio

This ratio indicates the ability of banks immediately funds to cover their current margin calls, saving, fixed, call deposit and other deposits and vice versa. This ratio is calculated by dividing cash and bank balance by total deposits. The following table shows the comparative cash and bank balance to deposits ratio.

Table 4.2

Cash and Bank Balance to Total Deposit ratio

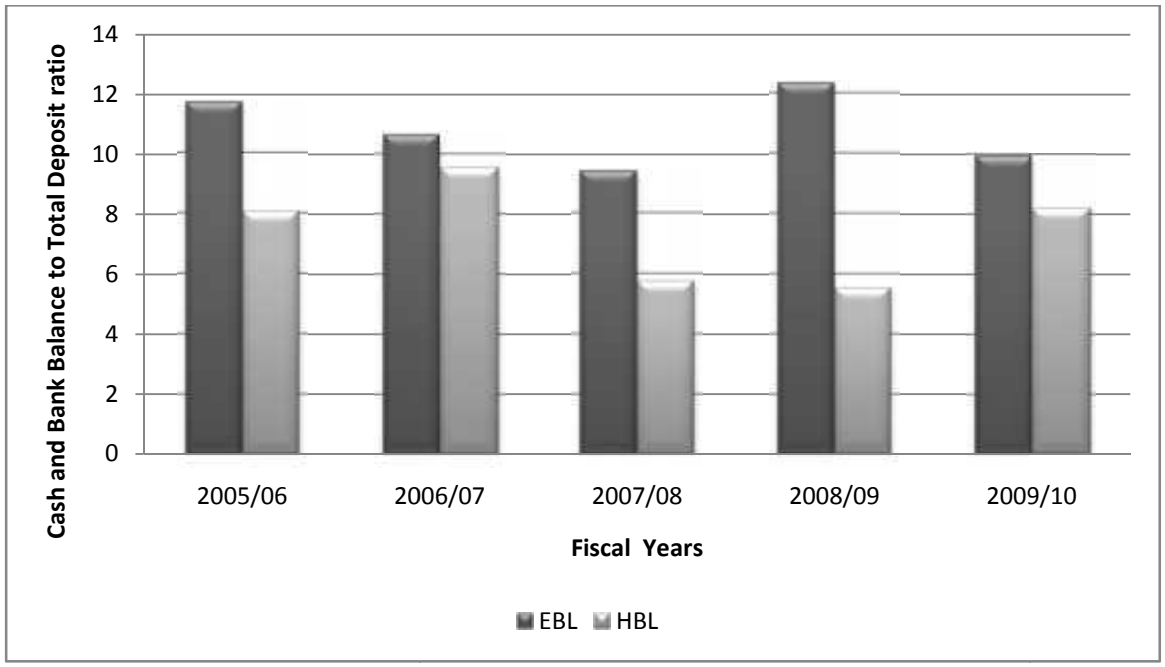
(In percentage)

Name of Banks	Fiscal Year					Average	|∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	11.69	10.65	9.40	12.34	9.97	10.81	1.08	9.99
HBL	8.06	9.56	5.75	5.53	8.20	7.42	1.55	20.89

(Source: Annex 2)

Figure 4.2

Cash and Bank Balance to Total Deposit ratio



In above table and figure, cash & bank balance to total deposit ratio has been calculated by dividing total cash and bank balance amount by total deposit amount. The above ratio reveals that the ability of banks to cover its short-term deposits. On an average basis, EBL is more in better position with an average 10.81% than all other sample banks. There is HBL next to it with an average of 7.42%, which is also in comfortable position is discharging its short-tem liabilities.

From S.D point of view, HBL with S.D. of 1.55. EBL has the lowest S.D of 1.08. It indicates that there is high fluctuation (Less homogeneity) in cash and bank balance to total deposit ratio of HBL over the study period. EBL with lowest S.D. of 1.08 indicates that there is low fluctuation (more homogeneity) in cash and bank balance to total deposit ratio.

From C.V. viewpoint, HBL with C.V. is 20.89%. EBL has the lowest C.V. is 9.99%. This implies that HBL is more inconsistent in cash and bank balance to total deposit ratio over the study period. However, EBL with lowest C.V. i.e. 9.99% indicates that it is consistent

in cash and bank balance to total deposit ratio over the entire study period.

C. Cash and Bank Balance to Current Asset Ratio

Cash and bank balance is the most liquid form of current assets. This ratio reflects the position of cash and bank balance to current assets of the bank.

Table 4.3

Cash and Bank Balance to current Asset Ratio

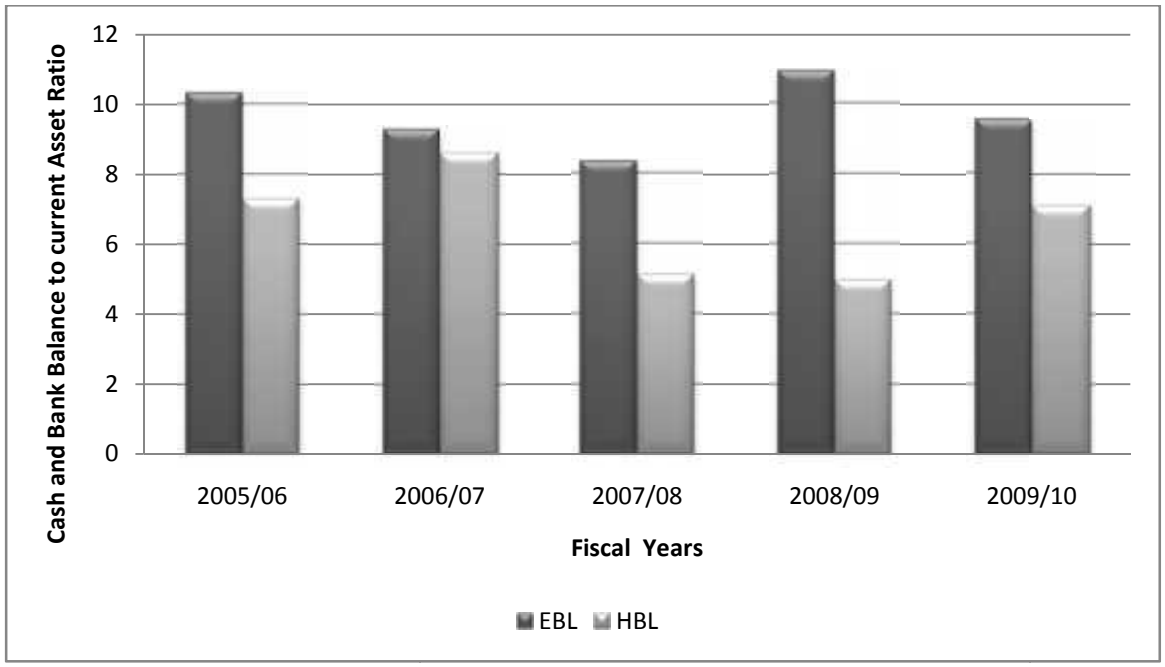
(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	10.33	9.28	8.34	10.92	9.53	9.68	0.89	9.19
HBL	7.30	8.61	5.12	4.97	7.10	6.62	1.39	21.00

(Source: Annex 3)

Figure 4.3

Cash and Bank Balance to current Asset Ratio



The above ratio has been derived dividing cash and bank balance by current assets. The above table shows that the selected JVB_S have held less cash and bank balance and utilized the available fund into current assets by issuing short-term loans and advances. Over the study period, on an average EBL has highest ratio of 9.68%. Likewise, HBL has 6.62%. Therefore, on an average, EBL has the highest. It implies that at some time EBL has held more cash and bank balance than other sampled JVBS. From S.D viewpoint, HBL with 1.39. EBL has lowest S.D. of 0.89. It implies that HBL have thigh fluctuation (less homogeneity) with respect to cash and bank balance to current assets over the study period. Similarly, EBL with lowest S.D. of 0.89 has low fluctuation (more homogeneity) with respect to cash and bank balance to current assets. From C.V. point of view EBL has the lowest C.V. of 9.19%. It indicates that EBL has low degree of variability or is consistent in holding cash and bank balance to current assets over the study period.

4.1.2 Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. This ratio measures the proportion of each components of operating income to total operating

income. The main components of operating income are interest earned, commission and discounts, exchange income and other income, bank receives interest from loans and advances, cash credit, overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-bank loan and others. Bank receives commission by discounting bills of exchange, remittance, foreign currency fluctuation etc. Under this, following ratios are used.

A Net Profit to Total Assets Ratio

Net profit refers to profit after interest and taxes. Total assets comprise of those assets that appear on the assets side of the balance sheet. A higher degree of ratio shows that total assets of the banks have been utilized in profit earnings. The following table shows the ratio of net profit to total assets.

Table 4.4

Net Profit to Total Assets Ratio

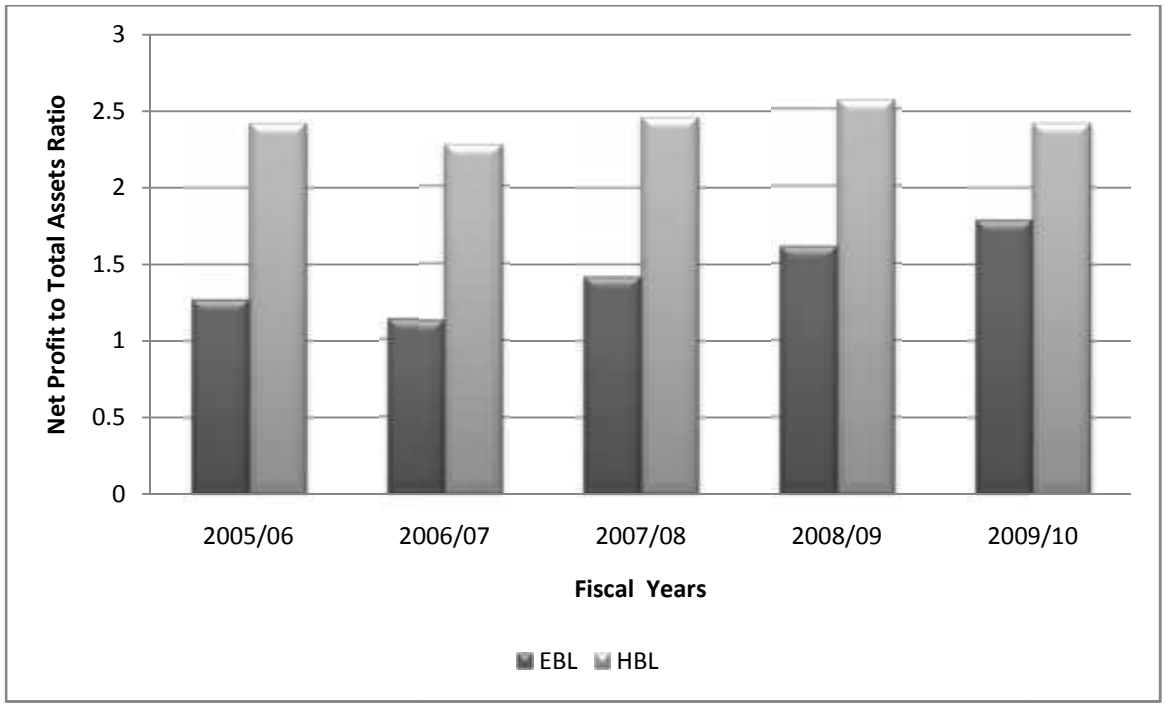
(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1.27	1.13	1.42	1.61	1.79	1.44	0.235	16.32
HBL	2.42	2.27	2.46	2.56	2.42	2.43	0.093	3.83

(Source: Annex 4)

Figure 4.4

Net Profit to Total Assets Ratio



In the table and figure, net profit to total assets ratio has been derived by dividing net profit by total assets. This ratio shows the relationship between net profit and total assets. On an average, HBL with 2.43%. EBL has the lowest profit i.e. 1.44% on total assets. From S.D. point of view HBL has the lowest S.D. of 0.093 point. It implies that HBL has lowest S.D. of 0.093 point has low fluctuation (more homogeneity) in generating more profit. From C.V. point of view, EBL has the highest C.V. of 16.32%. HBL has the lowest C.V. of 3.83%. It implies that EBL have higher degree of variability or is inconsistent in generating net profit and SCNBL with lowest C.V has lower degree of variability or is consistent in generating more net profit by using total assets in a systematic way.

B. Net Profit to Total Deposit Ratio

This ratio of selected banks measure of NPAT earned by using total deposits. This ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generation. Because of the deposit made by its customer's is the major

source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following table.

Table No. 4.5

Net Profit to Total Deposit Ratio

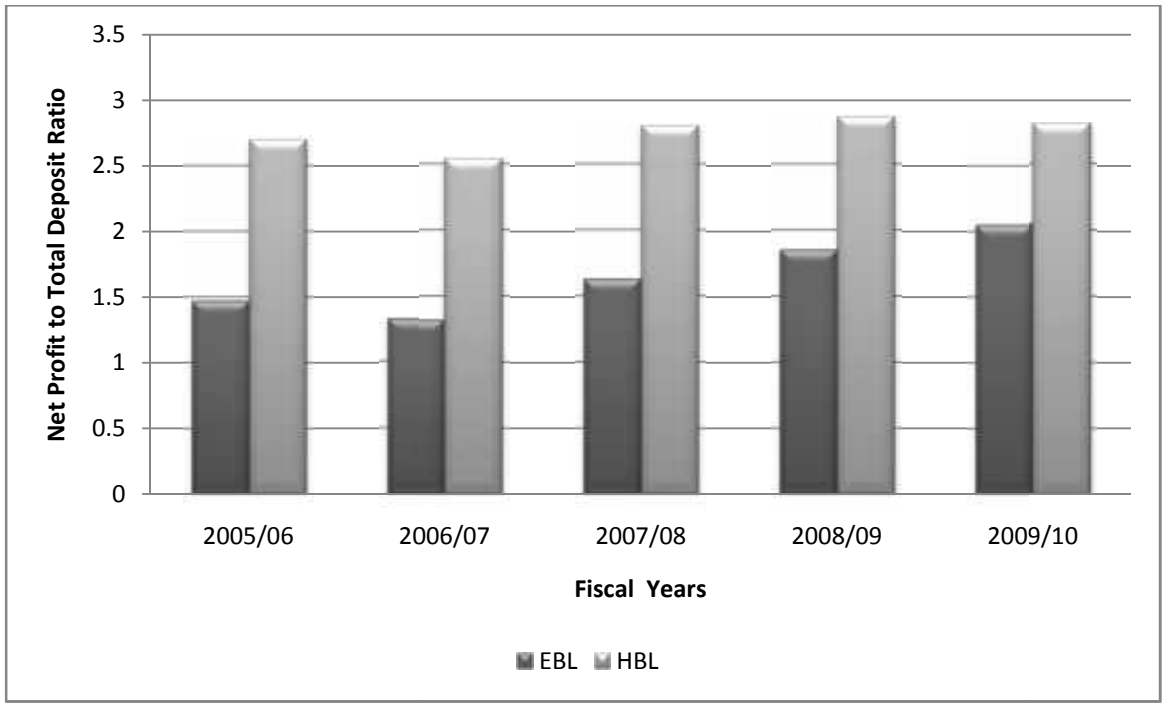
(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	1.47	1.32	1.63	1.85	2.05	1.66	0.261	15.72
HBL	2.70	2.54	2.79	2.86	2.81	2.74	0.1126	4.11

(Source: Annex 5)

Figure 4.5

Net Profit to Total Deposit Ratio



In the table and figure, net profit to total deposit ratio has been derived by dividing net profit by total deposit. This ratio shows the relationship of net profit and total deposits.

On an average point of view, HBL next to it with 2.74% and EBL has the lowest ratio of 1.66% over the study period. It implies that HBL have been successful in utilizing the depositor's fund more efficiently ingenerating more profit. EBL has not managed the deposit efficiently and thus it has failed to generate more profit over the study period.

From S.D. point of view, EBL has the highest S.D. of 0.261 point. HBL has the lowest S.D. of 0.1126 point. It implies that EBL have high fluctuation (less homogeneity) in generating profit by using deposit where as HBL with lowest S.D. of 0.1126 indicates it has low fluctuation (more homogeneity) in generating profit by managing the deposit efficiently.

From C.V. point of view, EBL has the highest C.V. of 15.72%. HBL has the lowest C.V. of 4.11$ over the study period. It implies that NIBNL has high degree of variability or is inconsistent in generating profit and HBL has lower degree of variability or is more

consistent ingenerating profit by employing the deposit efficiently.

C. Return on Shareholder's Equity or Net worth Ratio

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.

Table 4.6

Return on Shareholder's Equity or Net worth Ratio

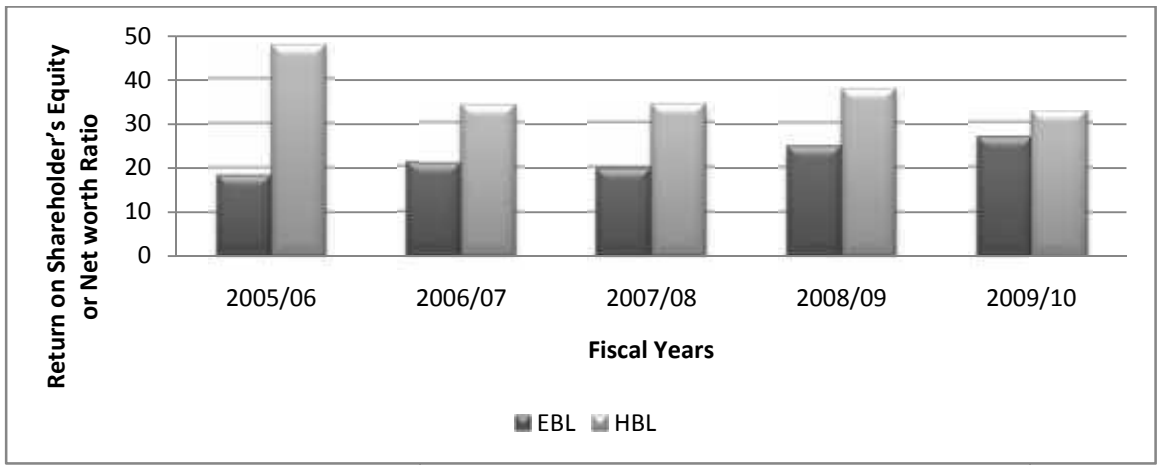
(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	18.29	20.94	19.67	24.77	26.70	22.07	3.16	14.32
HBL	47.62	35.96	34.07	37.55	32.68	37.58	5.29	14.08

(Source: Annex 6)

Figure 4.6

Return on Shareholder's Equity or Net worth Ratio



In the table and figure, return on shareholder's equity or net worth ratio has been derived by dividing net profit by net worth or shareholder's equity. Over the study period, on an

average of HBL has the highest ratio of 37.58%. EBL has the lowest ratio of 22.07% over the study period. It indicates that HBL was providing highest return to it's shareholder than other banks.

From S.D. point of view, HBL has the highest S.D. 5.29 point. EBL has the lowest S.D of 3.16 point. It implies that, over the study period, HBL have high fluctuation (less homogeneity) in giving the return to shareholders where as in case of EBL; there is low fluctuation (more homogeneity) in providing more rate of return to its shareholders over the study period.

From C.V. point of view, EBL has the highest C.V. of 14.32%. Next to it; there is HBL with C.V. of 14.32%. It implies that EBL and HBL have higher degree of variability or is inconsistent in providing return to their shareholders.

D. Net Interest Earned to Total Assets Ratio

This ratio measures how much interest has been earned in different years by mobilizing the overall assets of the bank. Interest income is main source of income of the banks. Generally, banks generate interest income through the loan and advances, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. A higher ratio represents the better efficiency in mobilizing its resources for the purpose of generating interest income. This ratio has been presented by following table.

Table 4.7

Net Interest Earned to Total Assets Ratio

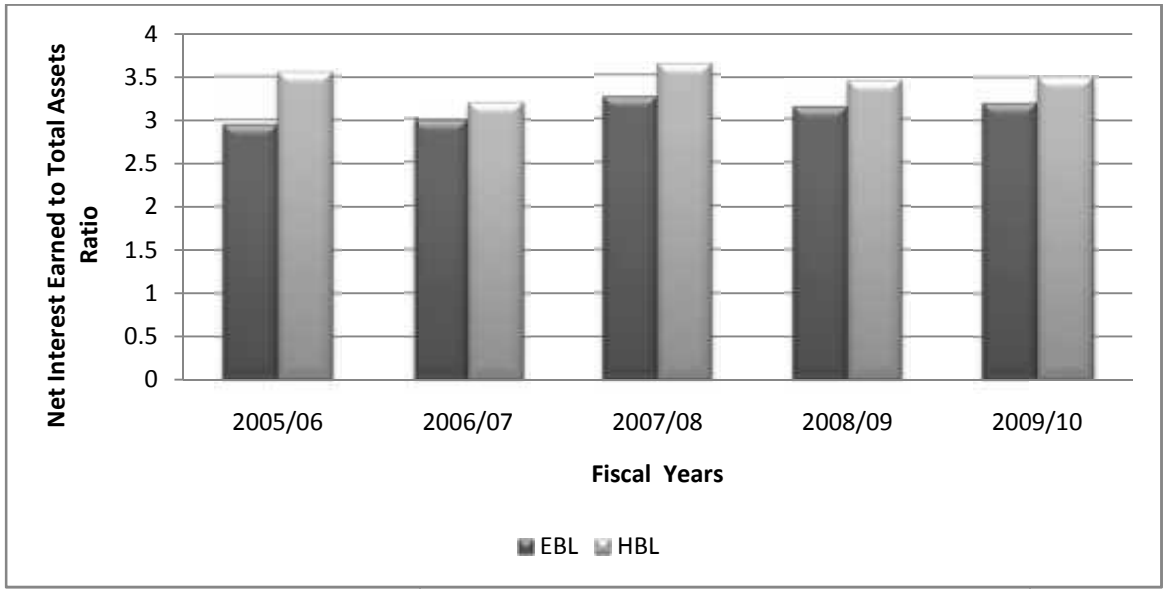
(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	2.95	3.00	3.25	3.14	3.20	3.11	0.1152	3.70
HBL	3.55	3.20	3.63	3.44	3.50	3.46	0.1460	4.22

(Source: Annex 7)

Figure 4.7

Net Interest Earned to Total Assets Ratio



In the table and figure, net interest earned to total assets ratio has been derived by dividing net interest earned by total assets. On an average, from the above table, I found that, Nest to it' there is HBL with 3.46. EBL has the lowest ratio of 3.11%. It implies that EBL has not been able to utilize the assets efficiently and earning low interest.

From S.D. point of view, Next to it' there is HBL with S.D. of 0.1460 point. It implies that there is high fluctuation (less homogeneity) in interest earning capacity and HBL over the study period. Whereas, EBL with lowest S.D. of 0.1152 indicates that it has low fluctuation (more homogeneity) in interest earning capacity over the entire study period among sampled banks.

From C.V. point of view HBL with C.V.of 4.22%. EBL has the lowest C.V. of 3.70%. It implies that HBL have high degree of variability or is inconsistent in earning interest by using of its assets over the study period. Whereas, with the lowest C.V. of 3.70%, EBL is more consistent or has lower degree of variability in earning interest by the proper use of its total assets over the study period.

4.1.3 Activity Ratio

This ratio refers how efficiently the organization is managing its resources. Thus, this ratio measures the degree of effectiveness in use of resources or funds by a firm. It is also known as turnover or efficiently ratio or assets management ratio. Turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets. The common activity ratios that are determined under this are as follows.

A. Loan and advances to total deposit ratio

Commercial banks utilize the outsider's fund for profit generation purposes. Loan and advances to deposit ratio shows whether the banks are successful in utilizing the outsider funds (i.e. total deposit) for the profit generation purposes (i.e. loan and advances).

Table 4.8

Loan and Advances to Total Deposit Ratio

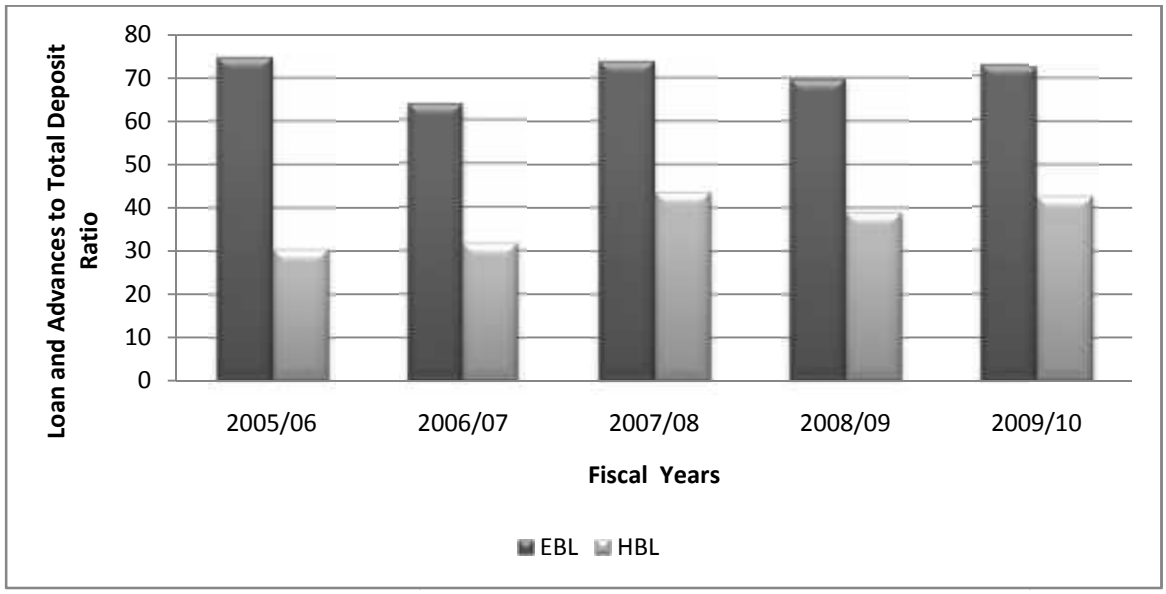
(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	74.74	63.68	73.73	69.63	72.56	70.87	3.98	5.62
HBL	30.36	31.63	43.55	38.75	42.61	37.38	5.47	14.63

(Source: Annex 8)

Figure 4.8

Loan and Advances to Total Deposit Ratio



In the table 4.8, loan and advances to total deposit ratio has been derived by dividing loan and advances amounts by total deposit amount. This ratio helps to analyze whether the banks have utilized the outsider's fund properly or not. The above table shows that, over the study period on an average basis, EBL has the highest ratio of 70.87% and HBL has the lowest ratio of 37.38%. On an average basis, EBL has the highest ratio of 70.87%. It implies that EBL bank have been successful in using the depositor's fund properly in loan

and advances than HBL over the study period.

From S.D. point of view, EBL has the lowest S.D. of 3.98 point. It implies that EBL with lowest S.D. of 3.98 point indicates in has low fluctuation (more homogeneity) in using outsider fund in loan and advances over the study period.

From C.V. point of view, HBL has the highest C.V. of 14.63% where as EBL has the lowest C.V. of 5.62%. It implies that HBL is inconsistent or has not been able to utilize the outsider's (depositor's) fund properly in loan and advances, where as EBL with lowest C.V. of 5.62% is consistent or has been successful in using outsider's fund properly in loan and advances.

B. Loan and Advances to Total assets Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on total assets ratio for the purpose of income generation. This ratio is computed by dividing loan and advances by total assets.

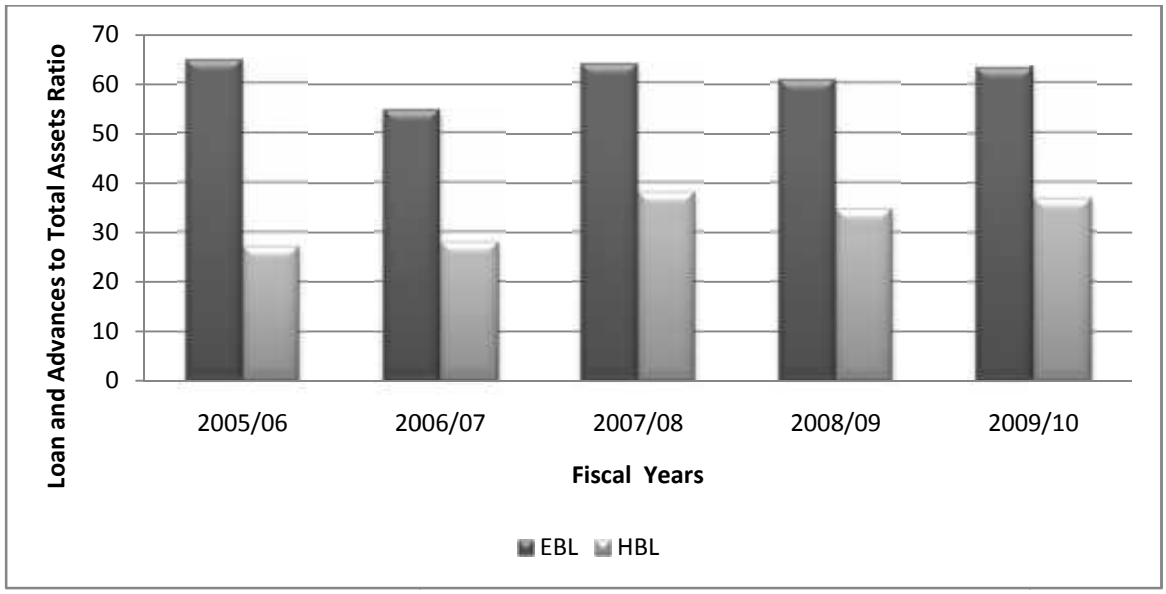
Table 4.9
Loan and Advances to Total Assets Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	64.62	54.51	63.78	60.64	63.29	61.37	3.68	6
HBL	27.12	27.98	37.98	34.67	36.73	32.90	4.50	13.68

(Source: Annex 9)

Figure 4.9
Loan and Advances to Total Assets Ratio



In the table 4.9, loan and advances to total assets ratio has been derived by dividing loan and advances amount by total assets amount. This ratio helps to analyze whether the banks have utilized the total working fund properly or not. The above table shows that, over the study period on an average basis, EBL has the highest ratio of 61.37%. Next to it, HBL has the lowest ratio of 32.90%. It implies that EBL has been successful in mobilizing loan and advance on total working fund over the study period.

From S.D point of view,Whereas EBL has the lowest S.D. of 3.68 point. It implies that EBL with lowest S.D. of 3.68 point indicates it has low fluctuation (more homogeneity) in using the total working fund properly in loan and advances over the study period.

From C.V. point of view, HBL has the highest C.V. of 13.68% where as EBL has the lowest C.V. of 6%. It implies that HBL is inconsistent or has not been able to utilize the total working fund properly in loan and advances; where as EBL lowest C.V. of 6 % is

consistent or has been successful to mobilizing the total working fund properly in loan and advances.

C. Total Investment to Total Deposits Ratio

Banks invest money in different forms. They are loans, overdraft, cash credit, discounting bills of exchange, investment in government securities, investment in share of well – established industrial concerns and money at call and short notice. In this analysis investment in government scurrilities, shares and also investment in foreign banks is included to calculate the ratio. Total deposits include saving, current, fixed and call deposit of the respective banks. The ratio of total investment to total deposit has been presented below.

Table 4.10

Total Investment to Total Deposits Ratio

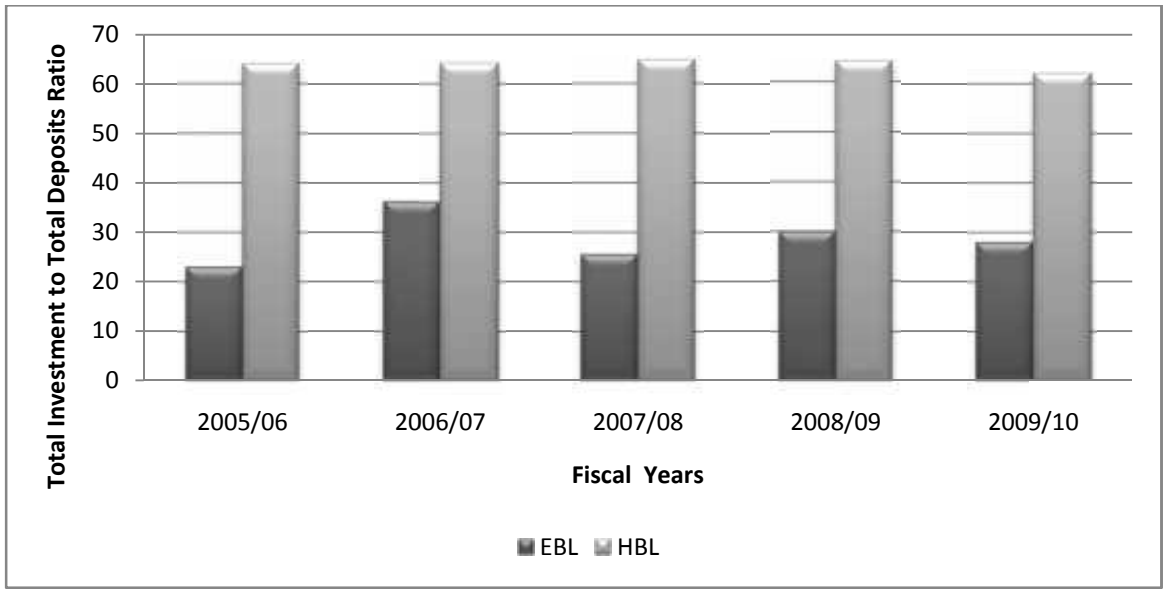
(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	22.03	36.20	28.58	29.97	28.05	28.97	4.53	15.64
HBL	64.06	64.17	61.87	64.29	62.13	63.30	1.07	1.69

(Sources: Annex 10)

Figure 4.10

Total Investment to Total Deposits Ratio



In the table 4.10, shows that on an average basis over the study period, HBL has the highest percentage of investment in non- risky project i.e. 63.30%, where as EBL has the lowest percentage of investing in non-risky project i.e. 28.97%. It implies that HBL prefers in investing its depositors fund in non-risky project like government bonds, treasury bills, government securities, debentures of other organization etc rather than choosing the risky portfolio like loan and advances to its credit customers.

From S.D. point or view, Next to it, there is EBL with S.D. 4.53 point where as HBL has the lowest S.D. of 1.07 point. It implies that EBL have high fluctuation (less homogeneity) in using the depositors fund in non- risky port folio and HBL has low fluctuation (more homogeneity) in using depositor fund in non- risky port folio.

From C.V. point of view, EBL has the highest C.V. of 15.64% Next to it there is HBL has lowest C.V. of 1.69%. It implies that EBL are inconsistent in investing in non- risky portfolio and HBL with lowest C.V is consistent in using its deposit in non- risky portfolio.

4.1.4 Leverage Ratio

Financial leverage or capital structure ratio are calculated to judged the long – term financial position of the firm. These ratios indicate mix of funds provided by owners and

lenders. Generally, there should be an appropriate mix of debt and owners equity in financing the firm's assets. Administration of capital can smoothly by carried with the help of such ratios.

A. Total Debts (Liabilities) to Net worth Ratio

Debt–equity ratio examines the relative claims of creditors and owners against the bank's assets. Alternatively, total debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is presented as following table:

Table 4.11

Total Debts (Liabilities) to Net worth Ratio

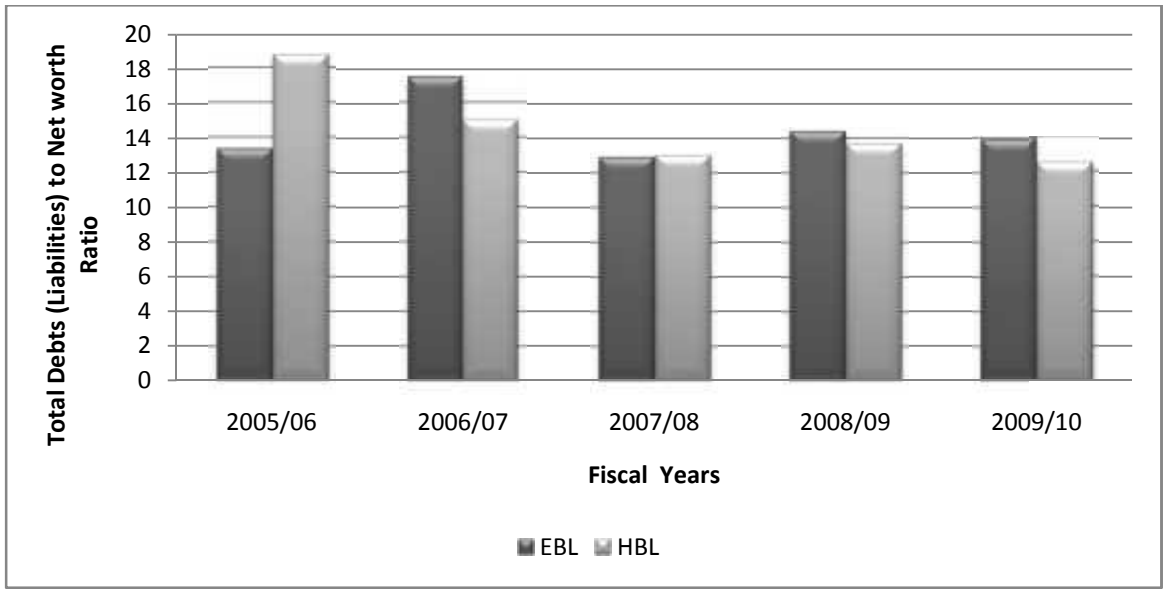
(In times)

Name of banks	Fiscal year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	13.35	17.47	12.89	14.40	13.94	14.40	1.61	11.18
HBL	18.73	15	13.01	13.69	12.51	14.59	2.23	15.28

(Source: Annex 11)

Figure 4.11

Total Debts (Liabilities) to Net worth Ratio



The above ratio has been derived dividing total debts by net worth. The above table shows that commercial banks have highly leveraged based on equity capital. On an average, HBL has the highest ratio of 14.59 times. Next to it there is EBL with an average of 14.40 times. It indicates that HBL has highly leveraged 14.59 times means; debt capital financing is more than 14.59 times of its shareholder's equity.

From S.D point of view, HBL with 2.23 point. EBL has lowest S.D. of 1.61 point. It implies that HBL have high fluctuation (less homogeneity) with respect to total debt to net worth. Similarly, EBL with lowest S.D of 1.61 has low fluctuation (more homogeneity) with respect to total debt to net worth over the study period.

From C.V. point of view, HBL has the highest C.V. of 15.28%; next to there is EBL with C.V. of 11.18%. It means, HBL and EBL have high degree of variability or is inconsistent in maintaining total debt to total equity over the study period.

B. Total Debts to Total Assets Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial

securities to the outsider. The following table shows that the relationship between total debt and total assets.

Table 4.12

Total Debt (Liabilities) to Total Assets Ratio

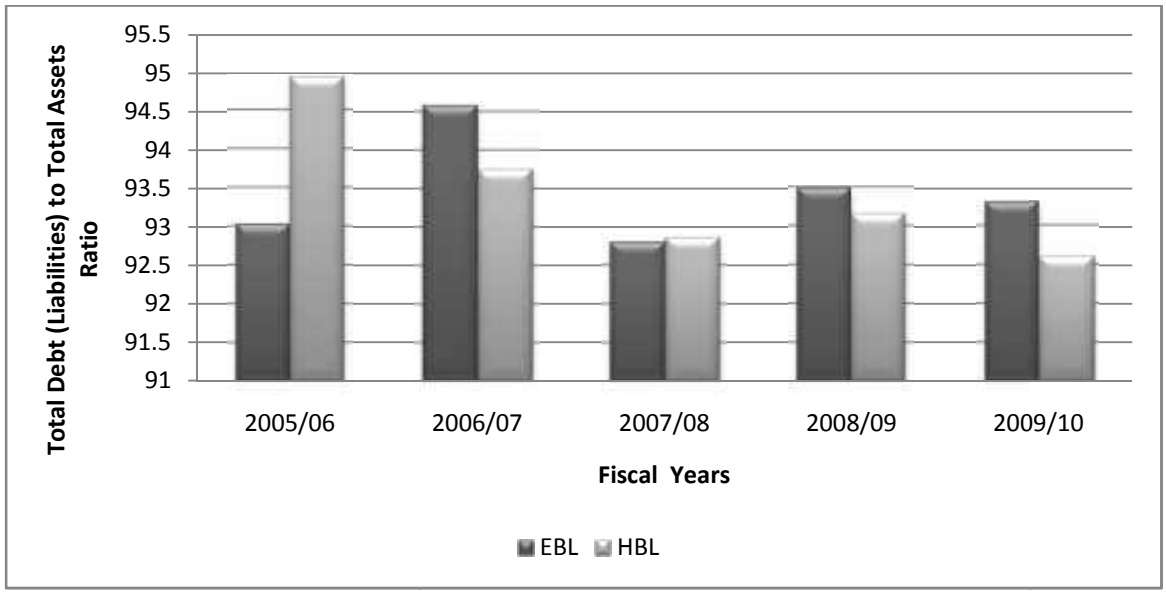
(In Percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	93.03	94.58	92.80	93.49	93.31	93.44	0.62	0.66
HBL	94.93	93.75	92.86	93.19	92.60	93.47	0.82	0.88

(Source: Annex 12)

Figure 4.12

Total Debt (Liabilities) to Total Assets Ratio



In the table 4.12 shows that on an average basis over the study period, HBL and EBL has highly debt financing. It means these two banks borrowed outsider's funds by 93.47% and 93.44% respectively.

From S.D. and C.V. point of view, EBL has lowest S.D. of 0.62 point. It indicates EBL

has low fluctuation. EBL has lowest C.V. of 0.66%. It means, EBL has consistent debt financing.

4.1.5 Earning Per Share

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance or share value, it is profit after tax (NPAT) figure that is divided by the number of common share to calculate the value of earning per share. This figure tells what profit the common shareholder for every share hold has earned. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically after carrying per share.

Table 4.13

Earning Per Share

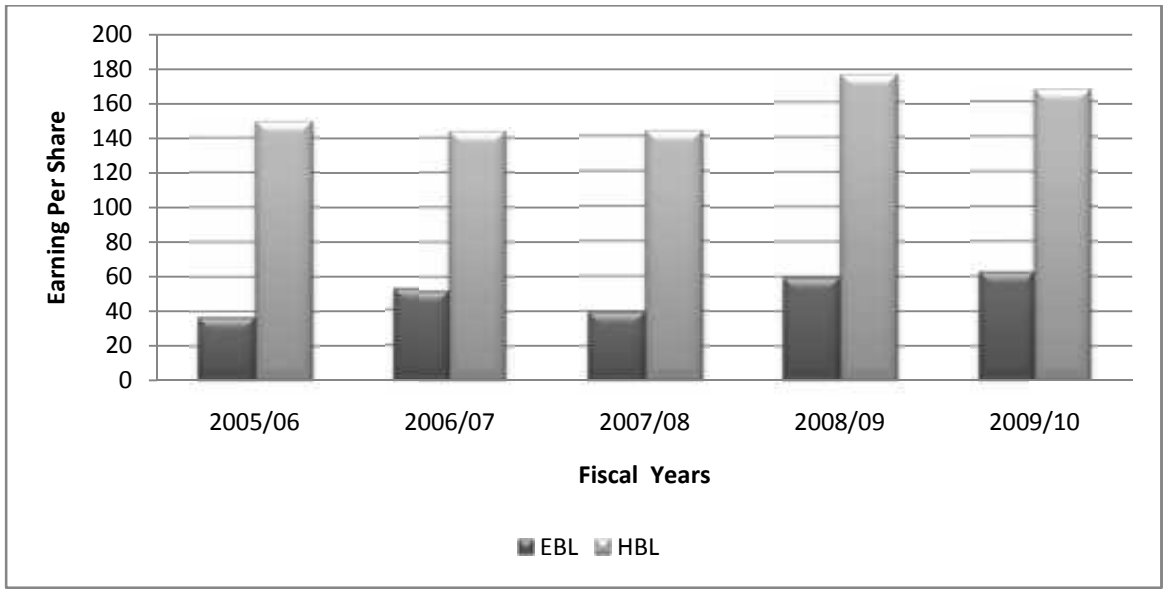
(In Rs.)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	39.56	51.70	39.50	59.35	62.57	50.54	9.66	19.11
HBL	149.30	143.55	143.14	175.84	167.37	155.84	13.33	8.55

(Source: Annex 13)

Table 4.13

Earning Per Share



From the table 4.13 we can see that on an average, HBL has the highest amount of EPS Rs. 155.84. Next to it, there is among two selected JVBs. EBL has the lowest amount of EPs i.e. Rs. 50.54 over the study period. It means that HBL has been able to provide maximum profit to equity holder on a per share basis.

From the S.D. point of view, Next to it, there is HBL with 13.33 point. EBL has the lowest S.D. of 9.66 point. It implies that HBL have high fluctuate (less homogeneity) in EPS over the study period. Whereas EBL with lowest S.D. of 9.66 point, indicates that low fluctuation (more homogeneity) in EPS over the study period.

From C.V. point of view, EBL has the highest C.V. of 19.11% next to it, there is HBL with C.V. of 8.55%. It implies that EBL have high degree of variability or is inconsistent in EPS amount over the study period. HBL has lowest C.V. of 8.55%, which indicates it has low degree of variability, or is consistent in providing EPS amount to the equity holders on a per share basis over the study period.

4.1.6 Dividend Payout Ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and

preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table.

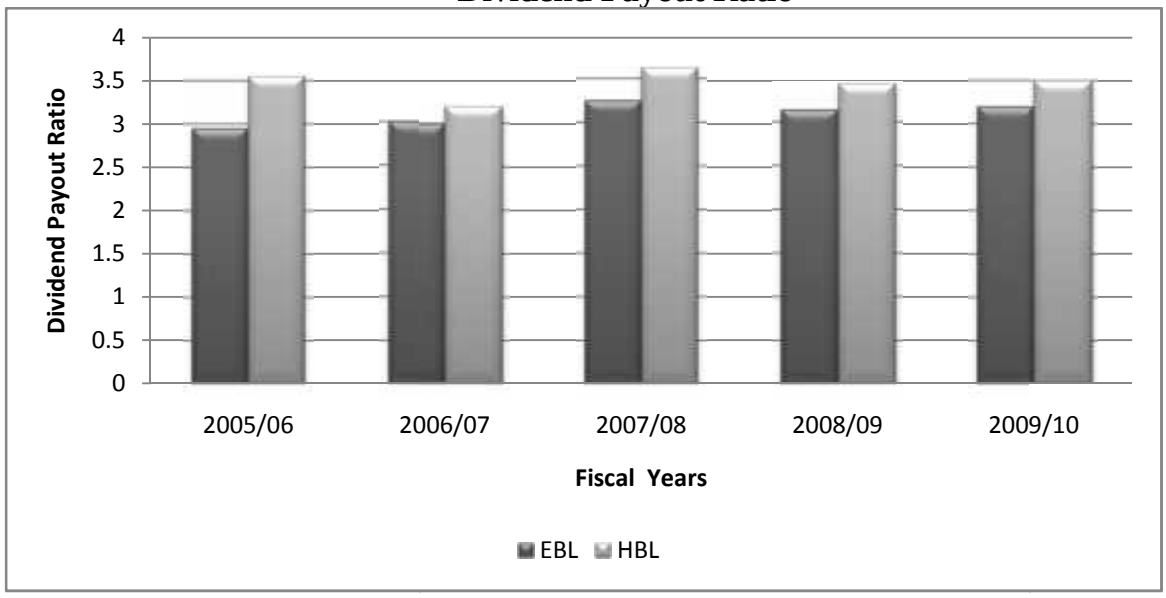
Table 4.14
Dividend Payout Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	20	15	12.50	20	5	14.5	5.57	38.41
HBL	110	110	120	140	130	122	11.66	9.56

(Source: Annex 14)

Figure 4.14
Dividend Payout Ratio



From the table 4.14 we can see that on an average basis HBL has the highest percentage of payment ratio with 122%. Next to it, there is EBL has the lowest ratio with 14.5%.

From S.D. point of view, there is HBL with S.D. of 11.66 point. At last, EBL has the lowest S.D. of 5.57 point. It implies that HBL have high fluctuation in providing dividend

throughout the study period. EBL with lowest S.D indicates low fluctuation in providing dividend to its shareholders throughout the study period.

From the C.V. point of view, EBL has the highest C.V. of 38.41%. Next to it; there is HBL has the lowest C.V. of 9.56%. It indicates that EBL have high degree of variability and HBL has low degree of variability is consistent in providing a regular amount as dividend.

4.1.7 Price Earning Ratio

This ratio shows the price currently paid by the market for each rupees of currently reported earning per share. This ratio has been presented by following table.

Table 4.15

Price Earning Ratio

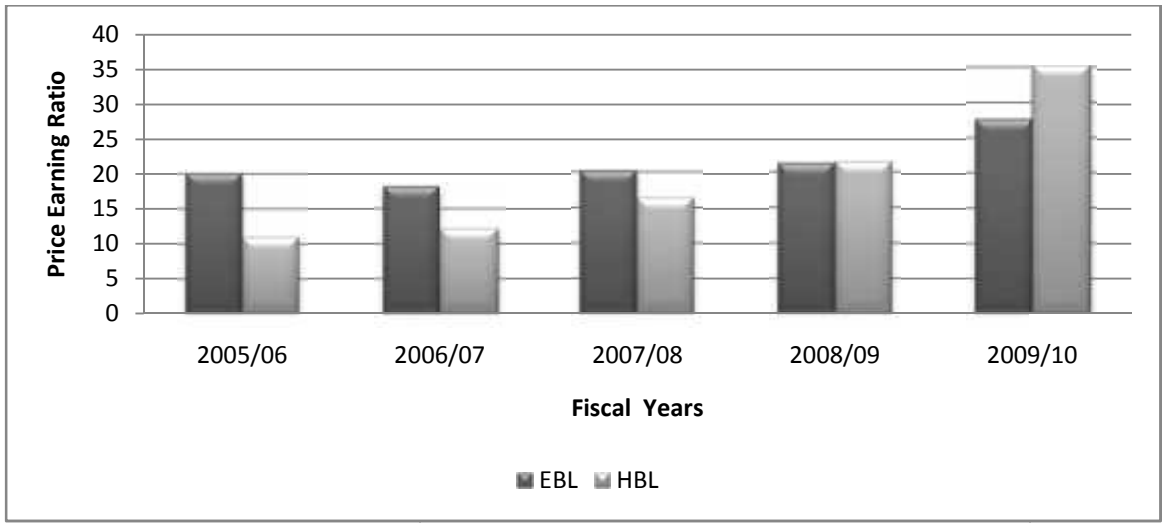
(In Times)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	20.10	18.18	20.25	21.23	27.63	21.48	3.23	15.03
HBL	10.98	12.16	16.38	21.47	35.25	19.25	8.81	45.77

(Source: Annex 15)

Table 4.15

Price Earning Ratio



From the table 4.15 shows that, on an average basis EBL has the highest P/E ratio with 21.48 times. Next to it there is HBL with 19.25 times. Likewise the lowest P/E ratio with 17.60 times.

From S.D. point of view, there is HBL with S.D. of 8.81 point. EBL has the lowest S.D. of 3.23 point. It implies that HBL have high fluctuation in market price per share than EBL. From C.V. point of view, HBL bank have high P/E ratio of 57.16% and 45.77% respectively. EBL has lowest C.V. with 15.03%, indicates that low degree of variability is consistent in market price per share as earning per share.

4.1.8 Income Analysis

The cost have been occurred in increasing revenue are called income. This analysis shows the proportionate income under different heading. Under this analysis, net interest income, exchange gain and commission income should be taken.

A. Net Interest Income to Total Income

This ratio has been derived dividing net interest income by total income. It indicates that, how much percentage of net interest income obtained from total income.

The following table shows that the net interest income to total income of selected joint venture banks.

Table 4.16

Net Interest Income to Total Income

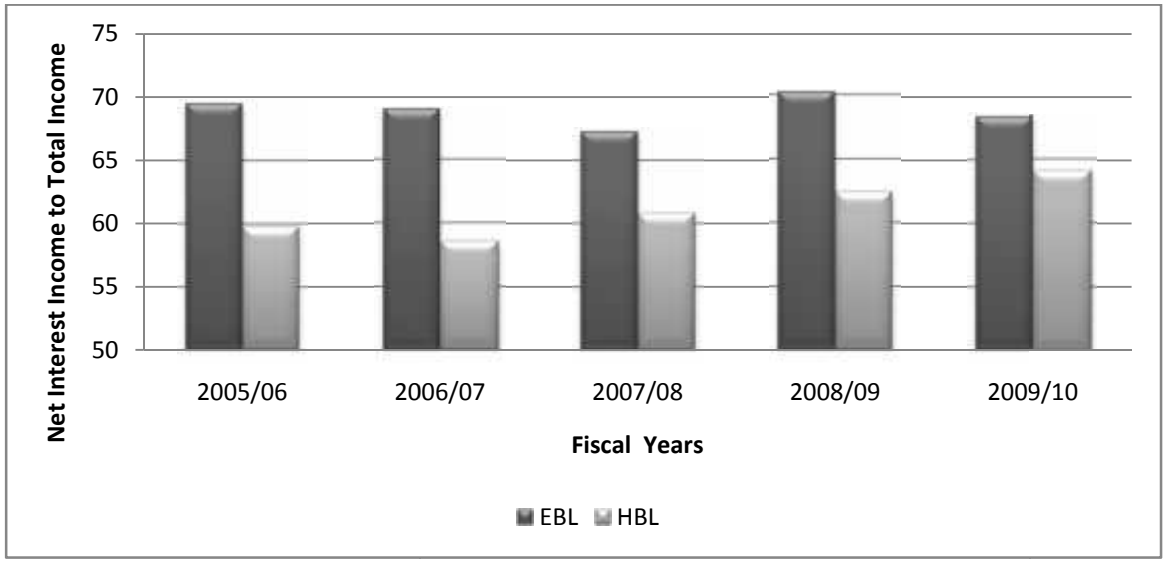
(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	69.53	68.97	67.28	70.25	68.44	68.89	1.01	1.47
HBL	59.77	58.58	60.85	62.44	64.12	61.15	1.74	2.85

(Source: Annex 16)

Figure 4.16

Net Interest Income to Total Income



From the table 4.16 on an average basis, EBL has the highest percentage of net interest income on total income i.e. 68.89%. HBL has the lowest ratio of 61.15%. It indicates that, EBL has successful to earn net interest income over the study period.

From S.D. point of view, EBL has the lowest C.V. of 1.01 point. It indicates that EBL has low fluctuation in net interest income over the study period.

From C.V. point of view, EBL has the lowest C.V. of 1.47%.It implies that, EBL has low

degree of variability or is consistent to earn net interest income than other sampled bank.

B. Exchange Income to Total Income

Income from foreign exchange includes income through the sale and buys exchange currency and revaluation again. Exchange income to total income ratio is presented as following table.

Table No. 4.17

Exchange Income to Total Income

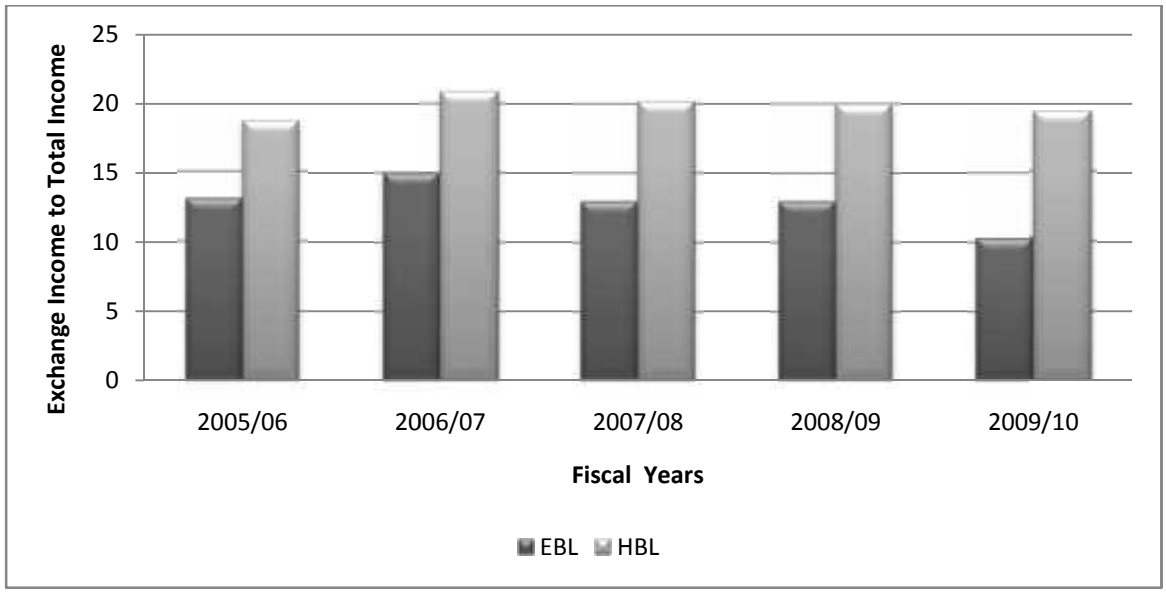
(In percentage)

Name of banks	Fiscal year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	13.08	14.98	12.96	12.96	10.30	12.86	1.49	11.59
HBL	18.62	20.87	20.18	19.97	19.90	19.90	0.73	3.67

(Source: Annex 17)

Figure No. 4.17

Exchange Income to Total Income



From the table 4.17 on an average basis, HBL has the highest ratio of 19.90%. Next to it, there is EBL has the lowest ratio of 12.86%. It implies that HBL has highest exchange income out of total incomes.

From the S.D. point of view, EBL has the highest S.D. of 1.49 point and with 0.57 point. It implies that, EBL has high fluctuation (less homogeneity) in generating foreign exchange income over the study period From C.V. point of view, EBL has highest C.V. of 11.59% and HBL has lowest C.V. of 3.67%. It indicates that, HBL is consistent in generating its exchange income out total income over the study period.

C. Commission and Discount Received to Total Income

Commission and discount include income received as commission and discount from letter of credit, drafts, bank transfers, guarantee, selling share, remittance charges other charges and commission are other prominent items of commission and discount.

The following table shows that the relationship between commission and discount received to total income.

Table No 4.18

Commission and Discount Received to Total income

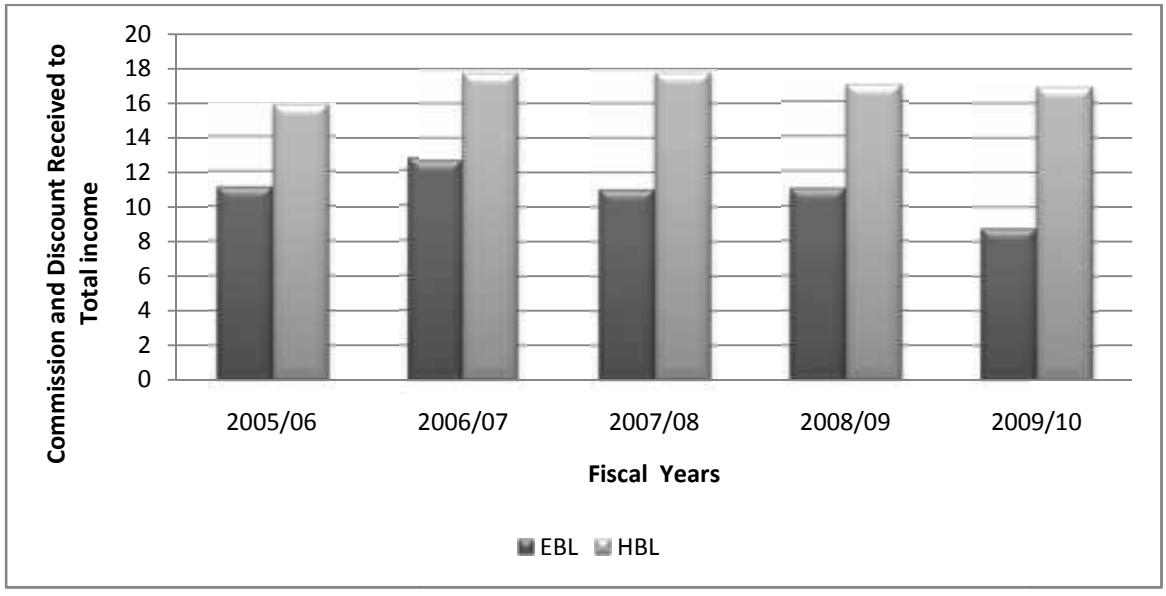
(In percentage)

Name of banks	Fiscal year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	11.12	12.73	11.02	11.02	8.76	10.93	1.27	11.60
HBL	15.83	17.74	17.15	16.97	16.92	16.82	0.62	3.67

(Source: Annex 18)

Table No 4.18

Commission and Discount Received to Total income



From the table 4.18 on an average basis, HBL has the highest ratio of 17.74%. Next to it; there is EBL with 12.73%. HBL has highest commission and discount income out of total income over the study period.

From the S.D. point of view, HBL has the lowest S.D. with 0.62 point. It means, HBL has lowest fluctuation (more homogeneity) in receiving commission and discount income over the study period. From C.V. point of view, HBL has lowest C.V. of 3.677%. It implies that, HBL is consistent to generate its commission and discount income over the study period.

4.1.9 Expenditure Analysis

The cost have been occurred in reducing revenue are called expanses. This analysis shows the proportionate expenses under the different headings.

A. Interest Expenses

Interest expenses of all the selected banks are presented as following table:

Table No. 4.19

Interest Expenses

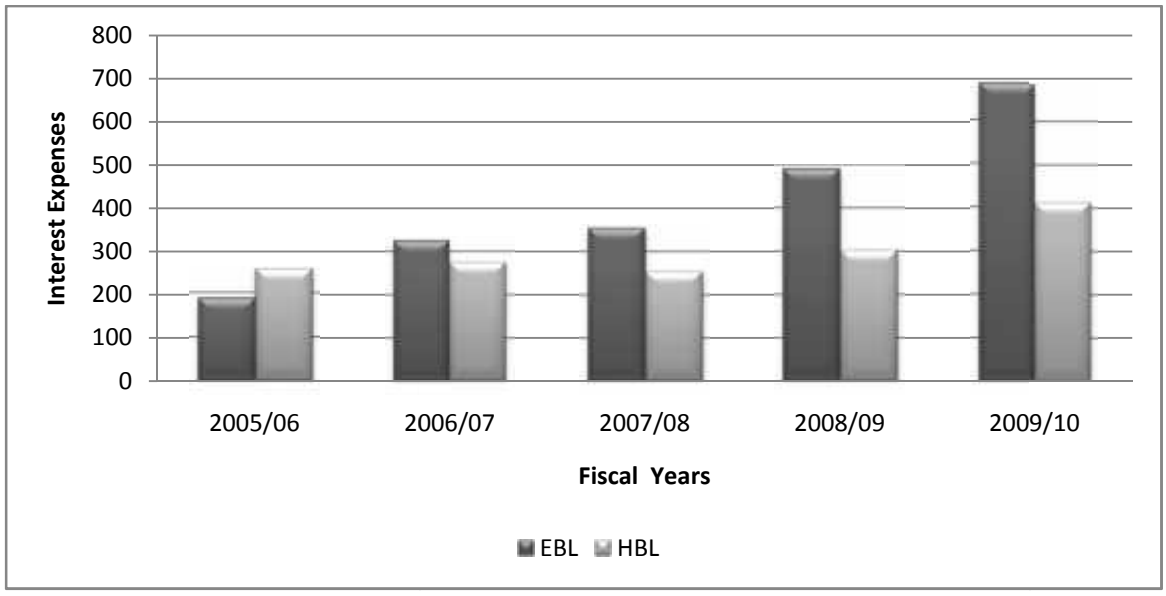
(Rs. in million)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	189.21	326.20	354.55	490.95	685.53	409.29	168.11	41.07
HBL	255.15	275.81	254.13	303.20	413.06	300.27	59.17	19.71

(Source: Annex 19)

Figure No. 4.19

Interest Expenses



In this study, interest expenses denote the interest paid on deposits borrowing fees, loan and advances and commission. From the above table, interest expenses are all in the fluctuating trend. On an average basis, EBL has the highest amount of Rs. 409.29 million. Next to it; HBL has the lowest interest expenses with Rs.300.27 million.

From the S.D. and C.V. point of view, EBL has highest S.D. i.e. 168.11 point and C.V. i.e. 41.07%. It means, EBL has paid or expenses higher amount of interest than other selected banks. HBL has lowest S.D. i.e. 59.17 point and C.V. i.e. 19.71% which implies that the bank has paid lower amount of interest over the study period.

B. Staff Expenses

Staff expenses refer salary and allowance provided and gratuity fund, staff training expenses and other expenses related with staff.
Staff expenses are presented as following table:

Table 4.20

Staff Expenses

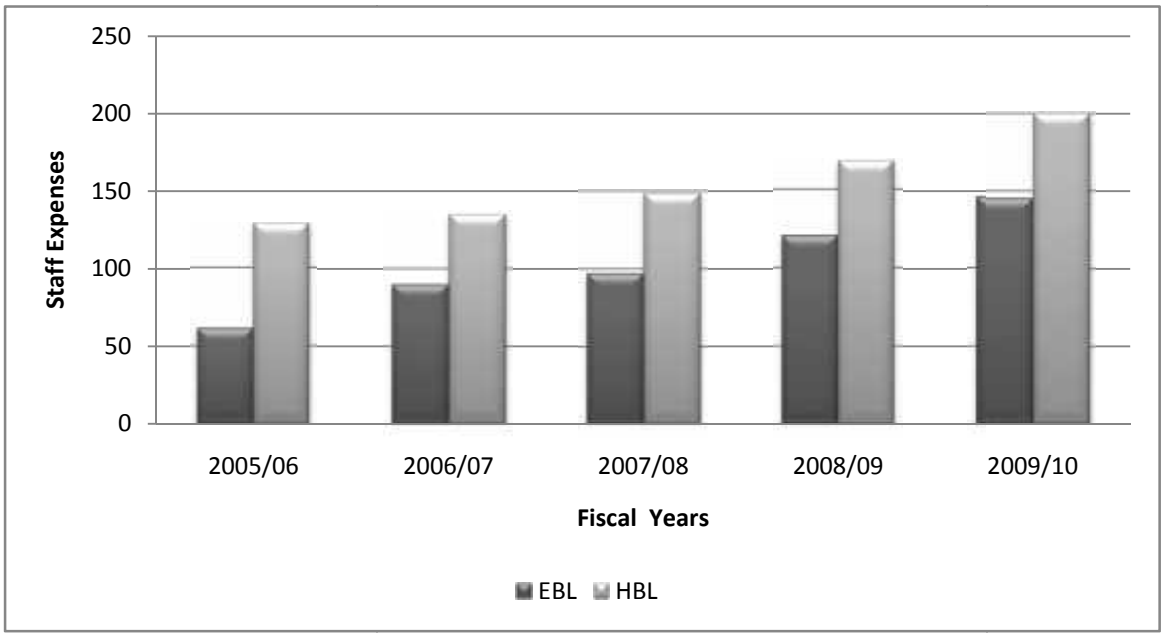
(Rs. In million)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
EBL	61.29	89.75	97.00	120.66	145.37	102.81	28.49	27.71
HBL	128.33	134.69	148.59	168.23	199.78	155.92	25.85	16.58

(Source: Annex 20)

Figure 4.20

Staff Expenses



From the table 4.20, staff expenses are all in the fluctuating trend. On an average basis, HBL with Rs. 155.92 million. EBL has the lowest amount of staff expenses with Rs. 102.81 million. From S.D. and C.V. point of view, EBL has the highest S.D. and C.V. i.e. 28.49 point 27.71% respectively. It indicates that EBL has the highest flotation and inconsistent to its. Staff expenses over the study period.

4.2 Statistical Tools

In this study, statistical tools have been grouped into coefficient of correlation, probable error and coefficient of determination.

4.2.1 Karl Person's coefficient of correlation

It is most widely used statistical tools, which measures the significance of the relationship between two variables during the study period. Correlation coefficient is calculates to measure the relationship between Net profit and total deposit of selected joint venture

banks. The value of coefficient of correlation shall always be between ± 1. Where, r = 1 means perfect positive correlation between variables. Where r = -1, it means perfect negative correlation between variables. Where r = 0, there is no relationship between two variables.

The formula for computing Karl person's coefficient of correlation is as follows.

$$r = \frac{N\phi xy - \phi x \phi y}{\sqrt{N\phi x^2 - \phi x^2}\sqrt{N\phi y^2 - \phi y^2}}$$

Here,

N= No. of pairs where x and y absorbed.

X= Value of net profit (after tax)

Y= Value of total deposits

r=Karl Pearson's Coefficient of Correlation

XY= Sum of product of variable x and y

∴r = 0.99 (Annex 22)

Above calculation of coefficient of correlation between net profit and total deposit of EBL is 0.99. This analysis indicates that, there is a positive correlation between net profit and total deposit. Therefore, net profit (dependent variable) is affected by total deposit (independent variable).

∴r = 0.95 (Annex 22)

Above calculation of coefficient of correlation between net profit and total deposit of HBL is 0.95. This analysis indicates that, there is a positive correlation between net profit and total deposit. Therefore, net profit is affected by total deposit (independent variable).

4.2.2 Computation of Probable Error

If the value of 'r' is less than sex times of probable error, there is no evidence of

correlation i.e. value of r is not significant. Thus, if the value of 'r' is more than sex times of probable error, the coefficient of correlation is practically, i.e. the value of 'r' is significant.

Formula:

Probable Error of EBL = 0.006 (Annex 22)

Since, the value of 'r' is more than six times of probable error (i.e. 6 x 0.0006 < 0.99). The value of 'r' is significant. It implies that management should prepare a promoting planning of increasing the net worth to increase the return.

Probable Error of HBL = 0.029 (Annex 22)

Since, the value of 'r' is more than six times of probable error (i.e. 6 x 0.0029 < 0.95). The value of 'r' is significant. It indicates that the benefit ability of HBL.

4.2.2 Correlation between Net Profit and Total Deposit

Net profit refers to profit after deducting interest and taxes: The total deposit of the bank comprises of fixed deposit, saving deposit, current deposit and margin deposit etc. In this study, correlation analysis between two variables, net profit and total deposit are calculated to measure the closeness of relationship between them to what extent dependent variable i.e. net profit will be changed when there is a change in independent variable i.e. total deposit. The summary of various values are presented in following table.

Table 4.21

Correlation between Net Profit and Total Deposit

Evaluation criteria	EBL	HBL
Coefficient of correlation (r)	0.99	0.95
Coefficient of determination (r^2)	0.98	0.903
Probable error ($P.E_r$)	0.006	0.029
6 $P.E_r$	0.036	0.174

From the above table 4.24, we see that the correlation coefficient between net profit and total deposit of EBL and HBL are 0.99 and 0.95 respectively.

Which shows the higher positive relationship between net profit and total deposit of EBL and HBL. In order to measure the degree of change on dependent variable net profit due to the change in independent variable total deposit, value of coefficient of determination (r^2) is calculated. On the basis of coefficient of determination, it can be concluded that when there is change in total deposit it bring 5.1% change in net profit of EBL and 90.3% of HBL over the study period.

Considering the probable error (P.E.), the value of 'r' (0.99 > 0.036 and 0.95 > 0.174) of EBL and HBL is grater than six times of the P.E. (6 P.Er). Therefore, we can say that the value of 'r' is significant i.e. there is significant relationship between net profit and total deposit of EBL and HBL.

4.3 Trend Analysis Least Square Method

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results of elected joint venture banks. Trend analysis shows the trend of loan and advances of selected banks for eight years. Loan and advance shows a bank's efficiency in performance of efficient utilization of the same indicates its success and profitability.

The trend analysis on loan and advances for coming year is following.

Table 4.22

Summary of Trend Analysis Result

(In Million)

Name of Banks	Loan and Advances		
	2010/11	2011/12	2012/13
EBL	18015.87	20377.11	22738.35
HBL	11606.28	12791.80	13977.32

(Annex 23)

Table 4.23

Loan and Advance Trend Line of EBL

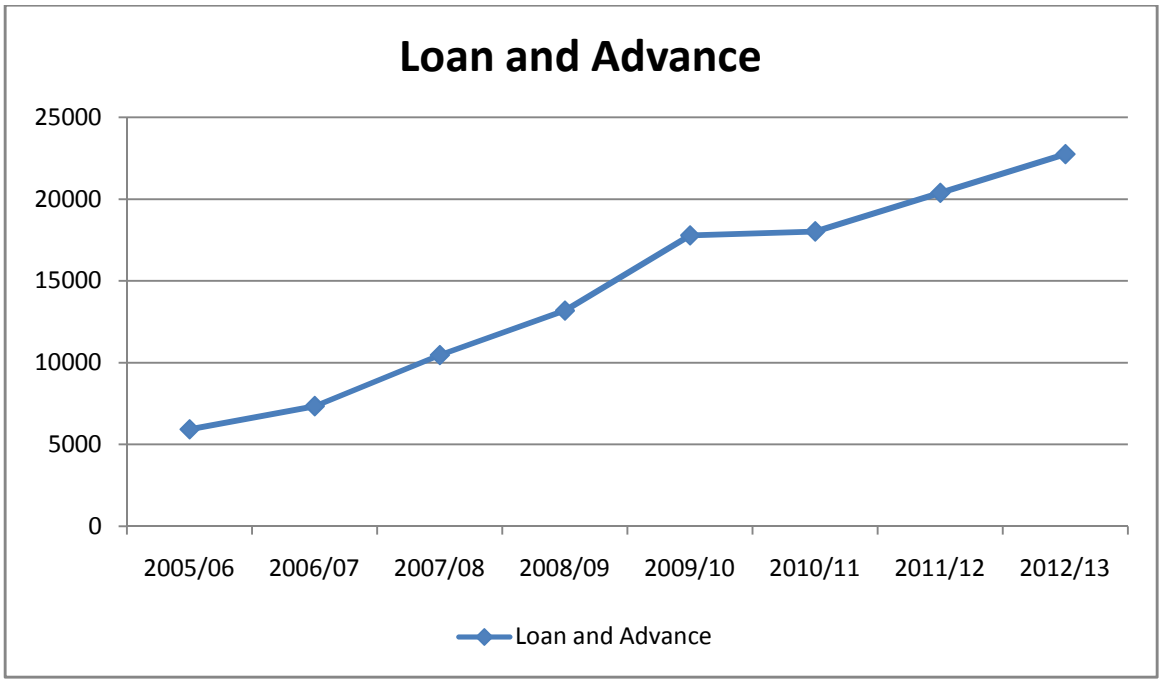
(Rs. In million)

	Actual					Budgeted		
Fiscal year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Loan & advances	5921.79	7338.57	10453.16	13178.15	17769.10	18015.87	20377.11	22738.35

The above table 4.26 concludes that loan and advance has been increasing 246.77 million on 2010/11, and 2361.24 million on 2011/12 and 2012/13 respectively. It refers that success for aggressive lending policies in terms of loan and advances. It is successful increased for the next coming year form above table.

Figure 4.21

Loan and Advance Trend Line of EBL



Above figure shows, future trend line of loan and advances has been increased 18015.87 million, 20377.11 million and 22738.35 million respectively on coming fiscal years 2010/11, 2011/12 and 2012/13.

Table 4.24

Loan and Advances Trend Line of HBL

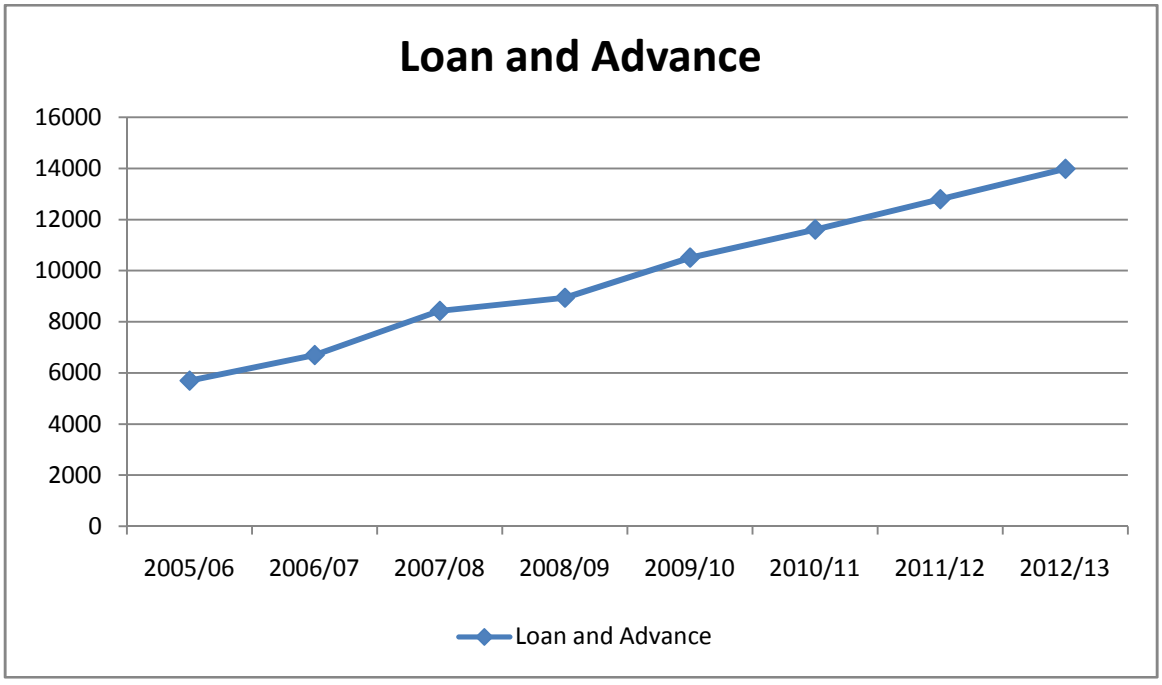
(Rs. In million)

	Actual					Budgeted		
Fiscal year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Loan & advances	5695.82	6693.86	8420.87	8935.42	10502.64	11606.28	12791.80	13977.32

The above table 4.27 concludes that loan and advances has been increasing 1103.64 million on 2010/11, 1185.55 million on 2011/12 and 2012/13 respectively. It refers that success for aggressive lending policies in terms of loan and advances.

Figure 4.22

Loan and Advances Trend Line of HBL



Above figure 4.3 shows that the future trend line of loan and advances has been increased by the rate of 11606.28 million, 12791.80 million and 13977.32 million respectively for coming year 2011/12, 2012/13 and 2013/14.

4.4 Major Findings of the Study

The major findings of the study are derived on the basis analysis of selected JVBs, which are given below.

4.4.1 Liquidity Ratio

The liquidity position of selected JVBs reveals that:

- The average current ratio of all sample banks i.e. EBL and HBL is 1.04 and 1.05 respectively. It shows that the current ratio of all the sample banks is below the standard ratio 2:1.
- The average ratio of cash and bank balance to total deposit of all the sampled banks is 10.81% and 7.42% respectively. It reveals that on an average basis EBL has more liquid to serve its depositors in time with enough case in hand. HBL is found to be holding less cash in hand that its deposits.
- The average ratio of cash and bank balance to current assets of EBL and HBL is 9.68% and 6.62% respectively. It indicates that the ratio of EBL has the highest ratio among the sample banks. There is HBL next to it with the ratio of 6.62%. It implies that all the sample banks do not have enough cast balance with respect to current assets. However, EBL seems to be in better position than other HBL.

4.4.2 Profitability Ratio

The profitability ratio of three JVBs reveals that:

- The average ratio of net profit to total assets of EBL and HBL is 1.44% and 2.43% respectively. It implies that, on an average basis, HBL has earned highest percentage of net profit by utilizing its total assets. Similarly, on an average basis, EBL has earned 1.44% of net profit against the use of total assets over the entire study period. The above ratio shows how efficiently the sample banks have utilized their available assets over the study period. Among all the samples banks,

EBL has the lowest ratio i.e. 1.44%. It means that EBL has not mobilized its assets into profit generating projects than other sampled banks.

- The average ratio of net profit to total deposit of EBL and HBL is 1.66% and 2.74% respectively. It implies that, on an average basis, HBL has earned the highest percentage of net profit by utilizing its total deposit than EBL. Like wise, EBL has earned the lowest percentage (i.e. 1.66%) of net profit by utilizing its total deposit over the entire study period. The above ratio shows low efficiently the sample banks have utilized their available deposit into profit generating project.
- The average ratio of return on shareholders equity (net worth) of EBL and HBL is 22.07% and 37.58% respectively. It implies that, on an average basis, HBL has provided the highest percentage (i.e. 37.58%) of return to its shareholder by utilizing the shareholders fund among the sample banks. The above ratio shows how much profitability the sample banks have utilized the available fund of shareholders into profit generation over the study period. Among the samples bank EBL has the lowest ratio. It means that EBL has not mobilized the fund of shareholder effectively into profit generating project.
- The average ratio of net interest earned to total assets of EBL and HBL is 3.11% and 3.46% respectively. It implies that, on an average basis HBL has earned the highest percentage of net interest by utilizing its total assets into interest generating projects. Among all the sample banks, EBL has the lowest ratio. It means that EBL has not mobilized its assets into interest generating projects.

4.4.3 Activity Ratio

The activity ratio of selected JVBs reveals that:

- The average ratio of loan and advances to total deposit of EBL and HBL is 70.87% and 37.38% respectively. It implies that EBL has used highest percentage (i.e. 70.87%) of total deposit into loan and advances than HBL over the study

period. Similarly, HBL has used lowest percentage (i.e. 37.38%) of total deposit into loan and advances over the study period.

- The average ratio of loan and advances to total assets of EBL and HBL is 61.37% and 32.90% respectively. It indicates that EBL has used highest percentage (i.e. 61.37%) of total assets in loan and advances than other sampled banks over the study period. Likewise, HBL has used lowest percentage (i.e. 32.90%) of total assets into loan and advances.
- The average ratio of total investment to total deposit of EBL and HBL is 28.97 and 63.30 respectively. It implies that on an average EBL has used 28.97% of total deposit into investment. In term of investment against total deposit, HBL has used highest percentage (i.e. 63.30%) of its total deposit into non-risky ventures and is ahead of all the sample banks.

4.4.4 Leverage Ratio

The leverage ratio of sampled JVBs reveals that:

- The average ratio of total debt to net worth of EBL and HBL is 14.40 and 14.59 times respectively. It implies that HBL has highly leverage 14.59 times means, debt capital financing is more than 14.59 times of its shareholder equity over the study period where as EBL has lowest ratio of total debts of net worth.
- The among ratio of total debt to total assets of EBL and HBL is 92.03% and 93.47% respectively. It indicates that HBL has highest ratio (i.e. 93.47%) of total debt into total assets. over the study period, on an average basis EBL and HBL have highly debt financing means, these two banks, borrowed outsider's funds by 93.44% and 9.47% respectively.

4.4.5 Earning Per Share

The average earning per share of EBL and HBL is Rs. 50.54 and Rs. 155.84 respectively. On an average basis, HBL has the highest earning per share (i.e. Rs. 155.84) than other selected joint venture banks over the study period. Similarly EBL have comparatively

lower EPS.

4.4.6 Dividend Payout Ratio

The average dividend payout ratio of EBL and HBL is 14.5% and 122% respectively. HBL has highest dividend payout ratio (122%) with provides maximum amount of dividend to its shareholder over the entire study period.

4.4.7 Price Earning Ratio

The average price-earning ratio of EBL and HBL is 17.60, 21.48 and 14.25 times respectively. It implies that EBL has highest price earning ratio (i.e. 17.60 times) than other sampled banks. It also means that EBL's market price per share is 17.60 times greater than its earning per share.

4.4.8 Income Analysis

The income analysis is selected JVBs reveal that:

- The average net interest income to total income of EBL and HBL is 68.89% and 61.15% respectively. Over the study period, EBL has highest and HBL has lowest net interest income on total income.
- The mean exchange income to total income of EBL and HBL is 12.86% and 19.90% respectively. It indicates that HBL is success to generating exchange income than other samples JVBs over the study period
- The average ratio of commission and discount received to total income of EBL and HBL is 11.25% and 15.27% respectively. It indicates that HBL has highest commission and discount income out of total income than other banks over the study period.

4.4.9 Expenditure Analysis

From the analysis of expenditure of concerned banks, reveal that:

- Higher mean of interest expenses is on EBL. Similarly, HBL has lower mean. It shows that EBL has been growing interest expenses against two JVBs.

4.4.10 Correlation and Regression Analysis

EBL and HBL have positive coefficient of correlation i.e. 0.99 and 0.95 respectively. It refers that these two banks net profit (dependent variable) is affected by total deposit (independent variable). EBL and HBL have positive correlation i.e. 0.99 and 0.95. These correlations are more than six times than that of probable error. Thus, these banks have significant value of coefficient of correlation.

4.4.11 Trend Analysis

Loan and advances of each bank have increased trend at the end of fiscal year 2010/11, 2011/12 and 2012/13.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

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. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation is made for improving the presence situation to the concerned partied as well as further research.

5.1 Summary

The economic development of a country cannot be imagined without the development of commerce and industry. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle resources from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earned to the labors and materials suppliers to such industries and traders.

Commercials banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must reasonable profitability.

Under this study, the researcher has tried to cover the various aspects of selected joint venture banks covering the period of five years from 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned banks, general concepts of financial statement and the statement of problem, objectives of the study 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 complied in the second chapter titled "Review of Literature" of this report.

For this study, the researcher has 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 (1) Financial ratios to calculate various ratios (2) Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc are followed for this research work in third chapter titled "Research Methodology".

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 them analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are complied in the fourth chapter titled "Data Presentation and Analysis" of the study.

EBL has invested its more portions of current assets in government securities than HBL. EBL has made higher amount of investment on govt. securities this is due to unavailable of other secured and profitable investment sector. Whereas the lower amount of HBL is invested in government. security. It may be the reason of more investment on other productive sector. The liquidity position of HBL and EBL have not found satisfactory. It

is therefore, suggested them to improve cash and bank balance to meet current obligations. HBL's loan and advance to current assets ratio is lower than that EBL, it is recommended to follow liberal lending policy for enhancement of fund mobilization. The profitability position of those banks is not satisfactory. So those banks have to invest their fund in profitable sectors. From this study it can conclude that HBL is in better position from interest expenses point of view that EBL. EBL seems that it had collected its working funds from more expensive sources in comparison to HBL.

The risk ratio of HBL and EBL have higher, it is suggested that they must careful about risk either risk or capital risk. The growth ratios are analyzed and interpret which are direct related to the fund mobilization and investment of commercial banks. Growth ratio represents how well the commercial banks are maintaining their economic and financial position. Growth ratio HBL has lower to maintain of deposit, loan and advance and net profit and higher of total investment than that of EBL. Therefore in total amount factor EBL improve in three growth ratios than HBL but in terms of percentage HBL improve in three growth rates than EBL.

Finally, the summary, conclusion and the recommendation made by the research are presented in the current chapter titled "Summary, Conclusion and recommendations."

5.2 Conclusion

This study reveals that the current ratio of all samples banks i.e. EBL and HBL is greater than 1. That means 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.

Among all the sample banks, EBL has the lowest ratio of net profit to total assets. It means EBL has not mobilized its assets into profit generating projects. EBL has not

mobilized its deposit into profit generating project. But in case of mobilized the funds of shareholders efficiently into profit generating projects, EBL does not mobilized and HBL has been successful in providing more rate of return to its shareholders by the proper use of their available funds than others. From all the sample banks, EBL has not mobilized its assets into interest generating projects (i.e. income from loans, advances, cash credit and overdrafts, government securities, inter commercial banks other investment).

In term of loan and advances against total deposits, EBL has used more percentage of its total deposits into loan and advances than other sample banks. From all the sample banks, HBL has mobilized highest percentage of its total deposit into total investment (i.e. investment into government securities, debentures and bonds, shares in subsidiary commercial bank, companies and other investments). From leverage ratio, EBL has high debt to total assets ratio represents a greater risk to creditor and shareholders than other sample banks.

Earning per share of HBL has the highest than other selected joint venture banks. Similarly, with the highest dividend payout ratio of HBL refers that the bank provides maximum amount of dividend to its shareholders. EBL has highest price earning ratio than other sample banks. From income analysis, EBL has highest net interest income than other banks. Similarly, exchange income of HBL is greater than other selected JVBs. Likewise, commission and discount income of HBL is higher than other sample banks. From expenditure analysis, an interest expense is highest on EBL. From correlation and regression analysis, EBL and HBL have positive coefficient of correlation between net profit and total deposit.

5.3 Recommendation

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as below:

- Based on liquidity ratio analysis it is found that selected joint venture banks so not have the standard current ratio (2:1). However, from aggressive working capital point of view it is not considered so bad. EBL and HBL seem to have held more cash and bank balance. 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 EBL 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.

- Based on activity ratio analysis it is found that all the selected joint venture banks except HBL have emphasized in issuing loan and advances. However, as we know that the increasing bottleneck competition and worsening economic condition has attributing this area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.

- In case of all three JBVs, debt financing has always almost exceeded 90% 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 jeopardize 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.

- Expenses are the vital determinations to increase or increase or decrease the profitability of the banks. Interest expenses on deposits also affect the profitability

- of the banks. Thus, it is recommended that banks should try to reduce the amount of high interest bearing deposits like fixed deposits, saving deposit and others. Instead they should concentrate of non-interest bearing deposit like current deposit, margin deposit etc. At the same time, bank should try to reduce the operating expenses to increase the profitability.

- 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, HBL has been successful in providing a better return on equity than others. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders. Low market price of share and less earning per share of commercial banks indicated the poor performance in the market. Similarly low dividend payout ratio also discourages the shareholders. Reviewing the study, HBL have higher MPS, EPS and dividend payout ratio than EBL. Therefore, it is suggested to the management team of EBL to improve their performance.

- Further studies can be conducted by increasing sample size, study period by using other financial and statistical tools. Primary data also can be analyzed.

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ANNEX ONE

Calculation of Current Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Bank and Cash	4334.61	4984.80	5732.52	6592.40	7581.26	
Current Liabilities	4128.20	4887.06	5408.04	6278.48	7289.67	
Ratios (X)	1.05	1.02	1.06	1.05	1.04	5.22
X-x	0.01	(0.02)	0.02	0.01	(0.00)	-
(X-x)2	0.000036	0.000576	0.000256	0.000036	0.000016	0.0009

$$\text{Mean} = \frac{\sum X}{n} = \frac{5.22}{5} = 1.04$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{x} A^2}{n}} = \sqrt{\frac{0.00}{5}} = 0.01$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{0.01}{1.044} = 1.30$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Bank and Cash	3250.96	3738.60	4299.39	4944.30	5685.94	
Current Liabilities	3125.92	3526.98	4018.12	4620.84	5685.94	
Ratios (X)	1.04	1.06	1.07	1.07	1.00	5.24
X-x	(0.01)	0.01	0.02	0.02	(0.05)	(0.00)
(X-x)2	0.000064	0.000144	0.000484	0.000484	0.002304	0.0035

$$\text{Mean} = \frac{\sum X}{n} = \frac{5.24}{5} = 1.05$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{x} A^2}{n}} = \sqrt{\frac{0.00348}{5}} = 0.03$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{0.03}{1.048} = 2.52$$

ANNEX TWO

Calculation of Cash and Bank to Total Deposit ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Total Deposit	50671.59	58272.33	67013.18	77065.15	88624.93	
Bank and Cash	4334.61	4984.80	5732.52	6592.40	7581.26	
Ratios (X)	11.69	10.65	9.40	12.34	9.97	54.05
X-x	0.88	(0.16)	(1.41)	1.53	(0.84)	0.00
(X-x)2	0.774400	0.025600	1.988100	2.340900	0.705600	5.8346

$$\text{Mean} = \frac{\sum X}{n} = \frac{54.05}{5} = 10.81$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{X}^2}{n}} = \sqrt{\frac{5.83}{5}} = 1.08$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{1.08}{10.81} = 9.99$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Total Deposit	38003.69	43704.25	50259.88	57798.87	66468.70	
Bank and Cash	3250.96	3738.60	4299.39	4944.30	5685.94	
Ratios (X)	8.06	9.56	5.75	5.53	8.20	37.10
X-x	0.64	2.14	(1.67)	(1.89)	0.78	0.00
(X-x)2	0.409600	4.579600	2.788900	3.572100	0.608400	11.9586

$$\text{Mean} = \frac{\sum X}{n} = \frac{37.10}{5} = 7.42$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{X}^2}{n}} = \sqrt{\frac{11.96}{5}} = 1.55$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{1.55}{7.42} = 20.84$$

ANNEX THREE

Calculation of Cash and Bank to Current Assets Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Current Assets	44776.52	46258.96	47809.23	71989.01	72249.41	
Bank and Cash	4334.61	4984.80	5732.52	6592.40	7581.26	
Ratios (X)	10.33	9.28	8.34	10.92	9.53	48.40
X-x	0.65	(0.40)	(1.34)	1.24	(0.15)	-
(X-x)2	0.422500	0.160000	1.795600	1.537600	0.022500	3.9382

$$\text{Mean} = \frac{\sum X}{n} = \frac{48.40}{5} = \bar{X} = 9.68$$

$$\text{SD} = \sqrt{\frac{\sum f_X (X - \bar{X})^2}{n}} = \sqrt{\frac{3.94}{5}} = \sigma = 0.89$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{0.89}{9.68} = 9.17$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Current Assets	33582.39	38619.75	44412.71	51074.62	58735.81	
Bank and Cash	3250.96	3738.60	4299.39	4944.30	5685.94	
Ratios (X)	7.30	8.61	5.12	4.97	7.10	33.10
X-x	0.68	1.99	(1.50)	(1.65)	0.48	(0.00)
(X-x)2	0.462400	3.960100	2.250000	2.722500	0.230400	9.6254

$$\text{Mean} = \frac{\bar{X}}{n} = \frac{33.10}{5} = \bar{X} = 6.62$$

$$\text{SD} = \sqrt{\frac{f_X z \bar{x} A^2}{n}} = \sqrt{\frac{9.63}{5}} = 1.39$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{1.39}{6.62} = 20.96$$

ANNEX FOUR

Net Profit to Total Assets Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Net Profit	870.36	1000.91	1151.05	1323.71	1522.27	
Total Assets	685.32	885.76	810.60	822.18	850.43	
Ratios (X)	1.27	1.13	1.42	1.61	1.79	7.22
X-x	(0.17)	(0.31)	(0.02)	0.17	0.35	(0.00)
(X-x)2	0.030276	0.098596	0.000576	0.027556	0.119716	0.2767

$$\text{Mean} = \frac{\sum X}{n} = \frac{7.22}{5} = \bar{X} = 1.44$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{X}^2}{n}} = \sqrt{\frac{0.28}{5}} = 0.24$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{0.24}{1.444} = 16.29$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Net Profit	652.77	750.69	863.29	992.78	1141.70	
Total Assets	513.99	591.09	679.75	781.72	898.98	
Ratios (X)	2.42	2.27	2.46	2.56	2.42	2.43
X-x	1.93	1.78	1.97	2.07	1.93	9.70
(X-x)2	3.740356	3.182656	3.896676	4.301476	3.740356	18.8615

$$\text{Mean} = \frac{\overline{X}}{n} = \frac{2.43}{5} = 0.49$$

$$\text{SD} = \sqrt{\frac{f_X z \overline{x} A^2}{n}} = \sqrt{\frac{18.86}{5}} = 1.94$$

$$\text{CV} = \frac{\pm}{\overline{X}} = \frac{1.94}{0.486} = 399.64$$

ANNEX FIVE

Net Profit to Total Deposit Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Net Profit	870.36	1000.91	1151.05	1323.71	1522.27	
Total Deposit	685.32	885.76	810.60	822.18	850.43	
Ratios (X)	1.27	1.13	1.42	1.61	1.79	7.22
X-x	(0.17)	(0.31)	(0.02)	0.17	0.35	(0.00)
(X-x)2	0.030276	0.098596	0.000576	0.027556	0.119716	0.2767

$$\text{Mean} = \frac{\sum X}{n} = \frac{7.22}{5} = 1.44$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{X} A^2}{n}} = \sqrt{\frac{0.28}{5}} = 0.24$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{0.24}{1.444} = 16.29$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Net Profit	652.77	750.69	863.29	992.78	1141.70	
Total Deposit	513.99	591.09	679.75	781.72	898.98	
Ratios (X)	2.42	2.27	2.46	2.56	2.42	12.13
X-x	(0.01)	(0.16)	0.03	0.13	(0.01)	(0.00)
(X-x)2	0.000036	0.024336	0.001156	0.017956	0.000036	0.0435

$$\text{Mean} = \frac{\sum X}{n} = \frac{12.13}{5} = \bar{X} = 2.43$$

$$\text{SD} = \sqrt{\frac{\sum f_X (X - \bar{X})^2}{n}} = \sqrt{\frac{0.04}{5}} = 0.09$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{0.09}{2.426} = 3.85$$

ANNEX SIX

Return on Shareholder's Equity to Net Worth Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Equity	324.57	373.26	429.24	493.63	567.67	
Net Worth	17.75	17.83	21.82	19.93	21.26	
Ratios (X)	18.29	20.94	19.67	24.77	26.70	110.37
X-x	(3.78)	(1.13)	(2.40)	2.70	4.63	(0.00)
(X-x)2	14.318656	1.285956	5.779216	7.268416	21.399876	50.0521

$$\text{Mean} = \frac{\sum X}{n} = \frac{110.37}{5} = 22.07$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{X}^2}{n}} = \sqrt{\frac{50.05}{5}} = 3.16$$

$$\text{CV} = \frac{\pm \bar{X}}{} = \frac{3.16}{22.074} = 14.33$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Equity	243.43	279.94	321.93	370.22	425.76	
Net Worth	5.11	7.78	9.45	9.86	13.03	
Ratios (X)	47.62	35.96	34.07	37.55	32.68	187.88
X-x	10.04	(1.62)	(3.51)	(0.03)	(4.90)	-
(X-x)2	100.882	2.611	12.292	0.001	23.971	139.757

$$\text{Mean} = \frac{\sum X}{n} = \frac{187.88}{5} = 37.58$$

$$\text{SD} = \sqrt{\frac{\sum X\ z\ \bar{X}^2}{n}} = \sqrt{\frac{139.76}{5}} = 5.29$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{5.29}{37.576} = 14.07$$

ANNEX SEVEN

Net Interet Earned to Total Assets Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Net Interest	2021.70	2657.29	2634.45	2581.64	2721.37	
Total Assets	685.32	885.76	810.60	822.18	850.43	
Ratios (X)	2.95	3.00	3.25	3.14	3.20	15.54
X-x	(0.16)	(0.11)	0.14	0.03	0.09	0.00
(X-x)2	0.024964	0.011664	0.020164	0.001024	0.008464	0.0663

$$\text{Mean} = \frac{\sum X}{n} = \frac{15.54}{5} = \bar{X} = 3.11$$

$$\text{SD} = \sqrt{\frac{\sum f_X (X - \bar{X})^2}{n}} = \sqrt{\frac{0.07}{5}} = \bar{X} = 0.12$$

$$\text{CV} = \frac{\pm \bar{X}}{\bar{X}} = \frac{0.12}{3.108} = \bar{X} = 3.70$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Net Interest	1824.67	1891.49	2467.51	2689.11	3146.41	
Total Assets	513.99	591.09	679.75	781.72	898.98	
Ratios (X)	3.55	3.20	3.63	3.44	3.50	17.32
X-x	0.09	(0.26)	0.17	(0.02)	0.04	-
(X-x)2	0.007	0.070	0.028	0.001	0.001	0.107

$$\text{Mean} = \frac{\sum X}{n} = \frac{17.32}{5} = \bar{X} = 3.46$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{0.11}{5}} = \bar{X} = 0.15$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{0.15}{3.464} = \bar{X} = 4.21$$

ANNEX EIGHT

Loan and Advance to Total Deposit Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Loan and Advance	51221.03	56405.49	59765.49	57248.35	61707.01	
Total Deposit	685.32	885.76	810.60	822.18	850.43	
Ratios (X)	74.74	63.68	73.73	69.63	72.56	354.34
X-x	3.87	(7.19)	2.86	(1.24)	1.69	(0.00)
(X-x)2	14.992384	51.667344	8.191044	1.532644	2.862864	79.2463

$$\text{Mean} = \frac{\sum X}{n} = \frac{354.34}{5} = 70.87$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{79.25}{5}} = 3.98$$

$$\text{CV} = \frac{\pm \bar{X}}{} = \frac{3.98}{70.868} = 5.62$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Loan and Advance	15604.80	18696.21	29603.31	30291.56	38305.34	
Total Deposit	513.99	591.09	679.75	781.72	898.98	
Ratios (X)	30.36	31.63	43.55	38.75	42.61	186.90
X-x	(7.02)	(5.75)	6.17	1.37	5.23	0.00
(X-x)2	49.2804	33.0625	38.0689	1.8769	27.3529	149.6416

$$\text{Mean} = \frac{\sum X}{n} = \frac{186.90}{5} = \bar{X} = 37.38$$

$$\text{SD} = \sqrt{\frac{\sum X\ z\ \bar{X}^2}{n}} = \sqrt{\frac{149.64}{5}} = 5.47$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{5.47}{37.38} = 14.64$$

ANNEX NINE

Loan and Advance to Total Assets Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Loan and Advance	51221.03	56405.49	59765.49	57248.35	61707.01	
Total Assets	685.32	885.76	810.60	822.18	850.43	
Ratios (X)	74.74	63.68	73.73	69.63	72.56	354.34
X-x	3.87	(7.19)	2.86	(1.24)	1.69	(0.00)
(X-x)2	14.992384	51.667344	8.191044	1.532644	2.862864	79.2463

$$\text{Mean} = \frac{\sum X}{n} = \frac{354.34}{5} = \bar{X} = 70.87$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{79.25}{5}} = 3.98$$

$$\text{CV} = \frac{\text{SD}}{\bar{X}} = \frac{3.98}{70.87} = 5.62$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Loan and Advance	15604.80	18696.21	29603.31	30291.56	38305.34	
Total Assets	513.99	591.09	679.75	781.72	898.98	
Ratios (X)	30.36	31.63	43.55	38.75	42.61	186.90
X-x	(7.02)	(5.75)	6.17	1.37	5.23	0.00
(X-x)2	49.2804	33.0625	38.0689	1.8769	27.3529	149.6416

$$\text{Mean} = \frac{\sum X}{n} = \frac{186.90}{5} = 37.38$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{x} A^2}{n}} = \sqrt{\frac{149.64}{5}} = 5.47$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{5.47}{37.38} = 14.64$$

ANNEX TEN

Total Investment to Total Deposit Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Investment	15782.98	32064.68	20735.13	24640.72	23854.49	
Total Deposit	685.32	885.76	810.60	822.18	850.43	
Ratios (X)	23.03	36.20	25.58	29.97	28.05	142.83
X-x	(5.54)	7.63	(2.99)	1.40	(0.52)	0.00
(X-x)2	30.647296	58.277956	8.916196	1.971216	0.266256	100.0789

$$\text{Mean} = \frac{\bar{X}}{n} = \frac{142.83}{5} = 28.57$$

$$\text{SD} = \sqrt{\frac{\sum X - \bar{X}^2}{n}} = \sqrt{\frac{100.08}{5}} = 4.47$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{4.47}{28.566} = 15.66$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Investment	32926.34	37930.31	42056.42	50256.64	55853.34	
Total Deposit	513.99	591.09	679.75	781.72	898.98	
Ratios (X)	64.06	64.17	61.87	64.29	62.13	316.52
X-x	0.76	0.87	(1.43)	0.99	(1.17)	(0.00)
(X-x)2	0.5715	0.7500	2.0564	0.9722	1.3783	5.7283

$$\text{Mean} = \frac{\bar{X}}{n} = \frac{316.52}{5} = 63.30$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{5.73}{5}} = 1.07$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{1.07}{63.304} = 1.69$$

ANNEX ELEVEN

Total Debt to Net Worth Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Total Debt	236.91	311.40	281.29	286.97	296.38	
Net Worth	17.75	17.83	21.82	19.93	21.26	
Ratios (X)	13.35	17.47	12.89	14.40	13.94	72.05
X-x	(1.06)	3.06	(1.52)	(0.01)	(0.47)	(0.00)
(X-x)2	1.123600	9.363600	2.310400	0.000100	0.220900	13.0186

$$\text{Mean} = \frac{\sum X}{n} = \frac{72.05}{5} = 14.41$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{13.02}{5}} = 1.61$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{1.61}{14.41} = 11.20$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Total Debt	95.75	116.77	122.93	134.98	162.98	
Net Worth	5.11	7.78	9.45	9.86	13.03	
Ratios (X)	18.73	15.00	13.01	13.69	12.51	72.94
X-x	4.14	0.41	(1.58)	(0.90)	(2.08)	-
(X-x)2	17.156	0.170	2.490	0.806	4.318	24.940

$$\text{Mean} = \frac{\sum X}{n} = \frac{72.94}{5} = 14.59$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{24.94}{5}} = 2.23$$

$$\text{CV} = \frac{\pm \bar{X}}{} = \frac{2.23}{14.588} = 15.31$$

ANNEX TWELVE

Total Liabilities to Total Assets Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Total Liabilities	637.56	837.76	752.24	768.66	793.53	
Total Assets	685.32	885.76	810.60	822.18	850.43	
Ratios (X)	93.03	94.58	92.80	93.49	93.31	467.21
X-x	(0.41)	1.14	(0.64)	0.05	(0.13)	(0.00)
(X-x)2	0.169744	1.295044	0.412164	0.002304	0.017424	1.8967

$$\text{Mean} = \frac{\sum X}{n} = \frac{467.21}{5} = \bar{X} = 93.44$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{1.90}{5}} = \sigma = 0.62$$

$$\text{CV} = \frac{\sigma}{\bar{X}} = \frac{0.62}{93.442} = 0.66$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Total Liabilities	487.93	554.15	631.22	728.48	832.45	
Total Assets	513.99	591.09	679.75	781.72	898.98	
Ratios (X)	94.93	93.75	92.86	93.19	92.60	467.33
X-x	1.46	0.28	(0.61)	(0.28)	(0.87)	0.00
(X-x)2	2.143	0.081	0.367	0.076	0.750	3.417

$$\text{Mean} = \frac{\sum X}{n} = \frac{467.33}{5} = \bar{X} = 93.47$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{3.42}{5}} = 0.83$$

$$\text{CV} = \frac{\text{SD}}{\bar{X}} = \frac{0.83}{93.466} = 0.88$$

ANNEX THIRTEEN

Earning Per Share

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Equity Earning	858.90	1066.50	1370.70	1848.20	2565.30	
Number of share	21.71	20.63	34.70	31.14	41.00	
EPS (X)	39.56	51.70	39.50	59.35	62.57	252.68
X-x	(10.98)	1.16	(11.04)	8.81	12.03	-
(X-x)2	120.4726	1.3549	121.7933	77.6866	144.8172	466.1245

$$\text{Mean} = \frac{\sum X}{n} = \frac{252.68}{5} = 50.54$$

$$\text{SD} = \sqrt{\frac{\sum f_X (X - \bar{X})^2}{n}} = \sqrt{\frac{466.12}{5}} = 9.66$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{9.66}{50.536} = 19.11$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Equity Earning	764.42	949.19	1219.92	1644.90	2283.12	
Number of share	5.12	6.61	8.52	9.35	13.64	
EPS (X)	149.30	143.55	143.14	175.84	167.37	779.20
X-x	(6.54)	(12.29)	(12.70)	20.00	11.53	-
(X-x)2	42.772	151.044	161.290	400.000	132.941	888.047

$$\text{Mean} = \frac{\sum X}{n} = \frac{779.20}{5} = \bar{X} = 155.84$$

$$\text{SD} = \sqrt{\frac{\sum X - \bar{X}^2}{n}} = \sqrt{\frac{888.05}{5}} = \sigma = 13.33$$

$$\text{CV} = \frac{\sigma}{\bar{X}} = \frac{13.33}{155.84} = 8.55$$

ANNEX FOURTEEN

Dividend Payout Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
DPS	7.91	7.76	4.94	11.87	3.13	
EPS	39.56	51.70	39.50	59.35	62.57	
Ratios (X)	20.00	15.00	12.50	20.00	5.00	72.50
X-x	5.50	0.50	(2.00)	5.50	(9.50)	-
(X-x)2	30.2500	0.2500	4.0000	30.2500	90.2500	155.0000

$$\text{Mean} = \frac{\sum X}{n} = \frac{72.50}{5} = 14.50$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{155.00}{5}} = 5.57$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{5.57}{14.5} = 38.40$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
DPS	164.23	157.91	171.77	246.18	217.58	
EPS	149.30	143.55	143.14	175.84	167.37	
Ratios (X)	110.00	110.00	120.00	140.00	130.00	610.00
X-x	(12.00)	(12.00)	(2.00)	18.00	8.00	-
(X-x)2	144.000	144.000	4.000	324.000	64.000	680.000

$$\text{Mean} = \frac{\sum X}{n} = \frac{610.00}{5} = 122.00$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{680.00}{5}} = 11.66$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{11.66}{122} = 9.56$$

ANNEX FIFTHTEEN

Price Earnings Ratio

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
MPS	795.16	939.91	799.88	1260.00	1728.81	
EPS	39.56	51.70	39.50	59.35	62.57	
Ratios (X)	20.10	18.18	20.25	21.23	27.63	107.39
X-x	(1.38)	(3.30)	(1.23)	(0.25)	6.15	0.00
(X-x)2	1.8989	10.8768	1.5080	0.0615	37.8471	52.1923

$$\text{Mean} = \frac{\bar{X}}{n} = \frac{107.39}{5} = 21.48$$

$$\text{SD} = \sqrt{\frac{\sum X \, Z \, X - \bar{A}^2}{n}} = \sqrt{\frac{52.19}{5}} = 3.23$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{3.23}{21.478} = 15.04$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
MPS	1639.31	1745.57	2344.63	3775.28	5899.79	
EPS	149.30	143.55	143.14	175.84	167.37	
Ratios (X)	10.98	12.16	16.38	21.47	35.25	96.24
X-x	(8.27)	(7.09)	(2.87)	2.22	16.00	-
(X-x)2	68.360	50.240	8.225	4.937	256.064	387.826

$$\text{Mean} = \frac{\sum X}{n} = \frac{96.24}{5} = \bar{X} = 19.25$$

$$\text{SD} = \sqrt{\frac{\sum f_X Z \bar{X}^2}{n}} = \sqrt{\frac{387.83}{5}} = 8.81$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{8.81}{19.248} = 45.76$$

ANNEX SIXTEEN

Net Interest Income to Total Income

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Interest Income	597.19	735.57	922.21	1298.36	1755.69	
Total Income	858.90	1066.50	1370.70	1848.20	2565.30	
Ratio (X)	69.53	68.97	67.28	70.25	68.44	344.47
X-x	0.64	0.08	(1.61)	1.36	(0.45)	(0.00)
(X-x)2	0.4045	0.0058	2.6050	1.8387	0.2061	5.0601

$$\text{Mean} = \frac{\sum X}{n} = \frac{344.47}{5} = 68.89$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{5.06}{5}} = 1.01$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{1.01}{68.894} = 1.46$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Interest Income	456.89	556.03	742.32	1027.07	1463.93	
Total Income	764.42	949.19	1219.92	1644.90	2283.12	
Ratio (X)	59.77	58.58	60.85	62.44	64.12	305.76
X-x	(1.38)	(2.57)	(0.30)	1.29	2.97	-
(X-x)2	1.910	6.615	0.091	1.659	8.809	19.084

$$\text{Mean} = \frac{\sum X}{n} = \frac{305.76}{5} = 61.15$$

$$\text{SD} = \sqrt{\frac{\sum f_X z \bar{X} A^2}{n}} = \sqrt{\frac{19.08}{5}} = 1.95$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{1.95}{61.152} = 3.19$$

ANNEX SEVENTEEN

Exchange Income to Total Income

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Exchange Income	112.34	159.76	177.64	239.53	264.23	
Total Income	858.90	1066.50	1370.70	1848.20	2565.30	
Ratio (X)	13.08	14.98	12.96	12.96	10.30	64.28
X-x	0.22	2.12	0.10	0.10	(2.56)	0.00
(X-x)2	0.0502	4.5114	0.0108	0.0108	6.5331	11.1163

$$\text{Mean} = \frac{\sum X}{n} = \frac{64.28}{5} = 12.86$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{11.12}{5}} = 1.49$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{1.49}{12.856} = 11.60$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
Exchange Income	142.34	198.09	246.18	328.49	454.34	
Total Income	764.42	949.19	1219.92	1644.90	2283.12	
Ratio (X)	18.62	20.87	20.18	19.97	19.90	99.54
X-x	(1.29)	0.96	0.27	0.06	(0.01)	(0.00)
(X-x)2	1.659	0.925	0.074	0.004	0.000	2.662

$$\text{Mean} = \frac{\sum X}{n} = \frac{99.54}{5} = 19.91$$

$$\text{SD} = \sqrt{\frac{\sum X \, Z \, \bar{X}^2}{n}} = \sqrt{\frac{2.66}{5}} = 0.73$$

$$\text{CV} = \frac{\pm}{\bar{X}} = \frac{0.73}{19.908} = 3.67$$

ANNEX EIGHTEEN

Commission and Discount Received to Total Income

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
CDR	95.49	135.80	151.00	203.60	224.59	
Total Income	858.90	1066.50	1370.70	1848.20	2565.30	
Ratio (X)	11.12	12.73	11.02	11.02	8.76	54.64
X-x	0.19	1.81	0.09	0.09	(2.17)	0.00
(X-x)2	0.0363	3.2595	0.0078	0.0078	4.7202	8.0315

$$\text{Mean} = \frac{\sum X}{n} = \frac{54.64}{5} = 10.93$$

$$\text{SD} = \sqrt{\frac{\sum f_X (X - \bar{X})^2}{n}} = \sqrt{\frac{8.03}{5}} = 1.27$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{1.27}{10.9276} = 11.60$$

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
CDR	120.98	168.38	209.25	279.21	386.19	
Total Income	764.42	949.19	1219.92	1644.90	2283.12	
Ratio (X)	15.83	17.74	17.15	16.97	16.92	84.61
X-x	(1.09)	0.82	0.23	0.05	(0.01)	0.00
(X-x)2	1.199	0.669	0.053	0.003	0.000	1.923

$$\text{Mean} = \frac{\sum X}{n} = \frac{84.61}{5} = 16.92$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{1.92}{5}} = 0.62$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{0.62}{16.9218} = 3.67$$

ANNEX NINETEEN

Interest Expenses

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
X	189.21	326.20	354.55	490.95	685.53	2,046.44
X-x	(220.08)	(83.09)	(54.74)	81.66	276.24	-
(X-x)2	48,434.33	6,903.62	2,996.25	6,668.68	76,309.64	141,312.52

Mean = $\frac{X}{n}$ = $\frac{2046.44}{5}$ = 409.29

SD = $\sqrt{\frac{\sum (X - \bar{X})^2}{n}}$ = $\sqrt{\frac{141312.52}{5}}$ = 168.11

CV= $\frac{\pm}{\bar{X}}$ = $\frac{168.11}{409.288}$ = 41.07

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
X	255.15	275.81	254.13	303.20	413.06	1,501.35
X-x	(45.12)	(24.46)	(46.14)	2.93	112.79	(0.00)
(X-x)2	2,035.814	598.292	2,128.900	8.585	12,721.584	17,493.175

$$\text{Mean} = \frac{\sum X}{n} = \frac{1501.35}{5} = 300.27$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{17493.17}{5}} = 59.15$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{59.15}{300.27} = 19.70$$

ANNEX TWENTY

Staff Expenses

Everest Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
X	61.29	89.75	97.00	120.66	145.37	514.07
X-x	(41.52)	(13.06)	(5.81)	17.85	42.56	-
(X-x)2	1,724.24	170.67	33.80	318.48	1,811.01	4,058.21

Mean = $\frac{X}{n}$ = $\frac{514.07}{5}$ = 102.81

SD = $\sqrt{\frac{\sum (X - \bar{X})^2}{n}}$ = $\sqrt{\frac{4058.21}{5}}$ = 28.49

CV= $\frac{\sigma}{\bar{X}}$ = $\frac{28.49}{102.814}$ = 27.71

Himalayan Bank Limited

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10	Total
X	128.33	134.69	148.59	168.23	199.78	779.62
X-x	(27.59)	(21.23)	(7.33)	12.31	43.86	(0.00)
(X-x)2	761.429	450.883	53.788	151.438	1,923.349	3,340.886

$$\text{Mean} = \frac{\sum X}{n} = \frac{779.62}{5} = 155.92$$

$$\text{SD} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{3340.89}{5}} = 25.85$$

$$\text{CV} = \frac{\pm \sigma}{\bar{X}} = \frac{25.85}{155.924} = 16.58$$

ANNEX TWENTY ONE

Coefficient of Correlation between Net profit and Total Deposit of EBL.

Fiscal Year	X	Y	X^2	Y^2	XY
2005/06	116.82	7922.77	13646.91	62770284.47	925537.99
2006/07	152.67	11524.68	23308.13	132818249.1	1759472.90
2007/08	232.15	14254.57	53893.62	203192765.9	3309198.43
2008/09	350.54	18927.31	122878.29	358243063.8	6634779.25
2009/10	501.40	24488.86	251401.96	599704264.1	12278714.40
Total	1353.58	77118.19	465128.91	1356728627.37	24907702.97

N=5 years $x^2 =$ 465128.91 x=1353.58

Y^2= 1356728627.37 Y= 77118.19 XY= 24907702.97

$$r = \frac{N\phi xy \; Z \; f\phi xAf\phi yA}{\sqrt{N\phi x^2 \; Z \; f\phi xA^2 \; N\phi y^2 \; Z \; f\phi yA^2}}$$

$$= \frac{5x\ 24907702.97 - 1353.58\ x\ 77118.19}{\sqrt{f5 \mid 24907702.97\ Z1353.58^2 A \mid f5 \mid 1356728627.37\ Z77118.19^2 A}}$$

$$= \frac{20152875.23}{f702.47 \mid 28921.06A} \quad \ldots r = 0.99$$

Coefficient of Correlation between Net Profit and Total Deposit of HBL.

Fiscal Year	X	Y	X^2	Y^2	XY
2005/06	506.93	18755.64	256978.02	351774031.8	9507796.59
2006/07	537.80	21161.44	289228.84	447806542.9	11380622.43
2007/08	539.20	19335.10	290736.64	373846092.0	10425485.92
2008/09	658.76	23067.03	433964.74	531811104.7	15191684.12
2009/10	691.67	24647.02	478407.39	607475594.9	17047604.32
Total	2934.36	10690.23	1749315.63	2312713366.3	63553193.38

N=5 years $x^2 = 1749315.63$ x=2934.36

Y^2= 2312713366.3 Y= 106960.28 XY= 63553193.38

$$r = \frac{N\phi xy \; Z \; f\phi x A f\phi y A}{\sqrt{N\phi x^2 \; Z \; f\phi x A^2 \; N\phi y^2 \; Z \; f\phi y A^2}}$$

$$= \frac{5x\ 63553193.38 - 2934.36\ x\ 106960.28}{\sqrt{f5 \mid 1749315.63\ Z\ 2934.36^2 A \mid f5 \mid 2312713366.3\ Z\ 106960.28^2 A}}$$

$$= \frac{3905999.68}{f368.93 \mid 11093.48 A} \quad \ldots r = 0.95$$

Computation of Probable Error of correlation of Net Profit and Total Deposit

$$P.E_r = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

Probable Error of EBL

Here, r = 0.99

N = 5 years

We have,

$$P.E_r = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1Z(0.99)^2}{\sqrt{5}}$$

$$= \frac{0.0134}{2.24}$$

$$= 0.006$$

Probable Error of HBL

Here, r = 0.95

N = 5 years

We have,

$$P.E_r = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

$$= 0.6745 \frac{1Z(0.95)^2}{\sqrt{5}}$$

$$= \frac{0.0658}{2.24}$$

$$= 0.029$$

ANNEX TWENTY TWO

Calculation of Straight Line Trend Analysis of Loan and Advance of EBL

Now, regression equation Y= a +bx

Loan and advances of 6^{th} year (2010/11)

Y = 3848.43 + 2361.24 x 6
= 3884.43 + 14167.44
= 18015.87 million

Loan and advances of 7^{th} year (2011/12)

Y = 3848.43 + 2361.24 x 7
= 3848.43 + 16528.68
= 20377.11 million

Loan and advances of 8^{th} year (2012/13)

Y = 3848.43 + 2361.24 x 8
= 3848.43 + 18889.92
= 22738.35 million

And so on

ANNEX TWENTY THREE

Calculation of Straight Line Trend Analysis of Loan and Advance of HBL

Now, Regression equation $Y = a + bx$

Loan and advances on 6^{th} year (20/09)

$Y = 4493.16 + 1185.52 \times 6$

$= 4493.16 + 7113.12$

$= 11606.28$ million

Loan and advances on 7^{th} year (2009/10)

$Y = 4493.16 + 1185.52 \times 7$

$= 4493.16 + 8298.64$

$= 12791.80$ million

Loan and advances on 8^{th} year (2010/11)

$Y = 4493.16 + 1185.52 \times 8$

$= 4493.16 + 9484.16$

$= 13977.32$ million

And so on