

**AN ANALYTICAL STUDY ON FINANCIAL
PERFORMANCE OF EVEREST & HIMALAYAN
BANK LTD.**

By:

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**In Partial Fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S.)**

**A Thesis Submitted to
Office of the Dean
Faculty of Management
Tribhuvan University**

Tansen, Palpa

March, 2013



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I hereby declare that the work reported in this thesis entitled "An Analytical Study on Financial Performance Everest & Himalayan Bank Ltd." submitted to Tribhuwan Multiple Campus Tansen, Faculty of Management, Tribhuwan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree of Business Studies (M.B.S.) under the supervision of Mr. **Shree Chandra Shakya** lecture, Tribhuwan Multiple Campus, Tansen Palpa.

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ACKNOWLEDGEMENT

The thesis entitled "An Analytical Study on Financial Performance Everest & Himalayan Bank Ltd.". This study has taken place on this matter under partial fulfillment of the requirement of MBS programme of Tribhuvan University.

First of all, I would like to express my deep gratitude to my respected supervisor Mr. Shree Chandra Shakya, faculty of management, Tribhuvan Multiple Campus, Palpa for his constructive suggestions, guidelines, inspiration and encouragement to accomplish this thesis. I would like to extend my sincere gratitude to Mr. Keshav Raj Sharma, the campus chief of Tribhuvan Multiple Campus, Palpa for his regular inspiration, motivation and valuable suggestions. I am equally grateful to Mr. Santosh Lal Shrestha, chair person, Research committee of faculty of management, Tribhuvan Multiple Campus. Similarly, I am equally indebted to all teaching and non-teaching staff of Tribhuvan Multiple Campus, Palpa.

I would like to express my thanks to all my family members for their continuous and valuable support.

Lastly, I express thanks to Mr. Bal Krishna Bhandari for his computer work.

Shushil Gyawali

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ABBREVIATIONS

HBL	=	Himalayan Bank Limited
EBL	=	Everest Bank Limited
NRB	=	Nepal Rastra Bank
RRB	=	Rastriya Banijya Bank
NIDC	=	Nepal Industrial Development Corporation
ADB	=	Agriculture Development Bank
IFIC	=	International Finance Investment & Commerce Bank
DPS	=	Dividend per Share
EPS	=	Earnings Per Share
SD	=	Standard Deviation
CS	=	Common Stock
CV	=	Coefficient of Variation
F/Y	=	Fiscal Year
D/P Ratio	=	Dividend Payout Ratio

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banking sector plays an important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deals in the process of mobilizing the available resources in the needed sector. It is the intermediary between the deficit and surplus of financial institutions and non depository financial institutions. Commercial Banks a Finance Companies (in Nepalese context) are the examples of depository financial institutions whereas Employment Provident Fund, Development Banks, Insurance Companies etc. Are the examples of non- depository financial institutions. All the economic activities are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the banks and hence banks can provide such funds to finance the industrial activities in the form of loans and advances.

Financial institutions play a major role in the proper functioning of an economy. These institutions act as an intermediary between the individuals who lend and who borrow. These institutions accept deposits and in turn lend it to people who are in need of financial resources. These institutions make the flow of investment easier. So we cannot deny the role a bank plays in developing an economy. It pools the funds scattered in the economy and mobilizes them to the productive sector. Bust these institutions inherent a large amount of risk. Which cannot be, denied either. If a bank behaves irresponsibility, the costs borne by the economy are enormous. A larger amount of depositor's money is at stake.

Bank came into existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

Commercial Banks are directly related with the people and institution so it is an important bank whose functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit, these commercial banks are established to accelerate common people's economic welfare and facilities, to make available loan to the agriculture, industry and commerce and to provide the banking services to the public and the state. Commercial Bank, primarily being profit making organization try to use every rupee they own in such a way that it yields something which is sufficient to meet the entire expenses and some profit from. However, at the same time due to some statutory as social obligations, they are bound to maintain a certain level of liquidity and to extend certain amount of unproductive credit yielding come returns indeed. CBs are directly with the people and institutions, which is to improve the economic condition of the country.

Nepal is predominantly an agricultural country due to the topographical feature. Ninth development plans have been already executed since 1956 A.D. for the development of country and the eight plans is operative from the fiscal year 1992/93 A.D. However, the central issue of the development in Nepal even today, continues to be the eradication of poverty. Since 80% of the population, are dependent upon agriculture, the sector is unable full employment to the rural labour force. The economic development of the country heavily depends upon the improvement of the agricultural sector. To support this view, Sapkota had mentioned that, "here exist a great need for agricultural financial institute to provide the loans because the main problems on economic development are related to agriculture sector and lack of adequate credit facilities" (*Sapkota; 1979*). In spite of the huge investment in the past 40 years, a low saving rate, heavy dependence on external assistance , a low export base, a low level of industrialization, vulnerability in agricultural productions high population growth are some constraints that the country presently faces in its quest for sound and sustainable development.

To overcome this economic situation, government has to formulate and implement strategies focusing overall industrialization of the nation and development of a sound banking system is necessary for the rapid industrial development. Dr.

Shrestha says “Financial infrastructure of an economy consists of financial intermediation, financial institution and financial market” (*Shrestha; 1990/91*).

Therefore the financial institution plays a great role in the overall development of the country. In this aspect “Bank” is a financial institution which plays a great in facilitating the growth of the trade and industry.

Bank is also a resource for economic development which maintains the self-confidence of various segments of the society and extends credit to people. It is assumed that the word “ Bank” has been originated through the Italian word ”Bank” which refers to the meaning of accumulation of money or stock (i.e. Share Capital).

Similarly the word bank has also been derived from German word “Bench” which signifies heap or mound.

We can also say that a bank is related to collection of deposits, advancing loan and other credit activities. A Bank will generally collect deposits from different individuals and institution and utilizes it by giving loans to industries and commercial enterprises.

1.2 Development of Banking Industry in Nepal

In the country, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual money lenders has acted as fence to institutional credit in presence of unorganized money market.

Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times. In Nepalese Chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. This shows the basic of money lending practice in ancient Nepal. Towards the End of 8th century, Gunkam Dev had borrowed money to rebuild the Kathmandu valley. In 11th century, during Malla regime there was an evidence 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 charged exorbitant rates of interest and other extra dues on loans advanced.

Like other countries goldsmith, merchants and money lenders were the ancient bankers of Nepal. Tejrath Adda established during the tenure of the then Prime Minister Ranoddip Singh during the year 1877 A.D. (1933 B.S.) was the first step towards the institutional development of banking in Nepal. Tejrath Adda did not collect deposits from the public but gave loans to employees and public against the bullion. Tejrath Adda was fully subscribed by the Government of Kathmandu valley, which played a vital role in the banking system. This establishment helped the general public to provide credit facilities at a very low rate of 5 percent. The Tejrath Adda distributed credit facilities to the public especially on the collateral of gold and silver. Several branches were opened in different part of the country. Hence the establishment of Tejrath Adda could be regarded as pioneer foundation of banking in Nepal. "Tejrath Adda" was running smoothly for flow decades.

The main defects of this institutions sougheed as there was no other financial institution set-up and there was not effort to expand the services. Above all of the defects, this institution did not accept any deposits from the public. In the absence of saving mobilization the "Adda" faced financial problems making it impossible to Carter to the credit and service need of the general population throughout the country. After that again, for a long time, several unorganized bankers and indigenous moneylender continued to flourish as the sole provider of the credit and services to the general public.

At the same time, the government started trade with India and Tibet. And the various indigenous bankers handled even the trade, because transfer of the money could be safely made only through these bankers in the absence of modern banking institutions. Hence, the need of banking intuition was realized. This was even strongly supported by the situation caused during 1934 AD" earthquake where there was a

need of finance for the reconstruction of works. Reviewing these situations the “Udyog Parishad” (Industrial Development Board) was constituted in 1936 A.D. One year after its formulation, it formulated the “Company Act “and “Nepal Bank Act “in 1937.

Banking in modern sense started with the inception of Nepal bank Limited (NBL) on B.S. 1994. Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from pre-dominant money lenders” net and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centers.

Government however had onus of stretching banking services to the nook and corner of the country and also managing financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was set up on B.S. 2013.01.14 as a Central Bank under functioning as the Government’s bank and has contributed to the growth of financial sector. The major challenge before NRB today is to ensure the robust health of financial institutions. Accordingly, NRB has been trying to change them and has introduced a host of prudential measures to safeguard the interest of the public. NRB is yet to do a lot to prove them an efficient supervisor. NRB really requires strengthening their policy making, supervision and inspection mechanism.

Integrated and speedy development of the country is possible only when competitive banking service reaches nooks and corners of the country. Keeping this in mind, government set up Rastriya Banijya Bank (RBB) in B.S. 2022.10.10 as a fully government owned commercial bank.

As the name suggest, commercial banks are to carry out commercial transaction only. But commercial banks had to carry out the functions of all types of financial institutions. Hence, Industrial Development Centre (IDC) was set up in 2013 for industrial development. In 2016, IDC was converted to Nepal Industrial Development Corporation (NIDC). Similarly, Agriculture Development Bank (ADB) was established in B.S. 2024.10.07 to provide finance for agricultural produces so that agricultural productivity could be enhance by introducing modern agricultural

techniques. Moreover, Security Exchange Centre was established in 1976 to enhance capital market activities. Securities Exchange Centre was renamed Nepal Stock Exchange (NEPSE) in 1993. NEPSE opened its trading floor on 13 January 1994.

With the establishment of RBB and ADB, banking service spread to both the urban and rural areas. NRB also gave incentive to NBL to expand their branches to rural areas. This helped the common people reduce their burden of paying higher rate of interest to money lenders and absolved them from kowtowing before money lenders. It is natural expectations of customers keep on increasing. Once they got banking services they were expecting improvement and efficiency. However, excess political and bureaucratic interference and absence of modern managerial concept in these institutions was hurdle in this regard. Banking service to the satisfaction of customers was a far cry.

1.3 Introduction to Everest Bank Ltd (EBL).

Everest Bank Limited (EBL) started its operation in 1994 with a view and objectives of extending professionalized and efficient banking services to various segments of the society. It was managed by United Bank of India Limited (UBIL). Later on, UBIL handed over the management to the Punjab National Bank (PNB) India. PNB has been providing top management services and banking expertise to EBL. At Present, EBL has Fourty-Seven Branches that spread out around the nation with the objective of providing services to both the business community and the common people. The main branch is located at Baneshwor and other branches are at different parts of Nepal. It also has one representative office at New Delhi, India.

Everest Bank corporate vision is to evolve and position the bank as a progressive, cost effective and customer friendly institution providing comprehensive financial and related services; Integrating frontiers of technology and servicing various segments of society; Committed to excellence in serving the public and also excellence in corporate values. The bank's mission is to provide excellent professional services; Build and maintain a team motivated and committed workforce with high

work ethos; Use latest technology aided at customer satisfaction and act as an effective catalyst for socio-economic developments.

The various ranges of Everest Bank products and services include deposit, loan and advances, trade finance activities, remittance facilities, foreign exchange, facilities for NRNs and merchant banking activities. The bank is in association with smart choice technology (SCT) is providing Automatic Teller Machine (ATM) services for its customers. The debit card can be used on more than 70 ATMs and over 250 point of sales across the nation. The bank is also managing the ATM at Tribhuvan International Airport for the convenience of the customers and the travelers.

1.4 Introduction to Himalayan Bank Ltd.

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut throat competition in the Nepalese Banking Sector, Himalayan Bank has been able to maintain a lead in the primary banking activities-Loans and Deposits. Himalayan Bank Limited holds of a vision to become a leading bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the bank. Its mission is to become preferred provider of quality financial services in the country. Similarly its mission is to become to become the bank of first choice.

Himalayan Bank's head office is located at Thamel and it has Thirty Eight branches in Kathmandu valley and other outside valley. All these branches are integrated into glob us, the single banking software where the Bank has made substantial investments. This has helped the bank to provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking.

Himalayan Bank offers a wide range of deposit products they are fixed deposit, saving deposit, current account, premium saving account, call deposit, bishesh saving account, recurring saving account and jumbo term deposit. Corporate loan (funded and non-funded), retail/consumer loans, small business enterprise loan and medium business enterprise loan are the range of loan products of Himalayan Bank. Similarly

international banking, remittance services, safe deposit locker, card services, SMS banking and internet banking are also the products and services of Himalayan Bank.

1.5 Focus of the Study

This study focuses our attention to reveal the struggle & success achieved there from commercial banks, namely Everest Bank and Himalayan Bank.

The main objective of this research is to analyze the financial performance through the use of appropriate financial tools. Commercial banks play a tremendous role in a developed or developing nation, also helps to improve the economic sector of the country.

The banks have managed to perform better and short span of time; they have been facing a neck to neck competition against one another so the focus is to reveal the competition among this company.

“To highlight the financial portion of the banks, the research is based on the certain financial tools i.e. Ratio Analysis”

1.6 Statement of the Problem

After the identification of liberal and market – oriented economic policy by Nepal Government, the commercial bank has been gradually established, although they are facing a great deal of competition among themselves. In this aspect the commercial bank have been able to perform a great deal and within the country in a short span of time they have been facing a neck-to-neck competition within themselves. While assessing the financial health of the company answers to the questions relating to the company's profitability, assets utilization, liquidity financing capabilities may be sought. A number of questions go beyond the scope of ratio analysis. They however need to be answered while assessing the financial health of the company

The profitability rate, operating expenses and dividend distribution rate among the shareholders has been found different in the financial performance of the two commercial banks in different periods of time in the context of Nepalese banking industries. So here the study will emphasized on the reason about difference in financial performance this study will be highly beneficial to point out the strength and weakness.

Similarly, financial companies have been emerging rapidly and the bank has to compete with them since finance companies are making investment in the same sectors where the commercial banks invest in these aspects the question here arise as follows.

1. Whose performance is better among the commercial banks?
2. How to identify the best opportunity possible among the banks?
3. Although the banks are considered efficient how far are they efficient?
4. These questions arise in banking sector. Among the mainly emphasizes on Everest Bank and Himalayan Bank and trying to solve following questions:
 - a. Are they maintaining sufficient Liquidity?
 - b. How and why do cash and bank balances change each other?
 - c. Whose performance is better? Can they meet the obligations?
 - d. Dose these banks managements utilized this resources satisfactorily?
 - e. What are their sources and applications of income?
 - f. Do they maintain sufficient refund in its capital employments?

The study tries to solve this question and the issues.

Therefore this study attempts to evaluate the various measures of financial performance such as, profitability, turnover, efficiency in operation sources and application of funds as well as other related dimensions and they determine the overall financial strength or weakness of these two commercial banks.

1.7 Objectives of the Study

There is no doubt that commercial banks play a vital role in the optimum mobilization and utilization of scattered financial resources of a country. The study here has been with a view to examine the financial strength and weaknesses of Himalayan Bank and Everest Bank Ltd.

The objectives can also be highlighted as under

1. To see the financial performance through the use of appropriate financial tools.
2. To highlight various aspects relating to financial performance of Everest Bank Ltd and Himalayan Bank Ltd. For the period of 5 year.
3. To see the cause of changes in cash position of the two banks and there cause and effect to the financial market and their assets, dividend position and market price per share and DPS.
4. To suggest and recommend both the banks to improve their financial performance.

1.8 Significance of the Study

Banking industry is an important institution for accelerating the process of development economic sector. In Nepal, banking industry has been playing significant role for the overall financial and economic development of the country. According to the Nepal Rastra Bank research report, banking and financial institution are contributing around 10% to its national GDP. Our country consists of many rural areas but expansion of the banking services to rural areas are very limited due to the lack of proper infrastructure and sound policies and directives from the regulatory authority also. This study covers the deposit and credit portion of Himalayan Bank and Everest Bank, so it reveals the financial portion of the bank and occupies an important role in the series of the studies on HBL and EBL. The significances of the study are as follows:

- This study is very much important for Himalayan Bank Limited and Everest Bank Limited to develop plans and policies as per the findings and recommendations presented on this study.
- This research work may be extended in future by adding the sampling framework and research tools application.
- This study is also very important for the investors, customers, and personnel of the bank to make various decisions regarding deposit, loan and Financial position.
- This study could be very much helpful for all the people interested to know about the banking financial performance.

1.9 Limitation of the Study

The study no doubt has certain limitation of the following kinds.

1. The study here focuses only on the financial performance of these two banks.
2. The study covers only the financial performance of the 5- year, which is very short period to analyze the financial performance.
3. This study deals with certain tools such as Ratio Analysis, EPS, DPS analysis.
4. The study mainly concentrates on the financial performance of Himalayn Bank and Everest Bank.

1.10 Organization of the Study

The study will be designed into five main chapters. They are:

Chapter - I:- Introduction

It is and initials phase of the thesis that includes general introduction, a brief review of Himalayan and Everest Bank, focus of the study, statement of the problem, significance, objectives and limitations of the study.

Chapter - II:- Review of Literature

Earlier to this study the researcher have found various studies regarding the financial performance of the financial institution and banks. So in this study the researcher is trying to review the importance and relevant aspect of banking, which have been conducted by previous studies.

Chapter - III:- Research Methodology

This chapter reveals the methodology adopted in carrying out the research work. It includes introduction, research design, sources and nature of data, period covered, research variables, research tools used and research questions for the study.

Chapter - IV:- Presentation and Analysis of Data

It will be concerned with the presentation and analysis of data that has been collected through various sources. It will mainly consist of interpretation and analysis of data with the help of various analytical tools and techniques and major findings regarding the study will also be included.

Chapter - V:- Summary, Conclusion and Recommendations

This chapter includes summary and conclusions of the study and also recommends some suggestions. The researcher have divided the study in 3 main chapters; among which, first chapter includes introduction portion. The second chapter includes the calculation of the necessary data and major findings. The third chapter includes the conclusions of the study and some package of recommendation based on the major findings.

Besides these, bibliography, appendices and other related items or figures will also be included at the end of the study report.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

This chapter focuses with literature in the selected field and research related to the present studies. Review of literature is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on the past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study (*Wolf and Pant; 1999:3*). Review of literature means reviewing research studies of other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies maybe known and further research can be conducted. This part of the study highlights available literature related to this research which makes base of knowledge for the study. Review of literature is stock thinking of available literature in one's field of research. It comprises conceptual review, review of related studies and concept of financial analysis.

2.2 Conceptual Framework

2.2.1 Concept of Banking

The writers on the banking are divided regarding the origin of the word "Bank". Some authors feel that the word bank is derived from the words "Banco". "Bancus" or "Banque" which all mean a bench.

A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfer funds by written order of depositors (*The Encyclopedia America; 1984:234 Vol. 3*).

Bank is an institution, which deals with money & credit. It accepts deposits from public, makes fund available to those who need them and helps in remittance of fund from one place to another. "A bank seeks optimum combination of earning

liquidity and safety. While formulating investment policy" (*Chandler; 1973:138*). The more developed financial system of the world characteristically falls into three parts, the central bank, the commercial bank and other financial institutions (*Sayer; 1976:16*).

According to concise oxford dictionary," A Bank is an establishment of custody of money which it pays out on customer demand".

Some other well known definition given by different writers regarding "Bank" "A Bank is an institution where debts (Bank Deposits) are widely accepted in settlement of other people's debt by each other" (*Sayers; 1976: 21*).

At least, we can say that it's basically a financial intermediary action between transactions, the confidence of which is ultimately the success of the bank, this calls for the prompt, convenient and quality service to its customer but also establish good rapport with them,

"The American institute of banking has laid down four functions of the commercial bank i.e. receiving and handling deposits, handling payments for its clients, granting loans and investing and creating money by extension of credit"

Any bank must maintain adequate cash and bank balances to meet its day- to - day management of cash resources for remote contingencies.

According to the Nepalese Commercial act, 2031 B.S.

"A commercial bank is one which exchanges money, deposit money, accepts deposits, grants loans, and performs commercial banking function.

Origin of Bank in Nepal

The origin of bank in Nepal was also from the ancient period in the form of Moneylender, traders etc. But later on an institute called "Tejarath- Adda "was established at 1933 BS. The origin of bank is not a new phenomenon because there was a raw form of banking in the ancient period or "Vedic Era". The term deposits, pledge, policy of loans, interest retested can be found in the "Manu Smriti" Era too.....

But we can say that after the end of Roman emperor at 15th century and the beginning of the 16th century consequent commercial and other trading activities in European Countries.

As per the proper origin Sir G. Crowther said that the following are the ancestors of banking activities.

-) The Merchant Traders.
-) The Gold Smith
-) The money lenders

But in accordance to traceable and practicable origin the development of banking institution in the world was from Italy as “The Bank of Venice” established at 1157 AD. The second banking institution” The Bank of Barcelona” of Spain established at 1401 AD whereas “ The Bank of England” was established at 1664 AD as a joint Stock bank and later on was the first central bank of the world.

In the context of Nepal, at 1994 BS the first commercial bank ‘Nepal Bank Limited’ was established which provided services to part of the country. After this institution the banking business started growing from time to time. Another banking institution ‘Nepal Rastra Bank’ was established at 2021 B.S. and is opened as the first central bank of Nepal which not only controls the entire bank but also controls credit and issue notes to general public. This was not the end later on in order to develop the industrial sector and ‘Industrial Development bank’ was established at 2016 BS but the second commercial bank was established at 2022 BS. As Rastrya Banijya Bank which was the government established banks to develop the industrial sectors of the country but lately the need of development of agriculture sector was seen broadly this captured the 90% of the total occupation of the country which helped in establishing Agriculture Development Bank.

From 1984 AD Government of Nepal again established 5 regional development banks under the control of Central bank which can be pointed out as follows:

-) Eastern Rural Development Bank
-) Western Rural Development Bank

- J Central Rural Development Bank
- J Mid- Western Development Bank
- J Far- Western Development Bank

2.2.2 Concept of Commercial Bank

A bank is a business organization that receives and holds deposits of funds from others make loan or extends credits and transfer funds by written order of deposits (The Encyclopedia America, 1984, vol.3:302).

A commercial banker is a dealer in money and substitutes for money and substitutions for money, such as cheque or bill of exchange. He also provides a variety of financial services (The New Encyclopedia Britannica, 1985, vol. 14:60).

In the Nepalese context, commercial banks Act, 1974 A.D. defines “a commercial bank as one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions (Commercial Bank Act, 1974 A.D.).

Commercial banks are those banks that pull together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They cannot finance in fixed assets. They grant loans in the form of cash credits and over drafts. Apart from financing, they also rendered services like collection of bills and cheques, safe keeping of valuables, financial advising etc to their customers (Vaidya, S., 2001:38).

A commercial bank can be defined as an institution which deals in money. In the words of Crowther, “Banks collect money from those who have it to spare or who are saving it out of their income and lend this money out against goods security to those who require it” (Crothers, S.R 1985:58).

Hence, we can conclude from the above discussions that the commercial banks are established under the rules and legislations of the central bank of the country. It has to move as per the directives given by the central bank. Though banks are established for the mobilization of the saved fund, central bank makes certain rules so that the public or the customer of the bank may not undergo on less of their hard earned money by the disinvestment procedure of the bank.

2.3 Types of Banks

There are several different types of banks which are as follows:

2.3.1 Central Bank

It is guardian of the entire banking system. All other banks are required to comply with instructions of the central bank. It is regulating and controlling authority. Usually, central bank controls monetary policy and may be the lender of the last resort in the event of the crisis. They are often charged with controlling the money supply, including printing paper money. Bank of England (1964 A.D.) is the first central bank. Now, almost all the countries have their own central banks. The central bank of Nepal is Nepal Rastra Bank (2013-1-14 B.S.).

2.3.2 Commercial Bank

Commercial bank collects deposits, issue short term credit, provide necessary facilities for trade, payments and render various kinds of common commercial services. Nepal Bank Ltd. established on 30th Kartik 1994 B.S. is the first commercial bank of Nepal. Now commercial banks are thirty two in Nepal.

2.3.3 Agriculture Bank

Agriculture bank is a specialized bank which is specialized in providing financial facilities for agriculture sector. Farmers need short term loans for input

procurement, medium term loans for major agricultural equipment and long term loans for land improvement and major facilities. It is also called cooperative bank.

2.3.4 Industrial Bank/ Development Bank

Development bank is established for the development of certain sector. It normally gives long-term loan and provides technical and other advice as well. Origin of development bank dates back to industrial revolution in U.K.

2.3.5 Savings Bank

Small savings of numerous households are collected by savings banks are made available for useful investment. Households deposit their small savings in boxes given to them. Their objective is to encourage thrift and make small savings available for useful investment.

2.3.6 Merchant Bank

Merchant bank is traditional bank which is engaged in trade financing. The modern definitions however refer to banks which provide capital to firms in the form of shares rather than loans. Unlike venture capital firms, they tend not to invest in new companies. In Nepal finance companies involve in merchant banking activities.

2.3.7 Postal Savings Bank

Postal savings bank is saving associated with national postal systems. Japan and Germany are examples are countries with prominent postal savings banks.

2.3.8 Retail Bank

In the retail banks, primary customers are individuals. An example of a retail bank is Washington Mutual Fund of the U.S.A.

2.3.9 Land Development Bank

Land development banks were known as land mortgage banks in the earlier time. They provide long term loans against security and mortgage of land and property.

2.3.10 Universal Bank

Universal bank is a joint bank which serves purpose of commercial banking and investment banking. It collects deposits and provides loans as commercial banks. All most all large financial institutions are diversified and engaged in multiple activities. For example, Citigroup, a large American Bank, is involved in commercial and retail lending; it owns a merchant bank (Citicorp Merchant Bank Ltd) and an investment bank (Saloman Smith Barney); it operates a private bank (Citigroup private bank); finally, its subsidiaries in tax havens offer offshore banking services to customers in other countries.

2.4 Functions of Commercial Banks

Banks collect unused money from public by providing attractive sound interest and can earn profit by lending it on mainly in business organization, industrial and agriculture sectors and investing in government bonds. So, the main function of commercial banks is to mobilize idle resources in productive areas by collecting it from scattered sources and generating profit. There are many functions performed by commercial banks which may be summarized follows:

2.4.1 Accepting Deposits

The main objective of the commercial banks is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds under three main headings namely current, saving and fixed deposits.

1. Current Deposit

Current deposits are also known as demand deposits. The demand deposit in which an amount is paid immediately at the time of any account holder's demand is called demand deposit. Though the bank can't gain profit by investing it in new sector after taking from the customer, this facility is given to the customer. Therefore, the bank does not give interest on this account.

2. Saving Deposit

In saving deposits, there is restriction on the maximum amount that can be deposited and also withdrawals from the account. This deposit is suitable and appropriate for the people of middle class who have low income and small saving. The bank usually pays small interest to the depositors against their deposits.

3. Fixed Deposits

Fixed deposit is the one, which a customer is required to keep a fixed amount with the bank of specific periods, generally by those who do not need money for the stipulated period. She/he is not allowed to withdraw the amount before expiry of the period. The rate of interest is higher than other deposit. The bank pays a higher interest as such on deposit.

2.4.2 Advancing Loan

Commercial bank collects funds by taking all kinds of deposits and then it mobilizes by providing loans and advances. Direct loans and advances are given to all types of persons against the personal security of the borrowers or against the security of movable and immovable properties. There is various method of advancing loans e.g.

- Overdraft
- Cash credit
- Direct loans

- Discounting bill of exchange etc.

2.4.3 Agency Services

A commercial bank provides a range of investment services. It undertakes to buy and sell securities on behalf of its clients. The banks undertake the payment of subscriptions premiums rents etc. It collects checks, bills, promissory notes, dividends, interest etc on behalf of the customers. The bank charges a small amount of commission for those services. It also acts as correspondent or representative of its customers, others, banks and financial institutions.

2.4.4 Credit Creations

Commercial banks create credit on the basis of deposits. They hold a certain amount of cash reserve to meet obligations. The rest of the deposit amount is invested in loan finance that yields higher rates of interest rates of interest as compared to those payable on deposits. When the bank advances loans, it opens an account to draw the money by cheque according to borrower's needs.

2.4.5 Other Functions

- Other functions of the commercial banks include the following:
- Assist foreign trade
- Offers security brokerage services
- Security brokerage service

2.5 Financial Statement Analysis

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable condition of a business concern; therefore, financial analysis reflects the financial position of a firm which is the process of determining the operational and financial characteristics of a firm.

Financial statements analysis is largely a study of relationship among the various financial factors in a business as disclosed by the statement and a study of the trend of these factors as shown in a series of statement (*Moyer;1961:4*).

Local commercial banks have been found relatively higher leveraged compared to other joint venture banks. Loans and advances has been the main form of the investment. Two third of the assts have been used for earning purpose (*Joshi;1989:56*).

Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firms to identify problems, if any in the past or present and/or likely to be in the future and to provide recommendation to solve the problems (*Pradhan;2000:120*).

Financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statement by making comparison of various components and by examining. Their context, this can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures (*Manmohan and Goel; 1997:356*).

It is both the analytical and judgmental process that helps answer and question that have been posed. Therefore, it is means to end. A part from the specific analytical answer, the solutions to financial problems and issues depend significantly. On the view of the issue and on the nature and reliability of the information available.

2.5.1 Objective of Financial Analysis

The main objectives of financial analysis is explain various facts related to the past performance of business and predict the potentials for achieving desired results. Some of the main objective of financial analysis can be pointed out as follows:

-)] To understand the solvency of short term and long term of a firms.
-)] To know the present and future profitability of the firm.
-)] To compare with different firms.

- J Fore cast the future & preparing budgets.
- J The financial stability of business firm.
- J The long term liquidity of its fund.(*Brealey, &Myers; 1984:78*)

2.5.2 Need of Financial Analysis

The analysis of financial statement is mainly focus with the some questions. What is the present performance of the firm? Which are the problem existing areas?

1. What is the present performance of the firm?
2. What will be the position of the firm in future? What are the projections? Is there any likely problems are the way in the future?
3. What are the recommendations? (*Charles; 1994:103*)

The main source of financial statements is the basis of analysis, which includes Income Statement, Balance Sheet and additional inertia. This contains summary of the firm's financial affairs the top management undertakes the financial statements. The investors and financial analysts are the major interested party to ensure the firm's performance through the statement. This analysis is significant in making investment decisions. These statements are published in company's annual report. The annual report is specially prepared for the shareholders, which includes the chairman's speech, the director's report and auditor's report with accounting policies. Though the financial statements are prepared for the external reporting the speech, report and policies are useful in internal management. The present study focus the financial statements of the annual report which is the combination of Balance Sheet (or statement of financial position) Profit and Loss account (or income statement).

2.6 Review of Articles, Thesis and Journals

2.6.1 Review of Articles

Shrestha (1990), entitled "*Commercial Banks' Comparative Performance Evaluation*" stresses on a proper risk management with appropriate classification of

loans under performing and non performing category. He further clarifies that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six months need to be treated as unearned income.

Regarding the risk management of the bank Shrestha suggests that:

-) Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
-) Strong provisioning or reservations are required in restructuring portfolio related to overdue loans.
-) All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
-) Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

He found JVBs are new, operationally more efficient, have better performance in comparison to NBL and RBB. Better performance of JVBs is due to their sophisticated technology, modern banking methods and skills.

State owned banks are efficient at rural sector however they are facing growing constraints from social, economical, political system as well as the issues and challenges from JVBs.

Bajaracharya (1991), entitled "*Monetary and Deposit Mobilization in Nepal*" concluded that, mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal. And commercial banks are the most active financial mediator for generating resource in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Shrestha, (1997), entitled "*Portfolio Behavior of Commercial Banks in Nepal*" analyzed the financial performance of the commercial banks through ratios and management achievement index. She also analyzed the investment and lending

operations of commercial banks and their contribution to the national economy. She used data from 1975 to 1990 and analyzed the portfolio composition of the commercial banks and their behavior by testing the relationship with economic and fiscal variables of the country.

Some of her conclusions relevant to this thesis are:

-) Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposit in GDP has also been increasing.
-) Structural ratios show 75% of their total deposits invested in the government securities and the shares.
-) Reserve position shows quite high percentage of deposit as cash reserve.
-) The commercial banks are highly leverage and highly risky.
-) By risk and return JBVs are aggressive.
-) BY comparative total management achievement index JBVs are better.
-) Among the commercial banks, Standard Chartered Bank seems to have highest growth rate of EPS.

Shrestha (1998), entitled "*Capital Adequacy of Bank*" said that banks deal with in highly risky transactions to maintain strong capital base. He suggested that capital should be optimum level to keep the standard ratio of capital for each bank.

Poudel (2000), entitled "*Financial Statement Analysis*": "*An Approach to Evaluate Banks Performance*" has indicated that balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and P/L account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations which are generally contingent in nature are considered as off balance sheet item.

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other resources of

income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decision. The requirements of bank's financial statement have been expressly laid down in the concerned act. The Commercial Banking Act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

The principle objectives of analyzing financial statement are to identify: liquidity, profitability and solvency. Most of users of the financial statements are interested in assessing the bank's overall performances which are affected by the following factors:

-) The structure of balance sheet and profit and loss account.
-) Operating efficiency and internal management system
-) Managerial decision taken by top management regarding rate, exchange rate, lending policies etc.
-) Environmental changes (technology, government, competition and economy)
-) The other factors to be considered in analyzing the financial statements of a bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy, a bank is assessed on the basis of risk weighted assets. It indicates a bank's strength and solvency. Bank facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

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

Rana (2003), in his interview to "*Business Age*" monthly said that though JVBs have short term threats they are operating efficiently and earning and paying handsome dividends. Hence the share prices have gone up. If the law and order situations do not improve in the country, in two three years time top ranked banks are expected to survive somehow but others may find harder time.

Pandey (2003), made “*A Study on a Topic of a Study of Financial Analysis on HBL*”, the study was conducted to analyze and evaluate the financial position of HBL in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, coefficient of correlation, probable error in his study. And he found that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposit as against the fixed deposit.

Dhungana (2005), entitled “*Non Performing Loan and Commercial Banks*” said that the banking sector is severely affected by the non-performing loan. It is estimated that non-performing loan of the Nepalese banking system is around 16%. Due to the non-performing loan, two old commercial banks, RBB and NBL, are in the worst position today. JVBs are also facing non-performing loan problem. It has a serious implication on economic performance of the country. Hopefully the DebtRecovery Act 2058 will tackle this problem.

Pradhan (2008), made a Comparative “*Study between Government Shared Commercial Banks and JVBs in Respect of their Performances and Profitability*”.

Major findings of this study are:

1. The foreign banks have better deposit collection.
2. Current deposits in JVBs are higher but fixed is lower in comparison to government shared banks.
3. By profitability JVBs are better.

Shrestha (2008), in his article “*Nepalma Banijya Bank Haruko Bhumika: Ek Paridrist*” I pointed out some important activities, seen in the banking sector, that deserve reviews:

- a. Possibility of capital flight: The unstable political situations caused the possibility of capital flight soaring high. Joint venture banks can become the

main source of capital flight. It should be seriously considered and analyzed and corrective actions to be taken in time.

- b. Minimum deposit amount: Commercial banks and financial institutions have increased the minimum deposit amounts (threshold). This policy harasses depositors.

Therefore this policy deserves review.

- c. Debt recovery and its effectiveness: Debt recovery has become a problem to the banks. Therefore, effective evaluation of collateral and monitoring of loans use should be done effectively.

2.6.2 Review of Thesis

Prior to this study several research works have been done by the students on the performance of commercial banks of Nepal. For review purpose relevant studies have been gone through. Some of the conclusion drawn by them are cited below:

Singh (1995), entitled “*A Comprehensive Evaluation of Financial Performance of Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd.*” Reveals that the liquidity position in terms of current ratio of both the banks is below the normal standards. The researcher’s main objective was to analyse how these banks use their sources. According to the analysis of turnover of active ratios NABIL invest 57% of deposits whereas Nepal Grindleys Bank Invest 41% of the total deposits on the loans as advances. In this portfolio NABIL is performing better and has the better liquidity position. Profitability ratio of both the banks reveals positive reform during the study period but the progress is higher in Nepal Grindleys Bank whereas NABIL seems more efficient in utilizing its capital employed in generating interest income. As NABIL has acquired more funds, it has also raised more capital by issuing shares, bonus shares and retaining earnings.

The main objectives of this thesis are:

-) To find out liquidity position of these commercial banks.
-) To analyze the resource position of both banks.

) To show the profitability ratio of these banks.

Shakya (1995), made “*A Study on a Topic of Financial Analysis of JVB in Nepal*”. His main objective was to make comparative study on financial performance of the Nabil and Nepal Grindlays Bank banks. By his study he wanted to help the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis, use and sources of the funds and statistical tools like hypothesis tests in his study. And he observed there is a significant difference between mean values of each selected ratios of NABIL and NGBL except in the cases of fixed despos to total deposits ratio, loans and advances to total deposits ratio and loans and advances to total assets ratio. He concluded that NGBL is comparatively better in liquidity position than NABIL. NABIL is more successful in assets utilization than NGBL. NGBL’S capital structure position is more risky than that of NABIL. NGBL’s profitability position is better than NABIL’s.

Gurung (2001), entitled “*A Financial Study of Joint Venture Banks in Nepal A Comparative Study of Nepal Grindleys Bank Ltd. And Nepal Indosuez Bank Ltd.*” concludes that both Joint Ventures banks includes unsatisfactory in liquidity position and interest coverage ratio. The capital structure of the banks is extremely leveraged but they have been maintaining sound capital adequacy ratio as directed by Nepal Rastra Bank. Both the joint Venture banks have registered an increasing trend during the first half but the study period has been decreased thereafter. The researcher has recommended maintaining improved capital structure by increasing equity base. Both the banks should pay due attention in liquidity and coverage position. The researcher further suggests extending their banking facilities even in rural areas by opening up branch office.

Major finding of these thesis are:

-) The both bank are not use their capital properly.
-) Both joint venture banks have registered an increasing trend during the first half but the study period it has decreased thereafter.
-) The researcher suggests that extending their banking facilities even in rural areas.

Shrestha (2002), entitled “*A Study on a Topic of a Comparative Evaluation of Financial Performance of Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd.*” the main objective of the study was to analyze and evaluate the financial position of Nepal Arab Bank Ltd and Nepal Grind Lays Bank Ltd. In his study he used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, hypothesis tests. He revealed that the liquidity position in terms of current ratio of both the banks is below the normal standards. NABIL is better at utilization of outsiders’ funds while NGBL is better at overall assets mobilization. NGBL is better at profitability. NABIL is better at utilizing capital for income generation. NABIL has better capital base.

Main objectives of this thesis are:

-) To find out the financial position of the banks.
-) To analyze the liquidity position and how the bank use their assets in remote area and facilitates people.
-) To find out overall assts mobilization.

Lamsal (2004), made “*A Comparative Financial Statements Analysis of HBL and NGBL*”. His main objective to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. He found that liquidity position of HBL is better than NGBL. HBL has sufficient cash and bank balance to meet its current and fixed deposits. HBL has better turnover than NGBL in terms of loan and advances to total deposits ratio. Investment to total deposit ratio of NGBL is better than HBL. NGBL pays higher dividend per share than HBL.

Parajuli, (2005), entitled “*A Comparative Study of the Financial Performance of Joint Venture Banks in Nepal*” has set the main objective to evaluate effectiveness of monitoring and collecting policies of banks. The researcher has specialized study on Nepal Grindleys bank Ltd. and Nepal Arab Bank Ltd. The analysis of liquidity ratio reveals that the liquidity position is relatively higher in case of NABIL. As indicated by the activity ratio, NABIL has better performance than Nepal Grindleys Ltd, which might be the consequences of better lending policy of NABIL. Regarding

the profitability ratio, almost of the profitability ratios of NGBL is higher than those of NABIL in percentage, which reveals that NGBL is relatively great efficiency in mobilization it resources. Profitability ratio, which measures the bank's capacity to earn the means of substance, is different in those two banks. During the study time frame, NGBL has better result in respect of Net profit to total assets ratio, net profit to total deposit, return on network, return on assets and ROCE than NABIL. EPS of NABIL is better than NGBL. Thus, it may be concluded that NGBL may have bright future than that of NABIL because it is quiet efficient in generating the means of subsistence.

Mandel (2005), entitled "*A Comparative Financial Performance Appraisal of Joint Venture Banks*" concludes liquidity position of NIBL is better than NABIL and NGBL. NABIL and NGBL have registered low cash & bank balance percentage that indicates NABIL & NGBL may have invested their deposited amount in more productive sector like treasure bills, short term investments & market Securities. NGBL has earns more profit on this basis of earning per share than other two banks NABIL and NIBL.

Oli (2006), made "*A Comparative Study on Financial Performance of HBL, NSBIBL, and NBBL.*" His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And he observed that NSBIBL and NBBL are always above the normal standard, HBL always below the normal at liquidity position. Liquidity position of NBBL is better than NSBIBL and NSBIBL is better than HBL. And they are suggested to utilize the excess of resources for income generation. Total debt to equity and total assets is higher for HBL than both. NBBL has been able to mobilize total deposits in loan and advances than HBL and NSBIBL. NSBIBL is better than HBL at this. HBL has better utilization of fixed deposits in earning. NSBIBL has better used of saving deposits than other two net profit to total assets of HBL is better. The profit level is lower in all.

Maharjan (2006), made “*A Comparative Analysis of Financial Performance of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd.*” The main objective was to analyze and evaluate the financial position of Nepal Bangladesh Bank Ltd and Nepal Grindlays Bank Ltd in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, Hypothesis tests. He used the data of five years till the year 2000. At liquidity position NGBL don't meet the required standard but it is consistent. At fund utilization NBBL is better. NBBL is more aggressive at fund mobilization bearing higher risk. At profitability NBBL has increasing trend till 1997. NGBL has higher fluctuation at profitability. Overall capital position is better at NGBL.

Objectives of the study:

-) To evaluate the financial position of the selected banks.
-) To find out better performance of capital structure, mobilization of resources and increasing trend of profitability.

Major findings of this study are:

-) The fund utilization NBBL is better than NGBL.
-) NBBL is more aggressive at fund mobilization bearing higher risk.
-) NGBL has higher fluctuation at profitability.

Regmi (2007), entitled “*A Comparative Study of Financial Performance of Himalayan Bank Limited & Nepal Bangladesh Bank Limited*” concludes that HBL is more levered. Both of these banks are utilizing their deposit funds through loans & advance to generate revenue efficiently, but comparatively NBB is utilizing its funds in short term investments and NBB has more non-earning idle assets as cash and bank deposits. Profitability position of NBB is not unsatisfactory one. The bank has shown improvement trend on this regards. In this regards, NBB has better financial performance than HBL.

Deoja (2008), entitled “*A Comparative Study of the Financial Performance Between Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd*”. His main objective was to make comparative study of financial performance of the above mentioned banks. He used financial tools like ratio analysis and statistical tools like average, CV, SD, trend analysis, hypothesis tests in his study. And after having studied the performance of five consecutive years till 2005 he concludes a sound liquidity position in both banks. NBBL has better utilization of resources to generate income than NNSBIBL. Profitability of NBBL is better than NNSBIBL. Interest earned to total assets and return on net worth of NBBL is higher than NNSBIBL. Both are highly leveraged.

Major finding of this study:

-) NBBL has better utilization of resources to generate income than NNSBIBL.
-) Profitability of NBBL is better than NNSBIBL.
-) Interest earned to total assets and return on net worth of NBBL higher than NNSBIBL.

Damber Bahadur Paudyal (2004) on research “Funds utilization of commercial banks in Nepal” Mr. Damber Bahadur Paudyal has tried to examine the funds mobilization of the commercial banks and he had concluded that the efficient mobilization of fund is more important than collection of one deposit. Also he said lower is the investment lower will be the capital formation. If there is high ratio of investment of the available fund there will create huge capital formation for which is important to the economic growth of the nation and development of the nation there to. At last, he recommended that the commercial banks should concern their behaviors in the efficient mobilization of the resources to get the profit.

Majendra Nath Karmacharya (1978) in his thesis paper “A study on deposit mobilization by the NBL” has concluded that commercial banks play a crucial role in accelerating the growth in the country. The bank mobilizes the savings of the people and diverts them into productive channels. The expansion of branches as more as possible to encourage the savings i.e. to increase the savings habits of people and thereby to mobilize the available financial resources efficiently and effectively in a

productive way and concluded that the branch expansion helps to collect more deposits and utilize the available resources. The conclusion is derived from the analysis of seven years data from 1970 to 1977 A.D. using Karl's Pearson's formula, percentage and ratio to meet the objective how far the bank is able to utilize the collected deposits.

Kishor Kumar Rayamajhi (2004) in his thesis work, "A study on deposit mobilization of six commercial banks" has concluded that commercial banks play a crucial role in accelerating the growth in the country. The bank mobilizes the savings of the people and diverts them into productive channels. The expansion of branches as more as possible to encourage the savings i.e. to increase the savings habit of people and thereby to mobilize the available financial resources efficiently and effectively in a productive way and concluded that the branch expansion helps to collect more deposits and utilize the available resources. The conclusion is derived from this analysis.

K.R. Joshi (1989) in his thesis work, "A study of financial performance of CBs" concluded that liquidity position of CBs is satisfactory, local CBs have higher deposit equity ratio than joint venture banks. Loans and advances has been the main form of the investment. Assets utilization for earning purpose is two third of total assets. The main source of their banks is interest from loan and advances, it was found that the profitability position of NABIL is stronger than that of other CBs.

The thesis also compares all CBs i.e. local CBs with joint venture banks. Local CBs are operating under government regulation and limitation, so they cannot operate freely and are not able to provide different facilities and services like other joint venture banks which are operating independently with the help of foreign investors who provide them good management as well as technical and business support

Uttam Raj Pant (1999) in his thesis paper tried to highlight the discrepancy between resources collections and resources utilizations. At the end of the thesis he concluded that CBs failure in resource utilization is due to their lending confined to short terms only. So, he recommended the commercial banks to give emphasis on long and medium term lending for better utilization of the deposits.

Rit Bahadur Joshi (2002) in his thesis paper concluded that the CBs have collected many resources from people but they are just behind in their utilizations. Nepalese CBs are lazy to play an active role to utilize their resources collected from different sectors in accordance with the need of the economy.

Rajan Khadka (2003) in his research papers has recommended that to be success in the competitive banking environment, a bank should consider the depositors money and it should be utilized as loans and advances because loans and advances is that asset which covers large portion of asset. He also suggests that negligence of this asset would bring the liquidity crisis for the bank, which is the main failure of the bank and banking.

The review of above relevant thesis has no doubt enhanced the fundamental understanding and foundation knowledge base which is prerequisite to make this study meaningful and positive. Although numbers of article have not been published and various research work have not been concluded in commercial bank deposit mobilization so far, so here effort is made to do.

2.7 Research Gap

After reviewing the researches done throughout the past, the present researcher has found that comparative study of the financial performances of the banks has not been long analyzed especially between the Himalayan Bank Ltd and Everest Bank Ltd. The past studies have recommended some of the remedial references like to reduce the debt, increase the liquidity, to limit the operating cost. It's been time to check how far the differences have occurred in the banks. The present study explores the comparative and financial performances of the banks: Himalyan Bank and Everest Bank as sample banks.

The purpose of this research is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas, knowledge and suggestions in relation to comparative financial performance of commercial banks. Thus, the previous studies can be ignored because they provide the foundation to the

present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i.e. financial performance, therefore to fulfil this gap, this research is selected. To complete this research work: many books, journals, articles and various published and unpublished dissertation are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the different procedure of financial performance. Our main research problem is to analyze whether the sample bank has right level of profitability and liquidity as well as is able to utilize resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Therefore, this study is expected to be useful to the concerned banks as well as different persons; such as shareholders, investors, policy makers, stockbrokers, state of government etc.

CHAPTER - III

RESEARCH METHODOLOGY

Research Methodology is the process of arriving at the solution of a problem through a planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. It presents research methodology adopted in achieving the objective stated in the earlier chapter. It contains research design, sources of data, data gathering procedure and data analysis tools.

The main objective of this report is to analyze, examine, highlight and complete the financial performance of Himalayan Bank Ltd. & Everest Bank Ltd. And recommend and suggest for better performance. So the propose of this study is to analyze and fulfil the stated objectives. Project methodology refers to the various sequential steps to be adopted by a reporter in studying a problem with certain objectives in view. It's the way to solve the research problem systematically. Here, focus is made on research design, sample size, source and type of data, data gathering instruments and procedures, data tabulation and processing study limitation and methods of analysis.

3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (*Kothari; 1990: 39*).

Research design is plan, structure and strategy of investigation conceived. So as to obtain answer to research question and to control variances to achieve of the study, descriptive and analytical research design have been used.

It is the task of defining the research problem. It is the main part of any research work. The present study consists of analytical as well as descriptive design. Here, the study aim at portraying accurately upon the financial performance and other

aspects related to finance of the two commercial Bank, namely Himalyan Bank Ltd and Eagerest Bank Ltd.

1.3 Population and Sample

All the commercial banks operating in the country is the population of the country among them two commercial banks Himalayan Bank and Everest Bank Limited are selected for the study. The sampling technique used in this study is the judgmental

3.4 Sources and Collection of Data

For the purpose of study only the secondary data are used. The required data and information for analysis are directly collected from the annual reports of the respective banks. The supplementary data are collected from number of institution like Tribhuvan Multiple Campus, Tansen, Palpas Library and documentation section of T.U. Library, company office etc. Similarly related books magazine Journals articles reports bulletins and data from security board Nepal. Further the secondary data have been collected from reports and financial statement of the company, published and unpublished officials reword, books, articles magazine, annual report etc.

3.4 Method of Data Analysis

For the purpose of analysis, financial, statements, profit and loss account and Balance Sheet of the concerned banks has taken financial as well as statistical tools have been used. Financial performance is analyzed through the use of two important tools.

3.4.1 Financial Tools

a) Ratio Analysis

Ratio Analysis is the powerful tools of financial analysis, which helps in identifying the strength and weaknesses of an organization or business concern about

the financial performance. The term ratio refers to an arithmetical relationship between two items/figures, to make rational decision of financial variability of the company. This relationship can be expressed in terms of percentage, fractions or proportions. To achieve an effective result, ratio must be analyzed in comparative basis “the techniques of ratio analysis are the art of the whole process of the analysis of financial statements of the whole business or the industrial concern, especially to take output and credit_decision. Ratio analysis is a widely used tool of financial analysis it is defined as the systematic use of ratio to interpret the financial analysis statements so that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined (*Khan and Jain; 2003: 4.1*).

“In financial analysis, a ratio is used as a benchmark for the evaluation of the financial position and performance of the firm”.

The following are the ratios that are going to be analyzed under the financial performance of Himalayan Bank and Everest Bank Ltd.

1. Liquidity Ratio

Liquidity Ratio is a rigorous measure of a firm’s ability to service its short-term obligation. It reflects the short term financial solvency of a firm as a whole or it is employed as a measurement of a company’s liquidity position. The firm should maintain as appropriate liquidity neither excess nor less to meet its short term obligation when they become due. Inadequate liquidity can lead to unexpected cash short falls. A very high degree of liquidity is also not good, as ideal assets earn nothing, leading to fewer assets yields and contributing to poor earnings performance. It can be divided into two parts. They are current and quick ratio for the study, only current ratio is taken into consideration.

i) Cash and Bank to Total Deposit Ratio

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

ii) NRB Balance to Current and Saving Deposit Ratio

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Current \& Saving Deposit}}$$

iii) NRB Balance to Fixed Deposit Ratio

$$\text{NRB Balance to fixed deposit Ratio} = \frac{\text{NRB Balance}}{\text{Fixed Deposit}}$$

iv) Fixed Deposit to Total Deposit Ratio

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

2. Utilization /Activity/ Turn Over Ratio

Turnover Ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effectiveness and use of resources of a firm. It indicated how quickly certain current assets are converted into cash. Higher the rate means more efficient in management on the utilization of its resources and vice versa.

Following ratios are used under utilization ratio:

i. Investment to Total Deposit Ratio

This ratio is calculated investment dividing by total deposit. This ratio presets how efficiently the resources the banks have been mobilized high ratio shows managerial efficiency regarding the utilization of deposit and vice- versa.

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

ii. Loan and Advance to Saving Deposit Ratio

This ratio shows to the extent of saving has been turnover to loans and advance. This ratio is calculated by following formula.

$$\text{Loan and Advance to Saving deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Saving Deposit}}$$

iii. Loan and Advance to Total Deposits

This ratio measures the Bank's ability to utilize the deposits viz. Fixed, Current, Saving, Call and Margin deposits to earn profit by providing loans and advances. Higher ratio indicates higher and proper utilization of funds, and lower ratio is the signal of balance remained unutilized or remaining idle. The ratio can be calculated as under

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

iv. Loan and Advance to Total Assets Ratio

This ratio shows that, what a part of total assets has been used in focus and advance. This ratio is calculated by.

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

3. Capital Adequacy Ratio

Capital adequacy ratio is used especially in case of bank to assess the strength of the capital adequacy of the capital. It is evaluated by compliance with the requirement stipulated by NRB. The capital adequacy ratio of banks is regularly monitored through their returns to submit to NRB. A very high or very low ratio is undesirable in terms of lowered return or lowered solvency respectively.

i) Net Worth to Total Assets Ratio

Net worth to total assets ratio is calculated by following formula.

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

ii) Net worth to Total Deposit Ratio

This ratio is computed by net worth by total deposits. This ratio shows the percentage of net worth in relation of the total deposit collected in the bank.

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

4. Capital Structure Ratio

Capital structure ratio measures bank's capacity of borrowings as a means of capital accumulation. Its measures of long form solvency of a bank. The combination of capital structure is debt and equity of banks. The ratio indicates the long term financial position. The following ratios are calculated to defined capital structure ratio of Himalayan Bank and Everests Bank.

i) Debt to Equity Ratio

This ratio represents the relationship between the both debt capital and equity capital. The ratio indicates the high debt and equity both are risky to the banks. This ratio is calculated in this way

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Share Holders Equity}}$$

i) Debt to Total Capital Ratio

This ratio determines the relationship between total debt and total capital of the banks. This ratio is calculated in this way

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

ii) Total Debt to Total Assets Ratio

This ratio shows the portion of capital assets that are financed by outside funds on total assets. A high ratio implies a bank's success in exploiting debt to more profitable and riskier capital structure. It is calculated by dividing total assets.

This ratio is calculated by total debt dividing by total assets.

iii) Interest Coverage Ratio

This ratio is calculated by dividing earnings before interest and tax by interest. This ratio shows the bank can pay the interest easily.

$$\text{Interest Coverage Ratio} = \frac{\text{Earning Before Interest \& Tax}}{\text{Interest}}$$

5. Profitability Ratio

Profitability ratio rated is designed to provide answer to questions such as: Does the firm adequate earn the profit? What rate of return does it represent? What is firm? What is the rate? Return to equity holders?

The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors.

i. Return on Total Assets Ratio

It is shows that the relationship of company is net profit and assets. This ratio indicated that of the bank RTAR is higher bank could well manage their operations.

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

ii. Return on Net Worth Ratio

This ratio also represents the relationship of net profit and assets, and this ratio shows to the investment in the banks are favorable or unfavorable. The ratio can be calculated in this way

$$\text{Return on Net Worth Ratio} = \frac{NPAT}{\text{Net Worth}}$$

iii. Return on Total Deposit Ratio

This ratio is computed by net profit after tax dividing by total deposits. This ratio indicated the relation & net profit earned by bank with the total deposits accumulated.

iv. Staff Expenses to Total Ratio

Staff expenses refer to staff salary, allowance, personnel expenses, medical expense, and staff training expenses are involved. This ratio is calculated by staff expenses dividing by total income.

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

Total interest expenses consists of loan & advance, deposit and total interest paid and total interest income of government securities retain from loans and advances etc.

6. Invisibility Ratio

i) Earnings Per Share (EPS)

It measures the profit available to the common shareholders as per share basis i.e. the amount they get from every share company can decide whether to increase or reduce the number of share issued. This decision will automatically alter the earning per share. The earnings per share can be calculated by dividing the profit available after tax to the shareholders by the number of outstanding shares.

$$\text{Earning Per share} = \frac{\text{Net Profit Available to Equity Shareholders}}{\text{Number of Share Outstanding}}$$

ii) Dividend Per Share (DPS)

Dividend implies that portion of Net Profit, which is allocated to the shareholders as return on their investments on cash. The net profit after taxes belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as cash dividends. The earnings per share implies what the owner are theoretically entitled to get from the company while dividend per share is that portion of earning which is allocated to shareholders divided by total number of share outstanding. Thus, DPS is computed by dividing the total amount of dividend paid by the number of share outstanding.

$$\text{Dividend per Share} = \frac{\text{Earning Paid to the Shareholders}}{\text{Number of Common Shares}}$$

iii) Dividend Payout Ratio (D/P Ratio)

Dividend payout ratio indicates the percentage amount of dividend paid to the shareholders out of earning per share i.e. this reflects of what percentage is to be retained in company as retained earnings. This earning is needed for business to grow and to expand. From the Shareholders point of view, the dividends are more desirable to significant internal sources of financing for the growth of the firm. This ratio is calculated by dividing the dividend per share by earning per share. Therefore if there is no dividend paid than there is no D/P Ratio. The Shareholders always expect a higher D/P Ratio.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

3.4.2 Statistical Tools

For supporting the study, statistical tool such as Mean, Standard deviation, Coefficient of Variation, Correlation, Trend Analysis have been used under it.

Arithmetic Mean (Average)

Average is statistical constants which enables us to comprehend in a single effort the significance of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N}$$

Where,

\bar{x} = Arithmetic Mean

N = Number of Observations

$\sum x$ = Sum of Observations

Standard Deviation (S.D.)

The standard deviation is the square root of man squared deviations form the Arithmetic mean and denoted by S.D. or σ . It is used as absolute measure of Dispersion or variability. It is calculated:

$$\text{S.D. } (\sigma) = \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum x}{N}\right)^2}$$

Where,

σ = Standard Deviation

$\frac{\sum x^2}{N}$ = Sum of Squares of Observation

$\left(\frac{\sum x}{N}\right)^2$ = Sum of Square of Mean

Coefficient of Variation (CV)

Co-efficient of variance is the relative measure of dispersion comparable across distribution, which is defined as the ratio of the standard deviation to the mean express in percent.

Co-efficient of variance denotes by C.V. is given by:

$$\text{C.V.} = \frac{\text{S.D.}}{\text{Mean}} \times 100 = \frac{\sigma}{\bar{X}} \times 100$$

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter the researcher has analyzed and interpreted relevant and available data of the selected commercial banks according to the research methodology as mentioned in the previous chapter. The analysis of data consists of organizing, tabulating and evaluating the collected data.

4.1 Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. 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 current financial condition can be determined.

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of a firm to meet its short-term obligations and reflects the short-term financial solvency of a firm. Sales factory liquidation position is one of the distinguishing characteristics of a sound banking system. Liquidity position of Himalaya Bank and Everest Bank is analyzed using the following relevant liquidity ratio.

a) Cash and Bank Balance to total Deposit Ratio

Cash and bank balance to total deposit ratio of Himalyan bank and Everest bank different year have been presented in table 4.1

Table 4.1
Cash and Bank Balance to Total Deposit Ratio

In 'thousand'

Bank	HBL			EBL		
Year	CBB	Total Deposit	Ratio %	CBB	Total Deposit	Ratio %
2007	177242	30048417	0.59	2391300	18186200	0.13
2008	278183	31842789	0.87	2667900	23976300	0.11
2009	473759	34881345	1.36	1664400	33322900	0.18
2010	514223	376112022	0.13	7818800	36932300	0.21
2011	632046	40920627	1.54	6122800	41127900	0.15
Mean			0.90			0.156
S.D.			0.51			0.036
C.V.			56.67			23.07

Sources : Appendix 1 & 2

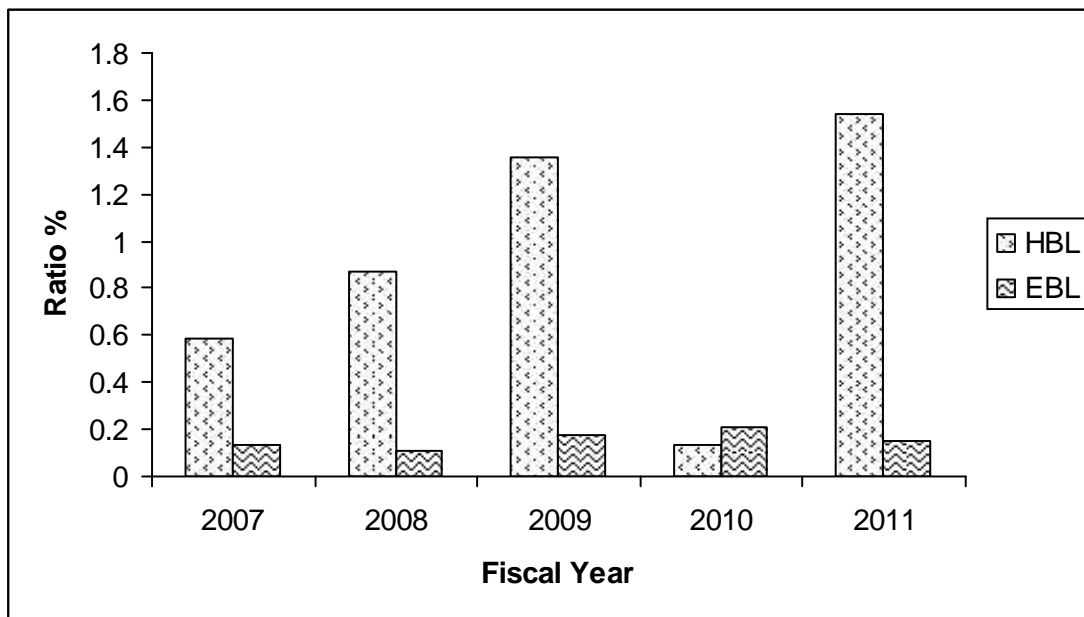
Table 4.1 shows that the cash at bank balance to total deposit ratio of the HBL is 0.59, 0.87 , 1.36 ,0.13 and 1.54 % respectively in the selected year. It has highest in the year 2011 and lowest in 2010. The ratios are lower than average in the year 2007, 2008 , 2010, and higher in the year 2008 and 2011. The Mean, S.D, and C. V. are 0.90, 0.51, and 56.67% respectively.

Similarly the ratio of EBL over the study period is 0.13, 0.11, 0.18, 0.21, and 0.15, respectively in the selected year. It is the highest in the year 2010 and lowest in 2008. The Mean S.D and C.V. are 0.156, 0.036, 23.07% respectively.

Table 4.1 shows that cash and bank balance deposit ratio of HBL bank is higher than that the EBL. The minimum criteria according to provision made by NRB are 5 percent. So the ratio above seen is insufficient for both bank, so it is necessary to increase the cash and bank balance in the bank and increase liquidity to meet the minimum requirement of NRB.

Figure 4.1

Cash and Bank Balance to Total Deposit Ratio



In the above table and figure shows cash and bank balance to total deposit ratio. From the above calculation of cash and bank balance to total deposit ratio indicates that EBL is more compliant in payment and Mean S.D and C.V of HBL less than EBL .

b) NRB Balance to Current and Saving Deposit Ratio

NRB balance to current & saving deposit ratio shows the cash balance of the bank in the Nepal Rastra Bank

Table 4.2**NRB Balance to Current and Saving Deposit Ratio**

Bank	HBL			EBL		
Year	NRB-B	CSD	Ratio %	NRB-B	CSD	Ratio %
2007	1272543	5964605	21.33	1178198	18186253	6.48
2008	935341	5429402	17.23	1080914	23976298	4.51
2009	2328405	3883398	59.95	4787163	33322946	14.36
2010	264790	6492490	4.07	2625113	411279911	0.64
2011	1390625	4913614	28.30	4706320	36932310	12.74
Mean			26.18			7.75
S.D.			18.64			5.12
C.V.			71.20			66.06

Sources : Appendix 1 & 2

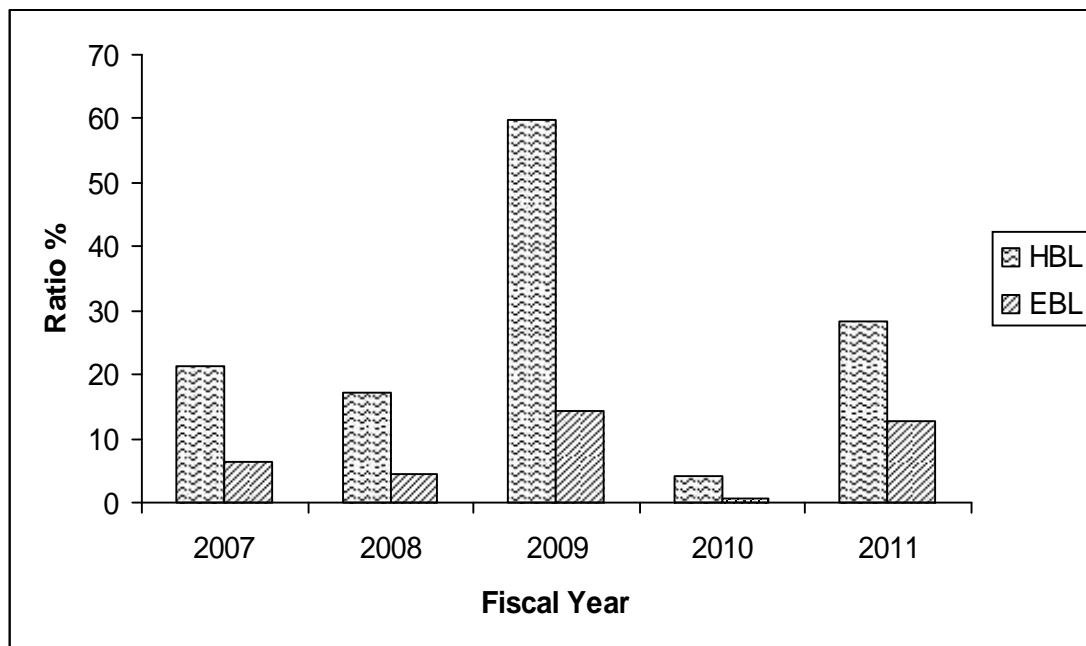
The above table shows the NRB balance to current & saving deposit ratio of the selected bank in the selected year. The average ratio cash balance of the HBL is 26.00 which is higher than the EBL. The mean, S.D. and C.V. of the HBL are 26.18, 18.64, and 71.20 respectively.

EBL also shows the similar type cash reserve ratio over the period. The average ratio is lower than HBL but trend is slightly different. The average ratio of EBL is 7.75, and SD and CV of the bank 5.12 and 66.06 respectively.

The table 4.2 shows that the NRB balance to current and saving deposit ratio of HBL bank is higher than that of EBL. The average criteria according to provision made by NRB are 5.5 percent, so the ratio above seen more for both bank. So it is necessary to decrease the NRB balance .so the both bank meet the average requirement of NRB.

Figure 4.2

NRB Balance to Current and Saving Deposit Ratio



The above table the figure shows NRB Balance to Current and Saving Deposit Ratio. From the analyse it can be found that the average ratio of cash balance of HBL is greater than EBL. This indicates that the position of liquidity of HBL is strong and HBL has deposited excess cash in NRB.

c) NRB Balance to Fixed Deposit Ratio

The ratio shows the portion of fixed deposit deposited in the Nepal Rastra Bank, has presented in table 4.3

Table 4.3**NRB Balance to Fixed Deposit Ratio**

in thousand

Bank	HBL			EBL		
Year	NRB-B	Fixed deposit	Ratio %	NRB- B	Fixed deposit	atio%
2007	1272543	8201134	15.52	1178198	562661	20.93
2008	935341	6423874	14.56	1080914	6446181	16.75
2009	2328405	6377132	36.51	4787163	7049978	67.90
2010	264790	11328635	2.34	2625113	10440278	25.14
2011	1390625	13507370	10.29	4706320	15061938	31.24
Mean			15.84			32..39
S.D.			11.33			18.38
C.V.			71.52			56.74

Sources : Appendix 1,2 &5, 6

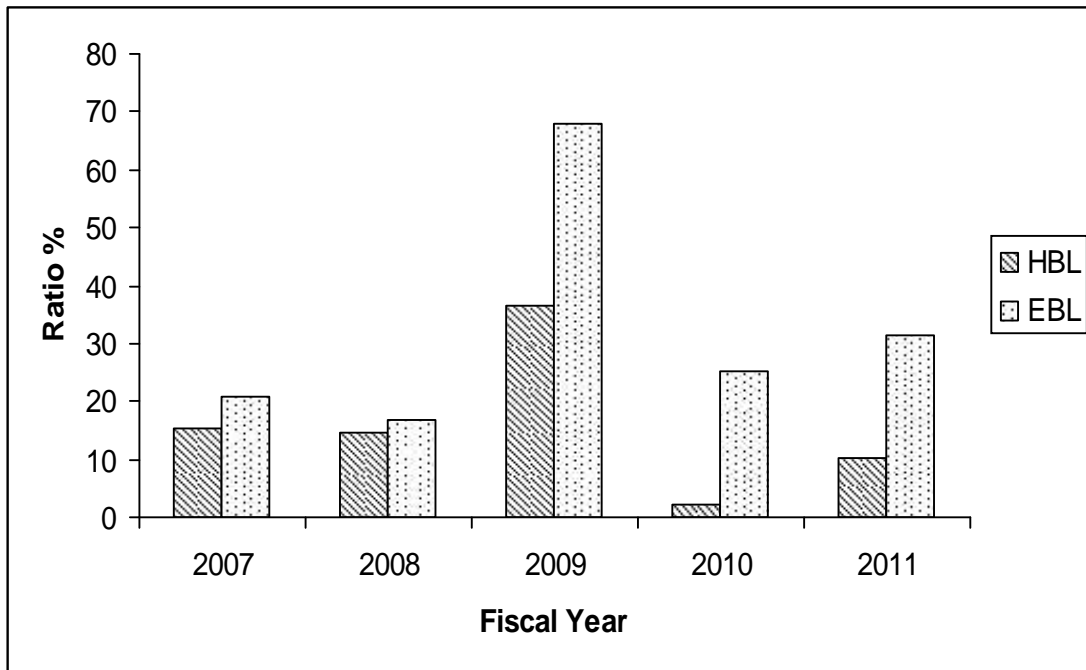
The table 4.3 shows that average ratio of HBL of the period is 15.84. This ratio is the highest in the year 2009 and lowest in the year 2010. S.D. and C.V are 11.33 and 71.52 respectively.

On the other hands the average ratio of the EBL is 32.39 which is higher than the HBL. It indicates that the fixed deposit of EBL is increasing in the every year. S.D and C.V are 18.38and 56.74 respectively.EBL bank has higher risk than HBL because EBL's S.D. is more than HBL.

The table 4.3 shows that NRB balance to fixed deposit ratio of HBL is less than EBL. Cash balance should be reduced for both bank because the more NRB balance will be unproductive.

Figure 4.3

NRB Balance to Fixed Deposit Ratio



The above table and figure show NRB Balance to Fixed Deposit Ratio. From the above ratio it is found that the average NRB balance to fixed deposit ratio of EBL is higher than the HBL. And HBL has lower fixed deposit is compared to EBL.

d) Fixed Deposit to Total Deposit Ratio

Fixed deposit to total deposit ratio shows the portion of fixed deposit in deposit.

Table 4.4
Fixed Deposit to Total Deposit Ratio

in thousand

Bank	HBL			EBL		
Year	Fixed deposit	Total deposit	Ratio %	Fixed deposit	Total deposit	Ratio %
2007	8201134	30048417	27.29	5626661	18186200	30.93
2008	6423874	31842789	20.17	6446181	23976300	26.88
2009	6377132	34881345	18.28	7049978	33322900	21.15
2010	11328635	376112022	3.01	10440278	36932300	28.26
2011	13507370	40920627	33.01	15061939	41127900	36.62
Mean			20.34			28.76
S.D.			10.16			5.42
C.V.			49.95			18.84

Sources : Appendix 1,2 &5, 6

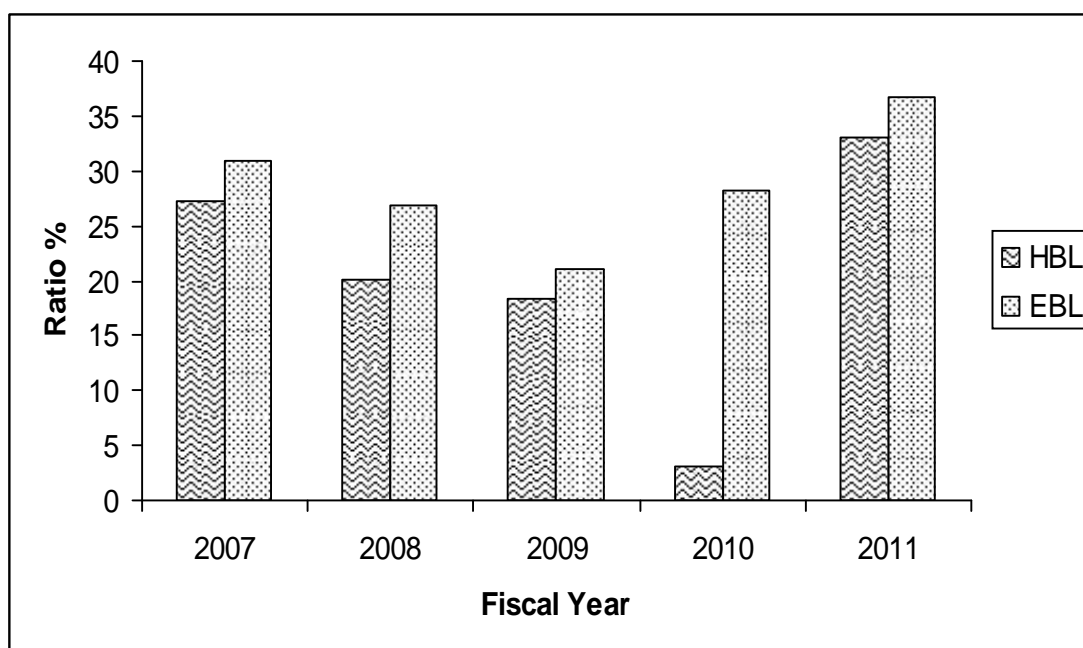
The table 4.4 shows that the mean ratio of HBL is 20.34 . This ratio is the highest in the year 2011 and lowest in the year 2010.HBL S.D. and C.V are 10.16 and 49.95 respectively.

The mean ratio of EBL is 28.76 which is higher than HBL. This ratio is the highest in the year 2011 and lowest in the year 2009. EBL S.D. and CV are 5.42 and 18.84 respectively.

EBL has more Fixed deposit and has utilized opportunity of investment in sufficient profit generating area like as long term loans. Another HBL can invest in short term loans and current assets so as to strength its liquidity position.

Figure 4.4

Fixed Deposit to Total Deposit Ratio



The above table and figure show the Fixed Deposit to Total Deposit Ratio. EBL has more Fixed deposit and has utilized opportunity of investment in sufficient profit generating area like as long term loans. Another HBL can invest in short term loans and current assets so as to strength its liquidity position

4.1.2 Activity Ratio/Turnover Ratio

This ratio is used to measure the affordance and proper utilization of assets, investment to total deposit ratio, loan and advance to total assets ratio, loan and advance to total saving deposit ratio here are included in this ratio .

a) Investment to total Deposit Ratio

Investment to total deposit ratio for both bank (HBL & EBL) are presented in table 4.5

Table 4.5**Investment to total Deposit Ratio**

in thousand

Bank	HBL			EBL		
Year	Investment	Total deposit	Ratio %	Investment	Total deposit	Ratio %
2007	11822989	30048417	39.35	4984300	18186200	27.41
2008	13340178	31842789	41.89	5059600	23976300	21.10
2009	8710690	34881345	24.97	5448500	33322900	16.35
2010	8444910	37611202	22.45	5008300	36932300	13.56
2011	869939	4092062	21.25	7743900	41127900	18.83
Mean			29.98			19.45
S.D.			2.35			4.71
C.V.			7.83			24.21

Sources : Appendix 1,2 &5,6

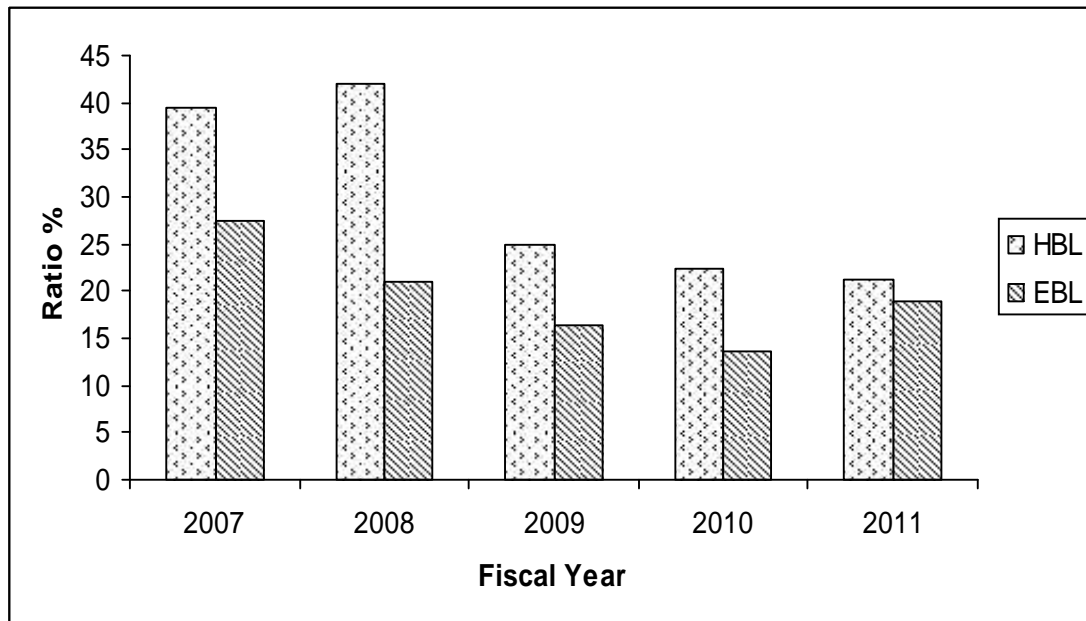
Table 4.5 shows investment portion out of total deposit in the sampled year. The average ratio of HBL is 29.98 which means that the average bank investing 29.98% of its different sector. The average ratio of EBL is 19.45 which is less than HBL.

The S.D. and C.V. of both bank HBL & EBL are 2.35, 7.83, and 4.71, 24.21 respectively. It shows that the risk is higher than the EBL but per unit risk is higher than the HBL.

Table 4.5 shows that investment to total deposit ratio of HBL bank is higher than EBL bank. The minimum criteria according to provision made by NRB are 75-80 percent. So the ratio above seen is insufficient for both banks. So it is necessary to increasing investment in the both bank.

Figure 4.5

Investment to total Deposit Ratio



In the above table and figure show the Investment to total Deposit Ratio. From above calculation it is found that HBL is investing more deposit than EBL. Greater average ratio indicates successful utilization of deposit.

b) Loan and Advance to Total Deposit Ratio

Loan and advance to total deposit ratio for both bank (HBL & EBL) are presented in table 4.6

Table 4.6**Loan and Advance to Total Deposit Ratio**

in thousand

Bank	HBL			EBL		
Year	Loan & Advance	Total deposit	Ratio %	Loan & Advance	Total deposit	Ratio %
2007	16997997	30048417	56.57	14082700	18186200	74.44
2008	79497520	31842789	61.23	18836400	23976300	78.56
2009	24793155	34881345	71.08	24469600	33322900	73.43
2010	27980728	37611202	74.39	28156400	36932300	76.23
2011	31566976	40920627	77.14	31661800	41127900	76.98
Mean			68.08			75.92
S.D.			7.88			1.82
C.V.			11.57			2.39

Sources : Appendix 1 & 2

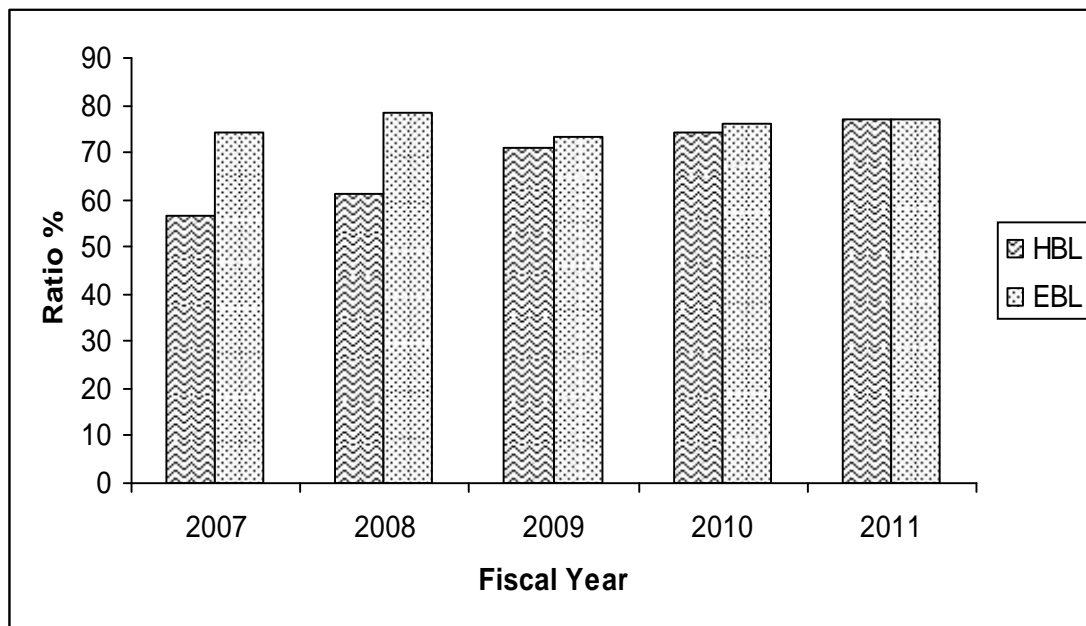
Table 4.6 shows loan and advance to total deposit ratio in the sampled year. The average ratio of HBL 68.08 which means it is lending 68.08 % of its deposit. The ratio of the bank is increasing over the period.

Where as the average ratio is EBL 75.92 which means it is lending 75.92 % of its deposit. EBL is investing 75.92 % of its total deposit which is more than HBL. The S.D. and C.V. of the both bank HBL and EBL are 7.88, 11.57 and 1.82, 2.39 respectively.

Table 4.6 shows that loan and advance to total deposit ratio of EBL bank is higher than HBL bank. greater average ratio indicates successful utilization of deposit , so the ratio of HBL bank is increasing over the period.

Figure 4.6

Loan and Advance to Total Deposit Ratio



The above table and figure show Loan and Advance to Total Deposit Ratio. The EBL bank ratio is more than HBL Bank.

c) Loan and Advance to Total Assets Ratio

Loan and advance to total assets ratio for the both (HBL &EBL) are presented in table 4.7

Table 4.7**Loan and Advance to Total Assets Ratio**

in thousand

Bank	HBL			EBL		
Year	Loan & Advance	Total Assets	Ratio %	Loan & Advance	Total Assets	Ratio %
2007	16997997	33519141	50.71	14082700	21432574	65.70
2008	79497520	36175531	53.90	18836400	27149342	69.38
2009	24793155	39330331	63.04	24469600	36916848	66.28
2010	27980728	42717124	65.50	28156400	41382760	68.03
2011	31566976	46736203	67.54	31661800	46236212	68.48
Mean			60.13			67.57
S.D.			6.62			1.37
C.V.			11			2.02

Sources : Appendix 1 & 2

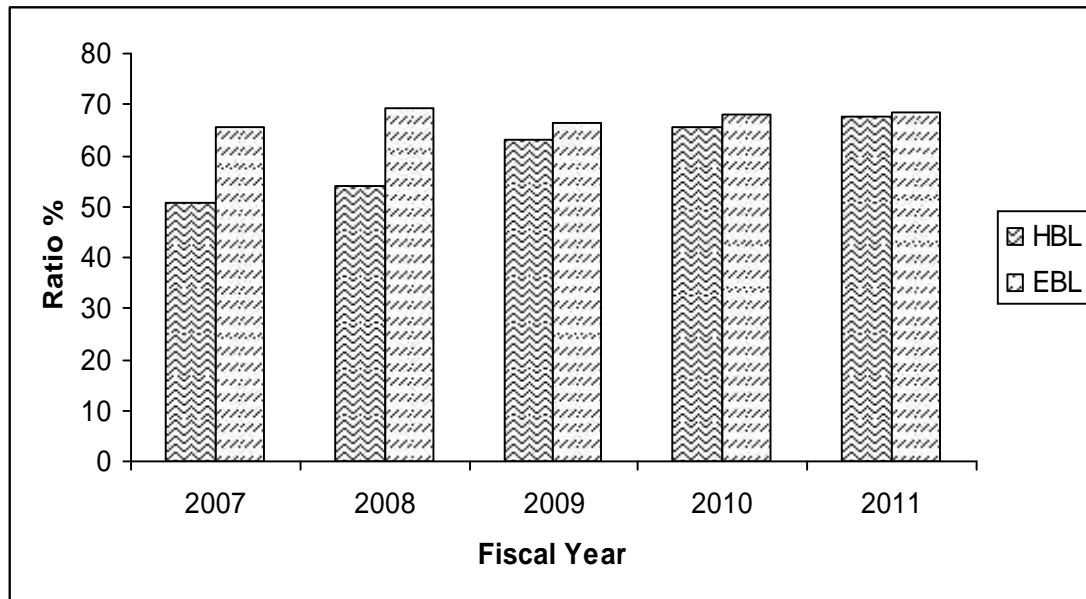
Table 4.7 shows that loan and advance to total assets ratio in the sampled year. The average ratio of HBL is 60.13. This ratio is also increasing over the period. This ratio is the highest in the year 2011 and the lowest year 2007. HBL S.D. and C.V. are 6.62 and 11 respectively.

The average ratio of EBL is 67.57 %. This ratio is the highest in the year 2008 and the lowest year 2007. HBL S,D and CV are 1.37, and 2.02 respectively.

Table 4.7 shows that loan and advance to total deposit ratio of EBL bank is higher than HBL bank .More loan and advance to total deposit ratio is better .So the ratio of HBL bank is increasing over the period.

Figure 4.7

Loan and Advance to Total Assets Ratio



The above table and figure show the Loan and Advance to Total Assets Ratio. From the above calculation it is found that EBL is investing more deposit than HBL. Greater average ratio indicates successful utilization of deposit. The average of EBL is greater than HBL, which shows EBL satisfactory of utilization of total assets in area.

4.1.3 Capital Adequacy Ratio

Bank and financial institutions have to maintain a sufficient amount as capital fund as required by the NRB. Holding an excess amount of capital there required may have hither holding cost and lower return from their investment.

a) Net worth to Total Assets Ratio

Table 4.8

Net worth to Total Assets Ratio

in thousand

Bank	HBL			EBL		
Year	Net worth	Total Assets	Ratio %	Net worth	Total Assets	Ratio %
2007	474117	33519141	1.41	274502	21432574	1.28
2008	707413	36175531	1.95	498010	27149342	1.83
2009	473151	39330331	1.20	833418	39916848	2.09
2010	764736	42717124	1.05	841588	41382760	2.03
2011	1040834	46736203	2.22	967833	46236212	2.09
Mean			1.14			1.85
S.D.			0.75			0.2
C.V.			52.08			19.04

Sources : Appendix 1,2 & 5,6

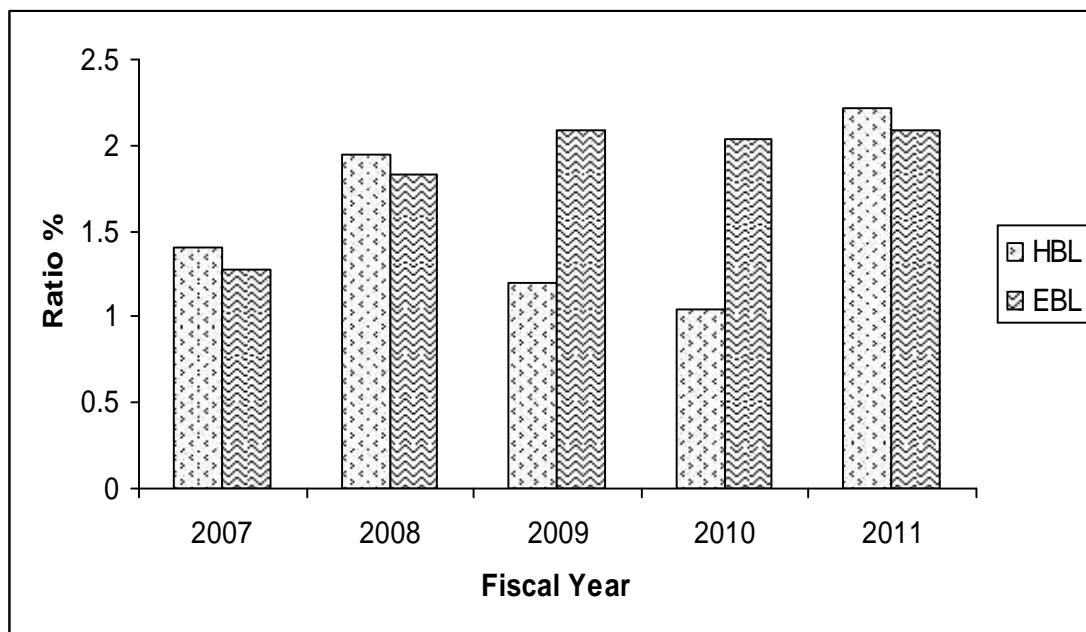
Table 4.8 shows net worth to total assets ratio of the selected bank over the selected period. The average ratio of HBL is 1.14. This ratio is being increased over the period which means the bank profitability over the period is increase and the highest ratio in the year 2011 and lowest ratio in the 2010. The HBL S.D. and C.V are 0.75 and 52.08 % respectively.

Where as the average ratio of the EBL is 1.85 which is greater than HBL. This ratio is increased over the period which means the bank profitability over the period increases but the average ratio is better than HBL. The EBL S.D. and C.V are 0.2 and 19.04 respectively.

The table 4.8 shows that Net worth to total Assets ratio of EBL bank is higher than HBL bank. The ratio above seen is insufficient for both bank. It is necessary to increasing net worth because the attitude of NRB , more net worth to total deposit ratio is the best.

Figure 4.8

Net worth to Total Assets Ratio



The above table and figure show the Net worth to Total Assets Ratio. The EBL net worth total assets ratio is higher than HBL.

b) Net worth to Total Deposit Ratio

Net worth to total deposit ratio for both bank (HBL &EBL) are presented in table 4.9

Table 4.9**Net worth to Total Deposit Ratio**

in thousand

Bank	HBL			EBL		
Year	Net worth	Total deposit	Ratio %	Net worth	Total deposit	Ratio %
2007	474117	30048417	1.58	244502	18186200	1.34
2008	707413	31842789	2.22	498010	23976300	2.07
2009	473151	34881345	1.36	833418	33322900	2.50
2010	764736	37611202	2.03	841588	36932300	2.54
2011	1040834	40920627	2.54	967833	41127900	2.35
Mean			1.95			2.16
S.D.			0.43			0.45
C.V.			22.05			20.83

Sources : Appendix 1,2 &5,6

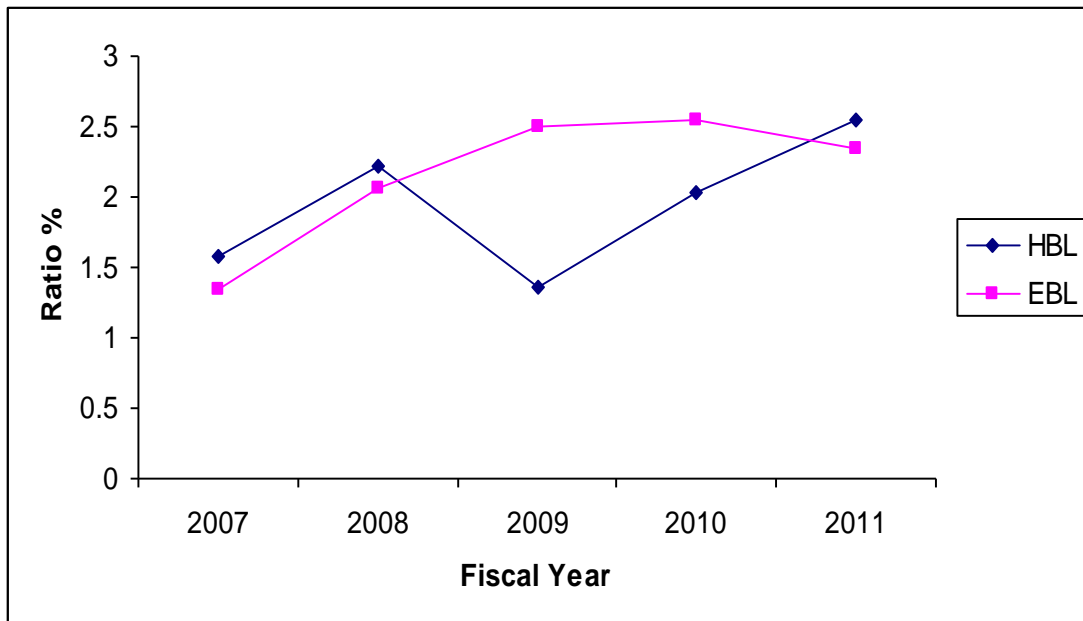
The table 4.9 shows that the ratios of HBL were 1.58, 2.22, 1.36, 2.03 and 2.54 respectively. Mean, S.D. and CV were 1.95, 0.43, and 22.05 respectively. The highest ratio in the year 2011 and lowest ratio in the year 2009.

The other side the ratio of Everest bank ltd. were 1.34, 2.07, 2.50, 2.54 and 2.35 respectively. Mean, S.D. and C.V. were 2.16, 0.45 and 20.83 respectively. The highest ratio in the ratio 2010 and lowest ratio in the year 2007. In the above calculation EBL average ratio is greater than HBL average ratio.

The above table shows net worth to total deposit ratio of EBL bank is higher than HBL bank. More net worth to total deposit ratio is the best, so both bank are increasing over the period.

Figure 4.9

Net worth to Total Deposit Ratio



The above table and figure show the Net worth to Total Deposit Ratio. The EBL net worth to total deposit ratio is greater than HBL. The attitude of NRB, more net worth to total deposit ratio is the best.

4.1.4 Capital Structure Ratio

Capital structure or leverage is used to judge the know the liquidity or short-term financial position of the firm, long term creditors are interested to know the long term financial position of the firm & this is reflected through capital.

a) Debt to Equity Ratio

Debt to equity ratio for the both bank (HBL & EBL) the presented in table 4.10

Table 4.10
Debt to Equity Ratio

In thousand

Bank	HBL			EBL		
Year	Total Debt	SHE	Ratio %	Total Debt	SHE	Ratio %
2007	71245	810810	8.79	63453	831400	7.63
2008	132574	1103512	12.01	53210	832721	6.39
2009	124372	1216215	10.23	134532	1030467	13.05
2010	121543	2980000	4.08	100432	1279607	7.85
2011	194321	2400000	8.10	103214	1391570	7.42
Mean			8.64			8.47
S.D.			2.64			2.35
C.V.			30.55			27.74

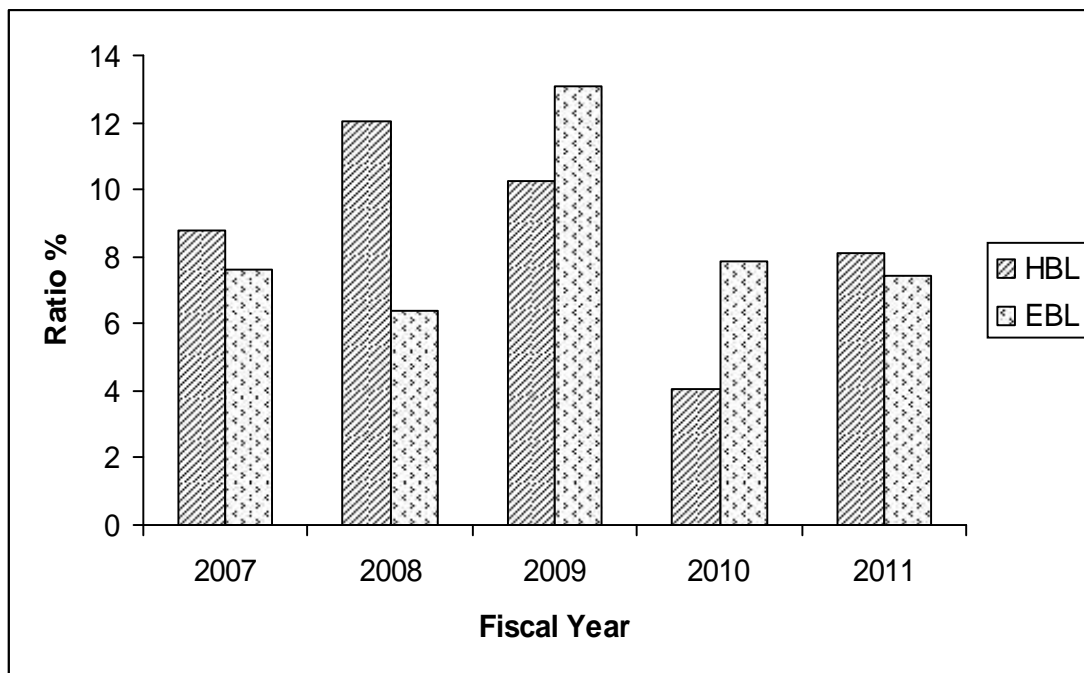
Sources : Appendix 5 & 6

Table 4.10 shows the ratio of HBL were 8.79,12.01, 10.23, 4.10, and 8.09 respectively. The average ratio, S.D, and C.V were 8.64, 2.24, and 30.55 respectively. Where as EBL were 7.63, 6.39, 13.05, 7.85 and 7.42 respectively . The average ratio, S.D. and C.V 8.47, 2.35 and 27.74 respectively.

Above calculation HBL has the highest ratio in the year 2008 and lowest ratio in the year 2010 whereas EBL has the highest ratio in the year 2009 and lowest ratio in the year 2008.

Figure 4.10

Debt to Equity Ratio



The above table and figure show Debt to Equity Ratio From the analysis it is found that the debt ratio of HBL is consistent then the EBL.

b) Debt to Total Capital Ratio

Debt to total capital ratio for both bank (HBL &EBL) are presented in the table no. 4.11.

Table 4.11
Debt to Total Capital Ratio

In thousand

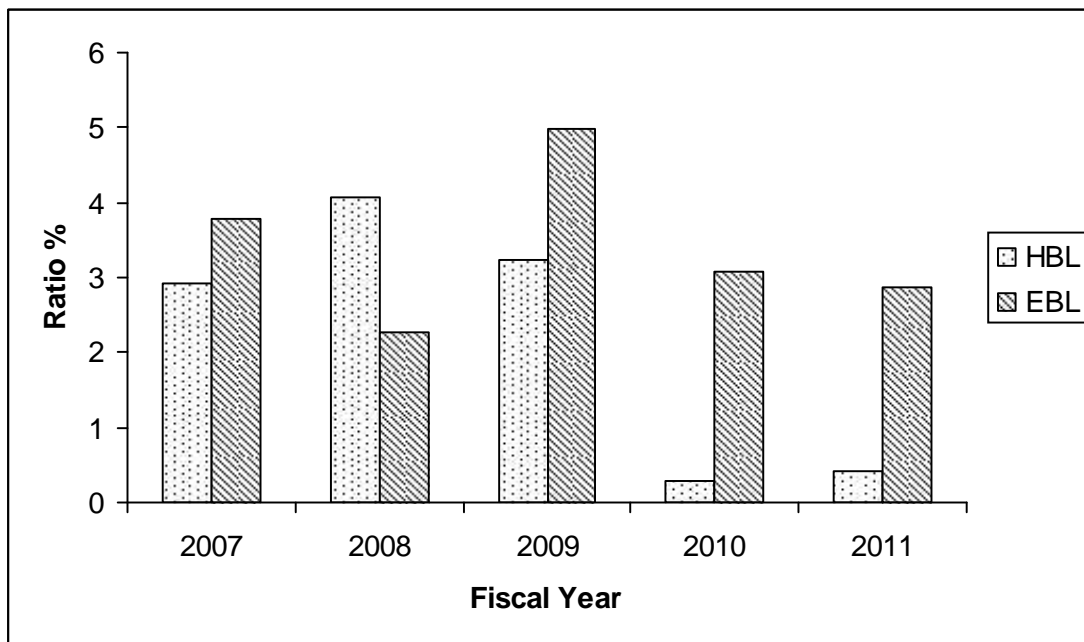
Bank	HBL			EBL		
Year	Total Debt	Total Capital	Ratio %	Total Debt	Total Capital	Ratio %
2007	71245	2435388	2.92	63453	1676116	3.78
2008	132574	3253511	4.07	53210	2348390	2.26
2009	124372	3845211	3.23	134532	2703870	4.97
2010	121543	42183610	0.29	100432	3257148	3.08
2011	194321	47112430	0.41	103214	3605840	2.86
Mean			2.18			3.39
S.D.			1.56			0.9
C.V.			71.55			26.55

Sources : Appendix 5 & 6

Total capital is the sum of total debt and share holder equity. Table 4.11 shows that the debt to total capital ratio of the selected bank over year 2007 to 2011. The ratio of HBL are 2.92, 4.07, 3.23, 0.29 and 0.41 respectively. The average ratio, S.D. and C.V are 2.18, 1.56, and 71.55 respectively. The ratio of EBL are 3.78, 2.26, 4.97, 3.08 and 2.86 respectively. The mean ratio, S.D. and CV are 3.39, 0.9 and 26.55 respectively.

Figure 4.11

Debt to Total Capital Ratio



The above table and figure show Debt to Total Capital Ratio. Mean ratio of EBL is greater than HBL. Greater average ratio indicates that EBL is gradually raising the capital through debt and equity capital.

C) Total Debt to Total Assets Ratio

Total debt to total assets ratio for the both bank (EBL & HBL) are presented in table 4.12

Table 4.12**Total Debt to Total Assets Ratio**

in thousand

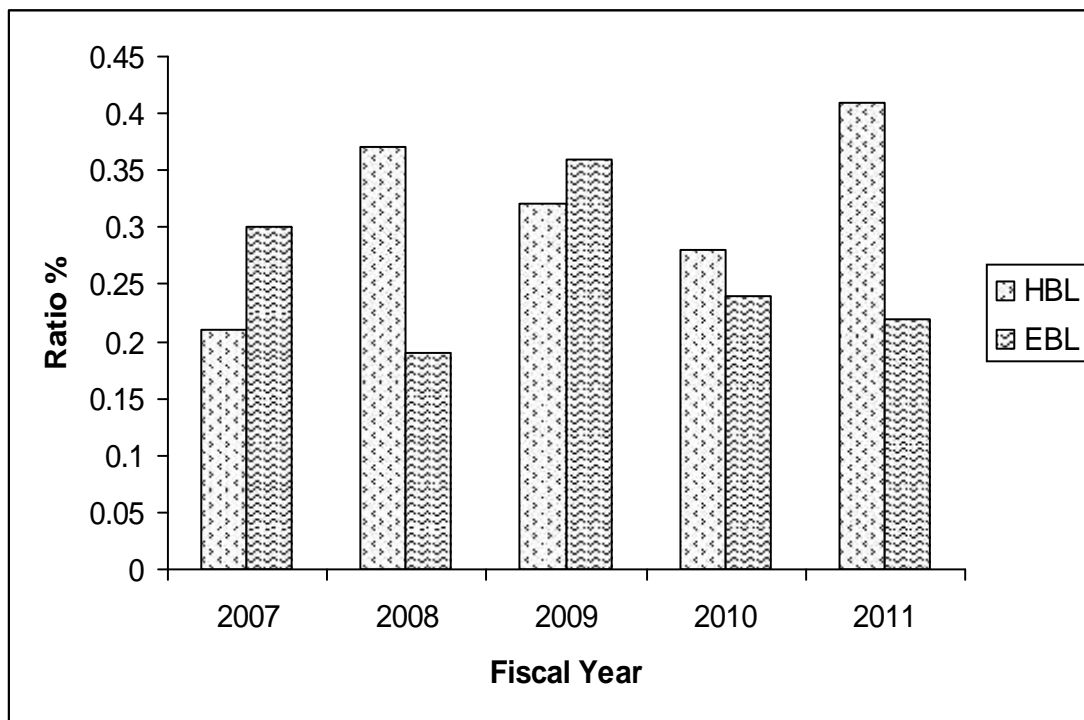
Bank	HBL			EBL		
Year	Total Debt	Total Assets	Ratio %	Total Debt	Total Assets	Ratio %
2007	71245	33519141	0.21	63453	21432574	0.30
2008	132574	36175531	0.37	53210	27149342	0.19
2009	124372	39330331	0.32	134532	36916848	0.36
2010	121543	42717124	0.28	100432	41382760	0.24
2011	194321	46736203	0.41	103214	46236212	0.22
Mean			0.32			0.26
S.D.			0.11			0.10
C.V.			34.37			38.40

Sources : Appendix 1,2 & 5,6

The average ratio HBL in the year 2007 to 20011 is 0.21, 0.37, 0.32, 0.28, and 0.41 respectively .The average ratio, S.D and CV are 0.32, 0.11 and 34.37respectively. whereas the ratio of EBL are 0.30, 0.19 0.36,0.24 and 0.22 respectively. The average ratio, S.D and CV are 0.26, 0.10 and 38.40 respectively.

Figure 4.12

Total Debt to Total Assets Ratio



The above table and figure show the Total Debt to Total Assets Ratio. Higher debt ratio indicates the higher risk. Both bank have not higher average ratio so both bank are not in risky for table debt to total assets ratio.

d) Interest Coverage Ratio

As stated, interest coverage ratio in the most conventional coverage ratio is used to test the firms' interest paying ability. Servicing capacity, the table shows the computations of interest coverage ratio of both the bank for the five year study period.

Table 4.13
Interest Coverage Ratio

in thousand

Bank	HBL			EBL		
Year	EBIT	Interest	Ratio %	EBIT	Interest	Ratio %
2007	779575	767411	101.58	500974	577166	86.80
2008	960961	823744	116.56	343554	632609	54.31
2009	1228750	934778	131.45	985999	1012874	97.35
2010	1271871	2414807	52.67	1306790	1572790	83.09
2011	1486942	1553530	95.71	1464117	2535875	57.74
Mean			99.59		75.98	75.86
S.D.			25.17		12.67	12.67
C.V.			25.27		16.67	16.70

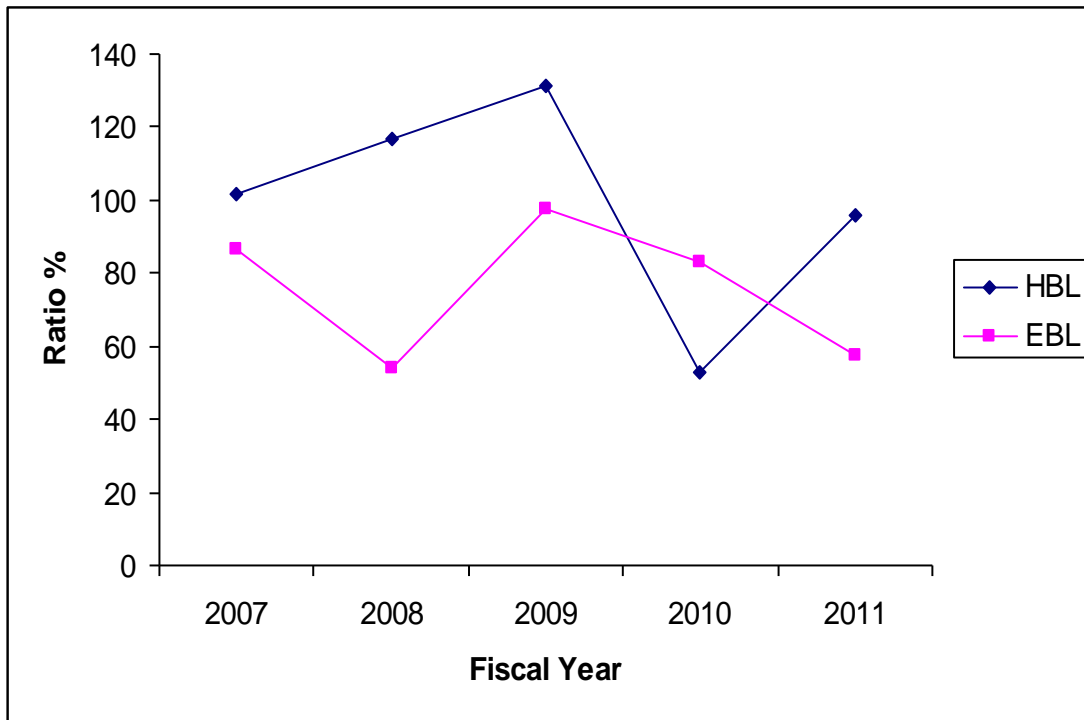
Sources : Appendix 3 & 4

Table 4.13 shows that the interest coverage ratio of the selected banks and for sampled year. The ratio over the period of HBL is 101.58, 116.56, 131.45, 52.65, and 95.71 respectively. The average ratio, S.D and C.V are 99.59, 25.17 and 25.27 respectively. Whereas the ratio over the period of EBL are 86.80, 54.31, 97.35, 83.09 and 57.74 respectively. The average ratio, S.D and CV are 75.86, 12.67, and 16.70 respectively.

The above table shows that interest coverage ratio of HBL is higher than EBL bank. The HBL interest coverage ratio is better because the interest paying ability of HBL in a average ratio is more than EBL .

Figure 4.13

Interest Coverage Ratio



The above table and figure show the Interest Coverage Ratio. The average ratio of HBL is greater than the EBL. From here it can be concluded that at interest paying ability of HBL in an average is more than EBL.

4.1.5 Profitability Ratios

As mentioned above, profitability ratio is the measurement of effectiveness. So which the help of these ratio one decides whether to invest in a particular firm or not, Profit is the different between total revenue and total expenses over a period of time. Profitability ratio are used to indicate the overall efficiency of the firm. There are many measure of profitability - Higher degree of profitability ratio shows better financial position & performance to the firms

a) Return on Total Assets Ratio

Return on total assets ratio for the both bank (HBL & EBL) are presented in table 4.1

Table 4.14
Return on Total Assets Ratio
in thousand

Bank	HBL			EBL		
Year	NPAT	Total Assets	Ratio %	NPAT	Total Assets	Ratio %
2007	491822	33519141	1.47	296409	21432574	1.38
2008	635888	36175531	1.76	451218	27149342	1.66
2009	752834	39330331	1.91	638732	36916848	1.73
2010	508798	42717124	1.19	831865	41382766	2.01
2011	893115	46736202	1.91	931303	46236212	2.01
Mean			1.65			1.76
S.D.			0.26			0.22
C.V.			15.75			12.5

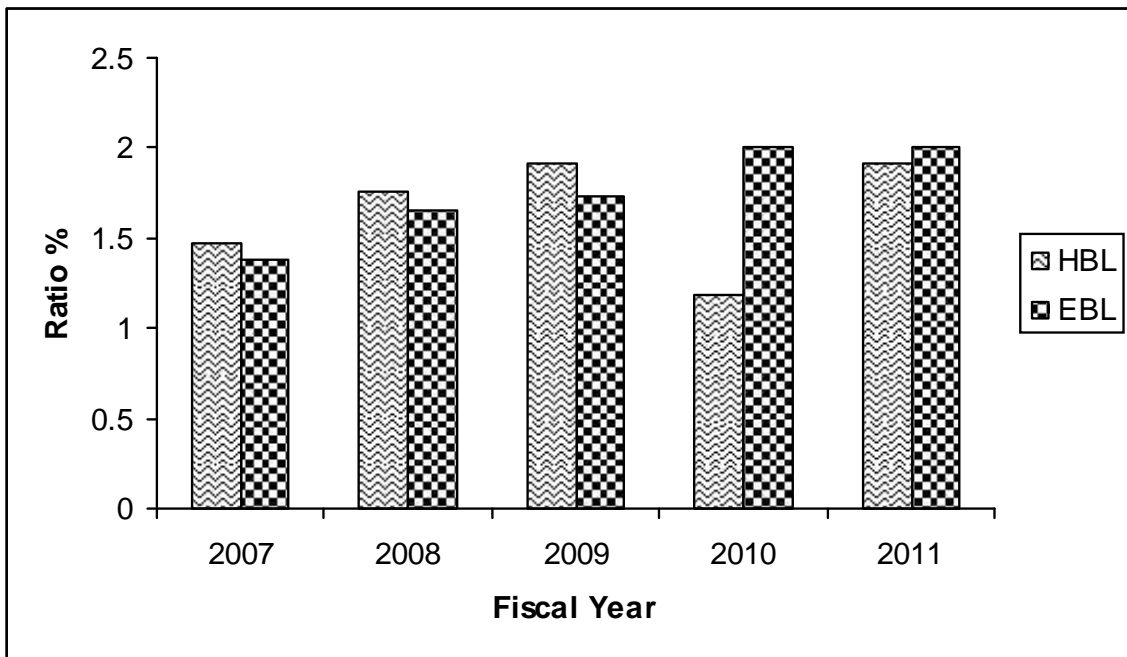
Sources : Appendix 1,2 & 3,4

Table 4.14 shows analysis of return on total assets of the selected banks over the selected period. The ratio of the HBL is 1.47, 1.76, 1.91, 1.19 and 1.91 respectively. The average ratio, S.D, and CV are 1.65, 0.26, and 15.75 respectively. On the other side of ratio of EBL are 1.38, 1.66, 1.73, 2.01 and 2.01 respectively. The average ratio, SD and CV are 1.76, 0.22 and 12.5 respectively.

The above table 4.14 shows return to total assets ratio of EBL bank is higher than HBL bank. More return to total assets ratio is better. So ratio of both banks are increasing attitude of NRB more return on total assets ratio is better.

Figure 4.14

Return on Total Assets Ratio



The above table and figure show Return on Total Assets Ratio. The average ratio of HBL is greater than EBL so higher degree of profitability shows the HBL.

b) Return to Total Deposit Ratio

This ratio measures the ability of the bank to earn a return on deposits . Higher ratio is preferred

Table 4.15

Return to Total Deposit Ratio

in thousand

Bank	HBL			EBL		
	NPAT	Total Deposit	Ratio %	NPATS	Total Deposit	Ratio %
2007	491822	30048417	1.64	296409	18186200	1.62

2008	635888	31842789	2.00	451218	23976300	1.88
2009	752834	34881345	2.16	638732	33322900	1.92
2010	508798	37611202	1.35	831865	36932300	2.25
2011	893115	40920627	2.18	931303	41127900	2.26
Mean			1.87			1.96
S.D.			0.32			0.032
C.V.			17.11			16.32

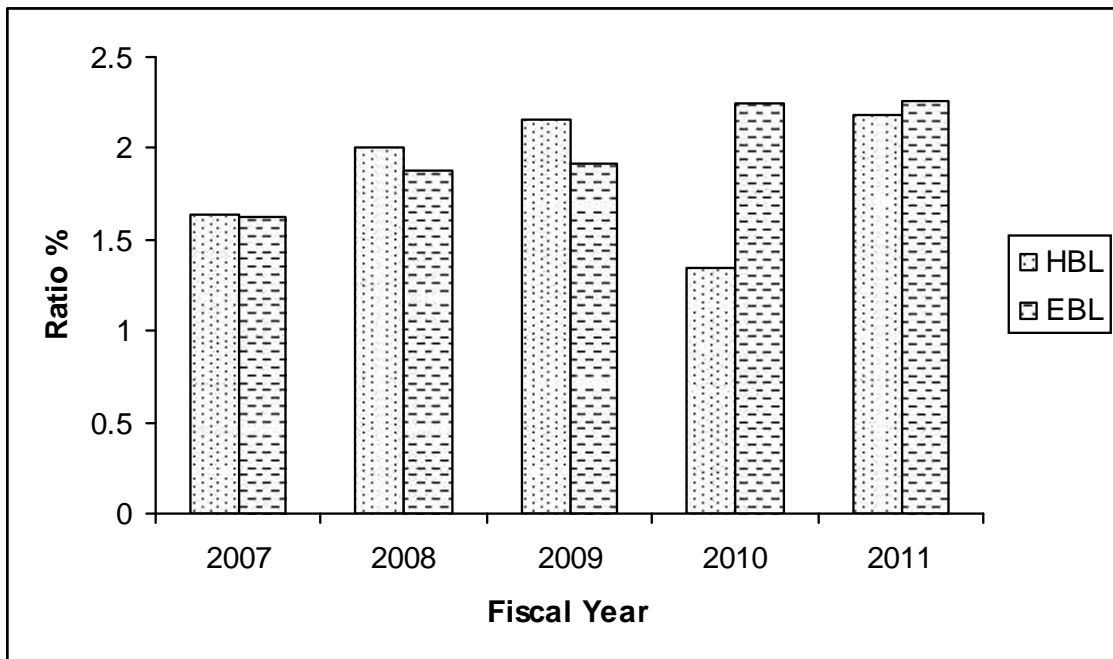
Sources : Appendix 1,2 & 3,4

Table 4.15 shows analysis of return on total deposit of the selected banks over the selected period. The ratio of the HBL are 1.64, 2.00, 2.16, 1.35 and 2.18 respectively. The average ratio, SD and CV are 1.87, 0.32, and 17.11 % respectively . The ratio of EBL are 1.62, 1.88, 1.92, 2.25 and 2.26 respectively. The average ratio, SD and CV are 1.96,0.032 and 16.32 respectively .

In the above total 4.15 shows that return to total deposit ratio of EBL bank is higher than HBL bank. Both ratios are insufficient for both bank. So, it is necessary to increase return to total deposit average ratio for both bank.

Figure 4.15

Return to Total Deposit Ratio



The above table and figure show the Return to Total Deposit Ratio. The table shows clearly that the ratio of HBL is higher than that of EBL, again net profit after tax of HBL is also higher and fluctuating where as that of EBL is low. The total deposit of both bank are increasing trend

c) Office operating Expense to Total Income Ratio

Table 4.16

Office operating Expense to Total Income Ratio

In thousand

Bank	HBL			EBL		
Year	Office operating exp	Total Income	Ratio %	Office operating exp	Total Income	Ratio %
2007	322865	658503	49.03	1775000	13787000	12.87
2008	344320	804256	42.81	2337000	18481000	12.64
2009	398316	1209677	32.93	2920000	25653000	11.38
2010	471102	901323	52.27	3525000	35355000	9.97
2011	582209	1073766	54.22	3831000	47450000	8.07
Mean			46.25			10.99
S.D.			7.70			1.79
C.V.			16.65			16.28

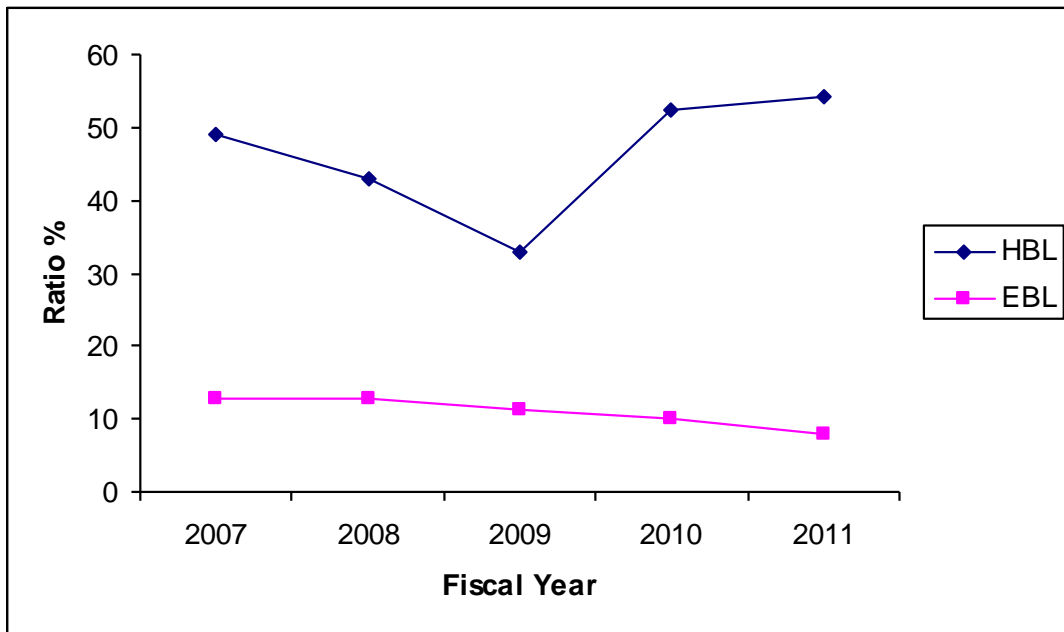
Sources : Appendix 5 & 6

Table 4.16 shows office operating expenses to total income ratio of selected bank from 2007 to 2011. The ratio of HBL are 49.03, 42.81, 32.93, 52.27 and 54.22 respectively. The mean ratio, SD and CV are 46.25, 7.70 and 16.65 respectively. Whereas the ratio of EBL are 12.87, 12.64, 11.38, 9.97 and 8.07 respectively. The mean ratio, SD and CV are 10.99, 1.79 and 16.28 respectively.

The above table shows that office operating expenses to total income ratio of HBL bank is higher than EBL. More office operating expenses is not the best so the HBL bank is decreasing this ratio.

Figure 4.16

Office operating Expense to Total Income Ratio



The above table and figure show the Office operating Expense to Total Income Ratio. Higher average ratio in office operating expenses to total income ratio indicates more expenses to build office management.

4.1.6 Invisibility Ratio

a) Earnings per Share (EPS)

Earning per share measure the profit available to the each equity hold EPS not only indicates how much dividend are being paid on each share, but also measures the overall operational efficiency of the bank ..It is dividend by the number of common share to calculate the value of earning per share. This figure tells us what profit the common share holders for every share holder have earned.

Table 4.17
Earnings Per Share

in thousand

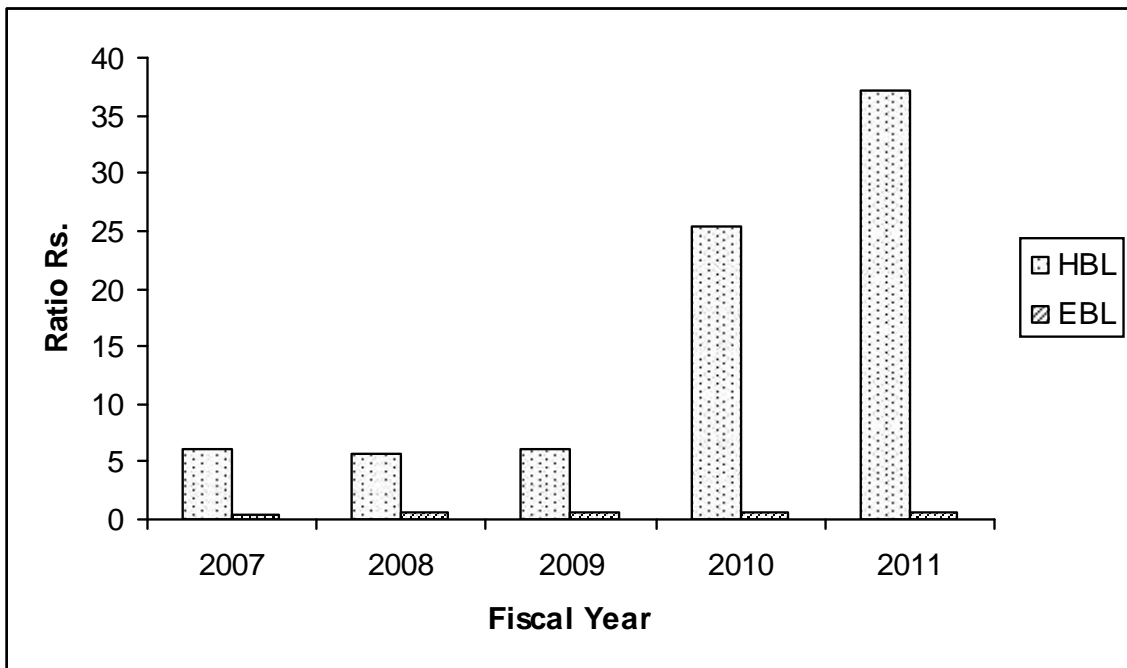
Bank	HBL			EBL		
Year	Net Profit	No. of Share	Ratio RS	Net Profit	No. of Share	Ratio RS
2007	491822905	81081000	6.07	2964000	8314000	0.36
2008	635888519	110351250	5.76	4512000	8327210	0.54
2009	752834735	121621500	6.18	6387000	10304673	0.62
2010	508798193	20000000	25.44	8318000	12796074	0.65
2011	893115143	24000000	37.21	9313000	13915704	0.67
Mean			16.13			0.57
S.D.			13.27			0.14
C.V.			82.27			24.56

Sources: Appendix 3,4 & 5,6

Table 4.17 shows an analysis of sampled year the EPS of HBL are 6.07, 5.76, and 6.18. 25.44 And 37.21 respectively. The mean EPS SD and CV are 16.13, 13.27 and 82.27 respectively .Where as the ratio of EBL are 0.36, 0.54, 0.62,0.65 and 0.67 respectively. The mean ratio, SD and CV are 0.57, 0.14 and 24.56 respectively.

Figure 4.17

Earnings per Share



The above table and figure show the Earning Per Share. Higher average EPS indicates that HBL is able to earn more profit per share to the common share holders than that of EBL. EPS has been criticized as the measure of profitability, because it does not consider the amount of assets of capital required to generate that level of earning.

b) Dividend per Share (DPS)

It implies the profit allocated to shareholders as return in terms of cash on per share basis. The following table shows the shareholders of respective banks for last five year.

Table 4.18**Dividend per Share (DPS)**

In thousand

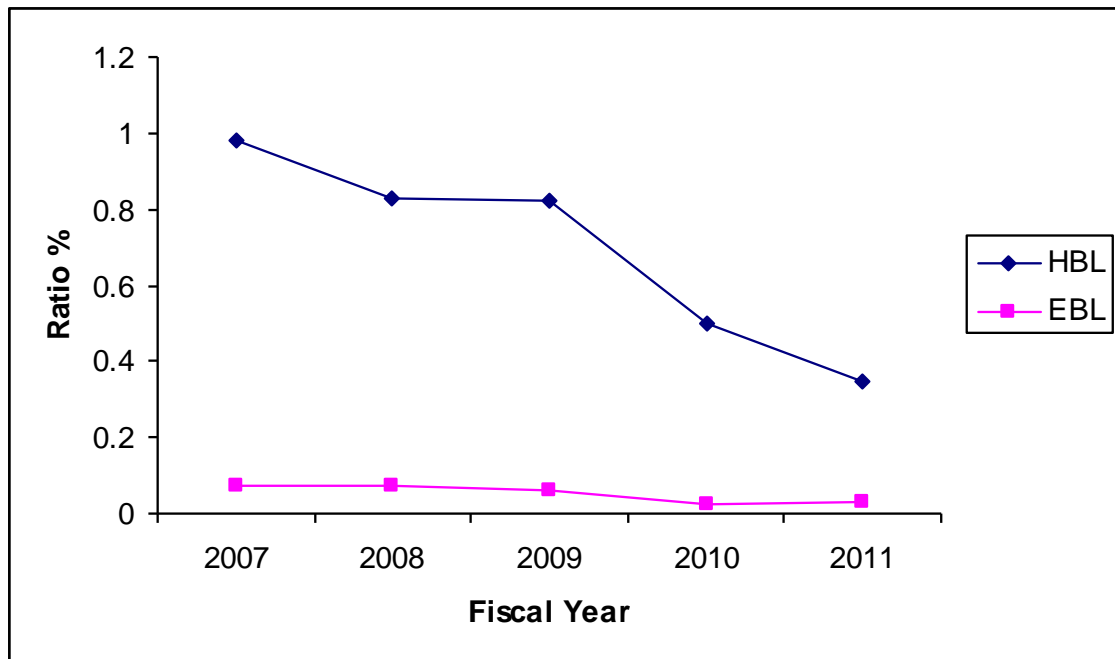
Bank	HBL			EBL		
Year	Dividend paid	No. of Share	Ratio Rs	Dividend paid	No. of Share	Ratio Rs
2007	784200	81081000	0.98	60660	8314000	0.073
2008	918200	110351250	0.83	62740	8327210	0.075
2009	999900	121621500	0.82	61690	10304673	0.060
2010	1001600	20000000	0.50	31800	12796074	0.025
2011	831800	24000000	0.35	44660	13915704	0.032
Mean			0.69			0.53
S.D.			0.24			0.039
C.V.			34.78			7.35

Sources : Appendix 5 & 6

The table 4.18 shows the dividend paid by the selected banks over the period. Over the study period HBL has paid average Rs 0.69 per share, and EBL has paid average Rs 0.53.

Figure 4.18

Dividend per Share



The above table shows the Dividend per Share. Average ratio of cash dividend of EBL is more attractive than HBL. Cash dividend help to increase share price. The market value of share reflects performance of the company.

c) Dividend Payout Ratio (D/P Ratio)

Dividend payout ratio indicates the percentage amount of dividend paid to share holders out of earning per share .It reflects the percentage to be distributed as dividend and to be retained as retained earnings. The D/P ratios of the study period for both the banks are presented in the following table.

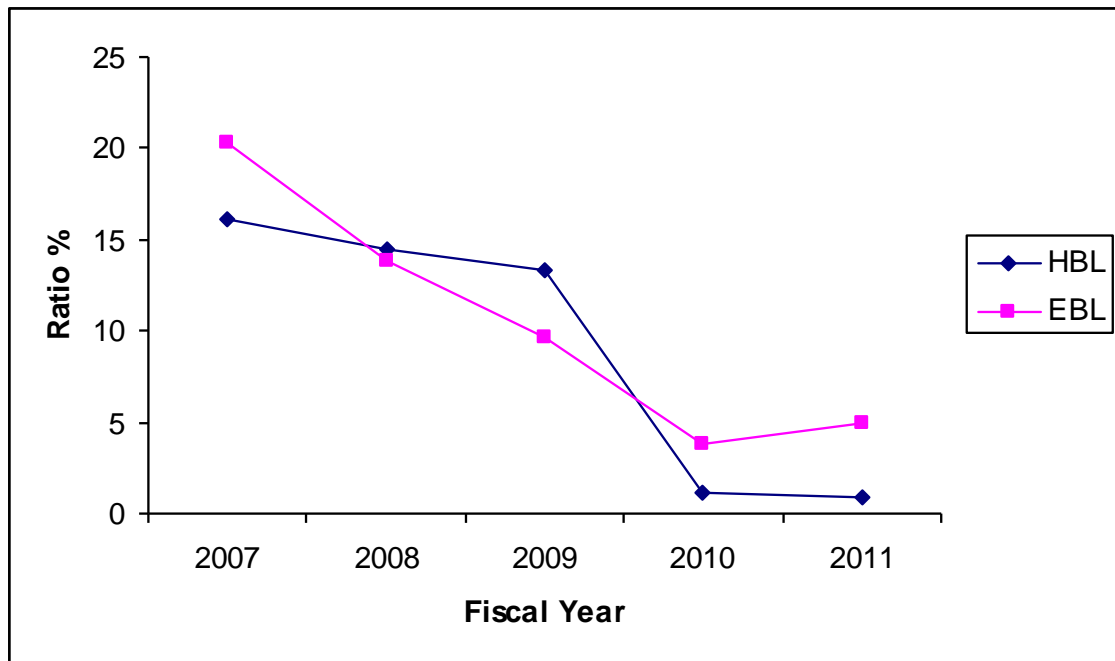
Table 4.19**Dividend Payout Ratio (D/P Ratio)**

Bank	HBL			EBL		
Year	DPS	EPS	Ratio %	DPS	EPS	Ratio %
2007	0.98	6.06	16.17	0.073	0.35	20.27
2008	0.83	5.76	14.41	0.075	0.54	13.89
2009	0.82	6.18	13.27	0.060	0.62	9.68
2010	0.50	25.44	1.09	0.025	0.65	3.85
2011	0.35	37.21	0.94	0.032	0.65	4.92
Mean			9.34			10.52
S.D.			6.44			6.05
C.V.			68.95			57.51

Table 4.19 shows the dividend pays out ratio of the selected Bank is for the period of 2007 to 2011. The average ratio of the year HBL is 9.34 so it paid 9.34 % average during the study period. Average ratio of EBL is 10.52 so it has paid 10.52% are dividend which is higher than HBL.

Figure 4.19

Dividend Payout Ratio



The above table and figure show the Dividend Payout Ratio. Average ratio of EBL is better than HBL. Higher dividend payout ratio shows the bank ability to pay higher dividend to the shareholders.

4.1.7 Income Analysis

The major sources of income of commercial bank are:-

-) Interest received from loan and advance and overdraft, government securities, debenture, investment and other.
-) Commission & discount received from bills purchase, letter of credit and draft bank transfer guarantee commission, remittance charger, selling of share and other charge and commission.
-) Earning From foreign exchanges.
-) Other miscellanies income.

Table 4.20**Income Analysis of HBL** in Thousand

Income	Interest income		Commission discount		Foreign Ex. change income		Other income		total
	Rs	%	Rs	%	Rs	%	Rs	%	
2007	1617037	66.85	193224	7.98	151637	6.27	456476	18.87	2418374
2008	1444245	58.54	202888	8.22	192600	7.80	621032	25.17	2460765
2009	2324173	80.01	284302	9.78	249982	8.60	46342	1.59	2904799
2010	3156864	84.85	270258	7.26	180278	4.84	112346	3.02	3719746
2011	41566612	86.02	350365	7.25	195528	4.04	129516	2.68	42242021
mean		75.25		8.09		6.31		10.26	
S.D.		10.75		0.92		1.48		7.49	
C.V.		14.20		11.37		23.50		73.07	

Sources : Appendix 5 & 6

Table 4.21**Income Analysis of EBL**

In thousand

Income	Interest income		Commission discount		Foreign Ex. change income		total
	Rs	%	Rs	%	Rs	%	
2007	1157394	88.87	117718	9.03	27129	2.08	1302241
2008	1480965	88.04	150264	8.93	50815	3.02	1682044
2009	2071386	88.92	202094	8.67	55861	2.39	2329341
2010	3102451	92.29	203468	6.05	55361	1.64	3348748
2011	4331026	94.61	203469	4.44	42828	0.93	4577323
mean		90.54		7.42		3.63	

S.D.		6.67		1.88		2.82	
C.V.		7.36		24.90		77.7	

Sources : Appendix 5 & 6

Income Interest

The major sources of income of commercial bank are interest received from loan and advance, debenture, government securities etc. Table 4.20 and 4.21 show the various income of HBL & EBL. HBL % of interest income are 66.85, 58.54, 80.01, 84.85 and 86.02 respectively and mean, SD and CV are 75.25, 10.75 and 14.20 respectively.

Similarly, EBL's percentage of interest income is 88.87, 88.08, 88.92, 92.29 and 94.61 respectively. The mean, SD, and CV are 90.54, 6.67 and 7.36 respectively.

From above analysis it is found that higher average ratio of EBL represents, EBL's ability to earn more interest than HBL. So EBL can choose the best returnable area i.e. government sector an loan and advance.

Commission and discount

From table 4.20 and 4.21 the different year's percentage income from commission and discount of HBL are 7.98, 8.22, 9.78, 7.26 and 7.25 respectively. The mean, SD and CV are 8.09, 0.92 and 11.37 respectively.

Similarly EBL ratios are 9.03, 8.93, 8.67, 6.05 and 4.44 respectively. The average ratio, SD and CV are 8.09, 0.92 and 11.37 respectively.

Comparison of commission and discount average ratio of HBL has greater than EBL.

Foreign Exchange Income

Table 4.20 and 4.21 shows different year's percentage income came from foreign exchange of HBL and EBL. HBL ratios are 6.27, 7.80, 8.60, 4.84 and 4.04 respectively. The mean, SD and CV are 6.31, 1.48 and 23.50 respectively.

Similarly EBL ratios are 2.80, 3.02, 2.39, 9.64 and 0.93 respectively. The average ratio, SD and CV are 3.63, 2.82 and 77.7 respectively.

Both tables show the percentage of foreign exchange income where as higher ratio shows that EBL earned higher amount of foreign exchange income. Most of the commercial bank purchase and sell foreign currency from the customer under their rules and regulation.

Other Income

From Table 4.20 and 4.21 other income ratio of HBL and EBL. It is 8.87, 25.17, 1.59 3.02 and 2.68 respectively and average ratio is 10.26 of HBL but EBL has no other income.

4.2 Major Finding

-) The analysis of cash to total deposit ratio indicates that the HBL is more competent in payment of deposits. The company has more liquidity maintained than EBL,
-) From the analysis it can be found that the average rate of cash balance of HBL is greater than EBL. This indicates that the position of liquidity of HBL is stronger and HBL has deposited excess cash in NRB.
-) It is found that the average NRB balance to fixed deposit ratio of EBL is higher than the HBL and HBL has lower fixed deposit as compared to EBL.
-) The fixed deposit average ratio of EBL is higher than the HBL, therefore EBL has more fixed deposit and has utilized opportunity of investment in sufficient

profit generating area like as long term loans. Another HBL can invest short term loans and current assets so as to strength its liquidity position.

-) It is found that HBL is investing more deposit than EBL. Greater average ratio indicates successful utilization of deposit.
-) It is found that EBL is investing more deposit than HBL. Greater average ratio indicates successful utilization of deposit. The average of EBL is greater than HBL. It shows that EBL has satisfactory utilization of total assets in area.
-) An analysis of five periods the average ratio of EBL is higher than HBL, the higher average indicates that EBL has strong and highly capital adequacy position to contribution to investor so the average ratio of EBL is greater than HBL which shows the favourable capital adequacy ratio.
-) It is found that the debt ratio of HBL is consistent than the EBL. This ratio has decreased in first and last two year, of HBL, but it is little consistent in the case of EBL. But it shows that HBL is riskier and may fail to satisfy the creditors.
-) Mean debt to capital ratio of EBL is greater than HBL. Greater average ratio indicates that EBL is raising more capital through debt than HBL.
-) Higher debt ratio indicates the higher risk and HBL has higher mean ratio as compared to EBL. This indicates that HBL's risk is more than EBL.
-) In the above calculation between HBL and EBL bank from here it can be concluded that the interest paying ability of HBL in an average is more than EBL. So this analysis obviously shows that the interest coverage ratio of HBL is better than EBL.
-) HBL has higher profit in the year 2009 and 2011 and the lower in the year 2010. Average ratio of EBL is higher so it shows that the EBL profitability position over the total assets is much more satisfactory than that EBL.
-) EBL has higher return to total deposit ratio than HBL. It shows that the EBL profitability position over the total deposit is more satisfactory than that of HBL.
-) Higher average ratio in office operating expenses total income ratio indicates more expenses to build office management here HBL has higher expenses

ratio than the EBL. It is time to decrease their operating expenses and control their expenses and increase financial position.

-) Higher average EPS indicates that HBL is able to earn more profit per share to the common share holders than that of EBL.
-) Average DPS of HBL is more attractive than EBL. Higher dividend shows the bank is successful to pay dividend to the share holders.
-) Higher average ratio of EBL represents Everest bank has able to earn more interest than Himalayan bank. So EBL can choose the best returnable area i.e. government sector on loan and advance.
-) Commission and discount average ratio of HBL has greater than EBL. It indicates that commission and discount is consistency than EBL.
-) HBL earned higher position of foreign exchange income. It represent most of the commercial bank purchase and sell foreign currency from the customer under their rules and regulation.
-) The trend of EPS and DPS of the both sampled banks are not satisfactory. It shows, in trend line, that the HBL has paid little DPS to share holders although in same time the DPS of EBL was increasing.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with the summary, conclusion and recommendation. The first part of the chapter is summary, second conclusion and third recommendation.

5.1 Summary

Financial institution plays a vital role in the process of growth of the country. Financial infrastructures of an economy consist of financial intermediation, financial institution and financial markets. Financial institutions facilitate mainly development of Nepalese trade, industry and commerce.

Nepal has adopted mixed economy system, which is known to be combination of good aspects of socialistic and capitalistic economic system, in this economic system both government and private sector are active for the industries since 1990, Nepal has adopted more liberal and open economic system with high emphasis an private sector led growth in the early years of development the government had taken the leadership for industrial development by establishing industries under its ownership.

Bank is one of the financial institutional which provides to public borrowing and lending. Now days the banking sector has reached to the most remote areas of the country and has gained a good contributing in the growth of the economy.

The present structure of the financial institution is based on commercial banks. 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 first chapter of the study explains the background and statement of the problem and objective of the study and limitation. The second chapter includes the review of literature from the conceptual frame work and past studies. The third

chapters explain the research methodology followed in this study. In this study two commercial banks have been selected from commercial banks.

From the analysis it is found that the financial performances of the HBL in different components are better than the EBL. So the management of the company, investors and the regulator are recommended to improve the financial performance, to make right investment decision and proper regulation.

5.2 Conclusion

The main objective of the study is to analyze comparative performance of the two selected commercial banks EBL & HBL. The analysis of cash balance to total deposit ratio indicates that the Everest bank ltd. is more competent in payment of deposit.

It can be found that the average rate of cash balance of HBL is greater than EBL. This indicates that the position of liquidity of HBL is stronger and HBL has deposited excess cash in NRB, It is found that the average NRB balance to fixed deposit ratio of EBL is higher than the HBL and HBL has lower fixed deposit as compared to EBL. EBL has more fixed deposit and has utilized opportunity of investment in sufficient profit generating area likes long term loans. Another HBL can invest in short term loans and current assets so as to strength its liquidity position. It is found that EBL is investing more deposit than HBL. Greater average ratio indicates successful utilization of deposit.

The average capital adequacy ratio of EBL is greater than HBL which shows the favourable capital adequacy ratio and the higher average ratio indicates that EBL has strong and highly capital adequacy position to contribution to investor. It found that the debt to equity ratio of HBL more consistent than the EBL. The ratio is decreasing in last two year of HBL but it is more consistent in the EBL. It shows that EBL is riskier and may fail to satisfy the creditor. Mean ratio of HBL is greater than EBL. Greater average debt equity ratio indicates that EBL gradually rising the capital through debt and decreasing the equity capital. Higher debt ratio indicates the higher

risk and HBL has higher mean ratio as compared to EBL. This indicates that HBL's risk is more than EBL. The interest coverage ratio of HBL is greater than the EBL. It can be concluding that the interest paying ability of HBL in as average is more than EBL. The interest coverage ratio of HBL is better than EBL. In the above calculation, HBL has the higher profit ratio than EBL. It shows that the HBL profitability position over the total assets is much more satisfactory than that of EBL. HBL has the higher worth ratio in year 2009 & 2011 and lower in the year 2010. It shows that the HBL profitability position over the total deposit is much more satisfactory than that by EBL. The ratio of HBL is higher than EBL.

The total deposit of both bank are in increasing percentage of HBL is higher than the EBL. The average return ratio of the bank HBL is 1.66 where as the average of EBL is 0.0196 percentage. It shows that the HBL is able to generate more return than EBL. Higher average ratio in office operating expenses to total income ratio indicates more expenses to build office management. Here, HBL has higher expenses ratio than EBL. It is time to decrease their operating expenses and control their expenses and increase financial position. Higher average ratio indicates that HBL is able to earn more profit per share to the common share holders than that of EBL . EPS has criticizes as the measure of profitability because it does not consider the amount of assets of capital required to generate that level of earning. Average ratio of cash dividend of HBL is more attractive than EBL, cash dividend attracts the attention of share holders toward the inter price, which lead to boost. The market value of share and it also reflects to better performance of the company. HBL has better than EBL higher dividend shows the bank successful to pay dividend to the share holders. Higher average ratio EBL represent EBL has able to earn more interest income than HBL. So EBL can choose the best returnable i.e. government sector on loan and advance commission and discount average ratio of HBL has greater than EBL. It indicates that commission and discount is consistency than EBL.

HBL earned higher position of foreign exchange income represent most of the commercial bank purchase and sell foreign currency from the customer under their rules and regulation.

5.3. Recommendation

From the analysis of the collected data and conclusion made in the previous section the following recommendation have been made.

Every organization needs profit to survive for long period which is the fact. It also needs profit for different purpose which is possible when there is effective and efficient management as well as the total team commitment. It would be better for the bank if there is excellent management and the excellent services, cooperation with all the clients of the bank and excellent team work within the organization which is the long key elements for the survival of the bank and as well as for its own good will. Besides these they're various factors which bank needs to be improved. They are mentioned below.

- The cash balance and bank balance to total deposit ratio of HBL is higher. Those ratio are insufficient. So both banks should be increasing cash and bank balance. Those banks have to invest its excess cash in different alternative.
- The NRB balance to fixed deposit ratio of EBL is higher than the HBL and HBL has lower fixed deposit ratio as compared to EBL so that HBL should collected more fixed deposit from public.
- The fixed deposit to total deposit ratio of EBL is more than HBL therefore EBL has more fixed deposit and has utilized opportunity of investment in sufficient profit generating areas like as long term loans and current assets so as to strength its liquidity position.
- Net worth to total assets ratio of EBL is higher than HBL so HBL should improve its performance to enter the company in to profit.
- The debt ratio of HBL same consistent which means that the bankruptcy risk of the bank is less than EBL so investor are recommended to invest in EBL.
- The interest coverage ratio of HBL is greater than the EBL. So HBL is recommended to increase the operating profit and decrease interest rate in the reasonable level.
- Office operating expenses to total income ratio of HBL is higher so the company should try to minimize it.

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Appendix 1
Balance sheet of Himalayan Bank Ltd.
in thousand

S. N.	Capital and Liability	2007	2008	2009	2010	2011
1	Share capital	810810	1013512	1216215	2000000	2400000
2	Reserve and Funds	1335689	1499479	190366	1439205	1595478
3	Debentures and Bonds	360000	860000	500000	500000	500000
4	Borrowing	235967	83177	-	-	10000
5	Deposits	30048417	31842789	34881347	37611202	4092062
6	Bills Payable	91303	102669	113509	216158	31655
7	Proposed Dividend Payables	130939	263076	162096	189473	37165408
8	Income Tax Liabilities	11917	19134	1593473	-	-
9	Other Liabilities	494099	491695	733327	751086	941600
	Total Liabilities	33519141	36175531	39330331	42717124	46736203

S. N.	Assets	2007	2008	2009	2010	2011
1	Cash Balance	177242	278183	473759	514223	632046
2	Balance with NRB	1272543	935841	2328405	2604790	1390625
3	Balance with Bank/Financial institutions	307555	234117	246361	747476	941979
4	Money at call and Short Notice	1710023	518529	1170793	308840	73400
5	Investment	11822984	13340176	8710690	8444910	8769938
6	Loan Advances and Bills purchase	16997997	19497520	24793115	27980628	31566976
7	Fixed Assets	574060	795309	952196	1061870	1187493
8	Non-Banking Assets	12766	10306	22694	-	-
9	Other Assets	643967	565545	622264	1054384	1513144
	Total Assets	33519141	36175531	39330331	42717124	46736203

Source : Annual Report

Appendix 2
Balance sheet of Everest Bank Ltd.
in thousand

S. N.	Capital and Liability	2007	2008	2009	2010	2011
1	Share capital	518000	831400	838821	1279607	1391570
2	Reserve and Funds	683515	1089837	1364804	1479530	1721975
3	Debentures and Bonds	300000	300000	300000	300000	300000
4	Loan and Borrowing	-	-	312000	404600	482000
5	Deposits	18186200	23976300	33322900	36932300	41127900
6	Bills Payable	26776	49429	148655	145514	49716
7	Proposed and unpaid dividend	68146	140790	230524	276252	576897
8	Income Tax Liabilities	15278	41143	20522	(1136)	26900
9	Other Liabilities	1634659	720443	378622	566093	559237
	Total Liabilities	21432574	27149342	36916848	41382760	46236212

S. N.	Assets	2007	2008	2009	2010	2011
1	Cash in hand	23913	26679	61644	78188	61228
2	Balance with NRB	1178198	1080914	4787163	5625113	4706320
3	Balance with Bank/Financial institutions	678225	764067	432511	1102200	367543
4	Money at call and Short Notice	-	346000	-	-	-
5	Investment	4984300	5059600	5448500	5008300	7743900
6	Loan Advances and Bills purchase	13664081	18339085	23884673	27556356	31057691
7	Fixed Assets	170097	360512	427157	463094	460258
8	Non-Banking Assets	-	-	-	-	-
9	Other Assets	733760	1172485	1920200	1549509	9505733
	Total Assets	21432574	27149342	36916848	41382760	46236212

Source : Annual Report

Appendix 3
Profit and Loss A/C of Everest Bank Ltd.
in thousand

S. N.	Particular	2007	2008	2009	2010	2011
1	Interest Income	1144408	1548657	2186814	3102451	4331026
2	Interest Expenses	(517166)	632609	1012874	1572790	2535875
	Net Interest Income	627242	916047	1173940	1529661	1795150
3	Commission and Discount	117718	150264	202094	208123	203468
4	Other Operating Income	67967	79133	106403	142311	148061
5	Exchange Income	28404	64452	62526	47879	46259
	Total Operating Income	841332	1209898	1544965	1927976	2192940
6	Staff Expenses	(86118)	157957	186919	226364	293130
7	Other Operating Expense	(177545)	233766	292010	352511	383112
8	Exchange loss	-	-	-	-	-
	Operating A Profit Before Provision For Possible Loss	577668	818174	1066035	1349100	1516697
9	Provision for Possible Loss	(89695)	(99340)	(93084)	(77010)	(98299)
	Operating Profit	487972	718833	972950	1272090	1418397
10	Non Operating Income/Loss	1315	4519	5005	12338	1433
11	Write back of Lone Loss Provision	11686	20201	8044	83553	56337
	Profit from Regular Activities	500974	443554	985999	1367982	1476168
12	Profit/Loss from Transaction of Extraordinary Nature	(795)	(18998)	(5549)	(61192)	(12051)
	Profit after Inclusion of all Transaction	500179	724555	980450	1306790	1464117
13	Provision for staff bonus					
14	Provision for Income Tax	(45470)	65868	89131	118779	133101
	Tax for the year					
	Tax for Earlier Year	(144368)	216913	276864	357020	427531
	Current Year deferred	(13931)				560

	Tax(Income)/Expenses		(9445)	(24278)	(794)	(28380)
	Net Profit	296409	451218	638732	831765	931303

Source: Annual Report

Appendix 4
Profit and Loss A/C of Himalayan Bank Ltd.
in thousand

S. N.	Particular	2007	2008	2009	2010	2011
1	Interest Income	1775582617	1963647472	3242198179	3148605196	4326140588
2	Interest Expenses	767411247	823744838	934776015	1553530687	2414807243
	Net Interest Income	1008171370	1139902634	1407420164	1595074509	1911333345
3	Commission and Discount	193224228	187819983	284302277	270258732	350365112
4	Other Operating Income	40328872	62103241	46342872	112346425	129516981
5	Exchange Income	151637322	207669178	249982608	180278743	195528538
	Total Operating Income	1393361792	1597495036	1988047919	2157958409	2586743976
6	Staff Expenses	272225308	292213138	360980641	414983894	517591827
7	Other Operating Expense	341561021	344320784	398316568	471102966	582209813
8	Exchange loss	-	-	-	-	-
	Operating A Profit Before Provision For Possible Loss	779575463	960961114	1228750712	1271871549	1486942336
9	Provision for Possible Loss	90688827	6007608	68806514	692640089	471728836
	Operating Profit	688886636	954953506	1159945198	579231460	1015213473
10	Non Operating Income/Loss	3493278	9700477	3810145	12382440	15855933
11	Write back of Lone Loss Provision	412654152	131682971	19484655	265542038	228145590
	Profit from Regular Activities	1105034066	1096336	1183239998	857155938	1259214996
12	Profit/Loss from Transaction of Extraordinary Nature	(315890702)	(52614217)	(9973406)	(25855926)	102292025
	Profit after Inclusion of all Transaction	789143364	1043722737	1173266592	831300012	1361507021
13	Provision for staff bonus	71740305	94883886	106660599	75572728	123773366
14	Provision for Income Tax	717403059	312970332	313771258	246929091	344618512
	Tax for the year	225580154	309154692	340776052	246070406	338351341

	Tax for Earlier Year			568826	1454373	813229
	Current Year deferred		3815640	(27573620)	(595688)	5453942
	Tax(Income)/Expenses					
	Net Profit	491822905	635868518	752834734	508798193	893115143

Source: Annual Report

Appendix 5 Schedule of HBL

in thousand

Particular	2007	2008	2009	2010	2011
Cash and bank balance	177242	278183	473759	514223	633046
Total Deposit	30048417	31842789	34881345	376112022	4092062
NRB balance	12722543	935341	2328405	264790	1390625
Current and saving deposit	5964605	5429402	3883398	6492490	4913614
Fixed Deposit	8201134	6423874	6377132	11328635	13507370
Investment	11822989	13340178	8710690	8444910	869939
Loan & advance	16997997	19497520	24793155	27980728	31566979
Total Assets	33519141	36175531	39330331	42717124	46736203
Net worth	474117	707413	473151	764736	1040834
Total Debt	71245	132574	124372	121543	194321
Total capital	3435388	3253511	3845211	42183610	47112430
EBIT	779575	960961	1228750	1271871	1486942
Interest	767411	823744	934778	2414807	1553530
NAPT	491822	635888	752834	508798	893115
Office operating exp.	322865	344320	398316	471102	1037766
Total Income	658503	804256	1209677	901323	1073766
Dividend paid	784200	918200	999900	1001600	831800
No. of share	81081000	110351250	121621500	20000000	24000000
Interest income	1617037	1444245	2324173	3156864	41566612
commission discount	193224	202888	284302	270258	350365
Foreign exchange income	151637	192600	249982	180278	195528
Other income	456476	621032	46342	112346	129516

Source: Annual Report

Appendix 6 Schedule of EBL

in thousand

Particular	2007	2008	2009	2010	2011
Cash and bank balance	23913	26679	16644	78188	61228
Total Deposit	18186200	23976300	33322900	36932300	41127900
NRB balance	1178198	1080914	4787163	2625113	4706320
Current and saving deposit	18186253	23976298	33322946	411279911	36932310
Fixed Deposit	5626661	6446181	7049978	10440278	15061938
Investment	4984300	5059600	5448500	5008300	7743900
Loan & advance	14082700	18836400	24469600	28156400	31661800
Total Assets	21432574	27149342	39616848	41382760	46236212
Net worth	274502	498010	833418	841588	967833S
Total Debt	63453	53210	134532	100432	103214
Total capital	1676116	2348390	2703870	3257148	3605840
EBIT	500974	343554	985999	1306790	1464117
Interest	577166	632609	1012874	1572790	2535875
NAPT	296400	451200	638700	831800	931300
Office operating exp.	1775000	2337000	2920000	3525000	3831000
Total Income	13787000	18481000	25653000	35355000	47450000
Dividend paid	60660	62740	61690	31800	44660
No. of share	8314000	8327210	10304673	12796074	13915704
Interest income	1157394	1480965	2071386	3102451	4331026
commission discount	117718	150264	202094	203468	203469
Foreign exchange income	27129	50815	55861	55361	42828

Source: Annual Report