

CHAPTER-I

INTRODUCTION

1.1 Background of the Study:-

Every country has to give an emphasis on up-liftment of the stable growth and sustainable economy. Until and unless a nation can mobilize its own domestic resources, the nation cannot achieve economic growth. Transfer of scattered capital funds from various savers to productive sectors is the major function of financial market. Financial market consists of Financial Institutions including financial intermediaries using various financial instruments and linking savers and users of funds.

The major concern of many countries of the world has to accelerate their development process and thereby increase the welfare of their people. This can be done only through rapid industrial development. This would require gearing up savings, creating conducive and enabling investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and debt capital through appropriate instrument. Such a scenario will help to grow corporate enterprise capable of ushering into a high growth era.

Nepal is a small country with 1,47,181 square kilometer. Nepal is landlocked country surrounded by mountains. Nepal is a country in Southern Asian, bounded on the North by the Tibetan autonomous region in China & on the East, South & West by India. Nepal covers about 0.03% and 0.3% area of the World and Asia respectively. Nepal is a mountainous country where highest peak of the world Mount Everest is located with height of 8,848 m. Hence it is popularly known as third pole. The Nepal has agriculture oriented economy with around US\$ 721 per capita income developing country it's on the path of economic growth with

various topography and climate, Nepal is rich in biodiversity and also the birth place of Lord Buddha.

Bank is a financial institution, and the backbone of a country for the economic development. It constitutes the important segment of the financial infrastructure of any country. In broad sense, bank can be said as important financial institution, which collects and safeguards the public money, disburses the collected money for the productive purposes, transfers funds guarantees credit worthiness and exchange of money. Banks are rendering a wide range of services to people by collecting cash from cash from savers and providing loans to the investors, and acts as an agent between the savers and investors and the main game the bank is to play with money and through it generates profit. The banking sector has now reached even to the most of the remote areas of the country and has contributed a good deal to the growth of the economy.

"Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against provides of safe keeping of their valuable items on the presentation of the receipt; the depositors would get bank their gold and valuables of the paying a small amount for safe-keeping and saving". (*Samuelson, 1993:32*)

Bank came into existence mainly with the objectives of collecting 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 where they are serving basically bank performs various types of services like collections of deposit from the public, granting loans to the investors, overdraft, guarantee against payment, letter of credit, discounting bills, and selling of shares as agency functions. Banks collects

money from public by attracting them with sound interest rate into their deposits and provides loans to the industry, business houses and needy people with some interest which is higher than the interest rate they provide in the deposit.

Financial Analysis is the process of identifying the financial strength and weakness of the firms by properly establishing relationship between the items of the balance sheet and the profit and loss account. Quality governance is impossible without effective analysis and evaluation of financial information. The analysis of the performance is designed to make a careful study of the recent financial records of the financial companies in order to evaluate its performance. Financial statements are analyzed. Performance evaluation must not be focused exclusively up to the criterion of short term profitability or any other signals standards which may cause managers to act contrary to the long range interest of the company as a whole.

The proper analysis and interpretation of financial statements is a felt necessary in our corporate banks, private enterprises, and similarly other organizations to find out what information are indicated from this balance sheet and income statement and other accounting information. On the basis of these information's it becomes easy to chalk out the problem faced by the corporations.

Banking institutions are inevitable for the resource mobilization and all round development of the country. They have resources for economic development and they maintain economic confidence of various segments and extend credit to people. (Ronald, 1983:87)

The financial analysis is used to diagnose the strength and weakness in the corporation's performance. It provides a framework for financial planning and

control. As there has been numbers of Joint Ventures banks (JV's) in Nepal the present aim is to analyze the financial performance analysis of the Himalayan Bank Limited (HBL) Just to be assured whether they can put equal contribution in the economic growth of the country or not..

"The profit earned by the firm is the main financial performance indicator of business enterprises. Profit results mainly from successful business management, cost control, credit risk management and Successful efficiency of operation'.
(Robbinson, 1957:21-22)

After the introduction of liberal economic policy adopted by NRB, of Nepal it has provided an opportunity for the banking institution to grow rapidly. As a result different joint venture bank and financial institutions were established rapidly and now there are licensed 31 commercial banks in the country.

1.2 Origin of Banking System:-

According to a French writer Revil pout, Bank notes were in practice in Babylonia around 600 B.C. This could be considered as the first ever step to the inception of banking system. It has been assumed that the practice of modern banking functions such as exchange of money, transfer of funds, note issue accepting deposits, lending money etc. already began in Rome around the late 4th century. However, the banking development collapsed with the Roman civilization.

The banking business revived in the 12th century as Jews conducted functions such as safe keeping of valuables, lending money at interest and similar other functions. Being lured by the good profit, Italians, too, extensively followed suit. As a result bank of Venice, the first bank in the world come into existence in 1157 A.D.

Prior to the development of modern banking system, the role of merchant, money lenders and gold smith was dominant in the society Therefore, they can consider as the three ancestors of modern banking. Gradually the function of accepting deposits and granting loans of accepting deposits and granting loans were handed over from individual to the joint stock company.

Subsequently 'Bank of Barcelona' Spain was established as the first modern bank in 1401 A.D. They're after 'Bank of Amsterdam' Holland and 'Bank of Hamberg' Germany were established in 1607 A.D. and in 1619 A.D. respectively. The modern banks undertook the function of issuing notes, credit creations, accepting deposits, lending money, transfer of fund, accepting bills of exchange, promissory notes etc. later only the central bank were authorized to issue the notes.

The European Industrial revolution of the 17th century brought about drastic increase in production, thereby lending to rise in marine transportation and overseas trade. Most of the European countries rushed for seeking new colonies.

In the ground of the favorable economic environment, 'Bank of England' came into begins in 1694 A.D. The advent of bank of England gave scientific shape to Modern banking. After the formulation of the act regarding 'Bank of England' in 1833 A.D., the prominence of Joint stock bank was further enhanced. From 1844 A.D., Bank of England was allowed to function as the central bank.

Around 1850, the 'Credit Mobilizes' was established in Paris as the first venture bank. The existence of many ventures banks facilitated industrialization in Europe. In the 19th century, commercial banks were opened in almost all countries in the world. Thus, development of the modern banking system gains full momentum and various monetary problems. Now banks have been the vital part of economic

and business life of each economy. The three ancestors of bank i.e. merchants, Money lenders and Gold Smith, were performing the work i.e. accepting deposits, keeps valuable things in the custody and granting loans those who needed. This was all their individual effort.

1.3 Development of Banking System in Nepal:-

In Nepal, 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 money lenders, landlords, rich merchants, goldsmith has acted as fence to institutional credit in presence of unorganized money market. The origin of bank in Nepal and its beginning of growth is controversial.

Like other countries Gold Smith, Merchants and Money Lenders were the ancient bankers of Nepal. However, in 1877 A. D. (1933 B.S) during the tenure of the Prime Minister of Ranoddip Singh the establishment of 'Tejarath Adda', fully subscribed by the government may be regard as the first remarkable step in the institutional development of banking in Nepal. That is why it is also called the father of modern banking institution. Tejrath Adda did not collect deposits from the public but give loans to the employees and public against the bulletins.

The main purpose of setting this 'Adda' was to provide credit facilities to general public and government employees at a confessional rate of interest (i.e. at 5%) admits the dominance of local, money-lenders, merchants and landlord who were charging exorbitant rates of interest. The Tejrath Adda distributed credit facilities to the general public especially on the collateral of gold and silver. Several branches were opened in different parts of country and running smoothly for flows decades.

During the Prime Minister ship of Chandra Sumsher the 'Tejarath Adda' extended its services by opening branches in some cities outside the valley. However, in the absence of saving mobilization 'Tejarath Adda' faced several financial problems making it impossible to cater the need of general population throughout the country. The main defects of this institution sougheed as there was no other financial setup and no effort to expand the services. Above all the defects, this institution did not accept any deposits from public. After that again, for a long time, several unorganized bankers and indigenous moneylenders continued to flourish as the sole provider of the credit and services to the general public.

Nepal Bank Limited was the first financial institution of Nepal established on the 30th Kartik, 1994 Bikram Sambat (B.S). (1937 A.D). Regarding banking system, in every economic planning, government has encouraged and appreciated the role and importance of banking sector. Further the government has adopted the liberal economic policy and foreign investment policy. Reviewing the steps taken by the government many commercial banks are established in Nepal with the establishment of Nepal Rastra Bank (NRB) on 14th Baishak, 2013 B.S. (1956 A.D) under the Nepal Rastra Bank Act 2012 set a mile stone in the history of Banking system of the country, supervising and directing the functions of commercial banking activities.

With a view to abolish dual monetary system, to stabilize the exchange rate, to facilitate the use of Nepalese currency throughout the kingdom and to mobilize the capital to encourage the development in industry and trade, Nepal Rastra Bank (NRB) was established under functioning as the Government's bank and has contributed to the growth of financial sector. On 7th Falgun 2016 B.S., NRB issued Nepalese currency note for the first time. Similarly the second commercial bank

Rastriya Banijya Bank (RBB) was established in 10th Magh 2022 B.S and Rastriya Banijya Bank Act 2001. This Act is now revised as commercial banking Act 2031 B.S.

Similarly, Agriculture Development Bank (ADB) was established in B.S 2024.10.07 to provide finance for the agricultural products so that agricultural productivity could be enhancing by introducing modern agricultural techniques. Likewise, Co-Operatives came into begin in 2019 B.S. Moreover, Security Exchange Centre was established in 1976 A.D. to enhance capital market activities. Securities Exchange Centre was renamed Nepal Stock Exchange (NEPSE) in 1993 A.D. In the context of increasing commercial activities in the country, the service of merely two commercial banks Nepal Bank Limited (NBL) and RBB was realized insufficient 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.

At Present around 31 commercial banks are proving banking services, which are listed below:

Table 1.1

S.No.	Name	Operation Date (A.D.)	Head Office
1	Nepal Bank Ltd.	1937/11/15	Dharmapath, Kathmandu
2	Rastriya Banijya Bank Ltd.	1966/01/23	Singha durbar plaza, Kathmandu
3	Nabil Bank Ltd.	1984/07/16	Kantipath, Kathmandu
4	Nepal Investment Bank Ltd.	1986/02/27	Durbarmarg, Kathmandu
5	Standard Chartered Bank Nepal Ltd.	1987/01/30	Nayabaneshwor, Kathmandu
6	Himalayan Bank Ltd.	1993/01/18	Thamel, Kathmandu
7	Nepal SBI Bank Ltd.	1993/07/07	Hattisar, Kathmandu
8	Nepal Bangladesh Bank Ltd.	1994/06/05	Nayabaneshwor, Kathmandu
9	Everest Bank Ltd.	1994/10/18	Lazimpat, Kathmandu
10	Bank of Kathmandu Ltd.	1995/03/12	Kamaladi, Kathmandu
11	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi
12	Lumbini Bank Ltd.	1998/07/21	Narayangadh, Chitwan
13	Machhapuchhre Bank Ltd.	2000/10/03	Prithivichowk, Pokhara, Kaski
14	Kumari Bank Ltd.	2001/04/03	Durbarmarg, Kathmandu
15	Laxmi Bank Ltd.	2002/04/03	Adarsanagar, Birgunj, Parsa
16	Siddhartha Bank Ltd.	2002/12/24	Kamaladi, Kathmandu
17	Agriculture Development Bank Ltd.	1968/01/02	Ramshahpath, Kathmandu
18	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
19	Citizens Bank International Ltd.	2007/06/21	Kamaladi, Kathmandu
20	Prime Commercial Bank Ltd.	2007/09/24	Newroad, Kathmandu
21	Sunrise Bank Ltd.	2007/10/21	Gairidhara, Kathmandu
22	Grand Bank Nepal Ltd.	2008/05/25	Kamaladi, Kathmandu
23	NMB Bank Ltd.	2008/06/05	Babarmahal, Kathmandu
24	Kist Bank Ltd.	2009/05/07	Anamnagar, Kathmandu
25	Janata Bank Nepal Ltd.	2010/04/05	New Baneshwor, Kathmandu
26	Mega Bank Nepal Ltd.	2010/07/23	Kantipath, Kathmandu
27	Commerz & Trust Bank Nepal Ltd.	2010/09/20	Kamaladi, Kathmandu
28	Civil Bank Ltd.	2010/11/26	Kamaladi, Kathmandu
29	Century Commercial Bank Ltd.	2011/03/10	Putalisadak, Kathmandu
30	Sanima Bank Ltd.	2012/02/15	Nagpokhari, Kathmandu
31	NIC Asia Bank Ltd.	2013/06/13	Thapathali, Kathmandu **

Source: www.nrb.org.np

** Nepal Industrial & Commercial Bank Ltd. established on 1998/07/21 and Bank of Asia Nepal Ltd. established in 2007/10/12 merged together to become the largest bank of Nepal.

The proper mobilization and utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic development and there is no doubt that commercial banks have a pivotal role in the collection of dispersed small savings of Nepalese people and transforming them into meaningful capital investment. The success and prosperity of the bank relies heavily upon the successful investment of collected resources to the important sectors of economy. Successful formulation, effective implementation of investment policy is the prime requisite for the successful performance of commercial banks. Good investment policy has positive impact on economic development of the country and vice versa. So, investment policy of commercial banks should be in accordance with the spirit of the economic upliftment of the people.

As mentioned above, there are many loopholes in the investment policies of commercial banks of Nepal, which affect their performance to great extent. It becomes everybody's concern when their performance does not seem so satisfactory in terms of utilizing its resources efficiently in productive sectors. The study of commercial banks investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement policy of commercial banks and point out the defects inherent in it and provide package of suggestion for its improvement.

Hence, this study focuses on the financial performance and comparative analysis of two commercial banks only. Brief profiles of those banks are given below:

1.4 Brief Profile of Himalayan Bank Limited (HBL):-

1.4.1 Introduction:-

Himalayan Bank limited (HBL) was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees' Provident Fund and Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operation was commenced from 18th January 1993. It is the first commercial bank of Nepal with maximum shares holding by the Nepalese private sector. Besides commercials activities, the bank also offers industries and merchant banking. The initial Authorized capital was 300 million Rupees, Issued & Paid- up capital 2400 million Rupees.

HBL head office is located at its own building at Kamaladi, Kathmandu with 41 branches all over the country with 73 ATM terminal. HBL has been a pioneer in introducing Nepalese domestic Credit card and Visa Card as well as Automated Teller Machine (ATM), Any Branch Banking Service (ABBS), Telebanking, Short Message Service (SMS) Banking, Internet Banking, Premium Saving Account (PSA), remittance etc. are other special services provided by HBL.

Himalayan Bank's policy is to extend quality and personalized service to its customer as promptly as possible. The Bank, as far as possible, offers tailor made facilities to its client based on the unique needs as requirement. To extend more efficient services to its customers, Himalayan bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adaptation and

new technology. Himalayan Bank is committed to be as “BANKING WITH A DIFFERENCE”. For starter, it was the first bank to launch the card services.

All Branches of HBL are integrated into Globus software (developed by Temenos), the single Banking software where the Bank has made substantial investments and avail comprehensive banking solution. HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. Being one of the corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

HBL has an authorized capital of NRs. 3,000,000,000.00 divided into shares for NRs. 100 each. HBL has an Issued capital of NRs. 2,400,000,000.00 and Paid Up capital of NRs. 2,400,000,000.00

In a long run, HBL has opened its branches in many places of Nepal.

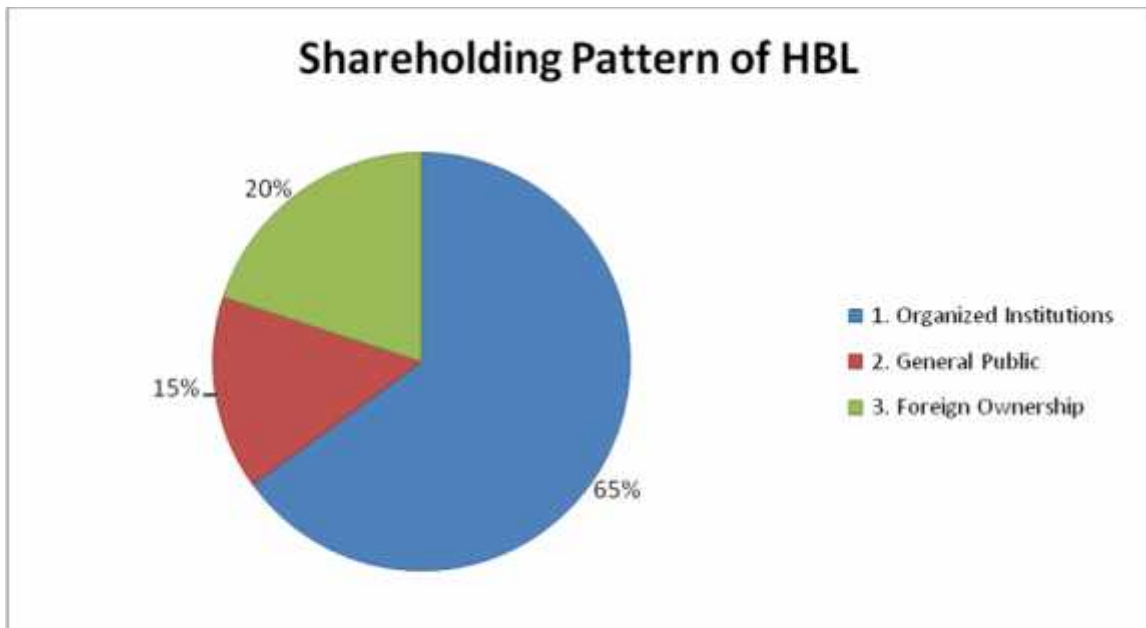
Table No.1.2
Capital Structure of Himalayan Bank Ltd.

Types of Share Capital	Fiscal Year 2068/69 (In NRs.)	Fiscal Year 2069/70 (In NRs.)
Authorized Capital	3,000,000,000	3,000,000,000
Issued Capital	2,000,000,000	2,400,000,000
Paid Up Capital	2,000,000,000	2,400,000,000
Proposed Bonus Share	400,000,000	360,000,000
Total	2,400,000,000	2,760,000,000

Source: Report to Shareholder of HBL, 2011/12

<u>Share holder Pattern:</u>	<u>Percent</u>
1. Organized Institutions	65.00%
2. General Public	15.00%
3. Foreign Ownership	20.00%

Figure No 1.1



The above figure no 1.1 show that pie chart of shareholder's pattern where organized institution has 65% of share, General Public has 15% of share and foreign ownership has 20% of share.

1.4.2 Products and Services Offer by HBL:-

A) Deposit:-

Himalayan Bank offers a wide range of deposit products that caters to your requirement. HBL brings the convenience of networked branches/ATMs and facility of E-channels like Internet, and SMS Banking.

The bank offer deposits products like Normal Saving Scheme backed by accidental death insurance scheme and specialized deposit products like Premium saving account. HBL serves deposits as Fixed Deposit, Savings Deposit, Current Account, Premium Savings Account (PSA) and Call Deposit The bank offers different types of deposit schemes to the customers like Current account, saving account, short term deposit account (7 days to 90 days) and fixed term deposit account (above 90days). The bank accepts and maintain these types of deposit accounts in these currencies like Nepali rupees Dollar, Pound Sterling, Euro, Japanese Yen and Swiss Franc.

B) International Banking:-

To assist its trading Customers, HBL offers Letter of Credit (LC) facilities. Customers can place their LC application in any of HBL Branches. The fees/charges are one of the lowest amongst the commercial banks of Nepal. The Customers enjoy wide correspondent network of Himalayan Bank in addition to the attractive rates.

C) Hours Banking:-

The bank also offer banking services like 24 hours, 365 days (from selected branches) which enables the customers to avail of banking activities at well wakeful hours.

D) Automatic Teller Machine (ATM):-

To avail of this facility, the customer must request an ATM card from any of the bank's branches. The withdrawal can be made from any account in any of the branches. The bank has made the ATM network to 73.

E) Himalayan Bank Credit Card:-

Credit card is a plastic card with a credit limit used to purchase goods and services and to obtain cash advances on credit for which a cardholder is subsequently billed by the issuer for repayment of the credit extended. The financial institution issue it, which are member of Master card international incorporated and/or Visa international. A credit card differs from Debit card or Automatic teller machine (ATM) cards, which allows withdrawals against the deposit only. Similarly, it is different from charge card, which is not issued by financial institutions. With and anchor "Banking with a difference" HBL was the first bank to introduce a Nepalese domestic Credit Card "*Himalayan bank Credit Card*" valid in Nepal. The Bank has also introduced "*Himalayan Bank Gold Card*" with additional privileges. Himalayan Bank is also a member of VISA and Master Card International. The bank issue all range of VISA Cards.

On August 1, 2013, HBL, announced the launch of Himalayan Bank American Express Gold Credit Card in Nepal. The card is available in two variants - The Himalayan Bank American Express Gold Credit Card Domestic (Nepal and India), offering powerful savings and lifestyle benefits and the Himalayan Bank American Express Gold Credit Card - International (outside Nepal and India), offering attractive travel benefits for Card members in Nepal.

F) Correspondent Network:-

HBL has access to the worldwide correspondent network of HABIB bank for fund transfer, letter of credit or any banking business anywhere in the world. Habib Bank is the largest and oldest bank in Pakistan having over 1700 domestic and 65 overseas branches covering all continents and over 1800 correspondents worldwide. Besides, Himalayan Bank has correspondent arrangement with 178 internationally renowned banks.

G) Any Branch Banking:-

Due to the computerization of the Banking activities, HBL has made the operations like withdrawal and deposit of cash and cheque possible from any of their branches. Customer maintaining an account with a branch can walk in any of the other branches convenient to them for operating of the account. They are not restricted to a particular branch for operating accounts.

H) Himal Remit:-

Now a day the main contribution to the national economy is remittance. Most of the Nepalese young were gone to the other country. They earn money there and sent this money to their relatives in Nepal. Such transaction is one of the important income sources for Nepalese financial institution.

Himal Remit, a premium online customer focused and technology oriented Money Transfer product of HBL. Himal Remit has the largest payment network covering all cities, towns and villages of the country and is capable of paying at more than thousand locations across Nepal which is in ever growing trend as per the demand of local customers and service providers. Under this scheme any person can easily send their earning from foreign country to Nepal. The important features of this scheme are:-

-) Payment was made in the fixed exchange rate in foreign.
-) Payment would be made within 24 hour to their family.
-) Transfer amount can deposit in concern family account without extra cost.
-) Nominal service fee will be charge even the transfer amount is high.
-) Payment can be made any branch of HBL and from any other bank also.

1.4.3 The Bank's Mission:-

The bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services; therefore HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers.

1.4.4 The Bank's Vision:-

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.

1.4.5 Goals and Objectives of Himalayan Bank Limited:-

To become the bank of first choice is the main objectives of the bank. HBL 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.

The bank strives to provide modern and efficient and personalized banking facilities within the country of its customers and also aspires to develop new and modern banking system and technology to provide market oriented facilities and services to its valued customers.

The management and staff of the bank are committed to innovate and Introduce new products in the market in order to provide maximum benefits to its valued customers.

To develop life long relationship with clients and achieve profitability through customer oriented service and customer satisfaction.

1.5 Brief profile of Everest Bank Limited (EBL)

1.5.1 Introduction:-

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K.

Joint Venture Partner

Punjab National Bank (PNB) is the joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

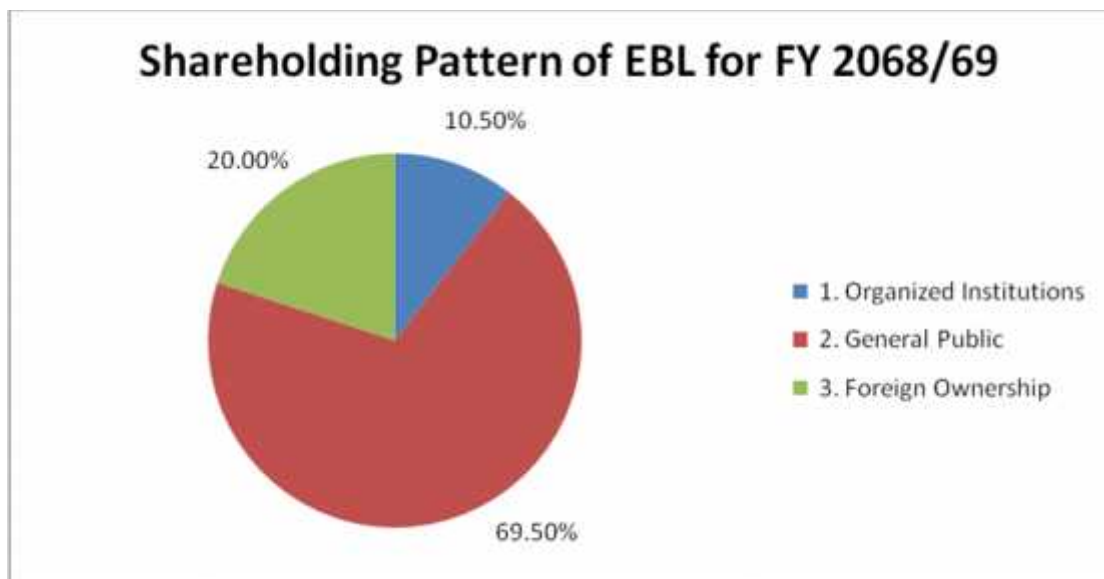
Table No.1.3
Capital Structure of Everest Bank Ltd.

Types of Share Capital	Fiscal Year 2067/68 (In NRs.)	Fiscal Year 2068/69 (In NRs.)
Authorized Capital	2,000,000,000	2,000,000,000
Issued Capital	1,281,406,500	1,391,635,700
Paid Up Capital	1,279,609,490	1,391,635,700
Proposed bonus share	111,960,949	369,490,710
Total	1,391,570,439	1,761,126,410

Source: Report to Shareholder of EBL, 2011/12

<u>Share holder Pattern of FY 2068/69:</u>	<u>Percent</u>
1. Organized Institutions	10.50 %
2. General Public	69.50%
3. Foreign Ownership	20.00 %

Figure No. 1.2



The above figure no 1.2 show that pie chart of shareholders pattern where Organized Institution has 10.50% of share, General Public has 69.50% of share and Foreign ownership has 20% of share.

1.5.2 Products and Services of EBL:

A) Deposit :

Current Account

EBL offers a wide range of products and services designed to make banking easier and to match each and every customer's requirements. This account is non-interest bearing account. We are offering various flexible payment methods to allow customers to distribute money directly to others. There is no limit for withdrawal and deposit in this account. We provide internet user login for this account incase of single signatory.

Saving Account

EBL saving account is a deposit account held at a bank maintained by a customer for the purpose of accumulating funds over a period of time while earning an interest. The purpose for this account is to be kept on deposit for a minimum length of time, while others permit unlimited access to funds.

Saving account can be opened in NPR and for the Nepalese citizen and USD for foreign citizens with valid password and job appointment letter. Nepalese citizen who have foreign currency source of income they can open foreign currency account

Other Deposit Account

- i. Saving Premium Account
- ii. Fixed Deposit Account
- iii. Cumulative Deposit Account
- iv. Sunaulo Bhabishya Yojana
- v. Unfixed Deposit Scheme
- vi. USD Accounts

- vii. EBL NRN Deposit
- viii. Naari Bachat Khata
- ix. Supreme Deposit
- x. Balbachat Khata
- xi. Saugat Bachat Khata

B) Loans Provided by EBL:-

1. Retail Loan

Following Loans are provided by EBL to its customers

- a) Home Loan
- b) Vehicle Loan
- c) Education Loan
- d) Future Lease Rental
- e) Loan Against Mortgage
- f) Bike Loan ;
- g) Loan Against Life Insurance Policy
- h) Share Loan

2. Corporate Loan

- a) Working Capital
- b) Trade Finance
- c) Consortium Loan
- d) Project Finance

C) Remittance Service:-

a) Inward Remittance

) From India

EBL has network advantage of geographically well spread branches of PNB at the customer convenience. Customer can remit your hard earned money/business transfers/other remittances via Draft/TT/Swift payable at any of our branches across the country (there are several places).

) Middle East & South East Asia

In order to facilitate remittances of Non-Resident Nepalese (NRN's) residing in U.A.E, Bahrain, Kuwait, Malaysia and Saudi Arabia, Everest Bank is a step ahead. It holds special drawing arrangement with different "Exchange Houses" by which customer saving are safely and quickly available to their families.

) Rest of the World

EBL maintain agency relationship with "renowned banks" that have worldwide branch network. Customers can visit any of their offices or any other banks around the globe with the application format and get your money credited in Nepal.

D) Debit Card

EBL debit card is a plastic card which provides an alternative payment method to cash when making purchases or cash withdrawal from ATM centers. EBL Debit Card is key to ultimate convenience regarding day to day monetary transactions providing the power of real cash in form of card. Associated with Smart Choice Technology (SCT), it facilitates wide sharing of ATMs under SCT network from more than 1200 Locations throughout Nepal.

EBL debit card holder can also have the withdrawal facility from over 6050 PNB ATM in India.

E) Internet Banking

Following services are available through EBL internet banking.

-) Account summary/ Statements
-) Balance Inquiry
-) Fund Transfers
-) Bill Payments (Currently UTL Bill)
-) Offline Requests (Cheque books, remittance etc)
-) Various Alerts (Email/SMS)

1.5.3 Bank's mission:-

-) To provide excellent professional services & improve its position as a leader in the field of financial related services.
-) To build & maintain a team of motivated and committed workforce with high work ethos.
-) To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments.

1.5.4 Bank's Vision

-) To evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.
-) To integrate the frontiers of technology & serving the various segments of society.
-) To be committed to excellence in corporate values.

1.5.5 Goals and objective of EBL

-) To increase customer base in low cost deposit with a view to reduce average cost of deposits.

-) Increase customer base by upgrading information technology initiative to reduce transaction cost and time of transaction and providing alternative service channels.
-) To increase average yield on advances by aggressive marketing of retail lending schemes.

1.6 Statement of Problem:-

Since the joint ventures banks, financial companies and about dozens of rural banks and corporate society's has been established gradually because of the liberal and market oriented economic policy of Government of Nepal. They have been facing tough competition from other commercial banks.

In short span of time bank has brewed new competitive scenario and has posed a challenge to the monopolistic bank which are making attractive profit. In the change scenario this banks need to explore their strengths and weakness and improve their performance because their success depends upon their ability to boost their productivity and financial performance. Thus this study seeks efficiency and weakness of banks through different tools. In this study basically focus our attention for reveal the struggle and success achieved by HBL and EBL. Though JVB's have been successfully operating and contributed significantly to the overall economic development of the country. Most commercial banks basic objectives are to uplift the economic activities and strengthen welfare of the general public to facilitate loan in different sector and to provide the banking services to its country and to its people. Therefore, this study concentrates on its financial soundness, which enables it to meet its objectives.

The study of financial performance is basic process which provides information about profitability, liquidity position earning capacity, efficiency in operation,

credit worthiness, source and use of capital, financial achievement and status of bank. The information obtained can be used to measure the efficiency and effectiveness of the bank in respect of deploying financial resources in the profitable manner.

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. Based on the discussion mentioned above, this study incorporates the following Research questions:

What are the major factors effecting the financial performance of HBL and EBL?

What is the financial position of the bank's in the market?

How far HBL and EBL has been able to meet its current obligation when they become due?

1.7 Objectives of the Study:-

Financial Performance has become vital and important tools in the field of financial management in all organization. The study is basically confined to provide a detailed analysis such as practical, usable and valuable and the financial performance currently facing listed commercial banks. My effort in this study is also lead to find out exact financial performance of the HBL and EBL over five years period. The specific objectives of this study are as follows:-

- To study the present position of the HBL and EBL.
- To evaluate the financial strength and weakness of HBL and EBL.
- To analyze the financial performance of HBL and EBL through the use of appropriate financial tools (Ratio Analysis) and Statistical Tools.
-) To make relevant suggestions and recommendation for their effective and efficient future performance.

1.8 Limitation of the Study:-

Despite sample an effort on the part of the researcher, this study is also not free from limitations. The main limitation of this study will be:

The study has covered only the latest five fiscal year from 2007/08 to 2011/12.

The study will be based on publicly available secondary data.

Along there are many joint ventures banks the study limits to only two banks namely HBL and EBL. The finding drawn may or may not be applicable to other various JVB's of Nepal.

The accuracy of the research work will be dependent on data provided by bank.

Time factor is major limitation of this study

1.9 Significance of the Study:-

The development of any country cannot be imagined without economic activities and the development of the banking system is one of the grounds of economic development. So we take a bank as a strong means for the economic development .Financial performance analysis of a bank is key method of judging the anticipated result of investment of the bank. Every study has its own importance and significance. In the present competitive position of bank scenario effect on performance and profitability position, provide quality information, ranks accordance to their performance as become more essential for the

Management of Banks, Customers, Shareholders, General public, Lenders and borrower, Policy maker, and other stakeholders of the HBL and EBL. The present study is expected to be beneficial for the insider and outsider of HBL and EBL i.e. management of the bank, policy makers of the bank, shareholders, customers, other stakeholders and even for the students.

1.10 Organization of the Study:-

The whole study is divided into five different chapters as prescribed by the university.

Chapter 1:

The "Introduction" Chapter that includes Background of the study, Origin of Banking system, Development of Banking Industry in Nepal, Brief Profile of HBL and EBL, Statement of the Problem, Objectives of the study, Limitation of the study, Significance of the study.

Chapter 2:

The "Review of Literature" Chapter includes conceptual frame work; CAMEL and financial statement analysis have been defined. The review of the related study has been done with their objectives and findings. Similarly different articles and books are reviewed.

Chapter 3:

The "Research Methodology" Chapter includes research designs, population and samples, data collection procedure, methods of data analysis and method of data presentation

Chapter 4:

The "Data Presentation Analysis" Chapter is the heart of the study and in this part data have been systematically presented, analyzed and interpreted and major findings are summarized. Various financial and statistical techniques have been used to analyze and interpret the data i.e. Coefficient of correlation of different variables and trend lines.

Chapter 5:

The Summary, Conclusion and Recommendation Chapter revolve with suggestions for further improvement and conclusions of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature is the study of past research studies and relevant materials. It is an advancement of existing knowledge and in-depth study of subject matter. It starts with a search of a suitable topic and continues throughout the volumes of similar or related subjects. It is very rare to find out completely new problem. In literature review, researcher takes hints from past dissertation but he or she should take heed of replication. Literature review means reviewing research studies and other pertinent prepositions in the related area of the study so that all the past studies their conclusions and deficiencies and further research take place. It is a vital and mandatory process in research works. During the review of this research, in depth study and theoretical investigation regarding performance analysis aspects and their present application and potentialities made. Every possible effort has been made to grasp knowledge and information that is available from the concerned libraries, magazines, publications of concerned banks etc.

The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concept and methodologies has been used successfully. Further, an extensive or even exhaustive process of such review may offer vital link with the various trends and phases in the researches in one's area of specialization, with the characteristic percepts, concepts and interpretation, with the special terminology, with the rationale for understanding one's proposed investigation.

There is a significant importance of review of literature in any type of research work some of which can be pointed as follows:-

- to identify research problems which previous works has been conducted?
- to avoid unintentional replication of previous studies.
- to interpret the significance of researchers result in precise manner
- to determine the methodology for research work and scope for the studies.

Hence, in this chapter, the focus has been made on the review of literature relevant to the performance analysis of Himalayan Bank Limited and Everest Bank Limited. For this study, different Journals, Article, Books, Annual reports, and some research paper related with this topic has been reviewed. It needs to review related literatures in this concerned area which will help me to get clear ideas, opinions and other concepts. 'What other has said? What other has done? And what other have written?' these all and other related questions are reviewed which has provided useful inputs in this research work. Moreover, rules regarding to financial performance are reviewed and an attempt has been made to present them properly.

2.2 Conceptual Review

A bank is an institution which deals with in money, receiving it on deposit from customers honoring customer's drawing against such a deposit on demand, collecting cheques for customers and lending or investing surplus deposit until they are required for repayment. In the present days, various types of banks are established for instance Industrial bank, Commercial bank, Agriculture bank, Joint ventures bank, Cooperative and Developments bank. Modern banks are more advanced than the ancient ones. This is because of the growth in population changes occurred in the industrial field and trade, the beginning the competitive age and changes in the people's ideology and due to the dependence on each other.

The banking is not static but a dynamic concept it is a product of centuries and the development which has taken places the product of a method of trial and error and experiences which were made and the results that followed relating to the acceptance of money and valuables as deposit, keeping them as such lending them whether to private industries to states or other bodies and for controlling the multifarious and multi-dimensional activities which, in the beginning were only tribal and could be ignored but with the growth of time, become international in character and multi-dimensional in nature calling for actions on the part of the states as the actions on the part of individuals failed and state control become eminent.

Thus one can understand the development of banking by looking at a particular period of time and one has to consider the development by taking into account the progress it has taken during centuries and by understanding the movement from one stage to the other. From the above given facts, it is clear the present banking system has come to this position passing the vicissitude from the past.

The world cannot run without banks. Once there was such as age in which could discharge their affairs without a bank. In fact the concept of a bank is the result of changes occurred in the people's thoughts, sense and the change of time. There came a change in the peoples feeling. Thereafter, the industrial, commercial and scientific revolution started. As a result of these revolutions the banking system developed and extended. In the absence of development and extension, of banks there is no possibility of economic revolution. Without making economic revolution, peoples' living standard can't go up. Bank differs according to their nature's bank cannot perform all sorts of functions. So today's banks are opened differently according to their nature such as Central Bank, Commercial Bank,

Rural Development Bank, Merchant Bank, Agriculture Bank, Development Bank etc.

This study is related to two commercial bank namely Himalayan bank limited and Everest Bank Limited with both shareholding pattern as joint venture bank.

2.3 CAMEL Banks Rating System

The acronym "CAMEL" is revised in January 1997, the uniform financial institution rating system, which is commonly referred at as that camel rating system. For purpose of this rating system, the term financial institution refers those insured depository institution whose primary federal supervisory agency is represented on the FFIEC. The agency comprising the FFIEC the board of governors of the federal reserve system (FRB) the federal deposit insurance corporation, the national credit union administration the office of the controller of the currency and the office of the thrift supervision. The term financial institution includes federally supervised commercial banks, savings and loan associations, mutual savings banks and credit unions. Capital adequacy, Assets quality, Management efficiency, Earnings and Liquidity. A sixth component, a bank's sensitively to market risk was added in 1997; hence the acronym was changed to CAMEL. The camel rating system is subjective beach marks for each component are provided, but they are guidelines only and presents essential foundations upon which the composite rating is based. They do not eliminate consideration of the other patient's factors by the examinant. The uniform rating system provides the ground work for necessary supervisory response and helps institutions supervised by all three us supervisors to be reasonably compared and evaluated. Ratings are assigned for each component in addition to the overall rating of a bank's financial condition. The ratings are assigned on a scale from 1 to

5. The camel ratings are commonly viewed as summary measures of the private bank supervisory information gathered by examiners regarding banks overall financial conditions, although they also reflect available public information. During on site bank supervisor gating private information. Such as details on problem loans, with which to evaluate banks financial conditions and to monitors its compliance with laws and regulatory polices. A key product of such an exam in a supervisory rating of banks overall conditions commonly referred at as a CAMELS rating. In Nepal, the NRB plays the supervisory role for evaluating banks financial condition through rating the banks in accordance to CAMELS is still a myth.

2.3.1 Composite of Ratings

Composite ratings are based on a careful evolution of an institution's managerial, operational, and financial and compliance performance. The six key composites used to access an institution's financial condition and operations are: capital adequacy ratio, assist quality, management capability, earning quantity and quality, the adequacy of liquidity and sensitivity to market risk. The rating scale ranges from 1 to 5 with a rating of 1 including; the strangest performance and risk management practices relatives to the institutions size, complexity and risk profile; and the profile; and the level of least supervisory concern. A 5 rating includes; the most critically deficient level of performance; inadequate risk management practices relatives to the institutions size, complexity and risk profile and the greatest supervisory concern.

2.3.2 Camels Components

Each of the components rating descriptions is divided in the three sections; and introductory paragraph; a list of the principle evaluation factors that related to that

components; and a brief description of each numerical rating for the components. Some of the evaluation factors are reiterated under one or more of the other components to reinforce the interrelationship between components. The listing of evaluation factors for each component's rating is in no particular order of importance.

A. Capital Adequacy Ratio

A financial institution is expected to maintain capital commensurate with the nature and extents of risks to the institution and the ability of management to identify, measure, monitor and control these risks. The effect of credit, market and other risks on the institution's financial conditions should be considered when evaluating the adequacy of capital. The types and quantity of risk inherent in institution's activities will determine the extent to which it may be necessary to maintain capital at levels above required regulatory minimums to properly reflect the potentially adverse consequences that these risks may have on the institution's capital. The capital adequacy of an institution's related based upon, but not limited to an assessment of the following evaluation factors.

1. Size of the bank
2. Volume of inferior quality assets.
3. Bank's growth experience, plan and prospects
4. Quality of capital retained earnings
5. Access to capital markets

B. Assets Quality

Commercial banks collect funds in the form of capital, deposit etc. It mobilizes these funds to generate certain returns by giving loans to the users of money to invest in various alternatives. A significant part of the banks income is through its

lending activities. There are basically two types of loans - advances and loss provisions:

1. Performing loans:

) All good loans and overdue for below 90 days.

2. Non Performing loans:

) Sub- standard-loans overdue by more than 3 months up to 6 months.

) Doubtful-loans overdue by more than 6 months up to 1 year.

) Bad-loans overdue by more than 1 year.

C. Management

The success of any institution depends on the competency of its management. In fact, the management not only makes suitable policy and the business plans but also implements them for the short term and the long term interests, which helps to achieve aimed objectives of bank and financial institution's. It is evaluated by checking the effectiveness of the board of directors, the management, manpower and the officials, operating expenditure, customer's relation with the officials and institution, management information system, organization and working method, internal control system, power concentration, monitoring, decision making process, policies. An institution can take a desire momentum only when the management is capable of strong and long term vision. For the proper and efficient management, the banks have to possess the following qualities:

1. Structure of management team should be perfect.
2. Qualitative manpower and its productivity.
3. Good relationship between customers and organization.
4. Adequate management expenses.
5. Internal management system should be perfect.

6. Fair decision making capability.
7. Proper communication system.
8. Working environment should be perfect.

D. Earnings

Earnings are the ultimate result of any business. Generally, if the earnings are good then that business is running well. Similarly the aggregate performance of the bank reflects from its earnings. An analysis of the earnings ratio helps the management, investors and creditors to know the performance of the bank. They can get information regarding their interest. The following ratios help the management and other stakeholders to know about the earning policy of the respective banks:

1. Return on Equity (ROE)
2. Return on Assets (ROA)
3. Earnings per Share (EPS)

It measures the profit available to the equity shareholders as per share basis i.e. the amount that they can get on each share held. In other words, this ratio measures the earnings available to equity shareholders on a per share basis.

E. Liquidity

Simply, liquidity means short- run solvency of a firm. It reflects the short term financial strength of banks. Bank does not provide all deposit at loan and advances.

The certain percentage of deposit should be kept in bank in the form of cash.

If the bank will keep greater deposit in cash, it losses the opportunity cost. Similarly, if bank keeps low amount in deposit, it could not be able to pay

depositors on the time of requirement. Liquidity can be measured in following ways:

1. Cash Reserve Ratio
2. Cash & Bank Balance Ratio

2.4 Financial Statement Analysis:-

In the beginning of civilization, the number of business transaction had taken a very small place. Each businessman was able to record and check business transaction himself. After the increment of business transaction, the need of accounting system increased. With the help of financial statement, every businessman could show actual business condition to the different parties.

Financial statement analysis and techniques used by stakeholders like creditors, Shareholders, Potential investors, Management, Government and so on. Since the financial statements reflect a firm overall performance as well as its future growth and solvency, analysis financial statements are crucial.

"Financial statement contents Balance sheet and Profit and Loss Account. Every balance sheet and profit and loss account of a company shall give a true and fair view of the state of affairs of the company and further, the balance sheet shall be in the form set out as near thereto as circumstances admit or in such other form as may be approved by the central government either generally or in any particular case. Banking sector, which is governed by special statutes, have different forms prescribed for the profit and loss account and the balance sheet under the respective statutes'. (*Gupta and Radnaswami, 1998:4.264*)

Financial management aspect is considered to be the vital and integral part of overall management of any type of organization ensuring financial strength through adequate cash flow, liquidity and better utilization of assets. The financial management is the main indicator of the success or failure of any organization financial condition of the business firm should be sound from the point of view of shareholders, debenture holders' financial institutions and nation as a whole.

"The financial statements, which represent summarizes of the financial and operating data entered in the accounting records, re stated in monetary units. These monetary units do not generally represent current absolute values'. (*Kennedy, 1974:1*)

Financial statements are the basis of analysis, which include 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 financial statements are prepared are useful in internal management. These statements provide reliable financial information about economic resources and obligations of business enterprises. Thus, we can say that financial statements communicate information to the different parties. It is a source of information relating to a firm.

The present study focuses the financial position from the annual reports of HBL and EBL which is the combination of: -

- i) Profit and Loss Account (or Income Statement)
- ii) Balance Sheet (or Statement of Financial Position)

2.4.1 Profit and Loss Account:-

Previously, statement analysis was basically related the Balance Sheet since profit and loss accounts were not available readily at that time. The profit and loss account was considered as a supplement to the balance sheet in rendering information. But, in those days Profit and Loss account are compulsorily prepared and publicly published in annual report. They are regarded as primary function of accounting and these are related to be complementary to balance sheet. The major income items of Banks include interest income, foreign exchange income and commission. On the other hand, interest expenses, staff bonus and personnel expenses form major of a Bank. Profit and Loss Account (P/L A/c) depicts information regarding income and expenses of the firm.

"The Profit and Loss Account starts with the credit from the Trading Account in respect of gross profit (or debit if there is gross loss). Thereafter, all those expenses or losses, which have not been debited to the Trading Account, are debited to the Profit & Loss Account. If there is any income besides the gross profit; it will also be transferred to the credit of the Profit and Loss Account'.
(*Shukla and Grewal, 1990:62*)

"The earning capacity and potential of the firm are reflected by the income statement. Income statement presents the summary of revenues, expenses and net income or net loss of a firm for a period of time, which measures the firm's profitability, statement of income, and statements of loss. A profit and loss statement (also known as earnings or a statement of operations) is a statement showing over a specified and limited period of the life of a business. The nature and

amounts all its income for the period and the nature and amounts of all its operating costs and expenses'. (*Kereps & Gee, 1974:38*)

In conclusion, we can say that P/L a/c statement shows the net income or net loss resulting from the operation of business during a specific period of time.

2.4.2 Balance Sheet:-

Balance Sheet is one dimension of statement, which assists in measuring the assets, liabilities and capital of a firm at a moment of time. It informs the financial condition of affairs of a firm (Bank) at an accounting period. It depicts the information about resources and obligations of a business entity. The assets, liabilities and capital fall in it.

The assets are measured in monetary terms, which are the future benefits. They are the valuable possessions owned by the firm cash, stock, receivable and other tangible and intangible items. Such assets represents stored purchasing power, money claims. Broadly speaking, assets can be classified in two category current assets and long – term assets. The other column of the balance sheet contains liabilities and capital (equity) liabilities are the economic obligations to pay cash or provide goods and services in future.

The credit bills payable and other dues are the examples of liabilities. While the equity capital is claims of owners. The profit (or losses) doesn't after the amount of liabilities while there will be positive impact of earning (or losses) to owner's equity.

Balance sheet presents the position of company's assets, liabilities and shareholder's equity at a particular date. The liabilities indicate the amounts

owned by the firm to its creditors. It represents summary of the financial and operating data entered in the accounting records, which are stated in the monetary units.

2.5 Ratio Analysis:-

Effective planning and control are central to enhancing organization value. Financial plans may take forms, but any good plan must be related to the firm's existing strength and weakness. The strengths must be understood if they are used to proper advantage and the weakness must be recognized if correct action is to be taken. The financial manager can plan future financial requirement in accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis.

"Analysis and interpretation of financial Statements are as attempts to decide the significance and meaning of financial data so that a forecast may be made of the prospectus for future earning, ability to pay the interest, debt maturity, both current as well as long term and probability of a sound dividend policy'. (Mohan and Goyal:op.cit 1992:392

Traditional financial ratio analysis has focused on the numbers but the world is becoming more dynamic and subject to rapid changes. It is not enough to analyze operating performance but also take consideration of the strategic and economic development to which the firm must relate for its long run success. Different sources and different analysis use different lists or combination of financial ratios for analysis. Financial statement report both on the firm's position at a time and on its operation over some past period. However, the real value of financial statement lies in the fact that they can be used to help predict the firm's future earnings and dividends. From an investor's stand point, predicting the future is what financial

statement analysis is all about, while from management's stand point financial statement analysis is useful both as a way to anticipate future conditions and more important, as a starting point for planning actions that will influence the future course event.

Ratio analysis is designed to determine the relative strength and weakness of business operations. It also provides a framework for financial planning and control. Financial managers need the information provided by analysis both to evaluate the firms' past performance and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firms operation.

Financial analysis identifies the financial strength and weakness of the firm with the help of basis financial statements. For this purposes a ratio helps the analysts to make qualify judgments about the firm's financial positioned performances Balance sheet, Profit and loss account, Cash flow and the accompanying notes are the most widely aspects of financial statements of the bank. The bank's balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets proportion on total assets is generally low in the case of each bank. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are major components of bank's profit and loss account. The other sources of incomes are fee, commission, discount service charge and etc.

"Financial Statement analysis is largely a statement of relationship among the various financial factors in business as disclosed by the single set of statements

and study of the trend of this factor as shown in a series of Statements'. (*Myer, 1974:105*)

2.5.1 Purposes of Financial Performance Analysis:-

Financial performance analysis is a study of relationship among the various financial factors and pinpointing the strength and weakness of a firm so that forecast may be made of the prospects for future earning. In the recent time financial performance analysis has played an increasing important role as a tool of examining the real worth of going concern, which is one of the important assumptions of fundamental Accounting Assumption.

Financial statements are usually analyzed with the help of financial tools and financial ratios are out of the primary tools. The term ratio refers to the numerical and quantities relationship between two variables. Important ratios can be calculated from the balance sheet and profit and loss account. Ratio analysis is relevant in assessing the performance and position of firms. Various ratios are used for this purpose.

The profit earned by the firm is the main financial performance indicator of business enterprises. Profit results mainly from successful business management, cost control, credit risk management and Successful efficiency of operation'. (*Robbinson, 1957:21-22*)

Financial performance analysis is helpful in assessing the financial position and profitability of a business concern. The analysis of financial statements thus refers to the treatment of the information contained in the financial statement in a way so as to afford full diagnosis of the profitability and financial position. Financial performance analysis is helpful to the decision maker for finding out favorable

situation of a business concern. Therefore financial analyses reflect the financial position of a firm, which is the process of determining the operational and financial characterizes.

Financial analysis is helpful in assessing the financial position and profitability of a concern. This is done through comparison by ratio for the same concern over a period of years: or for one concern against another; or for one concern against the industry as a whole; or for one concern against the predetermined standards; or for one department of a concern against another of the same concern.

In short the main purposes/objectives of analysis of financial statements are to assess:-

-) The present and future earning capacity or profitability of the concern.
-) The operational efficiency of the concern as a whole and of its various parts and departments.
-) The short term and long term solvency of the concern for the benefit of the debenture holders and trade creditors.
-) The comparative study in regard to one firm with another firm or one department to another department and financial stability of a business concern
-) The possibility of the Development in the future by making forecast and preparing budgets

2.5.2 Uses/Importance of Financial Performance Analysis:-

The information's given in the financial statements is very useful to a number stakeholder's. These are the followings:-

-) **Owners:** The owner provide fund for the operation of the business and they want to know whether their funds are being properly utilized or not. The financial statements prepared from time to time satisfy their curiosity.
-) **Creditors:** Creditors want to know the financial position of a concern before giving loans or granting credit. The financial statement helps them in judging such position.
-) **Employees:** Employees are interested in the financial position of the concern they served, particularly when payment of bonus depends upon the size of the profits earned. They would like to know that the bonus being paid to them is correct; so they become interested in the preparation of correct profit and loss account.

Managers: Managements is the art of getting things doing through others. This requires that the subordinates are doing work properly. Financial statements are an aid in this respect because they serve the managers in appraising the performance of the subordinates. Actual result achieve by the employees can be measured against the budgeted performance they were expected to achieve and remedial auction can be taken if the performance isn't up to the mark.

-) **Government:** Central and state governments are interested in the financial statements because they reflected the earning for a particular period for purpose for taxation. Moreover the, these financial statements are used for compiling statistics concerning business which, in turn help min compiling national accounts.

Investor's: prospective investors, who want to invest money in a firm, would like to make an analysis of the financial statements of that firms know how save the proposed investment will be.

-) **Research Scholars:** The financial statements, being a mirror of the financial position of the firm, are of immense value to the research scholar who wants to make study in to financial operation of a particular firm.

2.5.3 Limitation of Financial Performance Analysis:-

Ratios are constructed from accounting data and these data are subject to different interpretations and even top manipulation. For example any two firms use different depreciation methods or inventory valuation method, depending on the procedures followed reported profits could be raised or lowered. If the firm use different fiscal years, and if seasonal factors are important, this can influence the comparative ratios. Thus if the ratios of the two firms are to be compared, it is important to analyze the basic accounting data upon which the ratios were based need to reconcile any major differences.

We should also note that while ratio analysis can provide useful information concerning a company's operation and financial condition, it doesn't inherent problems and limitations that necessitate care and judgment .Some potential problems are listed below:

-) Financial statement may not be realistic because they are prepared by followings certain concepts and conventions. For example going concern concept gives us an idea that the business will continue and assets are to be recorded at cost but the book value which the assets is showing may not be actually reliable.
-) Financial statements are influenced by the personal judgment of the accountant. He may select any method of depreciation, valuation of stock etc. Such judgment if based on integrity and competency of the accountant will definitely affect the preparation of the financial statements.

-) Financial statements disclosed only monetary facts. Those transactions which can't be measured in monetary terms such as conflict between production manager and marketing managers may be very important for a business concern but not recorded in the business book
-) These statements are drawn after the actual happening of the events. They attempt to present a view of the past performance and have nothing to do with the accounting for the future. Modern management is forward looking but these statements do not directly help in making future estimates and taking decision for the future.
-) These statements do not give a real and correct report about the worth of the assets and their loss of value as these are shown on the historical cost basis. Thus these statements provide artificial view in market or replacement value and the effect of the changes in the price level are completely ignored.
-) Financial statement does not depict the exact position and are essentially interim reports. The exact position can be only known if the business is closed.
-) These statements are sometimes prepared according to the needs of the situation. A highly efficient concern may cancel its real profitability by disclosing loss or minimum profit whereas an efficient concern may declare dividend wrongly showing profit in the profit and loss account.
-) There are many parties that are interested in the information given in the financial statements but their objective and requirements differ. The financial statements as prepared under the provision of the company act fail to meet the needs of all. These are mainly prepared to safeguard the interest of shareholders.

Many firms wants to be better than average, so merely attaining average performance is not necessarily good, as a target for high level performance, it is best to look at the industry leaders' ratio.

It is difficult to generalize about whether a particular ratio is “good” or bad” a firm may have some ratios which looks good and others bad making it difficult to tell whether the company is on balance or in strong or a weak position. However statistical producers can be used to analyze the net effects of a set of ratios.

2.6 Review of Related Studies

2.6.1 Review of Previous Thesis:-

There are numerous studies conducted for the partial fulfillment of Master’s Degree. The objectives and major findings of previous relevant thesis are described as follows.

Ms. Ranjit (2010) on her thesis entitled, “A Comparative Study on Financial Analysis of Commercial Banks with reference to Everest Bank Limited, Nepal Investment Bank Limited and Himalayan Bank Limited”. The study find out the overall performance of sample banks found to be satisfactory. All sample banks are not strong in all performance. Some are strong in liquidity position and some are strong in profit making. The analysis of liquidity position of these commercial banks shows different positions. The current ratio measures only total rupees worth of current assets and total rupees of current liabilities. i.e. it indicates the availability of current assets in rupees for everyone rupee of current liability. Since mean ration of EBL is found to be highest than NIBL and HBL from which we can conclude that EBL is successful to meet their current obligation.

HBL has failed to maintain the average ratio which indicates that they are not very much successful in mobilizing the loan and advances with respect to the total

assets. So HBL should try to mobilize the loan and advance with respect to Total Assets.

Among sample banks, HBL is less successful in mobilizing its deposit by investing in different productive sectors. EBL is not successful as NIBL and HBL to earn a net profit by utilizing its assets and deposits.

Ms. Shakya (2009) on her thesis entitled, “A Comparative Study on the Financial Performance of Nepal Investment Bank Ltd. (NIBL) and Laxmi Bank Ltd. (LXBL)”. The main objective of the study is to analyze and to evaluate the financial performance of the selected banks. On the basis of the comparative analysis of the data of LXBL and NIBL, the study has focused on the liquidity ratio, leverage or capital structure, capital adequacy, management of assets, profitability and other ratios. According to the analysis, we found that among the various profitability ratios, return on net worth ratio, return on capital employed ratio, return on total assets, return on total deposit ratio and interest earning to total assets ratio of NIBL are greater than of LXBL. Liquidity position of LXBL and NIBL are lower, they are still able to meet their current obligation. According to Capital Adequacy Ratio, NIBL’s position is better than that of LXBL.

Ms. Thapa (2009), on her thesis entitled, “A Comparative Analysis of Financial Performance of Standard Chartered Bank Ltd. and Himalayan Bank Ltd.” In this analysis, the study reveals that the current ratio of HBL is greater than 1 and SCBL current ratio is less than 1, which should be considered satisfactory for HBL but not satisfactory for SCBL. The liquidity position of HBL is better than SCBNL. This puts, HBL in better position. With respect to meeting customer requirement than SCBNL the cash and bank balance of HBL with respect to current assets is higher than SCBNL. This shows greater capacity of HBL to meet

its daily customer's cash requirement but that doesn't mean SCBNL cannot meet its daily customer cash requirement. Both the banks have successfully managed their assets towards different income generation activities. The average growth rate of total loan and advances of SCBNL is better than HBL.

Bhusal, M. (2008) carried out a research study on "*Financial Performance Analysis of Commercial Banks in Nepal the Frame Work of CAMEL (A Comparative Study of Kumari Bank and Machhapuchchhre Bank*", with the fundamental objective to analyze and compare the financial performance of KBL and MBL in the frame work of CAMEL from FY 2058/59 to 2062/63. with the help of both secondary as well as primary data, she conducted her study by applying Some financial and statistical tools and techniques. Her study shows both banks are maintaining CAR as per rule of NRB and the trend of CAR is decreasing. Both banks are in much satisfactory level in the case of assets management. Increasing profit of both banks shows the good sign but it is not enough to compete with other established banks. According to her study, Profits are also not enough to meet benchmark set by the World Bank. In the case of liquidity both banks are not properly maintaining the rule of NRB. In her overall analysis there is tough competition between KBL and MBL and both are in the phase of improvement.

Ms. Shakya (2008) on her thesis entitled, "A Comparative Study of the Financial Performance of all Commercial Banks (with reference Nabil Bank Ltd, Nepal Investment Bank Ltd. And Himalayan Bank Limited)" NBL has lowest mean ratio which means it may invest the more fund in the productive sector. NBL has a highest liquidity ratio among sample banks. The loan and advances to total deposit ratio of all banks found to be at satisfactory level and maintain the good consistency in ratio. However NIBL has a highest mean ration it shows that

NIBL's liquidity position with respect to this ration is more satisfactory than other sample banks. Among sample banks NBL is successful in mobilizing the deposit in invest on Government securities, since it has a higher mean ratio. But, NIBL has a lower mean ratio; they are less successful to utilize the deposit in investment on Government securities in compare with sample banks. Similarly, HBL is also successful in mobilizing the deposit in investment on Government securities. We can conclude that NBL are successful in earning the higher profit with lower interest expenses, whereas HBL are average of the other comparative banks.

Mr. Gautam (2006) has conduct research on "*A Comparative study on financial performance of Standard Chartered Bank Limited and Nepal Bangledesh bank Limited*" Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
2. To access the debt servicing of the joint venture commercial bank.
3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
5. To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB.s are operating with

higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB.s viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

The research sample JVB.s have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim. The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible. The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks. The average ROE of JVB.s i.e. SCBL and NBBL area 37.36% and 21.75% respectively. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank.

Recommendations

The bank use high percentage of debt. It indicates that it has highly financial risk. It is recommended that the bank immediately control the financial risk. P.E. ratio of the NBBL is 16.27 times. It is too high, so the banks reduce the position. Nepal is underdeveloped country; almost banks are established and operated in urban area. So it is recommended that the bank should open its branch different parts of the country.

Mr. Amatya (2005), “A study on financial Performance of Standard Charter Bank Nepal Ltd. (SCBNL)” concluded this study with the basic objectives of the examining the financial performance of SCBNL as:-

- (1) To analyze liquidity, leverage, activity, profitability and ownership ratios of the bank.
- (2) To study the income and expenditure statement of bank.
- (3) To analyze the bankruptcy score of the bank.

Based on the analysis of data his major findings are-

The current ratio of the bank over the ten years period is 1.13 on an average. The liquidity position in terms of current ratio of SCBNL is in normal standard .The loan and advance disbursement with respect to the current assets is satisfactory. The bank is maintaining its cash reserve as per the central bank directives. The bank investment of the fund is high. Overall the liquidity position of SCBNL is good and bank is able to meet its short term obligations.

The bank has high debt-equity ratio, which means the creditors have invested more in bank than owners. Shareholder's equity to total assets ratio indicates the proportion of the assets, which is financed from ownership capital of the bank. The result of the analysis indicates that 7.26% of the total assets of the bank is financed through equity capital and remaining from debt capital. The creditors have dominated in the bank's financial mix.

The bank is mobilizing its total deposit in loans and advances satisfactorily for income generating purpose. The activity ratio of the SCBNL indicates that the bank has utilized its resources in a best way to maximum its wealth

The result of the analysis indicates that the interest earned in comparison to the assets is quite low. The net profit earned in comparison to the total deposit is fluctuating trend. The net profit earned in comparison to total assets is quite low. The profit earning in relation with the shareholders equity of SCBNL is in better position, which exhibits the better utilization of shareholders' resources. The profitability ratio analysis of SCBNL the overall performance of the bank is effective in generating the profit and hence maximizing its wealth.

The bank is generating maximum profit from the interest earning and foreign exchange. The bank is earning profit from commission and discount by providing efficient and effective services to its clients. The bank's expenditure heads are interest paid, personnel and other operating and non-operating expenses. The high rate of expenditure in interest indicates the bank had collected more deposits

The earning per-share of SCBNL is quite good .The dividend per-share of SCBNL is satisfactory and the shareholders are being compensated with good return and the bank's dividend payout ratio is high.

The bankruptcy score of the bank concludes that the bank has crossed the limit of bankruptcy score of 2.99 and it can be predicted that it is very remote chance of failure of bank.

Mr. Karki (2005) on his thesis entitled, "A Comparative Study on the Financial Performance of Nepal Arab Bank Ltd. (NABIL) and Standard Chartered Bank Nepal Ltd. (SCBNL)" The main objective of the study is to analyze and to evaluate the financial performance of the selected banks. The study finds out that the six important variable (except earning per share of SCBNL) of the financial

performance like net profit, loan and advance, total deposit, net interest, dividend per share and earning per share reflect the overall improving performance of NABIL and SCBNL. Both banks indicate towards the better financial performance in coming year. He has further suggested that bank's performance cannot be judge solely in terms of the profit it has earned by maintaining adequate liquidity and safety, but it should also be evaluated on the ground of the contribution it has made to the community, to the government as well as national economy. It means that the banks should come forward with the national priorities like more fund mobilization and service to maximum customers, developing skill and expertise in the local staffs, earning satisfactory profit and discharging their accountability toward the government.(Mr. Babu Kaji Karki :2005)

Ms. Dangol (2004) in her thesis, “Financial Performance Analysis of Nepal Credit and Commerce Bank Limited (NCC)”, she conducted this study to evaluate financial performance of NCCB Ltd. With the major objectives as follows:-

- (1) To assess the financial performance of NCCB.
- (2) To measure liquidity position and investment portfolio.
- (3) To study the relationship between deposit, credit on financial strength and net profit.

The major findings of the study are:

On the basis of various analyses the researcher came out with the following conclusion. The financial position of the NCCB from the year 1999 to year 2003 the collection of deposits and loan investment are increasing satisfactory and there be also improvement in the operating profit but there is heavy fluctuation in the

financial position of the bank. It is due to the provision of the various rules of NRB and due to change in the management in the short period for the many times.

From the overall analysis the liquidity position of the NCC in the five year period is satisfactory, collection of deposit, investment in loan and advance is also satisfactory. Due to systematic credit policy interest earned from loan and advance is good but bank is not able to invest in profitable sector other than loan and advance. Financial resource investment of the bank assets is not satisfactory and net profit of the bank is not satisfactory though there is improvement in the profit earning than year 2002 in which the profit is negative of Rs. (397.1) million the negative profit shows that the bank has just done the job of paying interest and has not mobilized the deposit.

Mr. Shrestha (2003) conducted study on; “A Comparative Analysis of Financial Performance of the Selected Joint Venture Banks” has set the following objectives:

-) To examine the comparative financial strength and weakness of the selected JVBs.
-) To highlight various aspects relating to financial performance of these JVBs for last years.

The major findings of the study were as follows:

Analysis of liquidity ration indicates better liquidity position of the NB Bank.

Although liquidity position and NBL and NABIL are lower, they are still able to meet their current obligation.

Analysis of leverage or capital structure ratio indicates that long-term debt to net worth of NB Bank is the highest and NABIL is the lowest. JVBS are extremely

leveraged. Total debt to net worth and total asset ratio of NBL is the highest and that of NABIL has lowest leverage.

Return on investment, interest earned to total assets ratio and commission and discount earned to personnel expenses ration of NB Bank is higher than NABIL Bank and HBL, while return on shareholders' equity is higher in HBL and interest income to interest expense ratio is higher in NABIL Bank.

The valuation ratio used for analysis showed the following results: the PE ratio and DPR of NABIL Bank is the highest and HBL is the second highest, while the MVPS to BVPS ratio of HBL is the highest and NB Bank is the lowest. Operating profit of NABIL is higher than that of HBL and NB Bank. NABIL's operating profit is 42.62% of its operating income, HBL is 33.51% and NB Bank is 33.86% only.

Another study, by Mr. Pokhrel (2002), titled "A comparative study on Financial Performance of Nepal Bangladesh Bank Limited and Everest Bank Limited" was conducted to analyze, examine and interpret the financial performance on NBBL and EBL for the study. The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greater fluctuations in the ratio over the period. EBL found to be weaker in utilizing the bank assets for the profit generation. EBL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current asset ratio. Total deposits, loan and advances, total investment, net worth, net profit, EPS and MVPS showed the increasing trend over the study period in both banks. Loan and advances to total deposit ratio appeared considerably higher in NBBL. Provision for possible losses to loans and advances ratio in NBBL exceeded than in EBL, which indicates that loan and advances granted by the banks are inferior in contrast to

EBL. But NBBL has maintained the consistency in the ratios than that of EBL over the period.

2.6.2 Review of Books:-

In the book of Banking and Insurance by Mr. Thapa and Mr. Neupane for BBS 3rd Year defined a Financial Statement of bank is the "road map" of banks indicating the past, present and like future positions. Financial statements can be grouped into two main forms; the balance sheet (report of condition) and the income statement (report of income). The specific objective of the bank is maximization of the value of the firm or minimization of the value of stock. A bank's stock price is affected by all those factors affecting its profitability and risk exposure, particularly its rate of return on equity capital and risk to shareholder earnings.

In a book of Mr. Dangol's; "Management Accounting" for MBS and MBA has defined Financial Statement as an organized summary of detailed information about financial position and performance of a concern. The statement is prepared at the end of accounting period. The purpose of preparing financial statement is for the periodical review of the activities of the organization and results achieved by the organization.

Pandey in his book of "Financial Management", he had defined various functions in financial management in which raising funds, investing them in assets and distributing return earned from assets to shareholders, which are respectively known as financing investing and dividend decision. While performing these funding a firm should balance cash outflow and inflow, which is known as liquidity decision and also he added the list of important decision. (Pandey, 1997:355).

In the book of “Analysis of Company Financial Statement” of Agrawala , he had define that the financial managers have to undertake number of activities to highlight the central goal of maximizing the values of the corporation .These financial activities have great impact on all other business activities like marketing, production and personnel activities. Thus any mistake made in financial decision adversely affects the whole operations of the company. These activities should be analyzed and evaluated from time to time.” Scientific Analysis and interpretation can give the better picture of progress that the company has made in the past, its present position and future prospects. It is useful to provide feedback information for drawing the attention of management regarding what should be done for strengthen the financial performance .Hence analysis of financial performance is a crucial part of financial decision making process. Finance performance is evaluated from the stand point of profitability, liquidity and solvency. (Agrawala 1974:65)

In the book of “Financial Management" of Khan and Jain this is a useful book for the reader of finance. In this book both the writer views that the financial management in broad sense and provides a conceptual and analytical frame work for decision making. They also cover both acquisitions of funds as well as their allocation of funds to various regions. Their major decisions are investment decision, financial decision and the dividend policy decision (Khan and Jain: 1983:628)

Van Horne writer of “Financial Management and Policy” had written in his book about financial analysis in which he had dividend financial ratio into four types Liquidity ratio, Debt ratio, Profitability ratio and Coverage ratio. These ratios are helpful for managerial control and for the better understanding of what outside suppliers of the capital expect in a financial condition and performance. He

defines until and unless there is comparison, financial analysis is meaning less so it can be compare with one firm overtime an inter firm. (Van Horne: 1988:799)

A commercial bank must mobilize its deposits and other funds to profitable, secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converters into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.6.3 Review of Articles:-

In addition to financial performance, various articles were published on financial aspect, which deals in the context of Nepalese commercial and joint venture banks. The major findings of the approaches used in those important articles are reviewed briefly.

Ms. Jha and Mr. Hui (2012), "A comparison of Financial Performance of Commercial Banks: A case study of Nepal" a full length research paper, School of Management, Harbin Institute of Technology, Harbin, P.R. China. Financial sector is the backbone of economy of a country. It works as a facilitator for achieving sustained economic growth through providing efficient monetary intermediation. A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services.

Financial performance evaluation is the important approach for enterprises to give incentive and restraint to their operators and it is an important channel for enterprise stakeholders to get the performance information. The performance evaluation of a commercial bank is usually related to how well the bank can use its assets, shareholders' equities and liabilities, revenues and expenses. The performance evaluation of banks is important for all parties including depositors, investors, bank managers and regulators. The evaluation of a firm's performance usually employs the financial ratio method, because it provides a simple description about the firm's financial performance in comparison with previous periods and helps to improve its performance of management. Moreover, the ratio analysis assists in determining the financial position of the bank compared to other banks.

Financial ratios based on CAMEL Framework are related to capital, assets, management, earnings and liquidity considerations.

Mr. Poudel, (2053) in his article "Financial Statement Analysis: An Approach to Evaluate Bank's Performance" published in NRB Samachar said that the balance sheet, profit and loss account and accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss 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 accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The user of the financial statements of a bank need relevant, reliable and comparable information,

which assist them in evaluation the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial bank Act 2031 B.S. requires the audited Balance Sheet and profit and loss account to be published in the leading newspaper for the information of general public.

The article entitled "Commercial Bank's Comparative Performance Evaluation" written by Mr. Shrestha, he concludes that JVBs are new, operationally more efficient, having superior performance comparing with local banks. Better performance of JVBs is due their sophisticated technology, modern banking method, and skill. Their better performance is also due to the of government's branching policy in rural areas and financing policy that is imposed to Local Banks. Local banks are efficient in rural sector. Despite having number of deficiencies, local banks have to face growing constraints of socio-economic-political system on one hand spectrum and that of issues and challenges of JVBs commanding, significant banking business on other spectrum. (M.K. Shrestha 1990:31)

Mr. Bajracharya (1999), in his article "Monetary Policy and Deposit Mobilization in Nepal", has mentioned the mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal. For this purpose Commercial Banks stood as the active and vital financial intermediary for generating resource in form of deposit of the private sector. So far providing credit to the investor's in different aspects of the economy.

He has explained that commercial banks only can play an important role to mobilize the national savings. Nowadays other financial institutions like finance

companies; cooperative societies have been established actively to mobilization deposits in the proper sectors so that return can be ensured from the investment.

Likewise Mr. Bista in his article “Nepal Ma Adhunik Banking Bhyawastha” has made an attempt to highlight some of the important factors, which have contributed to the efficiency, and performance of joint venture banks. He concluded that the establishment of joint venture banks a decade. The beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization, Hypothecation, consortium finance and modern fee- based activities into the economy’. (Bhagat Bista, 1992:55)

Dr. Thapa (1994) has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors. Among the commercial banks, Nepal Bank Ltd and Rastriya Banijya Bank are operating with a nominal profit. The latter is turning towards negative from time to time because of non – recovery of accrued interest also the margin between interest income and interest expenses are declining. Because of these two local banks, in traditional off-balance sheet operations, these banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and

shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operations and efficient personnel management has added to the maximization of their profits.

At the end of this article, he concludes that by its very nature of the public sector, the domestic banks could not compete with the private sector banks, so, only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Mr. Mahat has written an article about should NRB encourage establishment of more banks' which was published in the Kathmandu Post in 22 July 2004. It gives short glimpse of the banking performance of Nepal Rastra Bank (NRB), as a central bank of Nepal, has the ultimate authority of granting approval for the establishment of a bank or financial institution. NRB has, therefore, the power of increasing or limiting the number of players in the banking and financial service industry through licensing. NRB also has a role in creating a conducive atmosphere for efficient functioning of the banking and financial institutions. Allowing the entry of sufficient number of players in the banking and financial services industry creates the environment of healthy competition and promotes efficiency in the banking system. (Mr. L.D. Mahat: 22 July 2004)

Mr. Mahat thinks that, establishment of new banks not only introduced advanced technology in banking industry but also offered a host of innovative products and superior services to the customers at affordable cost. Therefore, NRB should encourage more new private sector banks which will make modern banking available to a larger section of the economy. But on the other hand, he is afraid

that Nepal could be over banked on the basis of the number of players in the industry but it is still under-serviced in reality. Establishment of new banks will increase the intensity of competition in the banking industry. This will force the poorly managed and poorly capitalized banks to upgrade their efficiency. Otherwise, customers will shift their business with the better capitalized and more professionally managed banks. The principle of 'survival of the fittest' will hold well under such a scenario. Therefore, there is still a room for more banks so far as it paves the way towards sound and strong banking system.

The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that different from the others, none is likely to serve only single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the statement of changes in financial position. (*ACAN, Newsletter, Dec-2001: 41*)

Mr. Poudel gives more emphasis on Financial Performance of financial companies in the article "An overview Financial Companies of Nepal". He has written that at the time 1996, the ratio of capital funds to deposit has been increasing over the time but on top of this, it is substantially below than the authorize level of deposit mobilization, which is ten times of the capital base. Never the less, some of the finance companies have even mobilized the deposits by more than ten times of their capital base by violating the regulatory norms issued by NRB. The credit/deposit ratio has remained quite high leaving the room for doubt the quantity of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase, housing and term loan are the major sectors, which all together

received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since, the varying factor it is too early to evaluate the performance of financial companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

Thus, there are so many studies conducted regarding the performance analysis .It is not within the scope of this study to analyze all the above issues in the Nepalese context.

However this study attempts to deal with same of the major issues described above.

2.7 Research Gap

Although some very valuable researches in the field of Financial Performance Analysis have been done so far, there is still a great deal of opportunity remained for researchers in the field in this area to explore and identify new facts and figures about the financial status of Commercial Bank's of Nepal. The above studies are performed by different researcher; their weakness is also mentioned there. This study has tried to analyze the financial performance of HBL and EBL. Usually the financial position of banks is needed to be strong to provide better return to its shareholder and to maintain better position among other competing banks. The financial performance is largely influenced by different market related factors.

The earlier studies were done on the basis of secondary data's regardless of what the real market is going through.

Nowadays, Nepalese banking sector has entered to the new horizon. Its importance is increasing day by day due to important role played in monetary policy of Country, Depositors, Stakeholders, borrowers etc. with better financial performance. Indicators like profit, Non-performing Loan, dividends, staff bonus etc. make the investor and depositors attracted towards the bank with best financial position.

Therefore, this study tries to analyze the various factors affecting the financial position of HBL and EBL using their published audited reports and official information of latest 5 consecutive year (FY 2007/08-2011/12)

CHAPTER-III

RESEARCH METHODOLOGY

Research means to research the problems again and again to find out something more about the problem. Methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Research methodology is a way to systematically solve research problem. The 'Research Methodology', which is used to analyze for collection of data, are mentioned in this chapter. To achieve these objectives; the study requires an appropriate research methodology

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well-thought activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to the problem. Thus entire process by which we accept to solve the problems or to search the answer to question is called research" (Wolf and Panta, 2002:4)

An appropriate choice of research methodology is a difficult task, which is, must necessary to support the study in realistic term with sound empirical analysis. So that , the study uses the following research methodology like research design, population and sample, data collection procedure, methods of data analysis, methods of presentation, etc. Detail explanations of the above points are given which seems appropriate to understand methodology in detail. So, it is the methods steps and guidelines which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis.

3.1 Research Design:-

Research design is the main part of the thesis or any research work. “Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. The plan is the overall scheme of program me of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the financial analysis of data” (Kothari.C.R, 1990:390)

The research design refers to the conceptual structure within which the research is conducted. A research design will always help in knowing successive stages. It will be a logically sequence and one after the other stages will scientifically the importance of each step in the whole scheme of things. Research design decides the fate of the proposal and its outcome. The study has used two types of research design such as Analytical research design and Descriptive research design. An analytical research design is used to analyze the presented data and facts to be specific. In the context of HBL, the different types of financial and statistical tools and techniques are to be used whereas the descriptive research design is used to show the causes of increasing or decreasing the financial variations.

3.2 Population and Sample:-

At present, there are 32 commercial banks operating in Nepal. All the commercial bank that is operating in Nepal is considered as the population.

Due to limited time period and resource factors, it is not possible to study all the data related with all the JVBs of them regarding the study topic. From all the commercial banks of Nepal among them joint venture Banks is selected as sample i.e. Himalayan Bank Limited and Everest Bank Limited for the present study from

the whole population. The present study is undertaken for a period of past 5 years from the year 2007/08 to 2011/12.

3.3 Data Collection Techniques:-

The data used in the study are primary as well as secondary as they have been collected from concern authority. Beside this the researcher has discussed informally with the bank's staffs. For any study, information is the oxygen. Thus, it is the fundamental task to gather the information and data collection. To fulfill the objectives of this study primary data as well as secondary have been used. But most of the data are secondary type.

Primary data will be collected through questionnaire, interviews, observations and survey applied to clearly the material whereas the secondary sources of data are the information received from reports books, newspapers, journals etc. Secondary data have been taken mainly from, Annual reports, especially from Income Statement, Balance Sheet, Cash Flow and other publication made by the bank, newsletters and bulletins of HBL/EBL and of course from internet site of HBL/EBL. Various Articles published in Newspapers, unpublished periodicals Publications published by NRB. Similarly, necessary data are collected from the publication relating to national economy and publication of Ministry of Finance, Documents of ICAN, books, booklets, magazines, articles, and different kinds of legal provision from various Act, etc.

On the other hand, in order to review different books and previous studies, frequent visits have been made Tribhuvan University Library, United College Library. Similarly, in order to collect relevant documents, frequent visits are made to HBL and EBL head office, Nepal Rastra Bank etc and surfing the websites of HBL and EBL.

3.4 Data Processing:-

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information so gathered are to be checked, edited and tabulated in such ways that provide convenience for computation and interpretation.

The relevant data have been inserted in meaningful tables. Only the data that are relevant to the study have been presented in the tabular form in the understandable way and unnecessary data have been excluded. It is attempted to find out the conclusion from the available data, with the help of various financial as well as statistical tools.

3.5 Data Analysis Tools:-

For the research work all the data are the input for research process and systematic processing requires an appropriate analytical tool. Since data are the main raw material for analytical study, for processing these data using different analytical tools, one should first arrange, manage, accumulate and present all the data in appropriate tables and format in the systematic manner.

With the help of various financial and statistical tools we can identify the actual situation of a business concern. The major types of ratios that used in this study are as follows:-

3.5.1. Ratio Analysis:-

Ratio analysis is a powerful tool of financial analysis, which helps in identifying financial strengths and weaknesses of business concerns. It refers to the numerical or quantitative relationship between two items or variables. It is the expression of

the relationship between two items either from balance sheet or from balance sheet or from income statement or from both statements it is an important way to state meaningful relationships between components of financial statements. The primary purpose of ratios is to point out areas for further investigation.

A ratio is defined as “The indicated quotient of two mathematics expression” and as the relationship between two or more things. (*Spring mass & Merriam, 1975:958*)

Ratio analysis involves basic standards of comparison for a useful interpretation of the financial statements. A single ratio by itself does not indicate favorable or unfavorable condition of a firm unless it is compared to some appropriate standard. Selection of a proper standard of comparison is a most important element in ratio analysis.

Ratio analysis has been a major tool used in the interpretation and evaluation of financial statements since late 1800. (*Lov, 1974:11*)

The operational and financial problems of a business concern can be ascertained by examining the behavior of these ratios. Financial ratios help make qualitative judgment. The objective of the present study is to compute, analyze and interpret financial ratios so as to determine their behavior in financial institution with special reference to HBL and EBL. As a tool of financial analysis; ratio can be expressed in terms of percentage, fraction or a stated comparison between numbers.

The alternative methods of expressing items, which are related to each other, which are for the purpose of financial analysis, are called ratio analysis. (*Khan and Jain, 1993:80*)

3.5.1.1. Liquidity Ratio:-

Liquidity ratios are used to judge a firm's ability to meet its short term obligations. Banking industry has its survival in its ability to create credit and its credit creation ability is dependent upon its liquidity ratio. The liquidity ratio of banking industry depends upon the banking habit of people. Where the banking practice is more prevalent, the low current ratio does not necessarily increase its liquidity risk. Therefore, it is necessary to have a proper balance between high liquidity and lack of liquidity. The ratios used in short term liquidity analysis evaluate the adequacy of the firm's cash resources relative to cash obligations.

As financial tools following ratios have been used to find out the liquidity position of HBL and EBL.

i. Current Asset to Current Liabilities ratio (Current Ratio):-

This ratio shows the bank short-term solvency. It shows the relationship between current assets and current liabilities. Lower current ratios create difficulties in meeting short run commitments as they mature. If the ratio is too high the bank has an excessive investment in current assets or is under- utilizing short-term credit. This ratio is calculated using the following basic formula.

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

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business. Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm include cash, bank balance, and investment in treasury bills, discounts, overdrafts, short-term advance loans, and

foreign currency loan, bills for collections, customer acceptance, stock, receivable and prepaid expenses.

Similarly, current liabilities include those liabilities of a firm which are paid within one year, like current payments, cash margin, current deposits, saving deposits, interbank reconciliation account, bills payable for overdrafts, dividend payable and provision for taxation.

ii. Cash and Bank Balance to Current Assets Ratio

This ratio reflects the proportion of cash and bank balance out of total current assets. It is calculated by dividing cash and bank balance by total current assets.

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and Bank Balanced Advances}}{\text{Total Current Assets}}$$

Cash and bank balance are highly liquid assets than other current assets.

iii. Loan and Advance to Current Assets Ratio

It shows the relationship between loan and advance to current assets or shows the capacity of a bank to purchase, discount bill and loan, cash credit and over draft facility to its customer. It is calculated as:

$$\text{Loan and advance to current assets ratio} = \frac{\text{Loans and Advances}}{\text{Current Ratio}}$$

Loan and advance represent local and foreign bills discounted and purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency.

iv. Cash & Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balances by total deposit. This can be presented as follows:

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

3.5.1.2. Turnover Ratio:-

Turnover ratio measures the performance efficiency of an organization that whether it is using its resources properly or not. To carry out operations, a firms needs to invest in both short term and long term. Turnover ratios describe the relationship between the firm's level of operations and the assets needed to sustain the activity. Activity ratio can also be used to forecast a firm's capital requirement. Activity ratios enable to analyst to forecast these requirements and to access the firm's ability to acquire the assets needed to sustain the forecasted growth. The activity ratios analyzed in the study are:

i. Loan and Advance to Total Deposit:-

Most of the commercial banks earn more profit by using funds of outsider deposited in terms of loan and advance. This ratio shows whether the banks are efficient to utilize the outsiders fund (i.e. total deposits) for the purpose of profit generation on the loans and advance thus provided. Generally higher ratio reflects higher efficiency in utilizing outsiders fund and vice versa. This ratio can be computed by dividing the total amounts of loans and advance by total deposited funds.

$$\text{Loans and advance to total deposits ratio} = \frac{\text{Loans and Advances}}{\text{Total Deposits}}$$

Loans and advance refers to the total amount of loan and advance and overdraft (i.e. in local currency plus convertible foreign currencies) and total deposits refers the total of all kinds of deposits.

ii. Investment on Government Securities to Total Deposit

This ratio is used to find out the percentage of total deposit investment on government securities, treasury bills and development bonds.

Investment on Government Securities to Total Deposits ratio

$$= \frac{\text{Investment on Govt. Securities}}{\text{Total Deposits}}$$

iii. Loan and Advance to Fixed Deposit

This ratio represents how many times the funds are used in loans and advances against fixed deposits. Fixed deposits are long-term interest bearing obligations and loan and advance are the main sources of earning of the bank. This ratio can be computed by dividing loans and advance by fixed deposits.

$$\text{Loans and advance to fixed deposits ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposits}}$$

A high ratio indicates idle cash balances, measuring are not utilized properly.

3.5.1.3. Profitability Ratio:-

Any business organization is run primarily for profit. Profitability ratios give some yardsticks to measure profit in relative terms, either with reference to sales or assets or capital employed. Profitability is the difference between the revenues and the expenditure over a period. Profitability ratios measure the efficiency of

business enterprise. Profit is the main element that makes an organization to survive for long term. There are two areas when judging profitability one is relationship between on the income statement that indicate a company's ability to recover the costs and expenses and other is relationship of income of various balance sheet measure that indicate the company's relative ability to earn incomes on assets employed. Following ratio is analyzed:

i. Net Profit to Total Assets Ratio:-

Profit to total assets ratio is useful in measuring the profitability of all financial resources invested compared to total assets of a firm. This ratio is calculated by dividing the amount of net profit by the amount of total assets employed.

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

ii. Net Profit to Total Deposit Ratio:-

This ratio measures the percentage of profit earned from the utilization of the total deposits. Deposits are mobilized for investment, loan and advances to the public in generating revenue. Higher ratio indicates the return from investment on loans and lower ratio indicates that the funds are not properly mobilized.

$$\text{Net profit to Total Deposit ratio} = \frac{\text{Net profit}}{\text{Total Deposits}}$$

Other ratios:

- iii. Basic Earning Power
- iv. Return on common equity (ROE)
- v. Total Interest Earned to Total Working Fund Ratio
- vi. Total Interest Paid to Total Working Fund Ratio

3.5.1.4. Capital Structure Ratio:-

Capital structure of a business consists of long-term funds, which are not repayable in the short-term funds, which are repayable in the short run. Capital Structure of a business consists of three elements. Shareholders fund, Long term loan fund and Short term loan fund, Current liabilities & provision

Following ratio is analyzed:-

- i. Total Debt to Shareholder's Equity Ratio
- ii .Total Debt to Total Assets Ratio
- iii. Time Interest Ratio (TIE)

3.5.1.5. Market Value Ratio:-

A final group of ratios, market value ratio, relates the firm's stock price to its earnings and book value per share, and thus give management an indication of what investors think of the company's past performance and future prospects. If the firm's liquidity, assets management, debt management and profitability ratios are all good, then its market Value ratios will be high, and its stock will probably be high can be expected. Following ratios are analyzed:

1. Price Earning Ratio (PE)
2. Earning per share Ratio

3.5.2 Statistical Tools:-

3.5.2.1 Standard Deviation:-

It is quantitative measure of the total risk of assets. It provides more information about the risk of the asset. It is a measure of the total risk of the asset. It measures

the dispersion of returns around the mean. Its advantage is that the uncertainty of returns can be summarized into a single easily calculated number.

The standard deviation of a distribution is the square root of the variance of returns around the mean. The following formula is applied to calculate the standard deviation, using historical returns:

$$u_j = X \sqrt{\frac{\phi(HPR - \overline{HPR})^2}{n}}$$
, where: HPR = holding period rate of return; Ω_j = standard deviation of stock 'j'. \overline{HPR} = average holding period rate of return; n = no. of observations;

3.5.2.2 Karl Pearson's Coefficient of Correlation:-

It is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Person Ian correlation coefficient between two variables (series) X and Y, usually denoted by 'r(X,Y)' or 'r_{xy}' or simply 'r' can be obtained as :-

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{(\sum X^2 - \frac{(\sum X)^2}{n})(\sum Y^2 - \frac{(\sum Y)^2}{n})}}$$

, where: n = number of observations in series X and Y;

$\sum X$ = sum of observations in series X, $\sum Y$ = sum of observation in series Y;

$\sum X^2$ = sum of squared observations in series X; $\sum Y^2$ = sum of squared observations in series Y; $\sum XY$ = sum of the product of observations in series X and Y The value of correlation coefficient 'r' lies between -1 to 1, i.e. -1 ≤ r ≤ 1.

If r = 1, there is perfect positive relationship. If r = -1, there is perfect negative relationship. If r = 0, there is no correlation at all. (Gupta, 1999:519-521)

The closer the value of 'r' is 1 or -1, the closer the relationship between the variables and the closer 'r' is to 0, the less close relationship. [*Shrestha and Manandhar, 1999 (2056): 234*]

3.6 Method of Data Presentation:-

The researcher has accumulated all the necessary data and financial information. Collected data for five year period (i.e. from the Year 2006/07 A.D – 2010/11 A.D) (B.S 2063/64 to FY B.S 2067/68) are presented in tabular form. Tables are prepared to show various financial ratios of the same period. These tables are accompanied by corresponding changes, averages and standard deviations .Some important graphical presentation is included as and when necessary. In appendix also the ratio analysis and bar diagram are stated. The appendix also included the computation table of master list of specific value chart for coefficient of correlation, averages and standard deviation. All the financial and statistical values are computed manually. Similarly, all the financial numerical values are determined under million of Nepalese rupees and expressed in a round figure. From the analysis of the financial statement, we find the financial performance and financial position of the firm.

CHAPTER IV DATA PRESENTATION AND ANALYSIS

4.1 Financial Position Analysis:-

It is the process of identifying the financial strength and weaknesses of a firm by properly establishing the relationship between the items of balance sheet and income statement. Parties interested in financial position analysis of a firm may be a management, creditors, shareholders, government and other stakeholders whose interest may vary from different angles.

This chapter presents the data, facts, figures relating to different aspects of HBL and EBL. These available data are translated analyzed and interpreted so that financial forecast of banks can be done easily. Hence, the financial ratios have been taken for this. Though there are many ratios but due to some sort coming and constraints, only related ratios have been taken for analyzing the strength and weakness of the sample joint venture banks.

4.1.1 Ratio Analysis:-

The term ratio refers to the numerical or quantities relationships between two variables. Important ratios can be calculated from the balance sheet and profit and loss account and thus calculated financial ratios can be useful for analyzing and assessing the performance and position of the bank, which reflect the relative strength and weakness of any particular bank over others. The ratio analysis is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank. As mentioned in the previous chapter i.e. research methodology, various ratios are calculated to determine the potential for a company's success considering certain relationship between various financial statement items which

are relevant indicators of the company's prospects to produce new information that has additional value.

4.1.1.1 Liquidity Ratios:-

It is very important for a firm to be able to meet its obligations as they become due. Liquidity ratio measures the ability of the firm to meet its current obligations. A firm should ensure that it does not suffer from the liquidity crunch, and also that it is not too much highly liquid. The failure of a company to meet its obligation, due to lack of sufficient liquidity will result in bad credit image and loss of creditor's confidence. A very high degree of liquidity is also bad; idle or non-performing assets earn nothing. The firm's fund will be unnecessarily tied up in the current assets. Therefore, it is necessary to strike proper balance between liquidity and lack of liquidity.

Adequate liquidity is a must in the banking sector also, in order to product its solvency and to honor its short-term obligations or liabilities. Failing to do so, banks might have to go for liquidation, and hence to protect the creditor's interest, NRB has directed all the banks to maintain adequate CRR.

A bank must insure that it has a sound liquidity position to face the instant claims by its creditors or in other words, its current liabilities should be fully backed by its current assets to build good credit image and gain creditor's confidence.

Liquidity ratio measured the ability to meet the short-term obligations and reflects the short-term financial strength and solvency of any bank. Since, the depositors of the banks are interested in the short-term solvency or liquidity of the firm; it is regarded as one of the most important ratios. To measure the bank's debt paying

ability or the probability that cash will be continuously available to meet its maturing obligations, various liquidity ratios are calculated as below:

4.1.1.1.1 Current Ratio:-

It is the ratio of total current assets to total current liabilities calculated by dividing the company's current assets by current liabilities.

Current assets of joint venture bank refers to cash and near cash items (i.e. cash and bank balance, money at call and short notice, loans and advances, cash credit, bills discounted, investment, interest receivables, miscellaneous current assets) and current liabilities are deposits (i.e. saving, fixed, current call and short deposit, other bill's payable Miscellaneous liabilities)

The following table no.4.1 shows the current ratio of HBL and EBL.

Table 4.1 Current Ratio

(Rs. In million)

Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Current Assets	Current Liabilities	Ratio (in times)	Current Assets	Current Liabilities	Ratio (in times)
2007/08	30,125.76	35,726.77	0.8432	25,256.32	22,326.50	1.1312
2008/09	34,256.32	39,789.66	0.8609	35,687.26	34,195.14	1.0436
2009/10	37,610.72	38,588.45	0.9747	40,265.71	38,047.37	1.0583
2010/11	43,186.13	41,903.88	1.0306	45,187.04	42,245.77	1.0696
2011/12	52,189.71	41,903.88	1.2455	63,615.45	51,605.18	1.2327
Mean			0.9910			1.1079
S. D.			0.1623			0.0777
C.V.(%)			16.3758			7.0227

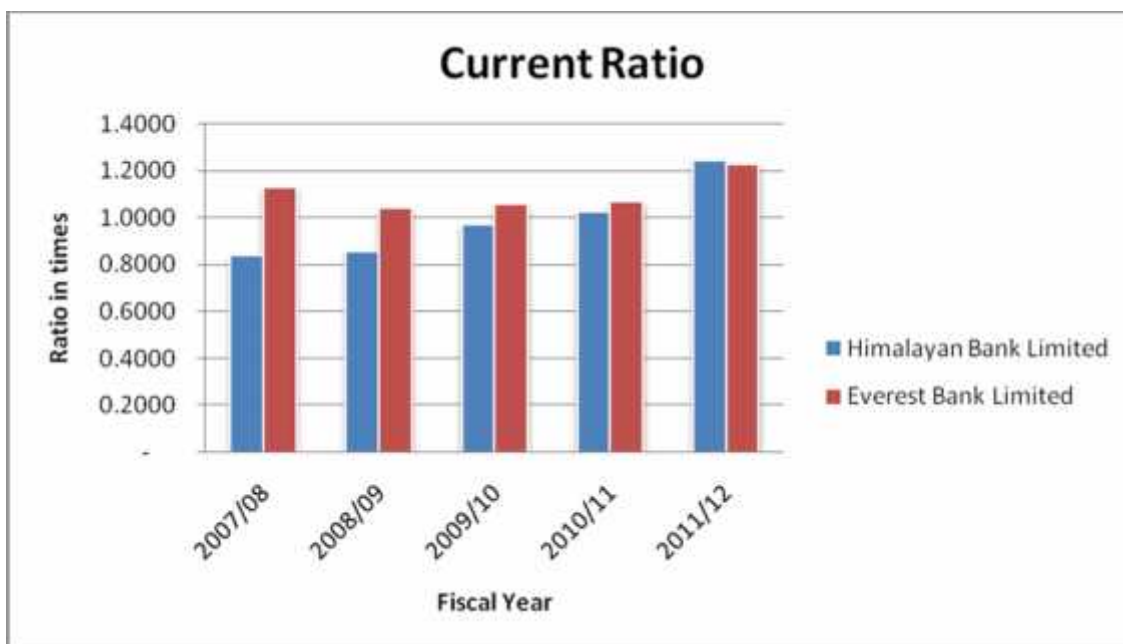
(Source: Annual Report of HBL and EBL)

Table no.4.1 shows that the current ratio of both banks has been below the standard 2:1. The ratio of HBL under the study period has ranged between 0.8432 in (2007/08) to 1.2455 in (2011/12) whereas EBL ratio is in between 1.1312 in (2007/08) to 1.2327 in (2011/12).

Similarly, HBL's ratio is in increasing order whereas ratio of EBL is in decreasing trend. Since mean ratio of EBL is found to be highest than HBL, from which we can conclude that EBL is successful to meet their current obligation.

As concern with liquidity and consistency EBL seems to be in better position than HBL with lowest C.V. (7.0227%).

Figure 4.1



Current ratios of both the banks are below the required standard but it cannot conclude the liquidity position of both banks to be poor. As this ratio shows the quantity and not the quality of assets and second reason is that it does not distinguish between the types of current assets. However, lower assets ratio implies that for both the sample banks, current assets are either declining in value

or being utilized in some other profit generating investment. Both banks should cut off the investment of such assets. From the viewpoint of working capital policy and utilizing of current fund both the sample banks are following the aggressive working capital policy and better utilization of current fund. Both banks are following aggressive policy.

4.1.1.1.2 Cash and Bank Balance to Total Deposit Ratio:-

Cash and bank balance to deposits ratio measures the capacity of the banks to meet unexpected demand made by the depositors i.e. current account holders, saving account holders, other and margin holders. Higher ratio shows high liquidity position and ability to cover the deposits and vice versa.

Cash and bank balance includes total cash in hand and total cash at bank; similarly deposits include all type of deposits.

The following table shows the comparative cash and bank balance to deposits ratio of HBL and EBL.

Table 4.2 Cash and Bank Balance to Total Deposit Ratio

(In millions)

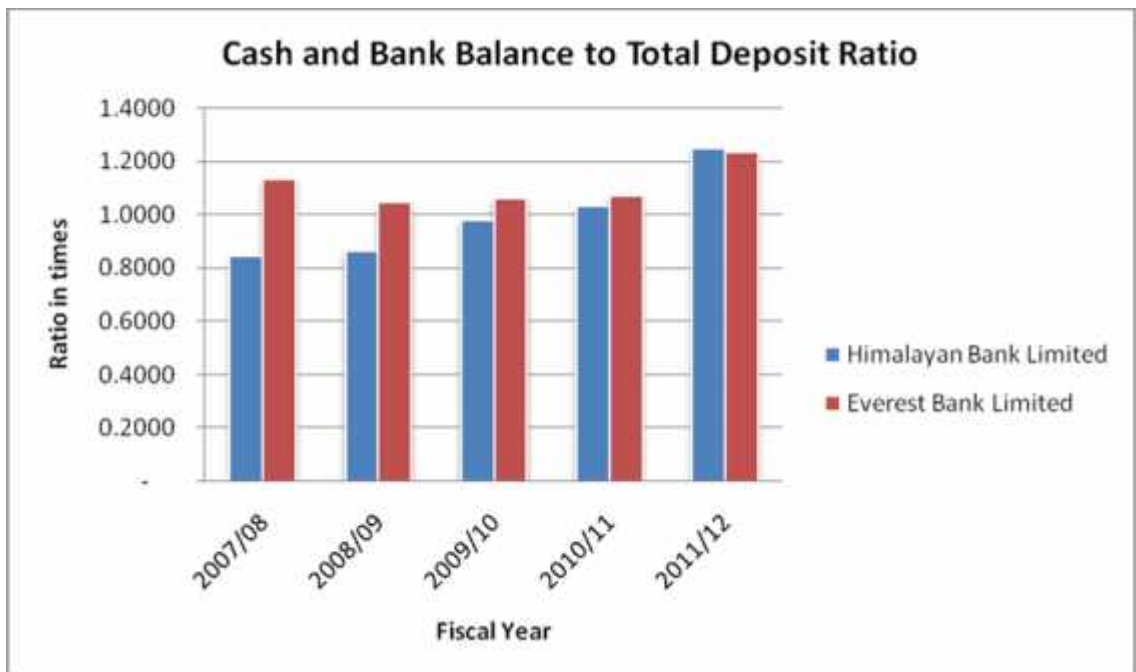
Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Cash & Bank Bal.	Total Deposit	Ratio (in times)	Cash & Bank Bal.	Total Deposit	Ratio (in times)
2007/08	1,448.14	31,842.70	0.0455	2,667.97	23,976.30	0.1113
2008/09	3,048.60	34,681.00	0.0879	6,164.40	33,322.90	0.1850
2009/10	3,866.49	37,611.20	0.1028	7,818.82	36,932.31	0.2117
2010/11	2,964.65	40,920.63	0.0724	6,122.86	41,127.91	0.1489
2011/12	6,362.30	47,730.99	0.1333	10,363.31	50,006.10	0.2072
Mean			0.0617			0.1728
S. D.			0.0444			0.0424
C.V.(%)			72.8756			24.5605

(Source: Annual Report of Concerned Bank)

Table no. 4.2 shows the fluctuation on cash and bank balance to total deposit ratio of the sample banks. During study of five years period, the ratio of HBL is highest in 2011/12 which is 0.1333 and lowest in 2007/08 which is 0.0455. Similarly, EBL has highest ratio in 2009/10 and lowest in 2007/08 which is 0.2117 and 0.1113 respectively. EBL has maintained the highest mean ration of 0.1728 than HBL, which shows that EBL has successfully maintaining the higher cash and bank balance to total deposit ratio. But it doesn't mean that it has invested in profitable sector. It actually means that EBL is successful in meeting the daily cash requirement.

From the table it is clear that EBL has better position in consistency which is shown by lowest CV ratio of 24.56 % they have consistency in utilizing the cash balance among HBL.

Figure 4.2



4.1.1.1.3 Cash and Bank Balance to Current Assets Ratio:-

This ratio reflects the portion of cash and bank balance to current assets. Cash and bank are highly liquid assets than other current assets. Here cash and bank balance refers to the total of local currencies, cheque in hand and various bank balance. A high ration indicates the sound ability to meet their daily cash requirement of their customer deposits and vice versa.

Table 4.3 Cash and Bank Balance to Current Assets Ratio

(In millions)

Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Cash & Bank Bal.	Current Assets	Ratio (in times)	Cash & Bank Bal.	Current Assets	Ratio (in times)
2007/08	1,448.14	30,125.76	0.0481	2,667.97	25,256.32	0.1056
2008/09	3,048.60	34,256.32	0.0890	6,164.40	35,687.26	0.1727
2009/10	3,866.49	37,610.72	0.1028	7,818.82	40,265.71	0.1942
2010/11	2,964.65	43,186.13	0.0686	6,122.86	45,187.04	0.1355
2011/12	6,362.30	52,189.71	0.1219	10,363.31	63,615.45	0.1629
Mean			0.0861			0.1542
S. D.			0.0288			0.0344
C.V. (%)			33.4687			22.2922

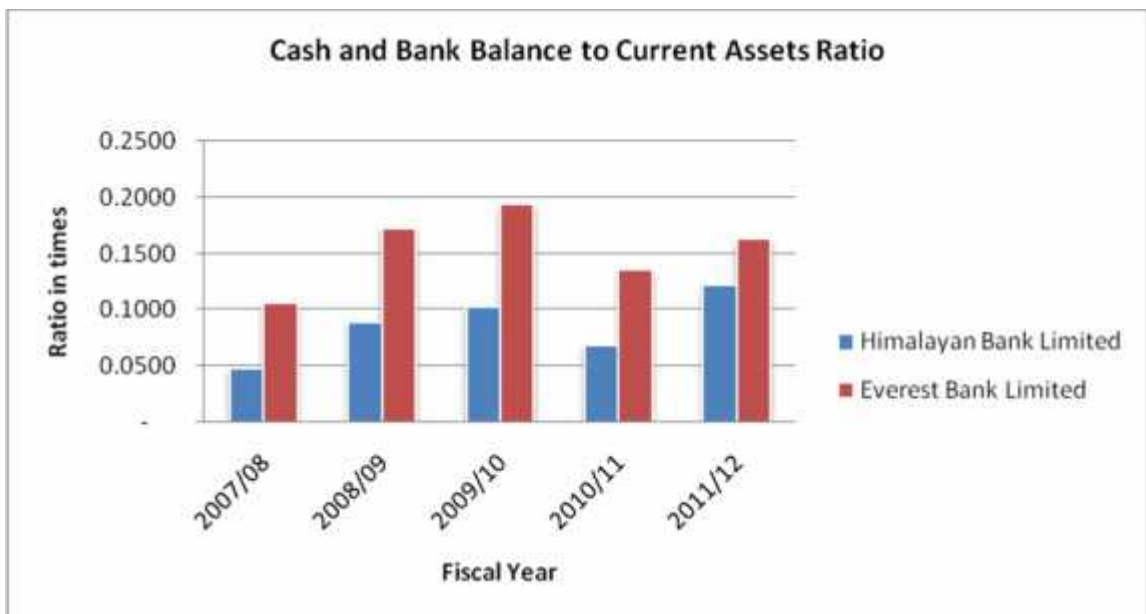
(Source: Annual Report of HBL and EBL)

Table no. 4.3 shows that the cash and bank balance to current assets ratio of HBL is ranged between 0.0481 in 2007/08 and 0.1219 in 2011/12 with mean ratio of 0.0861. Whereas the ratio of EBL has ranged between 0.1056 in 2007/08 to 0.1629 in 2011/12 and mean ratio of 0.1542. Since, the mean ratio of EBL is greater than HBL it support the conclusion that, EBL is successful in maintaining its higher cash and bank balance to current assets ratio, but it doesnot mean that it has mobilized its more funds in profitable sectors. It actually mean that EBL can

meet its daily cash requirement. In contrast bank with lowest mean ratio have invested their fund in more productive sectors.

As concern with liquidity and consistency EBL has successful in maintaining a stability of cash and bank balance in comparison to HBL with lowest C.V. 22.2922%

Figure 4.3



4.1.1.2 Turnover Ratio:-

4.1.1.2.1. Loan and Advances to Total Deposit Ratio:-

Loan and advances is the main item of utilization of a bank's collected fund. Accepting deposits and granting of loans are the main business of any commercial and other type of bank. This ratio shows the percentage of total deposit that has been utilized on loan and advances. The collected fund must be mobilized somewhere else in the form of loans and advances or investment or in any other

forms to generate income. The utilization of fund in the form of loan and advances generates income in terms of interest at a fixed rate.

Mobilization of fund in the sector with a fixed rate of interest is always a positive aspect from viewpoint of profitability if there is no risk while recovering them. The Loan & Advances to total deposit ratio can be further explain by the help of the following table.

Table 4.4: Loan and Advances to Total Deposit Ratio:-

(Rs. In Million)

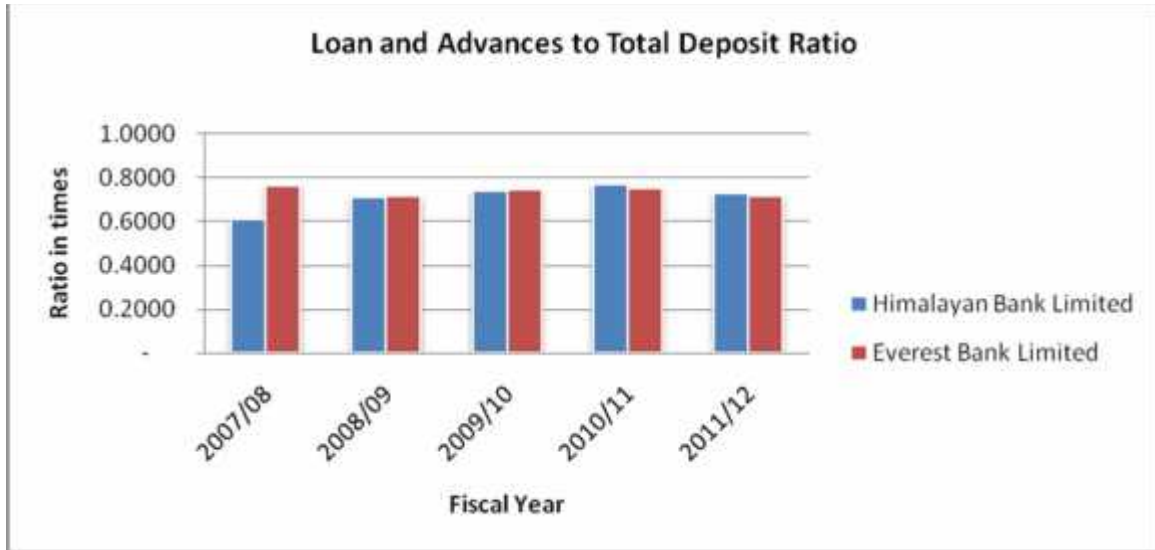
Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Loan and Advances	Total Deposit	Ratio (in times)	Loan and Advances	Total Deposit	Ratio (in times)
2007/08	19,497.52	31,842.79	0.6123	18,339.09	23,976.30	0.7649
2008/09	24,793.16	34,681.00	0.7149	23,884.67	33,322.90	0.7168
2009/10	27,980.63	37,611.20	0.7439	27,556.36	36,932.31	0.7461
2010/11	31,566.98	40,920.63	0.7714	31,057.69	41,127.91	0.7551
2011/12	34,965.43	47,730.99	0.7326	35,910.97	50,006.10	0.7181
Mean			0.7150			0.7402
S. D.			0.0610			0.0218
C.V.(%)			8.5287			2.9476

(Source: Annual Report of HBL and EBL)

Table 4.4 shows the ratio during the study period of five years of HBL and EBL. HBL has registered the highest ratio 0.7714 in year 2010/11 and lowest ratio 0.6123 in year 2007/08. Similarly in fiscal year 2008/09 and 2007/08 EBL has registered the lowest ratio 0.7168 and highest ratio 0.7649 respectively with mean ratio of 0.7402 which is highest than HBL.

As concerned with the consistency, EBL is successful to maintain the consistency than HBL with lowest C.V. of 2.9476 %. HBL has a highest C.V. of 8.5287%, thus it is not able to maintain the consistency.

Figure 4.4



4.1.1.2.2 Investment on Government Securities to Total Deposit Ratio:-

The main purpose of this ratio is to measure successfulness in mobilizing the deposit in investment on government securities. The investment on Government securities to total deposit ratio of different banks in the study period are mentioned in the following table:

Table 4.5: Investment on Govt. Securities to Total Deposit Ratio

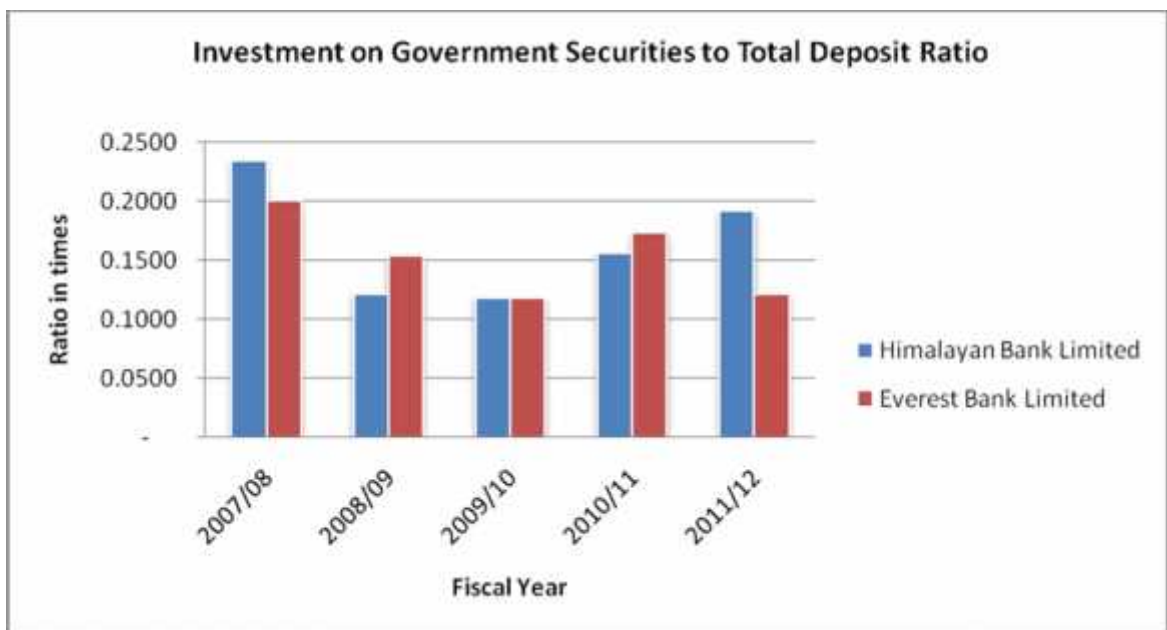
(Rs. In Million)

Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Invest. On Govt. Sec.	Total Deposit	Ratio (in times) X	Invest. On Govt. Sec.	Total Deposit	Ratio (in times) X
2007/08	7,471.70	31,842.79	0.2346	4,821.60	23,976.30	0.2011
2008/09	4,212.30	34,681.00	0.1215	5,146.00	33,322.90	0.1544
2009/10	4,465.37	37,611.20	0.1187	4,354.35	36,932.31	0.1179
2010/11	6,407.36	40,920.63	0.1566	7,145.02	41,127.91	0.1737
2011/12	9,162.22	47,730.99	0.1920	6,068.88	50,006.10	0.1214
Mean			0.1647			0.1537
S. D.			0.0492			0.0353
C.V.(%)			29.8804			22.9458

(Source: Annual Report of HBL and EBL)

Table 4.5 reflects that the ratio of Investment on Government securities to Total Deposit of HBL is high with ratio of 0.2346 in year 2007/08 and the ratio is low at the year 2009/10 which is 0.1187. Similarly, in EBL the ratio is fluctuating. The ratio is high at 2007/08 which is 0.2011 and low at 2009/10 which is 0.1179. HBL is successful in mobilizing the deposit, since it has a higher mean ratio. EBL has a lower mean ratio; they are less successful to utilize the deposit in investment on government securities.

Figure 4.5



4.1.1.3 Profitability Ratio:-

Profit is the main element for financial institution to survive and grow over the long run. But only earning profit is not the ultimate aim of the institution and it should never be earned at the cost of employees, customers and society. However, profitability is a measure of efficiency and search for it provides an incentive to outside efficiency. This ratio indicates the degree of success in achieving desired profit levels of the working funds. These ratios are of two types: those showing

profitability in relation to sales and those showing profitability in relation to investment. A firm should earn profits to survive and grow over a long period of time. Profits are indispensable but it would be wrong to assume that every action initiated by management of a firm should be aimed at maximizing profits, irrespective of social magnitude and responsibilities. Even then, profit plays a fundamental role to make a firm stand strong to meet its social responsibilities. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of a firm, and it will have no future if it fails to make sufficient profit. The profitability ratios are calculated to measure the operating efficiency of the firm. The profitability ratio measures the profit of a company makes in relation to assets. A company's value is in its income stream, and its assets are simply a means to achieve this goal. The ideal company would produce income without assets. Besides the management of the firm, creditors and owners are also interested in the profitability of the firm. "Profit must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for the welfare of the society."

The following are profitability ratio those are relevant in this study:

4.1.1.3.1 Net Profit to Total Assets Ratio:-

This ratio measures how far the management has utilized all the assets of a firm for profit generating activities. This ratio provides the foundation necessary for a company to deliver a good return on equity. Higher ROA ratio indicates higher efficiency in the utilization of total assets and vice-versa. ROA is calculated by dividing Net Income after Tax by Total Assets. Net profit is the after tax profit of a firm, which can be utilized by the firm for its own purpose or for the benefit of owners. Total assets also termed, as working fund is the total utilization of a firm's

fund. Net profit stated other way, is the reward to a firm for efficient utilization of its various assets. The net profit to total assets ratio, therefore, points out how successfully a firm has utilized its total assets. It indicates profit-earning capacity of the assets. A superior net profit to total assets ratio shows firm's better position and wise to maximize this ratio. Following table shows the net profit to total assets ratio of the bank for the period of study.

Table 4.6: Net Profit to Total Assets Ratio

(Rs. In Million)

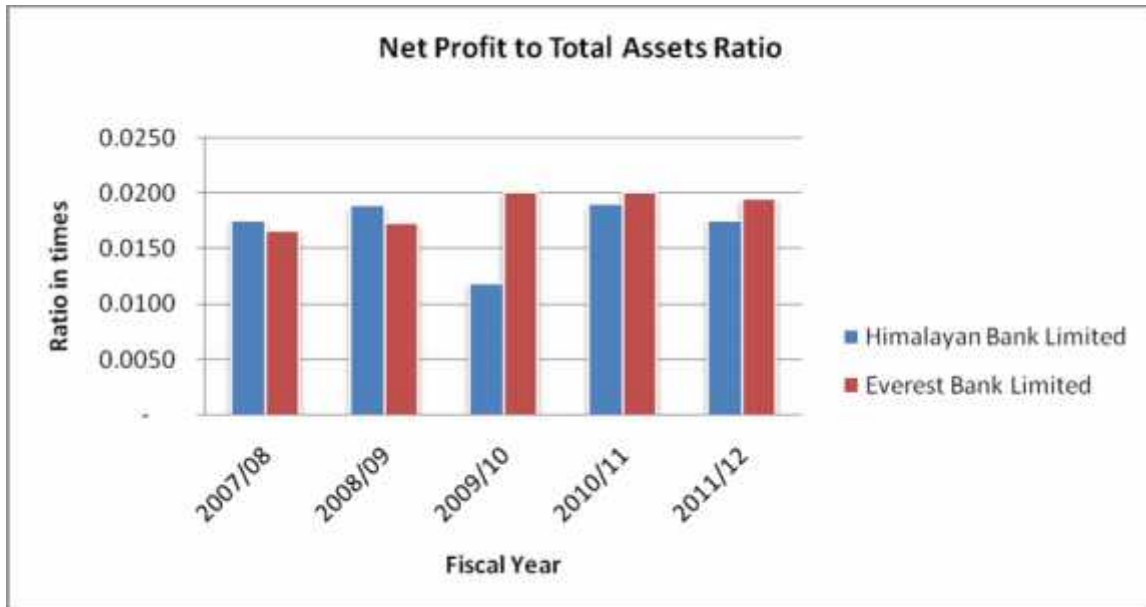
Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Net Profit	Total Assets	Ratio (in times)	Net Profit	Total Assets	Ratio (in times)
2007/08	635.87	36,175.53	0.0176	451.20	27,149.34	0.0166
2008/09	752.83	39,790.23	0.0189	638.73	36,916.85	0.0173
2009/10	508.80	42,717.12	0.0119	831.77	41,382.76	0.0201
2010/11	893.12	46,736.20	0.0191	931.30	46,236.21	0.0201
2011/12	958.64	54,364.43	0.0176	1,090.56	55,813.13	0.0195
Mean			0.0170			0.0187
S. D.			0.0029			0.0017
C.V. (%)			17.31			8.86

(Source: Annual Report of HBL and EBL)

Table 4.6 reflects that the ratio of Net Profit to Total Assets Ratio. The ratio of HBL is high with ratio of 0.0191 in year 2010/11 and the ratio is low at the year 2009/10 which is 0.0119. The ratio of EBL is in increasing trend. The ratio is high at 2010/11 which is 0.0201 and low at 2007/08 which is 0.0166. EBL is successful in earning the net profit with efficient utilization of total assets with compared to HBL.

But as concern with consistency, EBL is able to maintain the consistency in profit which is shown by lowest C.V. of 8.86% than HBL.

Figure 4.6



4.1.1.3.2 Net Profit to Total Deposit Ratio:-

The sum of deposits accepted by the bank under various accounts is termed as total deposit. According to the terms and condition of the deposit, the bank should pay interest on these deposits. The deposits so accepted are mobilized by the bank into various sectors in the form of investment, loan and advances from which it generates earnings in the form of interest or other. The difference between the interest received and paid by the bank is its profit. Hence, if defined in other ways, net profit is a reward to the bank for efficient mobilization of its total deposit. So, it would also be reasonable, meaningful and important from every angle to show the relationship between the net profit and total deposit for which the net profit to total deposit ratio has been calculated in the following table.

Table 4.7: Net Profit to Total Deposit Ratio

(Rs. In Million)

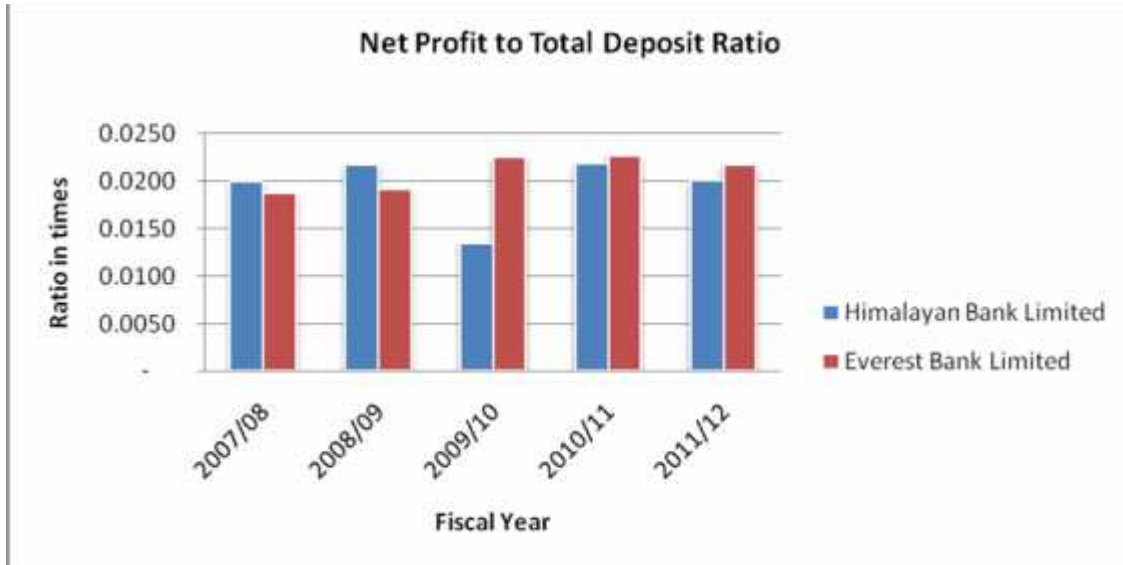
Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Net Profit	Total Deposit	Ratio (in times)	Net Profit	Total Deposit	Ratio (in times)
2007/08	635.87	31,842.79	0.0200	451.20	23,976.30	0.0188
2008/09	752.83	34,681.00	0.0217	638.73	33,322.90	0.0192
2009/10	508.80	37,611.20	0.0135	831.77	36,932.31	0.0225
2010/11	893.12	40,920.63	0.0218	931.30	41,127.91	0.0226
2011/12	958.64	47,730.99	0.0201	1,090.56	50,006.10	0.0218
Mean			0.0194			0.0210
S. D.			0.0034			0.0019
C.V. (%)			17.5504			8.8437

(Source: Annual Report of HBL and EBL)

Table 4.7 shows the net profit to total deposit ratio is in fluctuating situation of both HBL and EBL. The ratio of HBL has range between 0.0201 in 2011/12 to 0.0200 in 2007/08 with mean of 0.0194. Similarly, the ratio of EBL has range between 0.0218 in 2011/12 to 0.0188 in 2007/08 with mean of 0.0210. HBL has lowest mean ratio than EBL. Since EBL has the highest mean ratio, it indicates that EBL has better performance in utilizing of total deposit to earn a higher profit.

Similarly, EBL has lowest C.V. than HBL with 8.8437%

Figure 4.7



4.1.1.3.3 Total Interest Earned to Total Working Fund Ratio:-

The ratio shows the earning capacity of a Bank on its total assets (working fund). This ratio exhibits the extent on which banks are successful in mobilizing their working funds to generate income as much as possible. The higher ratio will indicate the high earning power of the banks on its total assets. The following table shows the comparative ratios of Banks for the different periods.

Table 4.8: Total Interest Earned to Total Working Fund Ratio

(Rs. In Million)

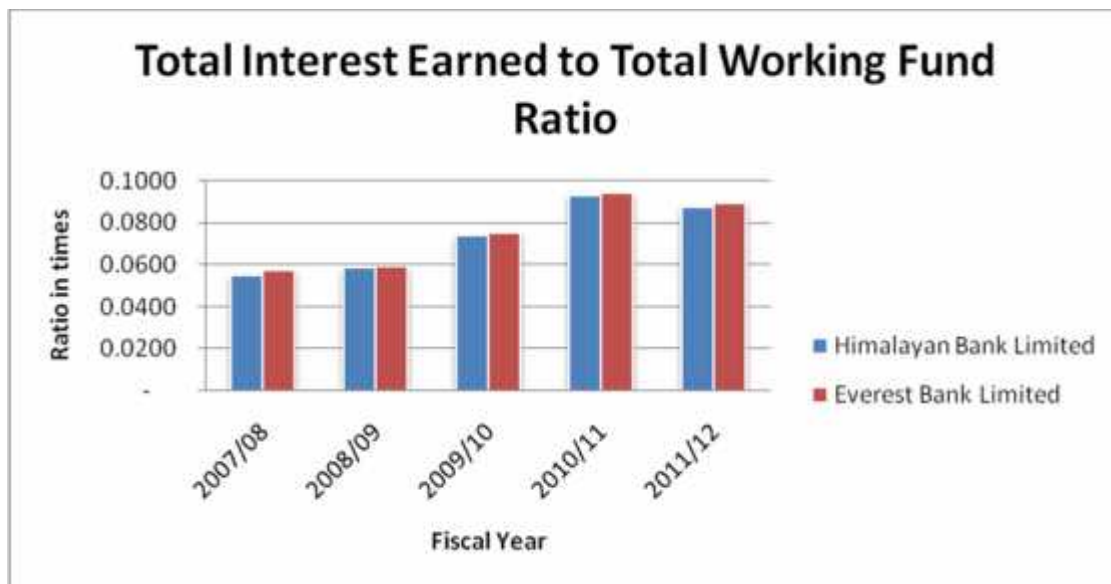
Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Interest Earned	Working Fund	Ratio (in times)	Interest Earned	Working Fund	Ratio (in times)
2007/08	1,963.65	36,175.53	0.0543	1,548.70	27,149.34	0.0570
2008/09	2,342.20	39,790.23	0.0589	2,186.80	36,916.85	0.0592
2009/10	3,148.61	42,717.12	0.0737	3,102.45	41,382.76	0.0750
2010/11	4,326.14	46,736.20	0.0926	4,331.03	46,236.21	0.0937
2011/12	4,724.89	54,364.43	0.0869	4,960.00	55,813.13	0.0889
Mean			0.0733			0.0748
S. D.			0.0168			0.0167
C.V. (%)			22.9072			22.2991

(Source: Annual Report of HBL and EBL)

Table 4.8 reveals the total interest earned to total working fund ratio. The ratio of HBL is in increasing trend from 0.0543 in year 2007/08 to 0.0869 in year 2011/12 with mean ratio of 0.0733. The ratio of EBL is highest in year 2010/11 (0.0937) and lowest in year 2007/08 (0.0570) with mean ratio of 0.0748.

Since EBL has the lowest C.V. of 22.2991% they have a consistency in earning a interest by mobilizing a total working fund effectively.

Figure 4.8



4.1.1.3.4 Total Interest Paid to Total Working Fund Ratio:-

Interest earned in the major source of a commercial bank. The ration is used to measure the percentage of total interest expenses against the total assets. The following are the comparative ration figures of banks recorded in different periods.

Table 4.9: Total Interest Paid to Total Working Fund Ratio

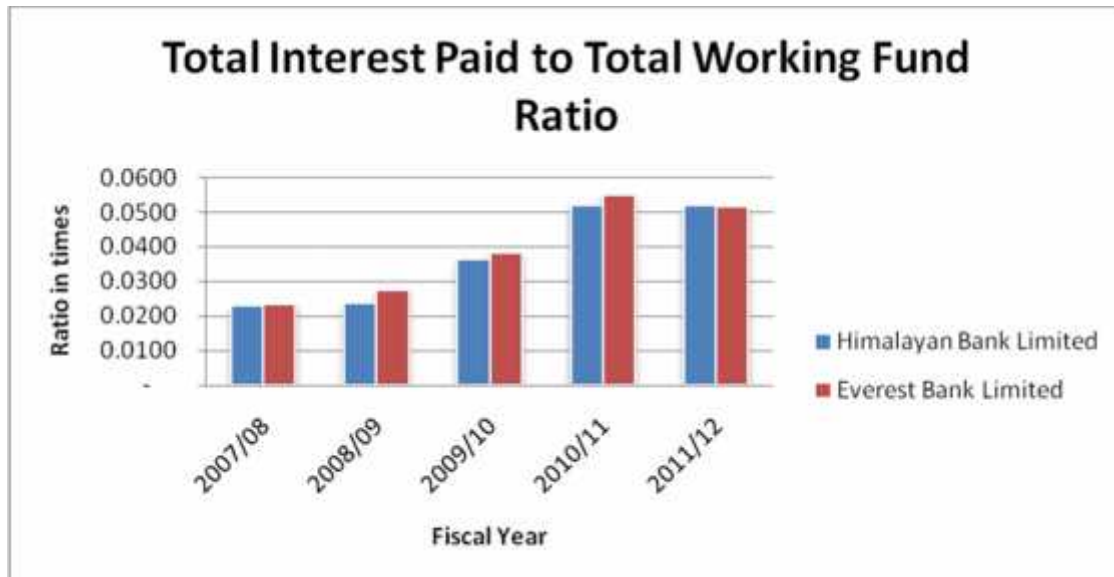
(Rs. In Million)

Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Interest Paid	Working Fund	Ratio (in times)	Interest Paid	Working Fund	Ratio (in times)
2007/08	824.00	36,175.53	0.0228	632.60	27,149.34	0.0233
2008/09	934.80	39,790.23	0.0235	1,012.90	36,916.85	0.0274
2009/10	1553.53	42,717.12	0.0364	1,572.79	41,382.76	0.0380
2010/11	2,414.81	46,736.20	0.0517	2,535.88	46,236.21	0.0548
2011/12	2,816.44	54,364.43	0.0518	2,873.33	55,813.13	0.0515
Mean			0.0372			0.0390
S. D.			0.0143			0.0140
C.V. (%)			38.4479			35.9764

(Source: Annual Report of HBL and EBL)

Table 4.9 shows the comparative analysis of total interest paid to total working fund. The highest and lowest ratio of HBL are 0.0518 and 0.0228 in fiscal year 2011/12 and 2007/08 respectively with mean ratio of 0.0372. The highest and lowest of EBL are 0.0515 and 0.0233 in fiscal year 2011/12 and 2007/08 respectively with mean ratio of 0.0390. The above mean data shows that EBL has paid a higher interest on working fund in compare to HBL. EBL has lowest C.V. ratio of 35.9764% than HBL.

Figure 4.9:



4.1.1.4 Leverage Ratio:-

A firm should have strong short term as well as long term financial position. Like other ratios, leverage ratio is also very necessarily important tool in measuring financial performance of any institution. This ratio reveals the proportion of funds used by the institution either from the creditor's side or from owner side. In order to maintain healthy financial position any institutions need to maintain proper proportion of debt and equity. These ratios indicate the situation of the capital structure, which is calculated to measure the company's ability of using debt for benefit of shareholders. Long term creditors like debenture holders, financial institutions etc. are more interested to the firm's long term financial health, debt serving capacity and strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary debt ratio tell us the relative proportions of capital of contribution by creditors and by owners.

Leverage ratio is also called solvency ratio or capital structure ratio. There are various tolls in order to measure leverage of the institution among them. The following ratios are examined under these heading.

4.1.1.4.1 Total Debt to Total Assets Ratio:-

This ratio measures the relationship between financial contribution of outsiders and owners on total assets of the firm or it measures the proportion of debt out of total assets of the firm. It also provides security to outsider to pay their regular interest, dividend and principal within prescribed time. Generally creditor prefers the components to use low debts and owners, on the contrary prefer high debt ratio to earn more return. This ratio is similar as debt to equity ratio. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders over the total assets and lower ratio indicates lower financial risk as well as decreasing claim of outsiders over the total assets of the firm. Here, total debt refers to short-term loan; long term loans and all kinds of deposits and other liabilities and total assets include all the assets that are in the assets side of balance sheet of the firm.

Table 4.10: Total Debt to Total Assets Ratio

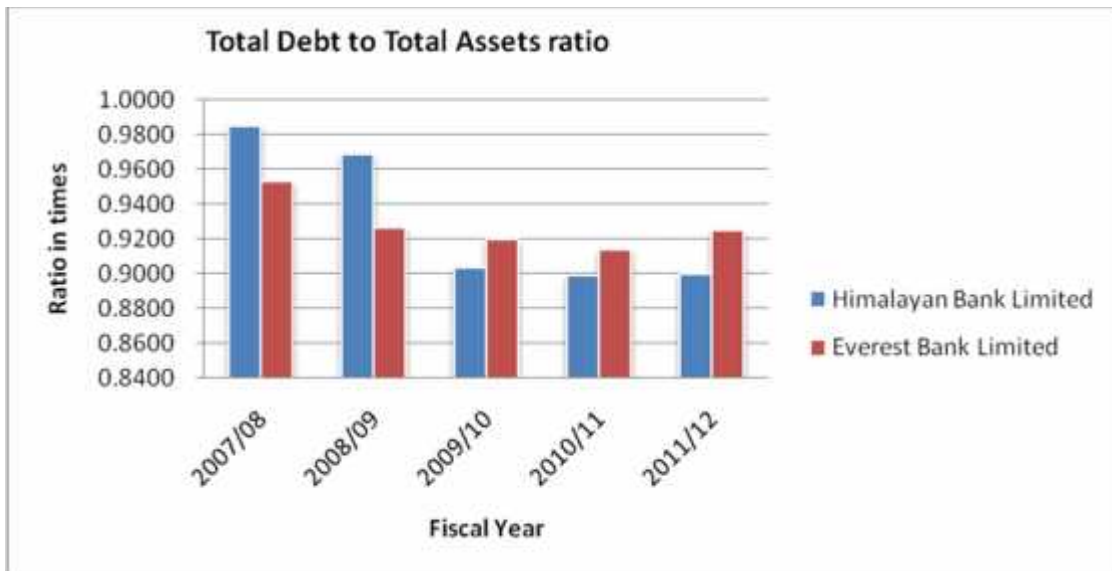
(Rs. In Million)

Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Total Debt	Total Assets	Ratio (in times)	Total Debt	Total Assets	Ratio (in times)
2007/08	35,623.06	36,175.53	0.9847	25,856.25	27,149.34	0.9524
2008/09	38,523.45	39,790.23	0.9682	34,195.14	36,916.85	0.9263
2009/10	38,588.45	42,717.12	0.9033	38,048.51	41,382.76	0.9194
2010/11	41,993.88	46,736.20	0.8985	42,242.77	46,236.21	0.9136
2011/12	48,910.31	54,364.43	0.8997	51,605.18	55,813.13	0.9246
Mean			0.9309			0.9273
S. D.			0.0420			0.0149
C.V. (%)			4.5156			1.6048

(Source: Annual Report of HBL & EBL)

Table No. 4.10 shows that debt financing ratio of all sample banks are high. The ratio of all banks are in fluctuating trend. The highest ratio of HBL is 0.9847 in 2007/08 and lowest is 0.8985 in 2010/11 with mean ratio of 0.9309. The ratio of EBL highest in 2007/08 with 0.9524 and lowest in 0.9136 in 2010/11 with mean ratio of 0.9273. HBL has highest mean ratio than EBL. Above statement conclude that the debt financing of EBL is lowest and highest in HBL. Therefore, HBL is utilizing a highest debt among EBL.

Figure 4.10:



4.1.1.4.2 Total Debt to Shareholder's Equity Ratio:-

This ratio is calculated by dividing total debt by total equity. This ratio measures the proportion of external liability in the total capital of the firm. This ratio indicates how well creditors are protected in case of the company's insolvency. It is calculated to measure the firm's obligation to creditors in relation to the funds invested by the owners.

In this study, total debt refers to all depositors, bills payable, borrowing made from other banks and other liabilities. Similarly, total equity refers to paid up capital, reserve and surplus and undistributed profit. Generally, very high debt to equity ratio is unfavorable to the business firm because debt gives third parties legal claims over the company. Which can be for regular payment of interest plus repayment of principal within the agreed time?

On the other hand, a very low debt to equity ratio is also unfavorable from the shareholder's point of view. They want this ratio to be high so that they can have better return with smaller capital. Investment of debt in the business is considered beneficial when the interest rate is less than the return as increase shareholders wealth. This process is known as trading on equity. Therefore an appropriated mixture of debt and equity capital should be maintained by the firm for maximization of owner's wealth.

Table 4.11: Total Debt to Shareholder Equity Ratio

(Rs. In Million)

Fiscal Year	Himalayan Bank Limited			Everest Bank Limited		
	Total Debt	Total Equity	Ratio (in times)	Total Debt	Total Equity	Ratio (in times)
2007/08	35,623.06	2,776.07	12.8322	25,856.25	2,062.03	12.5392
2008/09	38,523.45	3,281.98	11.7379	34,195.14	2,421.71	14.1202
2009/10	38,588.45	3,628.68	10.6343	38,048.51	3,035.39	12.5350
2010/11	41,993.88	4,332.32	9.6932	42,242.77	3,690.44	11.4465
2011/12	48,910.31	4,954.12	9.8727	51,605.18	4,207.95	12.2637
Mean			10.9540			12.5809
S. D.			1.3232			0.9696
C.V. (%)			12.0794			7.7072

(Source: Annual Report of HBL and EBL)

Table 4.11 shows that debt equity ratio of sample banks are high. The highest ratio of HBL is recorded in year 2007/08 (12.8322) and lowest ratio is recorded in year

2010/11 (9.6932) with mean ratio of 10.9540. Similarly ratio of EBL is in fluctuating trend. The highest ratio of EBL is recorded in year 2007/08 (12.5392) and lowest in year 2010/11 (11.4465) with mean ratio of 12.5809. Since, highest mean is recorded by EBL, they have more investment from debt than equity fund which cost a higher than equity. Higher debt brings a higher cost to the banks.

EBL has lowest C.V. of 7.7072% than HBL.

Figure 4.11:



4.1.2 Statistical Analysis:-

This chapter includes some statistical analysis such as Karl Pearson's coefficient of correlation, simple regression analysis and trend line analysis and trend line analysis, which are used to analyze the data to achieve objective of the study.

4.1.2.1 Coefficient of Correlation Analysis (r):-

Correlation analysis is the statistical tools generally used to describe the degree to which one variable is related to another. In other words correlation is defined as the relationship between the one dependent variable and one or more independent

variables. But it does not tell anything about cause and effect relationship it only shows the relationship between two variables is may be positive or negative. If both variable and increase or decrease in the other variables in the same direction, then the two variables is positive. In this heading Karl Pearson coefficient of correlation (Direct Method) is used to find out the relationship between deposit and loan and advances. Deposit and total investment and outside assets and net profit and so on.

4.1.2.1.1 Coefficient of Correlation between Deposit and Loan & Advances:-

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

Table 4.12: Coefficient of Correlation between Deposit and Loan & Advances

(Rs. In Million)

Fiscal Year	Himalayan Bank Limited		Everest Bank Limited	
	Total Deposit	Loan and Advances	Total Deposit	Loan and Advances
	(x)	(y)	(x)	(y)
2007/08	31,842.79	19,497.52	23,976.30	18,339.09
2008/09	34,681.00	24,793.16	33,322.90	23,884.67
2009/10	37,611.20	27,980.63	36,932.31	27,556.36
2010/11	40,920.63	31,566.98	41,127.91	31,057.69
2011/12	47,730.99	34,965.43	50,006.10	35,910.97
R	0.9645		0.9950	
r ²	0.9302		0.9899	
$PE=0.6745*1-\frac{r^2}{n}$	0.0211		0.0030	
6PE.r	0.1263		0.0182	
Level of Significant	Significant		Significant	

The coefficient of correlation (r) for both HBL and EBL found to be less than '1' which indicates there is proportion relationship between the deposits & loan and advance for all the banks. While testing 6P.E.r for both HBL and EBL found to be significant as the r value for all the banks are greater than 6P.E.r which implies that there found to be perfect correlation between the deposits and loan and advances. It shows that the loan and advances is depends upon the deposit and all sample banks are successful in mobilizing the deposit to loan and advance efficiently.

4.1.2.1.2 Coefficient of Correlation between Deposit and Investment:-

Investment is also a measures part of banks to mobilize the collected deposit. By investing in different profitable area like shares and debenture, government

securities, banks maximize the profit. Therefore it is important to study the relation between the deposit and investment. For this analysis deposit is taken as independent variable (x) and investment (y) is taken as dependent variable. This analysis measures the degree of relationship between these two variables. Besides this, it will justify whether there is any relationship in between these two components.

Table 4.13: Coefficient of Correlation between Deposit and Investment

(Rs. In Million)

Fiscal Year	Himalayan Bank Limited		Everest Bank Limited	
	Total Deposit	Investment	Total Deposit	Investment
	(x)	(y)	(x)	(y)
2007/08	31,842.79	7,471.70	23,976.30	4,821.60
2008/09	34,681.00	4,212.30	33,322.90	5,146.00
2009/10	37,611.20	4,465.37	36,932.31	4,354.35
2010/11	40,920.63	6,407.36	41,127.91	7,145.02
2011/12	47,730.99	9,162.22	50,006.10	6,068.88
r	0.5577		0.5720	
r ²	0.3110		0.3272	
$PE=0.6745*\frac{1-r^2}{n}$	0.2078		0.2029	
6Per	1.2470		1.2177	
Level of Significant	In-significant		In-significant	

The coefficient of correlation of HBL and EBL is in positive figure. There is perfect correlation in the case of HBL and EBL there is perfect correlation between the deposit and investment of EBL. While testing 6P.E.r HBL is found to be In-significant and EBL is In-significant as the r value of HBL is greater than 6P.E.r and EBL is lower.

4.1.2.1.3 Coefficient of Correlation between Investment and Net Profit:-

Net Profit is the key to survive the banks. Without profit banks cannot sustain in the market. Therefore it is necessary to measure the degree of relationship between these two variables. For this study, Investment (x) is taken as independent variable and net profit (y) is taken as dependent variable. The following table shows the coefficient of correlation between (r), Coefficient of determinants (r^2) and probable error P.E.r on investment and net profit of Banks.

Table 4.14: Coefficient of Correlation Investment and Net Profit

(Rs. In Million)

Fiscal Year	Himalayan Bank Limited		Everest Bank Limited	
	Investment (x)	Net Profit (y)	Investment (x)	Net Profit (y)
2007/08	7,471.70	635.87	4,821.60	451.20
2008/09	4,212.30	752.83	5,146.00	638.73
2009/10	4,465.37	508.80	4,354.35	831.77
2010/11	6,407.36	893.12	7,145.02	931.30
2011/12	9,162.22	958.64	6,068.88	1,090.56
R	0.5987		0.6039	
r^2	0.3584		0.3647	
$PE=0.6745*\frac{1-r^2}{n}$	0.1935		0.1916	
6Per	1.1612		1.1498	
Level of Significant	In significant		In significant	

The coefficient of correlation of both HBL and EBL are in positive which indicates that there is positive and perfect relationship between investment and net profit. While testing 6P.E.r for both HBL and EBL found to be In significant as the value of r is less than 6P.E.r.

4.1.2.1.4 Coefficient of Correlation between Loan and Advance and Net Profit:-

Loans and advance also plays a vital role in earning the profit. By mobilizing the degree in loans and advances banks earns the profit. So, it is necessary to study the relation between these two variable loan and advance Net Profit.

Table 4.15: Coefficient of Correlation Loan and Net Profit

(Rs. In Million)

Fiscal Year	Himalayan Bank Limited		Everest Bank Limited	
	Loan & Advances	Net Profit	Loan & Advances	Net Profit
	(x)	(y)	(x)	(y)
2007/08	19,497.52	635.87	18,339.09	451.20
2008/09	24,793.16	752.83	23,884.67	638.73
2009/10	27,980.63	508.80	27,556.36	831.77
2010/11	31,566.98	893.12	31,057.69	931.30
2011/12	34,935.43	958.64	35,910.97	1,090.56
r	0.6650		0.9960	
r ²	0.4422		0.9920	
PE=0.6745 * $\frac{1-r^2}{n}$	0.1683		0.0024	
6Per	1.0096		0.0145	
Level of Significant	Insignificant		Significant	

The coefficient of correlation for both HBL and EBL found to be almost '1' which indicates there is proportional relationship between the loan and advances and net profit. While testing 6P.E.r, HBL is found to be insignificant whereas EBL is

found to be significant with value of r greater than 6.P.E.r. which implies that there is perfect correlation between the loan and advance and net profit.

4.1.3 Trend Line Analysis

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this method of least square in the study, it has been tried to analyze the trend of prospective net profit in future by analyzing the trend of past net profit of the banks. Banks utilized the deposit by releasing investment in loan and advances in different profitable area for maximizing the profit. A bank can invest in share & debenture, government securities and provide the loan and advance under different scheme.

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

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

4.1.3.1 Trend Line Analysis of Total Deposit

The part of this analysis will analyze Total Deposit of banks for five years from 2008 to 2012 and projection for next five years i.e. 2013 to 2017. The following table exhibits the trend values of Total deposit of sample banks for 10 years.

Table 4.16: Trend Line Analysis of Total Deposit

Year	Trend Values of Total Deposit	
	HBL	EBL
2008	30,954.26	25,100.18
2009	34,755.82	31,086.64
2010	38,557.39	37,073.10
2011	42,358.96	43,059.57
2012	46,160.53	49,046.03
2013	49,962.10	55,032.49
2014	53,763.67	61,018.95
2015	57,565.24	67,005.41
2016	61,366.80	72,991.87
2017	65,168.37	78,978.34

(Source: Annual Report of HBL and EBL)

Figure – 4.12

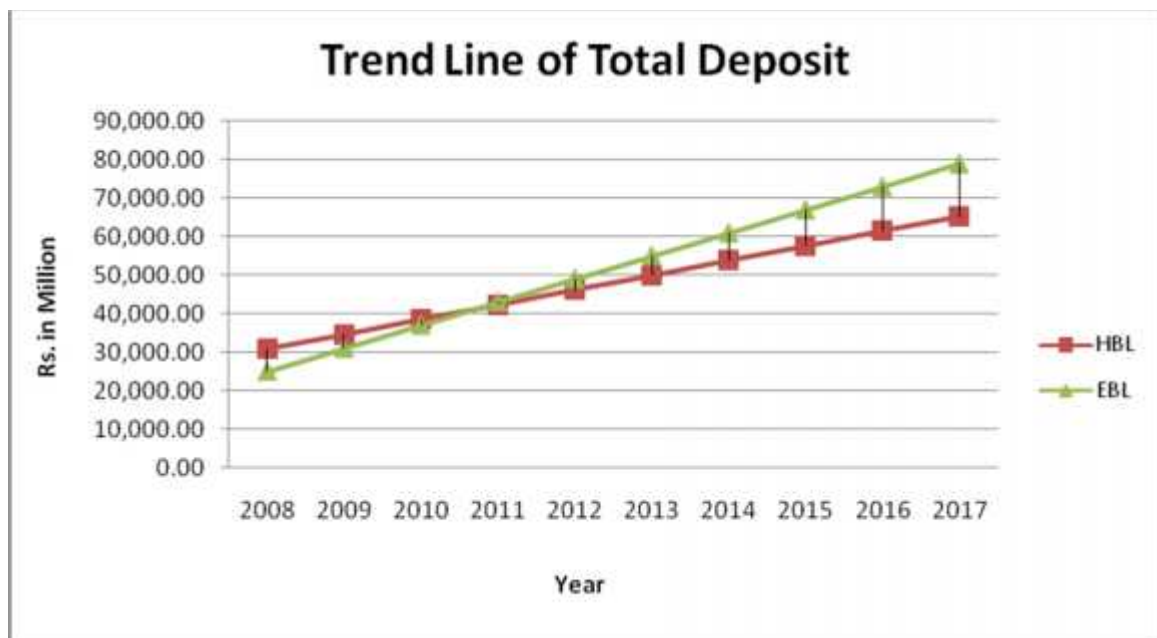


Table no. 4.16 exhibits that the trend values of HBL and EBL are in increasing trend, which means future of total deposit of HBL and EBL are good. EBL has a

highest trend of total deposit. It means EBL is successful in mobilizing the deposit. In fiscal year 2007/08 the trend values of HBL and EBL are 30,954.26 and 25,100.18 respectively. It increases to 65,168.37 and 78,978.34 for the forecast year 2017.

4.1.3.2 Trend Line Analysis of Loans and Advance:-

The analysis will analyze Loan and Advance of banks for five years from 2008 to 2012 and forecast for the following five years i.e. 2013 to 2017. The following table exhibits the trend values of Loan and Advances of sample banks for 10 years.

Table 4.17: Trend Line Analysis of Loan and Advances

Year	Trend Values of Loan and Advance	
	HBL	EBL
2008	20,218.82	18,886.40
2009	23,989.78	23,118.08
2010	27,760.74	27,349.76
2011	31,531.71	31,581.44
2012	35,302.67	35,813.11
2013	39,073.63	40,044.79
2014	42,844.60	44,276.47
2015	46,615.56	48,508.15
2016	50,386.53	52,739.83
2017	54,157.49	56,971.51

(Source: Annual Report of HBL and EBL)

Figure 4.13

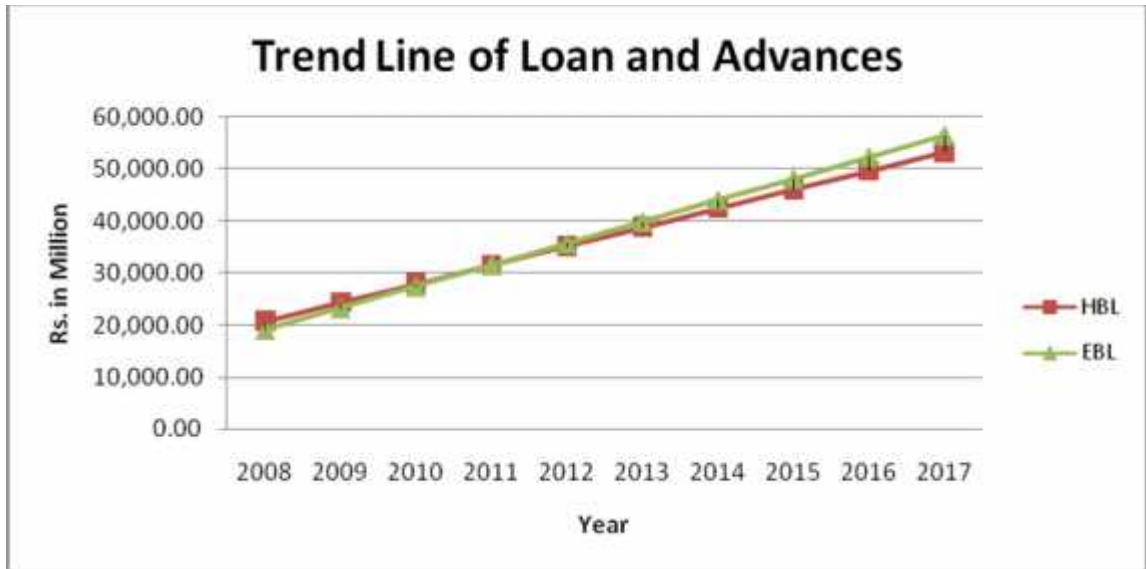


Table no. 4.17 exhibits that the trend values of HBL and EBL are in increasing trend, which means future of total loan and advances of HBL and EBL are good. EBL has a highest trend of total loan and advances. It means EBL is successful in mobilizing the loan and advances to different productive and profitable sector. In fiscal year 2007/08 the trend values of HBL and EBL are 20,218.82 and 18,886.40 respectively. It increases to 54,157.49 and 56,971.51 for the forecast year 2017.

4.1.3.3 Trend Line Analysis of Investment

The following table analyzes the trend values of Investment of sample banks for five years from 2008 to 2012 and prediction for five years i.e. 2013 to 2017. The following table exhibits the trend values of Investment of sample banks for 10 years.

Table 4.18: Trend Line Analysis of Investment

Year	Trend Values of Investment	
	HBL	EBL
2008	5228.57	4,608.46
2009	5786.18	5,057.81
2010	6343.79	5,507.17
2011	6901.40	5,956.53
2012	7459.01	6,405.88
2013	8016.62	6,855.24
2014	8574.24	7,304.60
2015	9131.85	7,753.95
2016	9689.46	8,203.31
2017	10247.07	8,652.67

(Source: Annual Report of HBL and EBL)

Figure 4.14

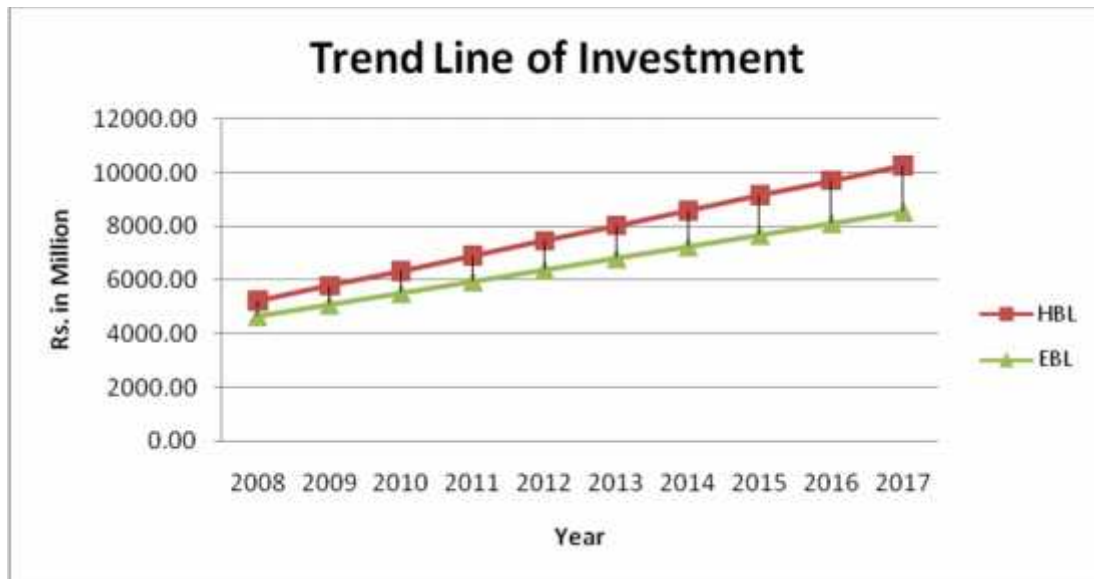


Table no. 4.18 exhibits that the trend values of EBL and HBL is in increasing trend. HBL has a highest trend of Investment. Decreasing trend of EBL means EBL is not successful in mobilizing the investment.

In fiscal year 2007/08 the trend values of HBL and EBL are 5,228.57 and 4,608.46 respectively. For the forecast year 2017 the trend value of HBL and EBL are 10,247.07 and 8,652.67 respectively.

4.1.3.4 Trend Line Analysis of Net Profit

The following table analyzes the trend values of Net Profit of sample banks for five years and prediction for five years from 2008 to 2012 and prediction for five years i.e. 2013 to 2017. The following table exhibits the trend values of Net Profit of sample banks for 10 years.

Table 4.19: Trend Line Analysis of Net Profit

Year	Trend Values of Net Profit	
	HBL	EBL
2008	592.69	474.45
2009	671.27	631.58
2010	749.85	788.71
2011	828.43	945.84
2012	907.01	1,102.97
2013	985.60	1,260.10
2014	1,064.18	1,417.23
2015	1,142.76	1,574.36
2016	1,221.34	1,731.49
2017	1,299.92	1,888.62

(Source: Annual Report of HBL and EBL)

Figure 4.15

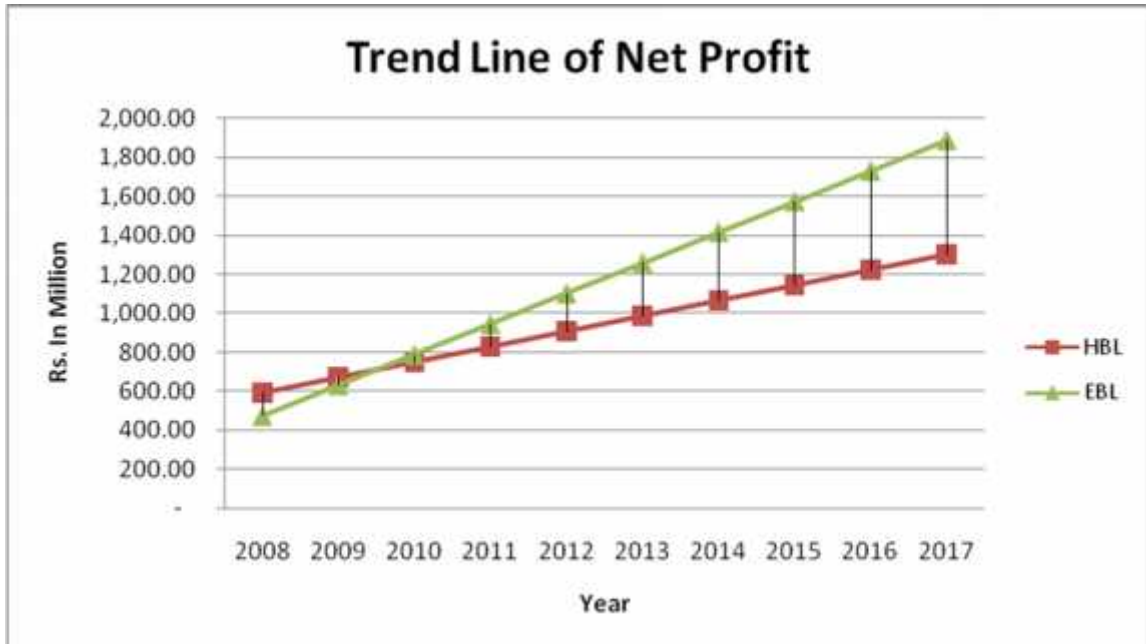


Table 4.19 exhibits that the trend values of HBL and EBL are in increasing trend, which means futures of Net Profit of all both banks are good. EBL has a highest trend of Net Profit.

In Fiscal year 2007/08, the trend values of HBL and EBL are 592.69 and 474.45 respectively. It has increased to 1,299.92 and 1,888.62 for HBL and EBL respectively for the forecast year 2017.

4.2. Major Findings of the Study:-

From the above data analysis based the researcher found that the main findings areas of HBL and EBL are as follows:

4.2.1 Liquidity Ratio:-

-) During the five years study period of HBL and EBL the current ratio is found to be highly fluctuate. It is well known that the standard current ratio is 2.1. The current assets of EBL dominated the current liabilities which indicates that EBL is capable in paying the current obligation. Therefore, EBL has highest liquidity ratio than HBL.

-) EBL is found to be in better position to maintain the cash and bank balance in total deposit ratio.

From above result it can be said that the liquidity position of EBL is found to be comparatively better than HBL.

4.2.2 Turnover Ratio:-

-) The loan and advances to total deposit ratio of both banks as found to be at satisfactory level. Since, EBL has a higher mean ratio. EBL is able to proper utilization of loan and advances with respect to total deposit.

-) The mean ratio of loan and advances to total deposit ratio of both banks are found to be at satisfactory level. But in comparative study for five years for HBL and EBL, EBL has a higher mean ratio, so they are found to be best investor than HBL.

-) HBL is successful in mobilizing the deposit in investment on government securities, since it has a higher mean ratio. EBL has a lower mean ratio; they are less successful to utilize the deposit in investment on government

securities. HBL is found to be best as concern with consistency. It has maintained the consistency level up to some extent.

From above finding, it shoes that all the sample banks are successful in on-balance sheet utilization as well as off balance sheet operation. HBL is found a best in mobilizing the assets to the profitable sector.

4.2.3 Profitability Ratio:-

-) Both HBL and EBL are able to earn the profit on total assets. EBL is found to be better than HBL since it has a higher mean ratio than average mean ratio. EBL has low C.V. ratio as compared with HBL.
-) The mean ratio of net profit to total deposit ratio of EBL is highest than HBL.
-) Even though both HBL and EBL seem to earn the interest on total working fund, EBL is successful in earning the higher interest than HBL.
-) HBL seem to be successful to collect its working fund from less expensive sources in comparison to EBL. Even though EBL has a higher interest expenses they are successful in maintaining the stability on interest expenses.

4.2.4 Leverage Ratio:-

-) Debt-assets ratio of HBL is highest among EBL. Whereas EBL have better consistency than HBL.
-) EBL is able to maintain the debt-equity ratio than HBL and also maintain variability.

4.2.5 Coefficient of Correlation:-

-) The positive correlation between the deposit and loan and advances are found in both HBL and EBL. The correlation between the deposit and loan and

advances are perfect as there is significant between them. It means that the banks provided the loan and advances from its deposit. Banks are successful in mobilizing the deposit as loan and advances.

-) There is a positive correlation coefficient between the deposit and investment of HBL and EBL.
-) Both HBL and EBL are successful in earning the net profit from the investment which means that there is a positive correlation between the investment and net profit.

4.2.6 Trend Line Analysis:-

Trend analysis is for past five years for projecting future results. The future trend analysis is done on some basis assumption that will continue in the future. The trend analysis results as follows:

-) The trend line of total deposit of both HBL and EBL is in increasing trend. In fiscal year 2007/08 the trend value of HBL and EBL are 30,954.26 and 25,100.18 respectively. It increases to 65,168.37 and 78,978.34 for the forecast year 2017. EBL has a highest trend of total deposit, it means EBL is successful in mobilizing the deposit.
-) The trend line of total loan and advances of HBL and EBL are in increasing trend. EBL has highest increasing trend and HBL has consistent increasing trend. Both banks are successful in mobilizing the loan and advances to different productive sector. In fiscal year 2007/08 the trend value of HBL and EBL are 20,218.82 and 18,886.40 respectively. It increases to 54,157.49 and 56,971.51 for the forecast year 2017. EBL has a highest trend of total loan and advances, it means EBL is successful in mobilizing the loan and advances.

-) The trend value of HBL and EBL in terms of investment is in increasing trend. It means HBL and EBL is not successful in mobilizing the investment. In fiscal year 2007/08 the trend value of EBL is 4,608.46 and increased to 8,652.67 in forecasted year 2017. Whereas, trend value of HBL in fiscal year 2007/08 is 5,228.57 and increased to 10,247.07 in forecasted fiscal year 2017.
-) Although both banks have increasing trend of net profit, EBL has the highest increasing trend. In fiscal year 2007/08 the trend value of HBL and EBL are 592.69 and 474.45 respectively. It increases to 1,299.92 and 1,888.62 for the forecast year 2017.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

The proceeding chapters have discussed and explored the facts and matters required for the various parts of the study, analytical part, which is the heart of the study, made a comparative analysis of various aspects of the financial performance of commercial banks by using some important financial as well as statistical tools. Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist, finding and give recommendation for further improvement this would be meaningful to the top management of the bank to initiate action and achieve the desired result. The objective of the researcher is not only to point out an errors and mistakes but also to correct them and give directions for further growth and improvement.

5.1 Summary

The development of any country largely depends upon its economic development. Banking industries been regarded as one of the components of economy. It transfers the scattered funds collected from saving of the public into various productive sectors. Economic activities remains halt in absence of banking industries as it plays the role of catalyst for economic development of the country in the developing country where there prevail unorganized transactions. It helps to enhance economic activities of the country by providing capital funds for the smooth operation of business activities, create employment opportunities, investing in agriculture, industry. At present there are 31 commercial banks operating in the country among which HBL and EBL has occupied wide range of the business due to access to most of the corner of the country. Due to increasing competition banks are forced to innovate new products to their customer and they are also shifting from traditional service procedure to various sophisticated

services like ATM cards, debit cards, credit cards, housing loan, education loan, vehicle loans.

The financial institutions play dominant role in the process of economic development. Banks are indispensable elements in these systems. Commercial banks furnish necessary capital needed for trade and commerce for mobilizing the dispersed saving of the individuals and institutions. They provide the bank of the money supply as well as the primary means of facilitating the flow of credit. Apart from these, the basic objectives of commercial and JVBs in Nepal are:

-) To welcome foreign investment in the country in the form of JVB's capital.
-) To develop the capital market in the country, with the expectation, that these JVBs and commercial banks invest in the shares of other companies.
-) To mobilize the idle resources for income generating purposes in a most effective way.
-) To develop the Nepalese banking sector in order to make it proficient with the help of sharing technical foreign service agreement and ultimately expertise the Nepalese personnel to make them capable of operating these banks efficiently.

Financial analysis is the process of determining the significant operation and financial characteristics of a firm accounting data. It shows the relationship between the various component which can be found in balance sheet and profit and loss statement. The analyzed statement contains that information which is useful for management, shareholder, creditors. Investors, depositors, etc. As in other industries banking industries also need financial analysis as it is crucial for evaluating and analyzing the performance of the particular company as compare to the other and also from the previous performance of the same company. So, this study almost concentrated in following problems of the sampled banks.

In this study regarding the financial performance of the two banks namely HBL and EBL has been conducted to highlight the hidden implication of figure portrayed in the balance sheet and profit and loss account of the banks by interpreting their cause effect relationship with regard to their finance performance and to identify their contribution to the national economy. The objectives of the study can also be identified as to come up with conclusion and findings of the financial performance of the analysis; provide specific suggestion which will be beneficial for these banks as well as for the entire economy. The financial statement of five years 2007/08 to 2011/12 has been examined to fulfill the objective of the study.

5.2 Conclusion:-

Nepal is a developing country. It needs to strengthen its economic structure to achieve rapid overall nation development. Commercial banks play vital role in the economic growth of any country. And in Nepal too, they have proved as prime mover of the economic development. Of the total bank branches of FIs more than 46 percent bank branches are concentrated in the central region. The market seems over crowded and the banks are now finding a tough competition among themselves. The increasing trend of the six important variable of the financial performance like net profit, loan and advance, total deposit, net interest earned, dividend per share and earning per share reflect the overall improving performance of HBL and EBL. Both banks indicate towards the better financial performance in coming years. A bank's performance cannot be judge solely interns of the profit it has earned by maintaining adequate liquidity and safely, but it should also be evaluated on the ground of the contribution it has made to the community, to the government as well as national economy. It means the banks should come forwarded with the national priorities like more fund mobilization

and service to maximum customers, developing skill and expertise in the local staffs, earning satisfactory profit and discharging their accountability towards the government. These banks should have a satisfactory profit goal, but not maximum one.

5.3 Recommendations:-

From the summary of the main findings of the analysis of financial performance of the selected banks following recommendations can be advanced to overcome the weakness, inefficiency and to improve present financial performance position of HBL and EBL.

-) HBL and EBL must identify the quality of current assets and current liabilities to develop their own standard current ratio. The fluctuation of ratio must be stabilized after proper diagnosis of the quality, such as the prevailing interest rates, supply and demand position of loans, saving and investment situations. The proposed recommendation for these banks is to reduce its excessive non-performing assets (cash and bank balance) and invest on the income generating current assets (treasury bills) and strengthen the liquidity position. The depositor may demand money at time so; bank should be ready at any time. In this research both banks has not maintained standard current ratio due to their aggressive working capital policy.
-) The bank must apply different development scheme such as deposit, insurance scheme, staff saving account of corporate holder etc. to attract more customers.
-) HBL is less successful in mobilizing its deposit by investing in different productive sectors. Investment is the key to earn a profit. Therefore, they should invest in different productive sectors by utilizing the different types of

deposit. Since their consistency level is very high they should maintain stability in total investment.

-) The overall investment of the bank should be concentrated on productive sector such as business and industrial loan rather than consumer product such as hire purchase and housing loan. Because industrial and business sector will create the employment opportunity which is necessary for capital formation and economic growth.
-) HBL should increase its investment toward government securities. And decrease a variation of investment on government securities. Even though Government Securities have low interest rate, they are risk free assets because government securities have marketability and can be sold any time when needed.
-) Profit is a key of success of any business. The bank also cannot survive without profit. So, they should keep in mind for profit maximization. But in long term business bank also be concern with the shareholder's wealth maximization as they are investor of the bank.
-) The economic liberalization has made the entire bank to determine the own interest rate. But, nowadays due to unhealthy competition the spread between the own deposit and lending interest has being higher than NRB policy. If depositors interest rate is very low then depositors may not deposit their saving at banks. Therefore the spread should be fixed according to the NRB.
-) Both HBL and EBL have more creditors fund to acquire an assets and investment. This means they all have more debt financing assets. Since, debt financing need to pay an interest regularly, higher debt are burden to bank. Among sample banks highest debt is used by HBL. Therefore, they should

- decrease a debt financing and increase an equity financing, which may help in increasing profit to some extent. Equity fund is invested by shareholder and banks should pay dividend which may be very low than interest. So, more financing should be done from equity fund rather than debt fund.
-) Due to liquidity crisis bank are using high cost bearing deposits therefore, they must try to decrease them and increase the non-interest bearing deposits for the reduction of its operational expenses. Without planning and control mechanism, such types of expenses are increasing every year, so, it is recommended to control and reduce various cost in order to boost up profit. Moreover, cost control measures should also be effectively implemented in HBL and EBL. They should find out for loopholes in their operations and eliminate the unnecessary costs.
 -) It is recommended to use well trained manpower. Well trained manpower will provide better services to the bank and customer. They will try to increase the operating efficiency of the bank. So, the bank has to conduct proper in-house and external training opportunities for their human resources.
 -) In current situation, the customer seeks advanced services from bank besides cash transaction with different services like credit card, online payments, e-banking, SMS banking, Mobile banking, 365 days banking etc.
 -) It is recommended to both HBL and EBL to minimize their less loan loss provision to evaluate the financial of their borrowers more meticulously to identify the possibility if risk before granting the loans, which will help in decreasing the volume of downgraded loans and hence the provision will go down hence increasing the profit to be distributed.

J The banks in Nepal should come forward to show what they can contribute for the development of this country. One of the present national priorities is small entrepreneurs' development. These JVBs are at present concentrating their business with big clients, like big groups in trade and industry, manufacturers, exporters of garments, carpets and pashminas industries and services related to tourism industries, subsidiaries of multinational companies operating in the country etc. Their depositors are mainly provident fund, Insurance companies, individual and foreign subsidiaries. Actually the banks should come forward to increase the number of clients, develop entrepreneurship, diversify their business with large number of small investors and come forward to meet the national objective of privatization by mobilizing more entrepreneurs.

They should promote and mobilize small investors by making a small investors development unit, such can fund and advise the investors. The unit can create innovation upon them. The advice and innovation given will help the investors to tackle the operational problems. In this way, the whole nation will be benefited.

Banks play a vital role in development of economy of the country. However all the banks have satisfactory performance, there is situation of inflation which is a cause of narrow scope operation. Therefore, NRB has to come with strong supervision and monitoring with one window service in lending and investment activities. Banks have to prove that they are the potential contributors to the national economy ensuring adequate rate of return on investment, efficient and viable agencies for mobilization of savings and its channels into productive sectors and strategically well planned to be competitive with banks and other agencies and are trust worthy.

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