# CHAPTER I
# INTRODUCTION

## 1.1 Background of the Study

Banking institutions are largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending them in different sectors of the economy. This sector has now reached even to the most remote areas of the country and has contributed a good deal to the growth of the economy. By lending their resources in small-scale industries under intensive banking program, the banks have contributed to the economic growth of the Nation.

> Bank offer the widest range of financial services especially credit, savings, payment services, and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank resource and functions has led to banks being labeled financial supermarkets and to familiar advertising slogans as 'Your Bank – a full service financial institution. Alike in other companies, the bank also faces extensive competition. And thus to be in the long run, the bank needs to make its performance better than the other rival banks. But the question is on what basis, the bank should gauge its performance? For simplicity, the financial ratios are widely used by the banks in measuring the performance.

Ratios are analysis tools that provide clues to help identify symptoms of underlying conditions. Analysts, depending on their needs, may differ in the ratios they find useful when examining financial position. Short-term creditors are primarily interested in the current performance and holdings of liquid assets that can provide a ready source of cash to meet current cash requirements. These assets include cash, marketable securities, accounts receivable, inventory, and other assets which can be sold for cash or can become cash through the normal course of a business cycle. Long-term creditors and member/owners, on the other hand, are concerned with both the long-term and short-term outlook. Management will also find ratios useful in measuring its own performance.

The analysis of financial ratios is useful only when all influencing factors are interpreted skillfully and intelligently. This is, by far, the most difficult aspect of ratio

analysis. For instance, in comparing the ratio of diesel consumption to mileage driven, driver A claims to be more efficient than driver B (i.e., A gets 20 kilometer per liter and B only gets 15 kilometer per liter). Assuming that both drive the same car, it would appear that driver A is more efficient. However, other facts should be considered: weight of the load carried, type of terrain (flat versus hilly), city or highway driving, and speed at which the car was driven.

All of these driving factors influence efficiency. In financial analysis, the same premise holds. The ratios should be used as a tool to help find strengths and weaknesses but, other factors should also be considered. Most importantly, the financial ratio analysis is crucial to gauge the performance of a bank with its rival banks, for the sustainability of the bank in the long run,

### 1.2 Profile of the Selected Banks

#### 1.2.1) Himalayan Bank Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities-Loans and Deposits. Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like ‘Any Branch Banking Facility’, Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, 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. HBL also has a dedicated offsite ‘Disaster Recovery Management System’.

### 1.2.2) Everest Bank Limited (EBL)

Catering to more than 5.5 lacs customers, Everest Bank Limited (EBL) is a name you can depend on for professionalized and efficient banking services. Founded in 1994, the Bank has been one of the leading banks of the country and has been catering its services to various segments of the society. With clients from all walks of life, the Bank has helped develop the nation corporately, agriculturally and industrially.

Punjab National Bank (PNB), our joint venture partner (holding 20% equity) is the largest nationalized bank in India having presence virtually in all important centers. Owing to its performance during the year 2012-13, the Bank earned many laurels and accolades in recognition to its service and overall performance. Recently, PNB was awarded with "IDRBT Banking Technology Excellence Award" under Customer Management and Intelligence Initiatives. The Bank also bagged "Golden Peacock Business Excellence Award 2013" by Institute of Directors. The bank has now more than 6,000 branches and 7000 ATMs spread all across the India. As a joint-venture partner, PNB has been providing top management support to EBL under Technical Service Agreement.

Everest Bank Limited (EBL) provides customer-friendly services through its wide Network connected through ABBS system, which enables customers for operational transactions from any branches. The bank has 50 Branches, 71 ATM Counters, 5 extension counter and 20 Revenue Collection across the country making it a very efficient and accessible bank for its customers, anytime, anywhere.

## 1.3 Statement of the Problem

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 make ease for trade of goods and services. In context of Nepal, commercial banks try to play such vital role for economic growth of nation. As being commercial

institution, a commercial bank must make profit out of its operation for its survival and fulfillment of its responsibilities towards its stakeholders.

Among the determinants of survival and success of commercial bank, profit earning is main determinant element. Similarly, paid up capital and shareholder equity is main determinant of risk absorbing capacity of bank. With considering these factors, we seemed Everest Bank earn higher NPAT in all five consecutive fiscal years( except 2009) than HBL.But HBL had, on the other side, higher paid up capital than EBL. Considering these, the EPS of EBL was higher in all consective fiscal years than EPS of HBL. Further, EBL's shareholder equity was higher than HBL. It clearly shows that balance sheet size of EBL and HBL was compititative than each other. In such scenarios, comparative analyzing of strength & weakness of EBL & HBL with considering profitability of both banks is more fruitful for all.

Other side due to political instability, GDP of Nepal was ranged between 3 to 5% as per Nepal Rastra Bank. If we look at national GDP, it is below 5% in last 10 fiscal years except 6.1% GDP in FY 2064/65. Similarly industrial production and agricultural sector are not growing as expected. Though, NRB made and issue new provision dated 17 July, 2010 related to ceiling rate on lending capacity of banks. After issuing such rules, lending capacity of bank has been determining by total local currency loans of bank in relation to local currency deposit plus tier one capital. After such provision, bank and financial institution can't be exceeding such ratio by 80%. In these scenarios, analyzing of lending capacity of selected banks will more fruitful for all with considering expected increment of loan and advance by existing business as well as new project.

In this context, it would be appropriate to carry out a comparative study of Everest Bank Ltd with Himalayan Bank Ltd in the aspect of banks performance.The study will try to seek to answer the following questions:

i. What are the comparative risks observing capacity, assets quality, profitability, liquidity and efficiency position between selected two commercial banks?
ii. Do the banks strictly follow the NRB direction in keeping the safe capital adequacy and liquidity?
iii. How much remaining capacity of selected bank to provide loan and advance as per NRB provision?

iv. Which types of correlation coefficient seemed in ROA and ROE with other selected ratios?

### 1.4 Objectives of the Study

The basic objective of the study is to conduct the ratio analysis and to examine the financial performance of the selected commercial banks. The objective has been further specified in the following sub-objectives:

i. To analyze and compare the risk observing capacity, assets quality, profitability, liquidity and efficiency ratios between selected commercial banks.
ii. To analyze and compare the cost of fund and interest spread of selected banks.
iii. To analyze and compare the lending capacity of selected bank as per NRB provision.
iv. To examine the relationship of profitability (ROA and ROE) with other ratios.
v. To analyse the financial ratios of selected commercial banks.

### 1.5 Significance of the Study

The financial ratio analysis is an effective managerial evaluation of performance. It studies the each aspect of the financial performance of the company i.e. risk observing capacity, assets quality management, profitability condition, liquidity position and efficiency management aspect. Consequently, the effect on market value of the share can be verified with profitability analysis. A proper profit planning considerably contributes to improve the overall financial performance and leads the organization toward success. In this study, an attempt is made for drawing the overall picture of the selected commercial banks of Nepal. Data of five consecutive fiscal years starting FY 2065/66 and ending with FY 2069/70 are presented systematically and analyzed. This study will be helpful to management of the selected commercial banks of Nepal to make effective profit planning strategy for future. This also will be valuable for researcher, students who want to investigate into the financial performance analysis of the selected commercial banks of Nepal. It will also be important to the bank, investors and stakeholders concerned.

Comparatives financial ratio analysis between two leading Joint venture Nepalese banks is more fruitful for all. The study will compel the management of Everest Bank Ltd and Himalayan Bank Ltd for self-assessment of what they have done in the past

and provide guidance for their future plans and program. The study enlightens the shareholders, depositors, creditors, NRB, Tax office and so on about the financial performance of the selected banks, the financial agencies including stock exchanges and stock traders interested in the performance of the selected banks as well as the customer, depositor and debtor can identify the better bank to deal with in terms of profitability, safety and liquidity. Policy makers, the government and NRB at the macro level will be benefited regarding the formulation of further policies to facilitate economic development of the country.

### 1.6 Limitations of the Study

The study is conducted at the utmost best knowledge and guidance; may not be free from certain limitations. The major limitations of the study are as follows:

i. The study is only concerned with Himalayan Bank Ltd and Everest Bank Ltd which may not represent the overall Commercial Banks of Nepal.
ii. The study is concerned to analyze risk observing capacity, assets quality management, profitability management, liquidity management and management efficiency aspect. It ignores other aspects like investment policy of bank.
iii. The whole study is based on the data of 5 fiscal years period from the F.Y. 2065/66 to 2069/70 and conclusions are confined to the same period.
iv. This study is based on the financial statements like balance sheet, profit and loss account and cash flow statement which provide only quantitative information.
v. This research is merely based on the secondary data published and processed by the respective banks and Banking Regulation Department, Nepal Rastra Bank.

### 1.7 Organization of the Study

The study is organized by classifying whole study into five different chapters which are briefly discussed as follows:

**Chapter I–Introduction**

The first chapter dealt with introduction of the study. It includes background of the study, statement of the problem, objectives, significance, limitation of the study and organization of the study.

**Chapter II – Review of Literature**

The second chapter dealt with the review of literature which includes review of related books, journals, articles and previous unpublished Master Level Thesis etc.

**Chapter III – Research Methodology**

This chapter explains the research methodology used in the study. It includes research design, population and sampling, types and source of data, data collection procedure, method of analysis and analytical tools used.

**Chapter IV – Data Presentation and Analysis**

Data presentation and analysis, the fourth chapter, dealt with presentation of the data collected through various sources and analysis of data as well as major findings of the study.

**Chapter V – Summary, Conclusion and Recommendations**

This is the last chapter of the study; covers the summary of the study and the main conclusion drawn from the study and some recommendations as well as suggestions on the basis of the study.

# CHAPTER – II
# REVIEW OF LITERATURE

## 2.1 Conceptual Framework

### 2.1.1 Financial Statement Analysis

Financial statement analysis is important to board of directors, managers, payers, lenders and others who make judgments about the financial health of organization. One widely accepted method of assessing financial statement is financial ratio analysis, which uses data from the balance sheet and income statement to produce values that have easily interpreted financial meaning. Most organizations routinely evaluate their financial condition by calculating various ratios and comparing the values to those for previous periods, looking for differences that could indicate a meaningful change in financial condition. (Natarajan, 2001: 77).

"Financial analysis is the process of identifying the financial strength and weakness of the concern. It is the process of critically examining in detail accounting information given in the financial statement by evaluating the relationship between component part of financial statement to gain better understanding of the firm's financial position and performance. It is performed to determine the liquidity, solvency, efficiency, and profitability position of an organization. It gratifies the different needs of the concern parties like the potential investor, shareholders, government, general public, short-term as well as long-term creditors and management itself about their vested interest by providing them with adequate information. The function of finance can be broken down into three major decisions: investment, financing and dividend decision. An optimum combination of these decisions will maximize the value of the firm." (Reed, Cotter, Gills and Smith, 1976: 106-107).

"The financial statement provides a summarized view of the financial operation of the firm. Therefore, much can be learnt about a firm and careful examination of its financial statement as invaluable documents. The analysis of financial statement is thus important aid to financial analysis. He also mentioned that the ratio analysis is one of the major tools of financial statement analysis. (Pandey, 1992: 109).

“Ratio analysis is the systematic use of ratio to interpret the financial performance so that the strength and weakness of a firm as well as its historical performance and current financial condition can be obtained.”(Khan and Jain, 1997: 123).

“Financial ratio can be derived from the balance sheet and income statement. They must be analyzed on a comparative basis. A comparison of ratio of the same firm over time uncovers leading clues in evaluating changes and trend in the firm's financial conditions and profitability. Ratio may also be used for judgment through comparison with similar firms in the same line of business and when appropriate, with an industry average and we can look to further progress in this regard.”(Van Horne, 2000: 712).

The analysis of financial performance consists of a study of relationship and trend to determine whether the financial position and result operation and financial progress of the company are satisfactory or not. The financial statement provided a summarized view of the financial operation of the firm. There are so many parties concerned with the bank (i.e. short-term and long-term creditors, shareholders, potential investor, and management government general public) and analysis depends upon the specific interest of the party.

### 2.1.2 Ratio Analysis

Ratio analysis is an attempt to express the relationship between two or more accounts or variables in a simpler, more comprehensive way. Ratios are usually derived from financial statements as a basis of comparison, evaluation and prediction. Given the large number and variety of possible financial ratios, it is important to focus on those amounts that are functionally related. For example, the relationship between bad debt expense and credit sales is more meaningful than the relationship between bad debt expense and total sales. (Mishra, 2003: 35).

Many of the company’s performance measures (outcomes, outputs, efficiencies) are expressed as ratios; for example: administrative support cost as a percentage of total expenditures. Ratio analysis is useful when the goal is to reduce financial data to fewer expressions or variables. This goal often arises when the underlying relationships between the elements of the ratio are of interest, when data are not

expressed in absolute dollar amounts, and/or when financial condition must be reviewed over time.

“Ratio analysis is not as widespread in government as in the private sector. A general consensus exists that determining the financial position of government units is relatively more difficult. The primary problems are weaknesses in how key information needed for assessing financial condition is reported. Even though reporting has improved, financial analysts must be knowledgeable enough to draw information from a variety of sources. It is generally quite difficult to ascertain a government entity's financial condition solely from information contained in the entity’s financial reports.” (Khub Chandani, 2002: 96).

“More specifically, the following principle weaknesses exist in public sector financial reporting:

i. Economic and demographic information is reported sporadically, if at all.
ii. Little inter jurisdictional comparison is performed.
iii. The impact of politics cannot be gleaned from financial statements.
iv. Development and use of data on service efforts and accomplishments (performance measures) is often inadequate.

This does not mean that financial condition cannot be assessed in public sector entities. Such assessment can be accomplished, and ratio analysis facilitates this process. However, general guidelines for using ratios in government are effective only for certain units. At the state government level, financial condition can be measured, but generalized ratios are hard to compare from state to state since the unit of government is so large and complex.” (Mishra, 2003: 41-42).

“Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this, the average of businesses similar in nature should be compared with own business’s ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow solving business problems before business is destroyed. The Balance Sheet and the Statement of Income are

essential, but they are only the starting point for successful financial management." (Gupta, 1999: 61).

### 2.1.3 Advantages of Ratio Analysis

Ratio analysis is an important and age-old technique of financial analysis. The following are some of the advantages of ratio analysis:

**a. Simplifies Financial Statements**

It simplifies the comprehension of financial statements. Ratios tell the whole story of changes in the financial condition of the business.

**b. Facilitates Inter-firm Comparison**

It provides data for inter-firm comparison. Ratios highlight the factors associated with successful and unsuccessful firm. They also reveal strong firms and weak firms, overvalued and undervalued firms.

**c. Helps in Planning**

It helps in planning and forecasting. Ratios can assist management, in its basic functions of forecasting, planning, co-ordination, control & communications.

**d. Makes Inter-firm Comparison Possible**

Ratio analysis also makes possible comparison of the performance of different divisions of the firm. The ratios are helpful in deciding about their efficiency or otherwise in the past and likely performance in the future.

**e. Help in Investment Decisions**

It helps in investment decisions in the case of investors and lending decisions in the case of bankers etc. (Ibbotson and Sinquefiled, 2005: 107-109).

### 2.1.4 Limitations of Ratio Analysis

The ratios analysis is one of the most powerful tools of financial management. Though ratios are simple to calculate and easy to understand, they suffer from serious limitations.

**a. Limitation of Financial Statements**

Ratios are based only on the information which has been recorded in the financial statements. Financial statements themselves are subject to several limitations. Thus ratios derived, there from, are also subject to those limitations. For example: non-financial changes though important for the business are not relevant by the financial statements. Financial statements are affected to a very great extent by accounting conventions and concepts. Personal judgement plays a great part in determining the figures for financial statements.

**b. Comparative Study Required**

Ratios are useful in judging the efficiency of the business only when they are compared with past results of the business. However, such a comparison only provide glimpse of the past performance and forecasts for future may not prove correct since several other factors like market conditions, management policies etc. may affect the future operations.

**c. Problems of Price Level Changes**

A change in price level can affect the validity of ratios calculated for different time periods. In such a case the ratio analysis may not clearly indicate the trend in solvency and profitability of the company. The financial statements, therefore, be adjusted keeping in view the price level changes if a meaningful comparison is to be made through accounting ratios.

**d. Lack of Adequate Standard**

No fixed standard can be laid down for ideal ratios. There are no well accepted standards or rule of thumb for all ratios which can be accepted as norm. It renders interpretation of the ratios difficult.

**e. Limited Use of Single Ratios**

A single ratio, usually, does not convey much of a sense. To make a better interpretation, a number of ratios have to be calculated which is likely to confuse the analyst than help him in making any good decision.

**e. Personal bias**

Ratios are only means of financial analysis and not an end in itself. Ratios have to interpret and different people may interpret the same ratio in different way.

**7. Incomparable**

Not only industries differ in their nature, but also the firms of the similar business widely differ in their size and accounting procedures etc. It makes comparison of ratios difficult and misleading." *(Claus & Thomas; 2001: 72-75)*

**2.1.5 Financial Ratio**

A financial ratio (or accounting ratio) is a relative magnitude of two selected numerical values taken from an enterprise's financial statements. Often used in accounting, there are many standard ratios used to try to evaluate the overall financial condition of a corporation or other organization. Financial ratios may be used by managers within a firm, by current and potential shareholders (owners) of a firm, and by a firm's creditors. Security analysts use financial ratios to compare the strengths and weaknesses in various companies. If shares in a company are traded in a financial market, the market price of the shares is used in certain financial ratios. (Colander, 2002: 251).

Values used in calculating financial ratios are taken from the balance sheet, income statement, statement of cash flows or (sometimes) the statement of retained earnings. These comprise the firm's "accounting statements" or financial statements. The statements' data is based on the accounting method and accounting standards used by the organization.

Financial ratios quantify many aspects of a business and are an integral part of the financial statement analysis. Financial ratios are categorized according to the financial aspect of the business which the ratio measures. Liquidity ratios measure the availability of cash to pay debt. Activity ratios measure how quickly a firm converts non-cash assets to cash assets. Debt ratios measure the firm's ability to repay long-term debt. Profitability ratios measure the firm's use of its assets and control of its expenses to generate an acceptable rate of return. Market ratios measure investor response to owning a company's stock and also the cost of issuing stock. These are

concerned with the return on investment for shareholders, and with the relationship between return and the value of an investment in company's shares.

Financial ratios allow for comparisons;

i. between companies
ii. between industries
iii. between different time periods for one company
iv. between a single company and its industry average

Ratios generally hold no meaning unless they are benchmarked against something else, like past performance or another company. Thus, the ratios of firms in different industries, which face different risks, capital requirements, and competition, are usually hard to compare. (Fairfield and Sweeney, 2007: 45-48).

### 2.1.6 Standard Financial Ratios

Five categories of ratios are mainly used in analyzing financial position:

a) Capital Adequacy
b) Assets Quality
c) Management Quality
d) Earnings Performance
e) Liquidity

#### a) Capital Adequacy

Capital adequacy ultimately determines how well BFIs can manage with shocks to their balance sheets. Thus, it tracks capital adequacy ratios that take into account the most important financial risks—foreign exchange, credit, and interest rate risks - by assigning risk weightings to the institution's assets. For the purpose of capital adequacy measurement, bank capital is divided into Tier I and Tier II. Tier I capital is primary capital and Tier II capital is supplementary capital.

Capital adequacy measures the level of "shock absorbing" capacity available in a bank's financial position. It is required as a buffer against unforeseen losses and is not a substitute for good management. It is required in every business to provide stability and absorb losses thereby protecting depositors and other creditors in the effect of

liquidation. Capital should be permanent, have no fixed charge on earnings, and must be legally subordinated to depositors and creditors. It is customary for the Central Bank.

**b) Asset Quality**

Credit risk is one of the factors that affect the health of an individual BFI. The extent of the credit risk depends on the quality of assets held by an individual FI. The quality of assets held by a BFI depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers - especially the corporate sector. We can use a number of measures to indicate the quality of assets held by BFIs. ADB suggests these measures loan concentration by industry, region, borrower and portfolio quality; related party policies and exposure on outstanding loan, approval process of loan, check and balance of loans; loan loss provision ratio; portfolio in arrear; loan loss ratio; and reserve ratio of checking the quality of assets of a BFI. (ADB 2011)

Asset quality which hinges strongly on credit risk management lies at the heart of survival for a vast majority of banks. The profile of who to lend to must be transparent. Credit risks associated with the key banking products must be understood and managed. The maturity profile of loan products interacts strongly with liquidity risk management. Asset classification and subsequent provisioning against possible losses impacts not only the value of the loan portfolio but also the true underlying value of the bank's capital.

Asset quality is impacted strongly by the underlying process and policies governing the entire credit process. It is essential to find out what the portfolio management strategy, level of concentrations, types of loans i.e. by customer type, products, tenor, etc.

**c) Management Quality**

Sound management is key to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators, however, can jointly serve as an indicator of management soundness. Expenses ratio, earning per employee, cost per loan, average loan size and cost per unit of money lent

can be used as a proxy of the management quality. This is also said as management or activity or efficiency. ADB recommends cost per unit of money lent as a proxy of management quality. But this cannot be used as an indicator of management quality in Nepal. Since the data on amount of the total loan mobilized during a particular FY is not available in published financial statements and annual reports. As stated earlier, NRB has skipped up this component of CAMELS in the performance evaluation of commercial banks.

**d) Earnings Performance**

Earning capacity or profitability keeps up the sound health of a BFI. Chronically unprofitable BFI risks insolvency on one hand and on the others, unusually high profitability can reflect excessive risk taking of a BFI. There are different indicators of profitability. Return on assets, return on equity, interest-spread ratio, earning-spread ratio, gross margin, operating profit margin and net profit margin are commonly used profitability indicators. NRB uses return on total assets as an indicator of profitability of a commercial bank. In addition, it uses the absolute measures such as interest income, net interest income, noninterest income, net non-interest income, non-operating income, net non-operating income and net profit, to evaluate the profitability of a commercial bank.

Profitability ratios measure the success of the firm in earning a net return on its operations. Profit is an important objective of a company, so poor performance indicates a basic failure that, if not corrected, would probably result in the firm going out of business. Company must operate profitably; hence appropriate profitability ratios pose the biggest challenge for analyzing company. Patronage refund policies have a dramatic effect on company's profitability ratio analysis. Some companies return patronage at the end of the operating year and show significant profits on the closing statements. Other companies have different operational policies and may show little end-of-the-ear profits" (Brown, 1998: 88).

**e) Liquidity**

Liquidity risk threats the solvency of BFIs. In the case of commercial banks, first type of liquidity risk arises when depositors of commercial banks seek to withdraw their money and the second type does when commitment holders want to exercise the

commitments recorded off the balance sheet. Commercial banks have to borrow the additional funds or sell the assets at fire sale price to pay off the deposit liabilities. They become insolvent if sale price of the assets are not enough to meet the liability withdrawals. The second type of liquidity risk arises when demand for unexpected loans cannot be met due to the lack of the funds. Commercial banks can raise the funds by running down their cash assets, borrowing additional funds in the money markets and selling off other assets at distressed price. Both liability side liquidity risk (first type risk) and asset side liquidity risk (second type risk) affect the health of commercial banks adversely. But maintaining the high liquidity position to minimize such risks also adversely affects the profitability of BFIs. Return on highly liquid assets is almost zero. Therefore, BFIs should strike the tradeoff between liquidity position and profitability so that they could maintain their health sound.

Hence, liquidity ratios measure the ability to fulfill short-term commitments with liquid assets. Such ratios are of particular interest to the company's short-term creditors. These ratios compare assets that can be converted to cash quickly to fund maturing short-term obligations. The current ratio and the quick ratio are the two most commonly used measures of liquidity. For most companies, these two ratios provide a good indication of liquidity. However, these ratios do not address the quality of liquid assets (Brown, 1998: 66).

Beside these, some other ratios that are useful in analyzing financial position of commercial banks (BFIs) are:

**f) Leverage Ratio**

Leverage ratios measure the extent of the firm's "total debt" burden. They reflect the company's ability to meet both short-term and long-term debt obligations. The ratios are computed either by comparing earnings from the income statement to interest payments or by relating the debt and equity items from the balance sheet. Creditors value these ratios because they measure the capacity of the company's revenues to support interest and other fixed charges, and indicate if the capital base is sufficient to pay off the debt in the event of liquidation (Brown, 1998: 70-71).

In terms of debt load, the more predictable there turns of the firm, the more debt will be acceptable, because the firm will be less likely to be surprised by circumstances that prevent fulfilling debt obligations. For example, utilities (i.e., rural electric cooperatives) have historically had relatively stable incomes, but are also among the industries with the heaviest debt structure.

**g) Activity Ratios**

Activity ratios show the intensity with which the firm uses assets in generating sales. These ratios indicate whether the firm's investment in current and long-term assets is too large, too small, or just right. If too large, funds may be tied up in assets that could be used more productively. If too small, the firm may be providing poor service to customers or inefficiently producing products.

There are two basic approaches to the computation of activity ratios. The first looks at the average performance of the firm over the year. The second uses year-end balances in the calculations. The first method is preferred if asset balances fluctuate significantly during the year. The second method is the most commonly used approach because in practice, data limitations often force outside analysts to use year-end data."(Brown, 1998: 78-80).

**h) Sensitivity to Market Risk**

Commercial banks are increasingly involved in diversified operations such as lending and borrowing, transaction in foreign exchange, selling off assets pledged for securities and so on. All these are subject to market risk like interest rate risk, foreign exchange rate risk, and financial asset and commodity price risk. The health of a BFI more sensitive to market risk is more hazardous than that of less sensitive. Foreign exchange risk, interest rate risk, equity price risk, and commodity price risk are the indicators of sensitivity to market risk.

### 2.1.7 Interdependence of Ratios

Ratios must be evaluated together, not independently. A firm may have low liquidity ratios, but more than adequate leverage, interest coverage, and profitability ratios. This firm would be in a good position to obtain additional long-term funds, and in the process, pay down short-term debt or purchase liquid assets. This firm would improve

its liquidity ratios while maintaining adequate levels of the remaining performance measures.

For instance, knowing the value of the net operating margin without knowing the level of sales is not too helpful. The net operating ratio may be lower than the industry average, but this might be because the firm has cut margins to increase total sales. The result maybe that the firm's return on assets is extremely high for the industry, if the firms increased sales are sufficient to compensate for the lower return per dollar of sales.

If the net operating margin is low and the assets turnover ratio (sales/assets) is high, return on total assets may be high. Consequently, allow operating margin due to a price cut policy that increases sales may prove to be a very profitable situation. Similarly, the net operating margin may be high but the return on total assets may be poor. This occurs when the firm has excess operating capacity and consequently a high level of non-performing fixed assets.

However, more information is needed to understand whether or not this is a good situation for the company. For example, this may be the case where the firm's business is contracting and could benefit by selling off unused facilities or by using the remaining fixed assets more efficiently. On the other hand, the firm may experience a tremendous increase in sales and is expanding its production facilities beyond the incurrent needs, expecting to grow into the facilities in the future. (Edwards and Bell, 1999: 110-113).

### 2.1.8 Trends over Time for Ratio Analysis

Historical information can be very beneficial when analyzing financial performance. When analysis reveals certain weaknesses in a company's financial health, the initial management reaction may be to take immediate action to correct the situation. However, if historical trend analysis indicates the situation is improving, the best remedy may be to monitor performance for continued improvement; in other words, don't overreact.

Historical trends are important for other reasons as well. During the life of the firm, pricing, credit policy, production methodology, and other areas under managerial control can change. Each change has an effect on the firm's performance. Ratios, analyzing these changes, provide feedback to management. A thorough analysis of the performance ratios regarding managerial policies in effect at each period of time may guide future policy decisions.

Another reason to look at historical performance of a company is to avoid the difficulties encountered when comparing two similar companies. Although comparisons should be between like firms, generally, no two firms are exactly the same. For instance, while two firms supply companies may be of similar size, one may sell mostly bulk feed with lower margins, while the other sells more agronomy products, which typically carry higher margins. Also, boards may vary on their philosophy on the ideal capital structure. One cooperative may be debt-free but the cooperative board might feel that returns from leveraging the cooperative outweigh the risk of acquiring the debt. (Feltham and Ohlson, 2003: 27-30).

### 2.1.9 Concept of Commercial Bank

Commercial banks are those financial institutions that deal in accepting deposits of person and institution and give loan against securities. They meet working capital need of trade and industry and even of agriculture sector. It also provides technical and administrative assistance to industries, trade and business.First commercial Bank of the world is 'Bank of Venish' and it was established on 1157A.D.

"Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing action to borrowers, individuals, business firms and services; from the producers to consumers and for the government too. These facts show that the commercial banking system of the nation is important to the functioning of the economy." (Reed, Cotter, Gills and Smith, 1976:62).

"The commercial bank has its own role and contribution in the economic development. It is a source for economic development; it maintains economic confidence to various segments and extends credit to people." (Grywinski, 1991:51).

American Institute of Banking defines, “Commercial bank is a corporation which accepts demand deposit subject to check and makes short term loan to business enterprise regarding of the scope of its other services.”

Bank & Financial Institution Act (BAFIA) 2063 BS of Nepal defines, A Commercial Bank is one which exchanges money, deposits money, accepts deposits, grant loans and performs commercial banking functions and which is not a bank meant for co-operations, agriculture, industries or for such specific purpose.

Central Bank's main task is to monitor, direct and control the lending activities of commercial Bank in the country. In Nepal, commercial banks perform their function under the rules and regulations of the Nepal Rastra Bank as the Central Bank of Nepal.

In nutshell, “a commercial bank is that financial institution which collects scattered saving of the people and provides loans against proper securities for their productive purpose. Moreover they also provide technical help and suggestions, administrative suggestions, safe keeping of valuables, collection of bills, cheques, and overdraft facilities and provide modern banking facilities to industries and commerce.” (Bedi and Mardikar, 1993:45).

Commercial banks have been playing a great role for the economic development of country directly or indirectly. During this study (at the end of July end 2013), being merged wih two banks i.e. Global IME and Commerce and Trust Bank Nepal. There are altogether 30 commercial banks in Nepal.Which are tabulated as below.

**Table 2.1 List of Commercial Banks in Nepal**

(Rs. in Million)

| S. No. | Name of Commercial Bank | Operation Date (AD) | Head Office | Paid up Capital |
|---|---|---|---|---|
| 1 | Nepal Bank Ltd. | 1937/11/15 | Dharmapath, Kathmandu | 3,716.44 |
| 2 | Rastriya Banijya Bank Ltd. | 1966/01/23 | Singhadurbar Plaza, Kathmandu | 8,588.97 |
| 3 | Nabil Bank Ltd. | 1984/07/12 | Kantipath, Kathmandu | 2,436.84 |

| | | | | |
|---|---|---|---|---|
| 4 | Nepal Investment Bank Ltd. | 1986/03/09 | Durbarmarg, Kathmandu | 3,768.01 |
| 5 | Standard Chartered Bank Nepal Ltd. | 1987/02/28 | Naya Baneshwor, Kathmandu | 1,853.90 |
| 6 | Himalayan Bank Ltd. | 1993/01/18 | Thamel, Kathmandu | 2,760.00 |
| 7 | Nepal SBI Bank Ltd. | 1993/07/07 | Hattisar, Kathmandu | 2,355.74 |
| 8 | Nepal Bangladesh Bank Ltd. | 1994/06/06 | Naya Baneshwor, Kathmandu | 2,009.40 |
| 9 | Everest Bank Ltd. | 1994/10/18 | Lazimpat, Kathmandu | 1,761.13 |
| 10 | Bank Of Kathmandu Ltd. | 1995/03/12 | Kamaladi, Kathmandu | 1,684.40 |
| 11 | Nepal Credit and Commerce Bank Ltd. | 1996/10/14 | Siddharthanagar, Rupandehi | 1,470.00 |
| 12 | Lumbini Bank Ltd. | 1998/07/17 | Narayangadh, Chitawan | 1,601.60 |
| 13 | NIC ASIA Bank Ltd. | 1998/07/21 | Biratnagar, Morang | 2,311.55 |
| 14 | Machhapuchchhre Bank Ltd. | 2000/10/03 | Prithwichowk, Pokhara, Kaski | 2,478.79 |
| 15 | Kumari Bank Ltd. | 2001/04/03 | Durbarmarg, Kathmandu | 1,603.80 |
| 16 | Laxmi Bank Ltd. | 2002/04/03 | Adarsanagar, Birgunj, Parsa | 1,694.08 |
| 17 | Siddhartha Bank Ltd. | 2002/12/24 | Kamaladi, Kathmandu | 1,619.24 |
| 18 | Agriculture Development Bank Ltd. | 1968/01/21 | Ramshahpath, Kathmandu | 9,636.80 |
| 19 | Global IME Bank Ltd. | 2007/01/02 | Birgunj, Parsa | 6000 |
| 20 | Citizens Bank International Ltd. | 2007/04/20 | Kamaladi, Kathmandu | 2,101.84 |
| 21 | Prime Commercial Bank Ltd | 2007/09/24 | Newroad, Kathmandu | 2,340.41 |
| 22 | Sunrise Bank Ltd. | 2007/10/12 | Gairidhara, Kathmandu | 2,015.00 |
| 23 | Grand Bank Nepal Ltd. | 2008/05/25 | Kamaladi, Kathmandu | 2,000.00 |
| 24 | NMB Bank Ltd. | 2008/06/02 | Babarmahal, Kathmandu | 2,000.00 |
| 25 | Kist Bank Ltd. | 2009/05/07 | Anamnagar, Kathmandu | 2,000.00 |
| 26 | Janata Bank Nepal Ltd. | 2010/04/05 | Naya Baneshwor, Kathmandu | 2,000.00 |
| 27 | Mega Bank Nepal Ltd. | 2010/07/23 | Kantipath, Kathmandu | 2,330.00 |
| 28 | Civil Bank Ltd. | 2010/11/26 | Kamaladi, Kathmandu | 2,000.00 |
| 29 | Century Commercial Bank Ltd. | 2011/03/10 | Putalisadak , Kathmandu | 1,080.00 |
| 30 | Sanima Bank Ltd. | 2012/02/15 | Nagpokhari, Kathmandu | 2,016.00 |

*Source: Nepal Rastra Bank*

### 2.1.9.1 Functions of Commercial Banks

"Banks accept the deposits from unproductive sectors and utilize them in the productive sectors. This is the basic function of banks. By this they earn profit as interest by advancing the funds as loan at the interest rate higher than its cost. At the same time, bank generates capital for economic development of a country. In the past,

banks used to be just an intermediary between the savers and users of fund. They used to collect deposits from savers and provider loans to the businessmen and others. Now, the services provide by bank have been expanded to many areas as human wants and development of technology." (Singh, 2005: 15). General commercial banks offer the following services to customers.

**a) Accepting Deposit**

The Primary function of bank is to accept deposits from savers. Banks accepts deposits from those who can save money, but cannot utilize then in profitable sectors.

People consider it more rational to deposit their savings in a bank because, by doing so, they earn interest. At the same time, they avoid the danger of theft, as bank guarantees the safe custody of their deposits. To attract saving the banks provide different types of account facilities. Among them the major accounts are as follows: (Bhandari, 2003: 22).

**i. Current Account**

Especially businessmen open the current account, which have to make a number of payments every day. Money from these accounts can be withdrawn, as many times as desired by the depositors, there is no limit on the amount of cheque in this account. Generally, no interest is paid on this account. Rather, the depositors have to pay certain incidental charges such as interest on bank overdraft, guarantee charge etc. (Bhandari, 2003: 23).

**ii. Fixed Account**

When account holders want to deposit their fund for certain time period, they have to open fixed account in banks. Money in these accounts is deposited for fixed period of time. It may range from one month, three months, and six months, one year and up to five years. The money deposited into fixed account cannot be withdrawn before the expiry of that period. So the rate of interest on this account is higher than that on other types of accounts. (Bhandari, 2003: 23).

### iii. Saving Account

"Saving account facility is provided especially for general public, who have saving out of their income and expenditure. The main objective of this account is to encourage and mobilize small savings of the public. Certain restrictions are imposed on the account holders regarding the number of withdrawals and the amount to be withdrawn in a given period. Rate of interest paid on this account is low as compared to that on fixed account."' (Bhandari, 2003: 24).

### iv. Home Saving Account

**"**Account holders are provided the facility to deposit their saving in their own homes in this account. For this purpose, safe boxes lacked by banks, are supplied to all account holders to keep them at homes and to put their small savings in them. Periodically, the boxes are taken to the bank where the amount of safe box taken out and credited to their account. Especially children and housewives are targeted under this account. Banks provide some interest as well as safe custody on this deposit." (Bhandari, 2003: 24).

### v. Recurring Deposit Account

"Account holders have to pay in the installment deposit regularly in recurring deposit account. Generally, money in these accounts is deposited in monthly installments for a fixed period and is repaid to the depository along with interest on maturity." (Bhandari, 2003: 24).

### b) Advancing of Loan

"Commercial bank is a profit oriented business organization. So banks have to advance loans to public and generate interest from them as profit. After keeping certain cash reserves, bank provide short, medium and long-term loan to needy borrowers. For security, banks generally provide loan on mortgaged collateral. General loans for individual are provided on the mortgage of gold, silver, fixed deposit receipts, treasury bills, development bonds etc. whereas business loan are advanced on the mortgage of negotiable instrument such as land, buildings, store room etc. According to the needs of the borrowers, banks provide different types of loan for different time period as given below." (Dahal, 2004: 31).

### i. Term Loans

"Banks provides medium-term and long-term loans on the basis of loan proposal. The maturity period of such loan is more than one year. Generally, the amount sanctioned is credited to the account of the borrowers maintained with bank. However, banks pay the amount in cash or manager's cheque to the borrowers in some case." (Dahal, 2004: 32).

### ii. Cash Credit

"Banks advance loan as cash credit to businessmen against certain pacified securities. The amount of the loan is credited to the current account of the borrowers. The borrowers can withdraw money through cheque according to his/her requirement. Interest is charged only on the amount actually withdrawn from the account." (Dahal, 2004: 32).

### iii. Overdraft

"Generally, businessmen and organization open current account in bank. They deposit all receipts in the account and pay all dues through cheque. Bank provides overdraft facilities to such account holder. Overdraft facility allows the customer to withdraw more than their deposits. The account holders have to in a special contract with bank to get such facility." (Dahal, 2004: 32).

### iv. Money at call

"It is a very short-term loan provided by bank at a very short notice. Generally, loan under money at call has time duration of only one day to fourteen days. After that period, the money should be refunded. Such loan is useful especially for other financial institutions and traders." (Dahal, 2004: 33).

### c) Discounting of Bill of Exchange

"Bills of exchanges are a negotiable instrument, which is accepted by the debtor, drawn upon him/her by the creditor (drawer) and agrees to pay the amount mentioned on maturity. Discounting bill of exchange is another important function of modern banks. Under this, function, banks purchase bill of exchange. Bank purchases it from holders in discount after making some managerial deduction in the form of commission. The banks pay the deducted value to the holder when traders discount it

into bank. The percentage of discount is determined by mutual agreement between bank and traders, which is affected by duration of expiry and goodwill of drawer of bill of exchange." (Natarajan, 2001:87).

**d) Payment of Cheque**

"Banks provide cheque pads to the account holders. Account holders can draw cheque upon bank to pay money. Banks pay for cheque of customers after formal verification and official procedures. Providing the cheque payment functions, a bank renders a very useful medium of exchange in the form of cheque." (Natarajan, 2001: 88).

**e) Collection and Payment of Credit Instruments**

"These days business uses different types of credit instrument such as bill of exchange, promissory notes, cheque etc. Banks deal with such instruments. Banks collects and pays various credit instruments as the representatives of the customers. The remittance service of banks has benefited both the business and personal customer." (Mishra, 2003: 31).

**f) Remittance**

"It is a system through which cash fund is transferred from one place to another. Banks provide the facilities of remittance to the customers and earn some service charge. Generally, a bank provides such facilities through cheque, bank drafts, letters of credit etc. Remittance plays an important role in national and international trade." (Mishra, 2003: 32).

**g) Exchange Foreign Currencies**

"As the requirement of customers, banks exchange foreign currencies with local currency, which is essential to settle down the dues in the international trade." (Mishra, 2003: 32).

**h) Consultancy**

"Banks expand their function to consultancy business too. They hire financial, legal and market experts, who provide advices to customers in regarding investment, industry, trade etc." (Mishra, 2003:33).

### i) Bank Guarantee

"Customers are provided the facility of bank guarantee by modern commercial banks. When customers have to deposit certain fund in government offices or courts for specific purpose such as legal case, bank can present itself as the guarantee for the customers, instead of depositing fund by customers. Bank provides such facility only when the customers have sufficient fund in their account." (Ivamy, 1993: 213).

### j) Agency Functions

As an agent banks perform different types of functions such as:

#### i. Period Collection

On behalf of customers, bank collects income of customers such as dividends of shares, interest on debenture and fixed deposit etc.

#### ii. Period Payment

Bank can execute the standing order or instruction of customers for making periodic payment on behalf of their customers. Under this function, banks pay subscription, income tax, rents etc. for their respective customers and earn appropriate service charge.

#### iii. Purchase and Sale of Securities

Banks undertake purchase and sale of various securities like shares, stocks, bonds, debentures etc. They perform the function of a broker only to purchase and sell the securities.

#### iv. Representative

Banks can act as representative of their customers. They can proceed for passports, travelers' tickets, book, vehicles, plots of lands etc. for their customers.

#### v. Trustee or Executor

When customers want to transfer their property to specific person after demise, they can make a legal document about them and handover it to the banks or trustee or executor. Banks preserve such document to customers' will and execute their will after demise." (Ivamy, 1993: 217-221).

**k) Others**

Besides these main functions, the banks perform several other functions such as providing security to valuable goods and property, issuing travelers' cheque, issuing credit card, underwriting securities and many more.

## 2.2 Review of Journals and Articles

**Nissim and Penman** (2008), in their article, *"Ratio Analysis and Equity Valuation: From Research to Practice"*, has laid out a structured financial statement analysis that facilitates forecasting and valuation. The overall perspective is one of forecasting (and, from forecasts, valuation) so financial statement analysis is depicted, as a matter of first order, as an analysis of the future. Ratios are identified as drivers of future residual earnings, free cash flow and dividends. Ratios in current financial statements are then viewed as information to forecast the future drivers.

The study documents typical values for ratios and typical patterns for ratios over time. The broad general descriptions are benchmarks that establish priors for forecasting. They are input to a more contextual analysis (of industries and firms) and a more sophisticated econometric forecasting analysis. The overall feature of the accounting data is central tendency - convergence of drivers to a common level in the cross section - which bodes well for calculating continuing values with standard valuation techniques. The analysis does not deal with uncertainty in forecasting. This is incorporated in valuation models through the discount rate (or discounts from expected values) and one conjectures that financial statement analysis is also relevant for determining the discount rate.

**Pille** (2008), in his article, "*Financial Performance Analysis of Ontario (Canada) Credit Unions: An Application of DEA in the Regulatory Environment"* has stated that the equity/asset ratio and some DEA models appear to be equally competent in predicting the failure of Credit Unions. However, DEA Model 1 offers indicators of where the problems are and how to address them. Hence it should be the preferred tool for the regulator. Each of the models shows that failures, on average, have lower scores than healthy units, for up to three years before failure, thus our Hypothesis is

proven. Prediction of failure is most reliable at one year prior to failure, and declines as we go further out.

Prediction improves when only larger asset sized DMUs are included, and also when failures due to plant closure or fraud are excluded. Catastrophic failures due to the latter two causes cannot be predicted and should be excluded from all analysis. DICO management believes that many cases of mismanagement are actually fraud but that cannot be proven. If this belief is true, then prediction of failure is more difficult than it would otherwise be. The models in this work do not consider the risk involved if a Credit Union has a large proportion of its assets in a single large loan or investment. Yet, this may be the most serious potential problem because a large loan default may well wipe out the entire equity of the Credit Union. Hence, size matters because the relative size between the firm's equity and the largest loan or investment is a crucial survival issue.

**Mc Grann and Richardson** (2009), in their article, *"Measuring Producer Level Beef Cattle Alliance Financial Performance"*, have stated that there has been a movement toward developing production and marketing alliances in the beef cattle sector in the United States to improve communications and ultimately provide higher priced branded products that are more consistent with consumer demand. Beef cattle producers do not employ a consistent methodology to measure the financial performance of participating in an alliance. Nor do they have the information to negotiate agreements that are financially sustainable at the producer level. Given the concentration of packer and retail sector there is little reason to expect them to share cost and financial returns information beyond the general corporate total business performance required by public traded corporations. Described is a methodology to measure financial performance from breeding, growing and finishing segments to measure return on assets from an alliance. Application of the methodology is demonstrated in an example from cow-calf to finishing phase.

The methodology uses cost accounting and economic analysis to calculate ROA as a measure of alliance's financial sustainability. Questions of profitability, competitiveness and the opportunity cost of participation can be addressed. This information can be used to inform the margin sectors, feed yards, packers and retailers

to provide them insights into what share of increased revenue from branded product sales must be passed to the cow-calf segment. The cow-calf segment must absorb the added costs and cyclical financial loss to participate in alliances. Increased revenue is required to make branded products a more profitable marketing option for beef producers. The return can be compared to ROA in the other segments of the alliance to establish the criteria for net margin sharing or to evaluate alternative production or marketing systems irrespective to the information shared by the concentrated packer and retail sectors. Further studies to employ this methodology with producer members of an alliance could provide valuable decision information for participants to negotiate alliance arrangements.

**Stickney** (2010), in his article, *"Financial Management and Ratio Analysis for Cooperative Enterprises",* has stated that financial reports contain a lot of information. The main objective of financial analysis is to sort through that information to find useful and relevant data in analyzing a business. Literature is rich with financial analysis tools that examine the performance and strength of businesses. However, not all businesses are alike. Differences between IOFs and cooperatives mean that some standard financial analysis do not relate well with cooperatives. This is especially relevant for profit-oriented ratios. This article provides a supplement to standard analysis with an eye toward cooperatives. Some ratios help analyze the cooperative's financial performance and cash flow analysis. Managers and creditors should find these findings helpful in appraising the financial strength of the cooperative. While there is no set standard at this time, using these analysis tools should help the cooperative develop its own performance measurements.

### 2.3 Review of Thesis

**Sherchan** (2004), has made a study on, *"Financial Ratio Analysis of Nepalese Commercial Banks."* The main objective of the study is to find the comparative financial strength and weakness of various commercial banks. The other specific objectives are:

i. To trace out the credit position of the commercial banks
ii. To analyze the earning capacity of the banks
iii. To measure the investors' degree of satisfaction on the banks

The major findings of the study are:

i. The lending condition of commercial banks is in decreasing trend. However, the loan outstanding is in increasing trend.
ii. Strong banks are holding good customers and discouraging low rated and less amounted loans. Instead of that they are initiated towards remittance, bank guarantees and other commission generating activities.
iii. Many banks are showing aggressive and are spontaneously increasing loan loss provision. Deposit in the banks is also decreasing while some banks are holding enough funds.
iv. The earning capacity of SCBNL and Nabil is comparatively higher than that of other banks. Also, the dividend payout ratio of these banks is higher than other banks.

**Gurung** (2005), has conducted a study on, *"A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal."* The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are:

i. To trace out the trend of loan and advances
ii. To find out the relationship between deposits and loan & advance, and deposits and net profit.
iii. To analyze the trend of profit and dividend distribution

The major findings of the study are:

i. EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
ii. EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and Nabil.
iii. All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have high utilizing their loan and advances.
iv. Nabil has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend

on share capital comparatively greater than other banks in a consistency manner.

v. Nabil has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. Nabil shows greater inconsistency too.

**Suwal** (2006), has made a study on, *"A Comparative Study on Financial Performance Between the Commercial Banks."* The main objective of the study is to examine the financial performance of Nepal SBI Bank and NB Bank. The other objectives are:

i. To study the liquidity position of both banks
ii. To analyze the lending position of both banks
iii. To examine marketability position and the efficiency ratio of NSBL and NBB.

The major findings of the study are:

i. The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities. The average current ratio of NSBL (1.05) is greater than that of NBB (0.98). Therefore, the liquidity position of NSBL is in normal standard and NBB is also trying to gain that position.
ii. From the analysis of turnover of these two banks, NBB has better different. The overall calculation seems to be better for NBB. Though certain ratio like dividend per share, dividend payout ratio etc. better for NSBL. The writer has also concluded that earning per share of NBB is better than that of NSBL.

**Shrestha** (2007), has conducted a study on, *"A Comparative Study on Financial Ratios of Nabil Bank Ltd. and Nepal Bangladesh Bank Ltd."* The main objective of the study is to know the financial condition, financial performance and financial growth of Nabil and NBL. The other specific objectives are:

i. To examine the EPS and DPS of Nabil and NBB
ii. To analyze the efficiency of Nabil and NBB in utilizing the assets
iii. To evaluate the trend of net profit of the concerned banks

The major findings of the study are:

i. The overall liquidity position of NBB was stronger than that of Nabil. Analyzing the activity or turnover of both banks, NBB mobilized its deposits more on loan and advances whereas Nabil mobilized its deposits more prudently and efficiently in generating income.
ii. Similarly, capital adequacy position of Nabil was found to be better than that of NBB. Regarding the capital structure of the banks, NBB was found to have adopted high risk, high return strategy as suggested by its highly leverage i.e. debt dominated.
iii. According to profitability analysis, Nabil was found sound profitability due to its higher ratio. Also, other indicators as EPS, DPS, TPS were found sharply higher in Nabil, which implies positive attitude of stakeholders toward Nabil.
iv. NBB should keep only the reasonable amount of liquidity, which will save the bank from creating low return; NBB should improve its capital adequacy by investing the assets and deposits in highly returnable sector; Nabil should invest its deposit in profit generating sectors.

**Rai** (2008), has conducted a study on, *"A Comparative Appraisal on Financial Ratios of Nepal Bangladesh Bank and Bank of Kathmandu."* The main objective of the study is to show the causes of changes in cash position of the two banks. The other objectives are:

i. To evaluate the liquidity position of NBB and BOK
ii. To analyze the profitability ratios of NBB and BOK
iii. To examine the marketability position of NBB and BOK

The major findings of the study are:

i. NBB is more efficient than BOK in all aspect and the study found the current ratio of NBB was high.
ii. NBB is utilizing its deposits more effectively than BOK; all the profitability ratios were found to be higher in case of NBB than BOK.
iii. Since BOK is suffering losses in three fiscal years, thus showing its operational deficiencies in mobilizing the resources in production sectors. On the other hand, NBB has always been increasing its profit from the outset.

iv. On average, BOK was generating more cash from financial activity than NBB. However, the contribution of financial activity in the final cash and bank balance of the bank was not as significant that of operating activities.

**Rajkar** (2009), has conducted a study on, *"Comparative study of Financial Performance Between Everest Bank Limited and Bank of Kathmandu Limited."* The main objective of the study is to make a comparative financial analysis between EBL and BOK. The other specific objectives are:

i. To compare the liquidity position of EBL and BOK
ii. To examine the efficiency of EBL and BOK
iii. To analyze the solvency of EBL and BOK
iv. To trace out the financial strength and weakness

The major findings of the study are:

i. The current ratio of both banks is not satisfactory. Cash and bank balance to total deposits of EBL and BOK do not go outward equally. EBL has more secured credit position than BOK.
ii. Loans and advances to total deposit ratio of BOK is better than EBL. But the ratio implies that EBL is utilizing its fixed deposit in loans and advance more efficiently.
iii. Net profit to working capital fund ratios on both banks is in poor condition but in latest years, it seems in positive way. Both banks have been improving or overcoming from the weak condition.
iv. Average earning per share of EBL is seen well rather than BOK but both of them are not running in favor of investors. Market value per share of EBL is increasing slowly while in case of BOK, it has zero value in initial three years.
v. To sum up, it can be said that EBL has performed better than BOK during the study period. It seems that EBL will perform better than BOK in future too.

**Pradhan** (2010), has made a study on, *"Financial Performance of Commercial Banks: A comparative Case Study of Nepal Bangladesh Bank Ltd. Himalayan Bank Ltd. and Everest Bank Ltd."* The main objective of study is to reveal the comparative financial performance of NBB, HBL and EBL. The other specific objectives are:

i. To analysis and compare the liquidity, profitability, stability and market value positions among three commercial banks
ii. To analyze and compare solvency ratio such as total capital fund
iii. To analyze the financial strength and weakness of these banks

The major findings of the study are:

i. The saving deposit to total deposit ratio of NBB has been recorded the lowest of all. It indicates the better liquidity position of the bank to meet short-term obligation.
ii. Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.
iii. Total debt to equity ratio of all banks reveals that the claims of the outsiders exceed far more than those of the owners over the banks assets.
iv. Comparatively HBL has more leveraged capital structure. Profitability ratio indicates the degree of success in achieving desired profit level.
v. All the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advance. This helps them to remain more competitive.

### 2.4 Research Gap

Though there are several researches performed under the topic related to the financial ratios, those analysis exclude the directives circulated by NRB, the central bank of Nepal and international rating convention like capital adequacy, cash reserve ratio, interest rate spread and so on. Also the studies do not properly measure the bank's assets quality by analyzing risk weighted assets and other parameters. Moreover, all of the researchers ignore the bank's cost of fund and interest rate spread while analyzing financial performance of banks, which is directly associated with banks performance and profitability. Similarly, lending capacity in future of selected banks as per NRB provision also not consider in analysis. Further, none of the researcher conducted research with considering the relationship of profitability ratio (ROA & ROE) with other ratios. For obliterate above mention gaps, the present study has been conducted with the analysis of all the aforementioned items, along with the other profitability, liquidity and efficiency ratios.

# CHAPTER III

# RESEARCH METHODOLOGY

The prime objective of this study is to evaluate the financial ratios of the two commercial banks i.e. HBL and EBL. In order to realize the objectives, an appropriate research methodology has to be designed to carry out research. It is a way to solve the research problem systematically. Here, focus is made on research design, population and sample, source and data collection procedure and tools used for data analysis.

## 3.1 Research Design

This research work tried to analyze the comparative performance of commercial banks in the present generation. The present study consists of analytical as well as descriptive design. The study is based on secondary data of only two commercial banks are taken into account, which represents almost same strategic groups and providing similar returns to shareholders. Financial as well as statistical tools are used to analyze and interpret.

## 3.2 Population and Sample

In the present context, there are 30 commercial banks operating in Nepal (as tabulated in 2.9.1).Lumbini Bank Ltd. and Civil Bank Ltd. are in merger process with development banks and finance companies. The study of all these 30 commercial banks within this research and time frame is almost impossible. Hence, considering these numbers of commercial banks as total population, two commercial banks among the total population are taken as sample and tried to achieve the objective set out by analyzing the data.

## 3.3 Data Collection Procedure

Basically there are two source of data collection namely Primary Source and Secondary Source. The study is based on secondary data which will be collected from various sources mainly from the annual reports published by selected banks. The secondary data is collected

by reviewing the annual reports, brochures, prospectus of the concerned banks and the regulatory body for the commercial banks.

### 3.4 Tools for Data Analysis

Financial performance is analyzed with two important tools. The first most important tool is the financial tool, which includes ratio analysis and another is a statistical tool.

#### 3.4.1 Financial Tools

Under this, the ratio analysis has been mainly used. The ratio analysis is the powerful tool of financial analysis, which helps in identifying the strengths and weaknesses of an organization or business concern about the financial performance. The technique of ratio analysis is the part of the whole process of the analysis of financial statement of any business or industrial concern, especially to take output and credit decision. In the financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of the firm. The following ratios are analyzed under the financial performance analysis of selected two commercial banks.

**A) Capital Adequacy and Debt-Equity Ratio**

**a. Capital Adequacy**

Capital is required as a buffer against unforeseen losses and is not a substitute for good management. It is required in every business to provide stability and absorb losses thereby protecting depositors and other creditors in the effect of liquidation. Capital should be permanent, have no fixed charge on earnings, and must be legally subordinated to depositors and creditors. It should therefore be provided by those who truly have a surplus. Capital adequacy seeks to measure the level of “shock absorbing” capacity available in a bank’s financial position. It is customary for the Central Bank.

Commercial banks are required to maintain adequate capital. Holding too much capital may result in lower return from their investment and holding too little capital though result in higher return yet may not comply with the rules of central bank. Banks have been directed

to meet any short fall in capital adequacy ratio by transferring part of profit to general reserve and thereby increasing equity fund. Capital adequacy ratio is calculated by dividing the capital fund by risk weighted assets of the firm.

$$\text{Capital Adequacy Ratio} = \frac{\text{Tier 1 Capital + Tier 2 Capital}}{\text{Risk Weighted Assets}}$$

As per NRB Unified Directives 2070, the capital adequacy ratio for core capital (tier 1 capital) to risk weighted assets must be above 6% and the capital adequacy ratio for total capital (tier 1 capital + tier 2 capital) to risk weighted assets must be above 10%.

**b. Debt-Equity Ratio**

The appropriate ratio of debt to equity varies according to the nature of the business and the volatility of cash flows. This ratio brings out the relation between total debts and equity funds. It is determined to measure the firm's obligations to total creditors in relation to the funds invested by the owners. Total debt to equity ratio can be computed by using the following formula:

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

**B) Assets Quality**

Asset quality ratios measures the quality of the bank's assets i.e. the possibility of recovery of the risk assets and the revenue earning potential of the bank in case of default. Higher the quality of bank's assets, the more stable and consistency of its profit potential.

**a. Risk Weighted Assets to Total Assets and Contingents**

The risk weighted assets to total assets and contingents represent the risk associated in banking assets. Higher the ratio indicates higher risk being taken by bank on the assets and vice-versa.

**b. Non-Performing Loan to Total Loan**

The non performing loan to total loan measures the credit risk on the total loan and thus represents the quality of the risk assets the bank is carrying on. Higher the ratio indicates higher risk on the assets or lower the quality of the portfolio and vice-versa.

$$\text{Non-Performing Loan to Total Loan} = \frac{\text{Non-Performing Loan}}{\text{Total Loan}}$$

**c. Loan Loss Provision to Total Loans and Advances**

Each bank has to keep the loan loss provision for loan and advances as per the directive issue by Nepal Rastra Bank, central bank of Nepal. The loan loss provision to total loans and advances measures the aggregate percentage of loan loss provision kept by bank on loans and advances and thus eventually measures the security position. Higher the ratio, the lower the impact of existing bad loans on the bank's future profitability. It is calculated as follows:

$$\text{Loan Loss Provision to Total Loan and Advances} = \frac{\text{Loan Loss Provision}}{\text{Total Loan and Advances}}$$

**C) Management Quality**

There are no any definite ratios to measure the management efficiency as it is the qualitative phenomenon that cannot be presented in figures. Hence, in this study, the management quality is left out.

**D) Earning or Profitability**

Profitability is an indicator of a bank's capacity to carry risk and/or increase its capital. It also indicates competitiveness and confirms the quality of management. Profit provides a cushion against short-term problems and is a good source of retained earnings which increases capital and consequently, the capacity to grow the business.

Supervisors should welcome profitable banks as contributors to the stability of the banking system only after being assured of the quality of the earnings. The income statement, especially the common size one, reveals the sources of a bank's earnings, their quantity, quality and profile of its expenditures. It should serve as a confirmation of a bank's business

orientation. The profitability ratios are calculated to measure the operating efficiency of the company.

**a. Return on Shareholders' Equity (ROE)**

Return on shareholders' equity reflects how well the firm has used the capital of the owner's. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing net profit after tax by shareholders' equity.

$$\text{Return on Shareholders' Equity} = \frac{\text{Net Profit after Tax}}{\text{Shareholders' Equity}}$$

**b. Return on Total Asset Ratio (ROA)**

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words, return on total assets ratio is an overall profitability rate, which measure earning power and overall operation efficiency of a firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

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

**c. Return on Total Deposit Ratio**

Return on total deposit ratio measure how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. It explains the ability of management in efficient mobilization of deposit in earning profit. The ratio is calculated as:

$$\text{Return on Total Deposits} = \frac{\text{Net Profit after Tax}}{\text{Total Deposits}}$$

**d. Interest Earned to Total Assets Ratio**

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization

of resources and ability of interest earning and vice-versa. 'Interest earned' represents the total interest shows in the income side of profit and loss account. And 'total assets' represent the total of balance sheet.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

**e. Earnings Per Share (EPS)**

The profitability of the common shareholder's investment can also be measured in term of earning per share. The earning per share is calculated by dividing the profit after tax by total number of common shares outstanding.

$$\text{Earnings Per Share} = \frac{\text{Net Profit after Tax}}{\text{Total No. of Common Shares}}$$

**f. Dividend Per Share (DPS)**

The net profit after tax belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share rather than earning per share. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

$$\text{Dividend Per Share} = \frac{\text{Dividend Paid}}{\text{Total No. of Common Shares}}$$

**g. Dividend Payout Ratio**

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share, i.e. this ratio reflects at what percentage of net profit is to be distributed in terms of dividend and what percentage is to be retained with company as retained earnings.

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

**h. Earnings Per Employee**

Earning per employee is calculated by dividing net profit after taxes by number of employees. Lower earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability.

$$\text{Earnings Per Employee} = \frac{\text{Net Profit after Tax}}{\text{Total No. of Employees}}$$

**E) Liquidity Ratio**

Liquidity ratio is a rigorous measure of a firm's ability to serve its short-term obligation. It reflects the short-term financial solvency of a firm as a whole or it is employed as a measurement of a company's liquid position. The firm should remain an appropriate liquidity neither excess nor less to meet its short-term obligation when they become due. Inadequate liquidity can lead to unexpected cash dearth. A very high degree of liquidity is also not good as ideal assets earn nothing, leading to fewer assets yield and contributing to poor earning performance. Important liquidity ratios that have been used in the study are listed below:

**a. Cash Reserve Requirement (CRR) Ratio**

Each bank has to keep the cash reserve requirement (CRR) ratio as directed by the NRB. The CRR ratio must be above 5.5% from FY 2065/66 as per NRB till FY 2068/69. The latest CRR ratio as per the NRB monetary policy must be above 6%. The cash reserve ratio is calculated by using the following formula.

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Local Deposit}}$$

**b. Cash at Vault to Total Deposit Ratio**

This ratio shows the percentage of total deposits held as cash in hand at vault. This ratio is computed by dividing cash at vault by total deposits. Cash and foreign currencies in hand are included as cash in vault. Total deposits means current, savings and fixed deposits accounts as well as call account deposits and certificate of deposits.

$$\text{Cash at Vault to Total Deposit Ratio} = \frac{\text{Cash at Vault}}{\text{Total Deposits}}$$

**c. Liquid Fund to Total Deposit**

The ratio of liquid assets to total deposit measures the level of liquid fund available with the bank to meet the short term obligations. It measures the overall liquidity position. The higher ratio shows the better liquidity position and the lower ratio shows the inefficient liquidity position of the bank.

$$\text{Liquid Assets to Total Deposit} = \frac{\text{Liquid Assets}}{\text{Total Deposit}}$$

**F) Activity Ratio**

Activity or Efficiency or Utilization ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effective use of resources of a firm. It indicates how quickly certain current assets are converted into cash. Higher the ratio means more efficient in management on the utilization of its resources and vice-versa. Following ratios are used under activity ratio:

**a. Credit to Total Deposit Ratio**

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances consists of loan, advances, cash credit, overdrafts and foreign bills purchased and discounted. The ratio indicates the proportion of total deposits invested in loan and advances. This ratio is obtained by dividing total loan and advances by total deposit as follows:

$$\text{Credit to Total Deposit Ratio} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

**b. Total Operating Expenses to Total Operating Revenue Ratio**

The ratio of total operating expenses to total operating revenue is used as a proxy measure of the management quality. A high level of expenditure in unproductive activities may reflect an inefficient management. A high ratio of expenses to total revenue may give indication of inefficient operation and vice-versa.

$$\text{Total Operating Expenses to Total Operating Revenue} = \frac{\text{Total Operating Expenses}}{\text{Total Operating Revenue}}$$

**c. Total Income in Relation to Various Incomes**

Commercial banks not only generate income from lending, also generating from other sources i.e. exchange fluctuation gain, commission and discount, fees and incomes and others. Higher contribution of one sector in income reflect its dependency. And it reflects high risk in income generation also, if that income sector badly affected by any cause largely affected in bank total income and profit. The diversity of income generation from each sector reflects low risk in income concentration.

$$\text{Certain Income to Total Income Ratio} = \frac{\text{Certain Income}}{\text{Total Income}}$$

**d. Weighted Average Cost of Fund**

Commercial banks not only make profit from the deposit but also pay interest to the deposit holders. The interest rate paid by financial institutions for the funds that they deploy in their business. The cost of funds is one of the most important input costs for a financial institution, lower the ratio is considered better and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expenses on Deposit}}{\text{Total Deposit}}$$

The weighted cost of a bank's funding, taking all sources into consideration.

**e. Interest Spread Rate (IRS)**

The difference between lending and deposit interest rates, known as the interest rate spread. A high IRS help to expansion of financial intermediation necessary for growth and development of an economy. It is often argued that the higher the IRS, the higher would be the cost of credit to the borrowers for any given deposit rate. Alternatively, a high IRS could mean unusually low deposit rates discouraging savings and limiting resources available to finance bank credit. The spread between the cost of funds and the interest rate charged to borrowers represents one of the main sources of profit for most financial institutions.

Interest Spread rate = Interest Rate Charged on Lending – Interest Rate Paid on Deposit

**f. Employee Cost per Rupees of Earning Ratio**

This ratio is calculated by dividing net profit after taxes by total cost of employee. Higher employee cost per rupees earning reflect inefficiencies of human resources management as a result of high cost paying to employee or over staffing as well as employee low attraction up on bank.

$$\text{Employee Cost per Rupees of Earning Ratio} = \frac{\text{Net Profit after Tax}}{\text{Total Costs of Employees}}$$

**G) Lending Capacity of Bank as per NRB Criteria**

Every regulator of Bank and Financial Intuitions or central bank of Nation issue various rules, directives and circular including certain criteria for lending, for collected deposit (from market) to various sector, which help to kept sound health of these institutions and smooth operation. On the same way, regulator of Nepalese financial institution, NRB also issue directive on same line dated July 17, 2010.

After issuing such rules, lending capacity of bank has been determining the total local currency loans of bank in relation to local currency deposit plus tier one capital. Through such circular, NRB made positive relation between lending capacity of bank to tire one capital as well as local currency deposits. It means bank lending capacity is directly related to its "shock observing" capacity which is available in a bank's financial position. This means that a bank is required to increase its tier one capital and local deposit for increasing its lending capacity. After such rules, bank and financial institutions can't be exceed such ratio by 80%. Credit to Core-Capital-Cum-Deposit (CCD) ratio is calculated by using the following formula.

$$\text{CCD} = \frac{\text{Local Currency Loan}}{(\text{Local Currency Deposits} + \text{Tier 1 Capital})}$$

Further, bank's remaining lending capacity is determined by following ways

Remaining Capacity (%) = NRB Ceiling – Existing Used

Remaining Capacity (Volume) = Total Loans and Advances × Remaining Capacity %

### 3.4.2 Statistical Tools

#### a. Arithmetic Mean

Arithmetic mean of a given set of observations is the sum of the observation divided by the number of observations. In such a case all the items are equally important. Simple arithmetic means is used in this study as per necessary for analysis.

$$\text{Mean } (\bar{X}) = \frac{\Sigma x}{n}$$

where, $\Sigma x$ = Sum of all values of the observations

n = Number of observation

x = Value of variable

#### b. Standard Deviation

The standard deviation is usually denoted by the letter ($\sigma$). Karl Pearson suggested it as a widely used measure of dispersion and defined as the given observations from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest of the analysis.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma(x-\bar{x})^2}{n}} = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2}$$

#### c. Coefficient of Variation

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 time coefficient of standard is called coefficient of variation. It is denoted by C.V. Thus,

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

where, $\sigma$ = Standard Deviation

$\bar{X}$ = Mean value of variables

The distribution having less C.V. is said to be less variable or more consistent. A distribution having greater C.V. is said to be more variable or less consistent.

**d. Correlation Coefficients**

There are various ways of measuring the relationship existing between variables. The simplest and reliable measure is correlation coefficient, which shows the degree and direction of relationship between the variables. In this study, assume that relationship exists only between two variables and there are no other variables to make impact on this relationship. Karl Pearson's correlation coefficient is used in this study as per necessary for analysis. It is denoted by 'r' Thus,

$$\text{Correlation Coefficient } (r_{xy}) = \frac{n\Sigma xy - \Sigma x\Sigma y}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2]}\sqrt{[n\Sigma y^2 - (\Sigma y)^2]}}$$

where, x = ROA and ROE

y = Other Ratios

n = Number of observation

# CHAPTER IV

# DATA PRESENTATION AND ANALYSIS

### 4.1 Secondary Data Analysis

Under this part of the study, the major ratios that manifest the performance of the banks within the last five fiscal year periods are analyzed. Mainly, the capital adequacy ratios, assets quality ratios, earnings/profitability ratios, liquidity ratios and efficiency ratios are calculated and have been interpreted in this section.

#### 4.1.1 Capital Adequacy Analysis

##### 4.1.1.1 Capital Adequacy Ratio

Capital adequacy ratio determines the capacity of the bank in terms of meeting the time liabilities and other risks such as credit risk, operational risk etc. It should therefore be provided by those who truly have a surplus. Capital adequacy seeks to measure the level of "shock absorbing" capacity available in a bank's financial position. In the simple formulation, a bank's capital is the cushion for potential losses, which protects the bank's depositors or other lenders. Effective from FY 2065/66, NRB made new provision for CAR; each bank is obliged to maintain the CAR ratio above 10%, which was earlier 12%.

**Table 4.2 Capital Adequacy Ratio**

**(Ratio in %)**

| FY | NRB | HBL | | EBL | |
|---|---|---|---|---|---|
| | Min. Req. | CAR | Variance | CAR | Variance |
| 2065/66 | 10 | 11.02 | 1.02 | 11.34 | 1.34 |
| 2066/67 | 10 | 10.72 | 0.72 | 10.77 | 0.77 |
| 2067/68 | 10 | 10.68 | 0.68 | 10.43 | 0.43 |
| 2068/69 | 10 | 11.02 | 1.02 | 11.02 | 1.02 |
| 2069/70 | 10 | 11.55 | 1.55 | 11.59 | 1.59 |
| **Mean** | | **10.988** | | **11.03** | |
| **S.D.** | | **0.35** | | **0.46** | |
| **C.V.%** | | **3.16** | | **4.15** | |

*Source: Appendix –I*

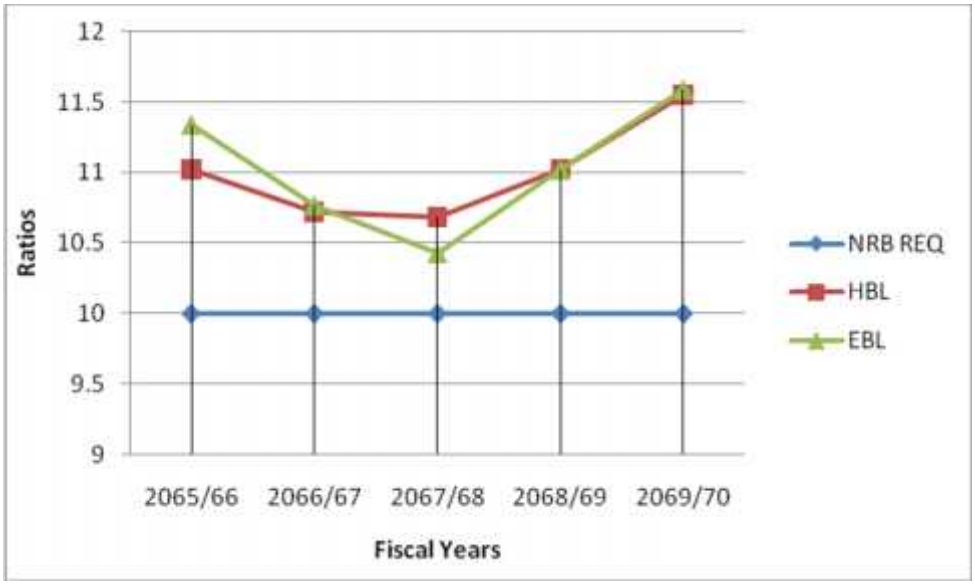


**Figure 4.1 Capital Adequacy Ratio**

In table 4.1 and figure 4.1, the capital adequacy ratio of the selected banks is presented and compared with minimum requirement made by NRB. As per the BASEL II, the minimum capital adequacy ratio is 8%, however NRB has fixed minimum CAR to 10% from the FY 2065/66. Both the selected banks have maintained capital adequacy ratio above the minimum requirement made by NRB in the period of study.

As per the above table and figure, the CAR ratio duly maintained by HBL as per regulatory requirements. The CAR ratio of HBL was 11.02% in the fiscal year 2065/66, and decreased to 10.72% in the fiscal year 2066/67, again decreased to 10.68% in the fiscal year 2067/68, then increased to 11.02% in the fiscal year 2068/69, and finally increased to 11.55% in the fiscal year 2069/70 with surplus 1.55%. In average, HBL kept 10.988% as CAR and the coefficient of variation in the ratio was 3.16%, indicating consistency in the ratio.

Similarly, the CAR ratios are duly maintained by EBL as per regulatory requirements. The CAR ratio of EBL is 11.34% in FY 2065/66, and decrease to 10.77% and 10.43% in FY 2066/67 and 2067/68 respectively, then again increase to 11.02% and 11.59% in FY 2068/69 and 2069/70 respectively with surplus above 1% over minimum requirement made by NRB. In average, EBL kept 11.03% as CAR and the coefficient of variation in the ratio is 4.15%, indicating consistency in the ratio.

Both the banks have complied with the NRB's norms during the study period. The capital base of both the selected banks is stronger in meeting the risk and securing the depositors and creditors.

#### 4.1.1.2 Debt-Equity Ratio

A debt-equity ratio measures the relative importance of debt in the capital structure. Generally very high debt to equity ratio is unfavorable to the business. Excess debt allows the third party to have legal claims on the company. Similarly, a very low debt to equity ratio is also unfavorable from the shareholder's point of view as it affects their profitability.

Total Debt (TD) refers to short-term loan and long term loan, while equity refers to share capital, reserves and surplus.

**Table 4.3 Debt-Equity Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | TD | SE | Ratio (%) | TD | SE | Ratio (%) |
| 2065/66 | 500.00 | 3119.881 | 16.03 | 612.00 | 1,089.60 | 56.17 |
| 2066/67 | 500.00 | 3439.205 | 14.54 | 704.60 | 1,447.70 | 48.67 |
| 2067/68 | 510.00 | 3995.478 | 12.76 | 782.00 | 1,923.00 | 40.67 |
| 2068/69 | 500.00 | 4632.01 | 10.79 | 0 | 2,253.20 | 0.00 |
| 2069/70 | 1188.429 | 5299.708 | 22.42 | 871.21 | 3,216.90 | 27.08 |
| **Mean** | | | **15.31** | | | **34.52** |
| **S.D.** | | | **4.43** | | | **22.10** |
| **C.V.%** | | | **28.95** | | | **64.02** |

*Source: Appendix –I*

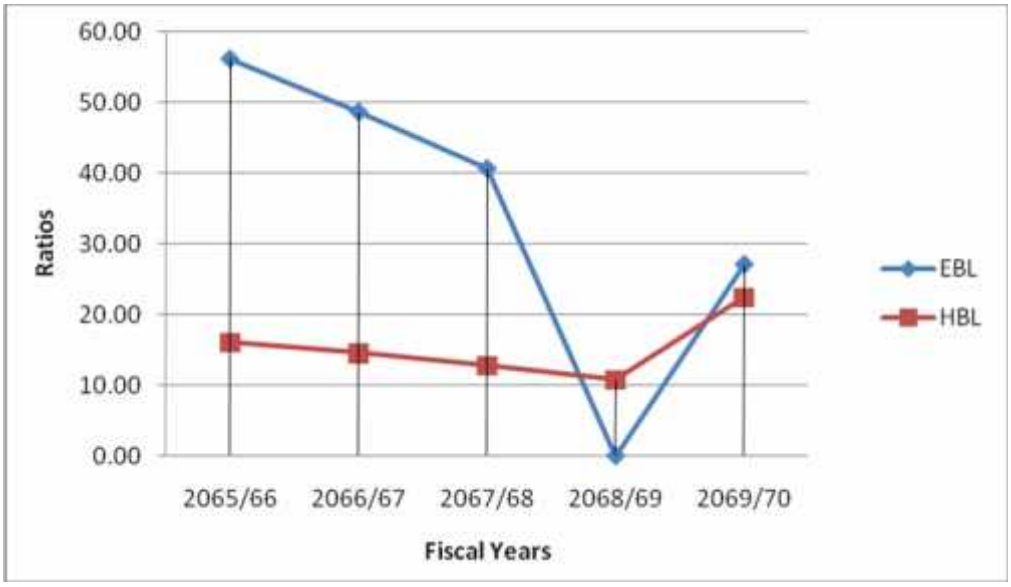


**Figure 4.2 Debt-Equity Ratio**

The table and figure show that debt-equity ratios of HBL was 16.03%, 14.54%, 12.76% ,10.79% and 22.42% in the fiscal year 2065/66, 2066/67, 2067/68, 2068/69 and 2069/70 respectively. The long term debt of the bank has maintained 500 million range except fiscal years 2069/70. However, the average debt-equity ratio of HBL was 15.31%, and the coefficient of variation on such ratio was 28.95%, which shows it's inconsistency.

Likewise, the debt-equity ratios of EBL are 56.17%, 48.67%, 40.67%, nil and 27.08% in fiscal years 2065/66 to 2069/70 respectively. The long term debt maintain by bank is 300 million for first three fiscal years and 468.845 million in last fiscal year, however, in FY 2068/69, the long term debt is nil. The average debt-equity ratio of EBL is 34.52%, and the coefficient of variation on such ratio is 64.02%.

Comparing HBL with EBL on the ground of debt-equity ratio, it can be concluded that total assets of HBL is less risky than that of EBL, as EBL use higher portion of debt capital to finance the total assets than HBL do.

### 4.1.2 Asset Quality Analysis

It is obvious from the theoretical prescription that the performance of commercial banks largely depends on the quality of assets held by them, and quality of the assets relies on the financial health of their borrowers. Such ratios measures the quality of the bank's assets i.e. the recoverability of the risk assets and the revenue earning potential of the bank. Higher the quality of a bank's risk assets, the more stable and consistent its profit potential.

#### 4.1.2.1 Risk Weighted Assets to Total Assets Ratio

This ratio measures the level of risks in the balance sheet of a bank. Each asset items on the balance sheet of a bank has an associated risk factor. The higher the ratio, the higher the risk being taken by the bank and vice-versa. The ratio of HBL and EBL for the five year periods are presented in the table and figure below.

**Table 4.4 Risk Weighted Assets to Total Assets Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | TA | RWA | Ratio (%) | TA | RWA | Ratio (%) |
| 2065/66 | 40,046.69 | 28152.90 | 70.30 | 36,916.85 | 25,619.75 | 69.40 |
| 2066/67 | 43,860.25 | 34905.89 | 79.58 | 41,382.76 | 30,240.43 | 73.07 |
| 2067/68 | 48,137.50 | 39357.06 | 81.76 | 46,236.21 | 34,583.55 | 74.80 |
| 2068/69 | 55,367.48 | 44124.52 | 79.69 | 55,813.13 | 41,525.35 | 74.40 |
| 2069/70 | 62486.56 | 47934.90 | 76.71 | 65,741.15 | 49,834.05 | 75.80 |
| **Mean** | | | 77.61 | | | **73.50** |
| **S.D.** | | | 4.46 | | | **2.49** |
| **C.V.%** | | | 5.75 | | | **3.39** |

*Source: Appendix –I*

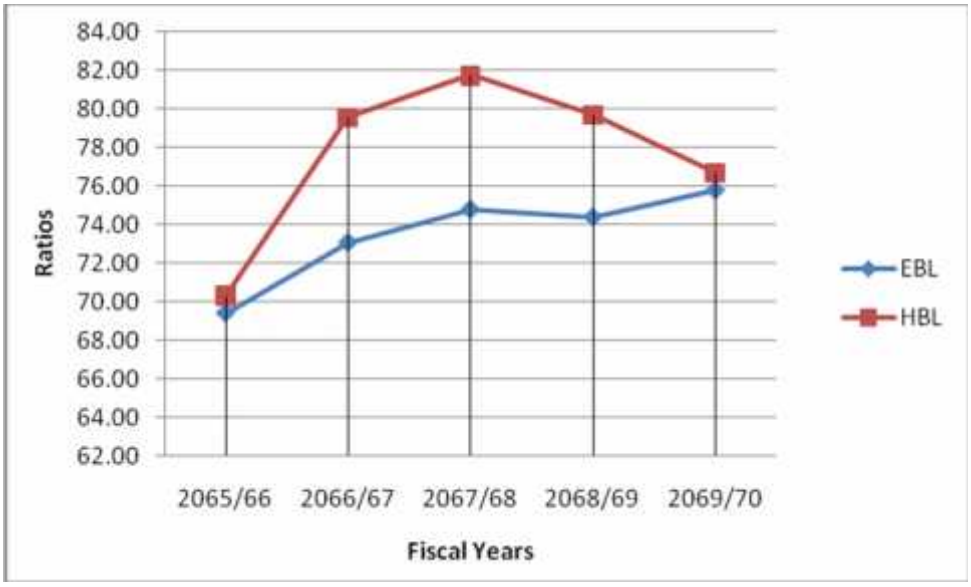


**Figure 4.3 Risk Weighted Assets to Total Assets Ratio**

In Table 4.3 and Figure 4.3 shows the risk weighted assets to total assets and contingents' ratio. As per table and figure, both bank's presented ratios are consistent. The ratio of HBLs Risk weighted assets to total assets & contingent ratio had also not kept consistence trend. The ratio was increased continuously up to FY 2067/68 and decreased up to fiscal year 2068/69. In average, HBL had taken 77.61% risk on its total assets. And the coefficient of variation of 5.75% indicated high consistency in the ratio.

Similarly, EBL's risk weighted assets to total assets and contingents' ratio is also in consistent trend. The ratio is increased continuously till FY 2069/70 except slightly decrease in FY 2068/69. In average, EBL had taken 73.50% risk on its total assets and the coefficient of variation of 3.39% indicates high consistency in the ratios.

Comparing the banks on the basis of risk taken, it can be concluded that HBL(77.61%) had taken high risk than EBL (73.50%). This ratio of HBL is higher than EBL for all years.

#### 4.1.2.2 Non Performing Loan to Total Loan Ratio

The non-performing loan to total loan measures the risk on the total loan and thus represents the quality of the assets the bank is carrying on. The increasing trend of these ratios shows the deteriorating quality of commercial bank's assets. The ratio of HBL and EBL for the five year periods are presented in the table and figure below.

**Table 4.5 Non Performing Loan to Total Loan Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | NPL | TL | Ratio (%) | NPL | TL | Ratio (%) |
| 2065/66 | 551.31 | 25,519.52 | 2.16 | 117.99 | 24,469.60 | 0.48 |
| 2066/67 | 1024.83 | 29,123.75 | 3.52 | 43.71 | 28,156.40 | 0.16 |
| 2067/68 | 1391.75 | 32,968.27 | 4.22 | 108.51 | 31,661.80 | 0.34 |
| 2068/69 | 751.16 | 35,968.47 | 2.09 | 307.49 | 36,616.80 | 0.84 |
| 2069/70 | 1186.19 | 41057.40 | 2.89 | 276.20 | 44,197.80 | 0.62 |
| **Mean** | | | **2.98** | | | **0.49** |
| **S.D.** | | | **0.91** | | | **0.26** |
| **C.V.%** | | | **30.56** | | | **53.33** |

*Source: Appendix –I*

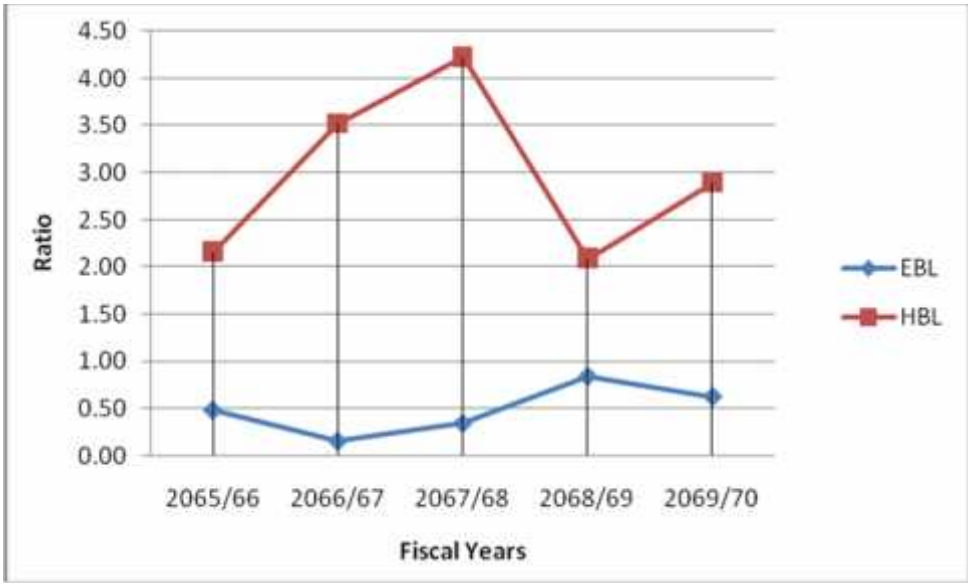


**Figure 4.4 Non Performing Loan to Total Loan Ratio**

The Table 4.4 and Figure 4.4 present proportion of non-performing loan on total loan and advances of the selected banks in the period of 2065/66 to 2069/70. The table depicted that along with the increment of loan and advances, the non-performing loan, the ratio of nonperforming loan to total loan and advances of HBL was decreasing trend up to the fiscal year 2068/69. However, the loan and advances granted was in increasing trend in the entire periods. The ratio of non performing loan to total loan and advances of HBL 2.16% in the fiscal year 2065/66, 3.52% in the fiscal year 2066/67, 4.22% in the fiscal year 2067/68, 2.09% in the fiscal year 2068/69 and 2.89% in the fiscal year 2069/70. In average, the non performing loan represented 2.98% of the loan and advances granted. Further, the coefficient of variation of 30.56%.

The ratio of non-performing loan to total loan and advances of EBL is fluctuating. The ratio is decreased in FY 2066/67 and 2069/70 and increased in other fiscal years. The NPL to TL ratios of EBL are 0.48%, 0.16%, 0.34%, 0.84% and 0.62% in fiscal years 2065/66 to 2069/70 which is below 1%, indicate good risk assets of the bank. The average non-performing loan is 0.49% of the total loan and advances granted. Further, the coefficient of variation of the same is 53.33%, which seem inconsistency in ratio.

Comparing two banks, it can be concluded that the loan and advances of HBL is highly risky than that of EBL all five fiscal years, since the representation on non-performing loan in total loan and advances of HBL is higher than that of EBL, which ultimately indicate better recovery policy in EBL than in HBL. In addition, the inclining ratio of NPL of HBL has reflected a lower quality of their assets year by year however, able to decline in FY 2069/70.

#### 4.1.2.3 Loan Loss Provision to Total Loan Ratio

As per the direction of NRB, each bank has to categorize loan in four different categories namely Pass, Sub-standard, Doubtful and Loss. The loan which is not overdue or overdue for 3 months falls under pass category, the loan which is overdue for more than 3 months but less than 6 months falls under Sub-standard category, the loan overdue for more than 6 months but not more than 1 year falls under Doubtful category and the loan overdue for more than a year falls under Loss. Base on the category of loan, bank need to make certain percent amount of loan as provision. The loan loss provision for loan under Pass, Sub-standard, Doubtful and Loss categories are atleast 1%, 25%, 50% and 100% respectively of

total loan and advances fall under that category. The loan loss provision to total loan and advances measures the aggregate provision kept by the bank. The loan loss to total loans and advances of HBL and EBL for the five consecutive years is presented in below.

**Table 4.6 Loan Loss Provision to Total Loan Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | LLP | TL | Ratio (%) | LLP | TL | Ratio (%) |
| 2065/66 | 726.36 | 25,519.52 | 2.85 | 584.88 | 24,469.60 | 2.39 |
| 2066/67 | 1,143.13 | 29,123.75 | 3.93 | 600.04 | 28,156.40 | 2.13 |
| 2067/68 | 1,401.29 | 32,968.27 | 4.25 | 604.15 | 31,661.80 | 1.91 |
| 2068/69 | 1,003.04 | 35,968.47 | 2.79 | 705.86 | 36,616.00 | 1.93 |
| 2069/70 | 1,333.59 | 41,057.40 | 3.25 | 804.58 | 44,197.80 | 1.82 |
| **Mean** | | | **3.41** | | | **2.01** |
| **S.D.** | | | **0.65** | | | **0.23** |
| **C.V.%** | | | **19.12** | | | **11.23** |

*Source: Appendix –I*

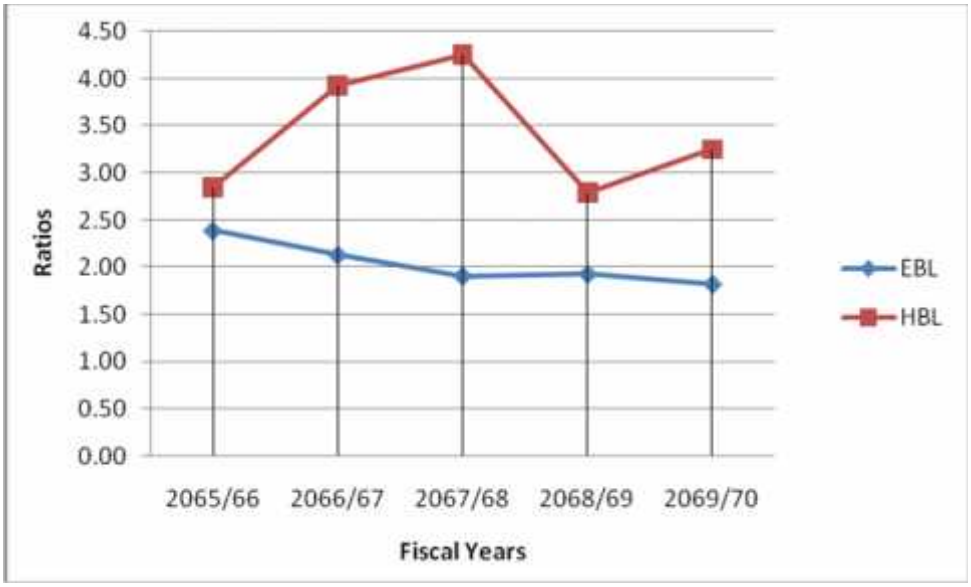


**Figure 4.5 Loan Loss Provision to Total Loan Ratio**

The table and figure show the ratio of loan loss provision kept on total loan. The table depict that the loan loss provision of to total loan in HBL had also not kept consistence

trend. The ratio was 2.85% in the fiscal year 2065/66, 3.93% in the fiscal year 2066/67, 4.25% in the fiscal year 2067/68 ,2.79% in the fiscal year 2068/69 and 3.25% in the fiscal year 2067/70. In average, HBL maintained 3.41% of the total loan as loan loss provision. And the coefficient of variation of 19.12% indicated inconsistency in the ratio.

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In contrary, the ratio of loan loss provision to total loan of EBL is in diminishing trend except slightly increase in FY 2068/69 by 0.02%. The ratio is 2.39%, 2.13%, 1.91%, 1.93% and 1.82% in fiscal years 2065/66 to 2069/70 respectively. In average, EBL maintain 2.04% of the total loan as loan loss provision and the coefficient of variation of 11.23% indicate more consistency in the ratio than HBL's 19.12%.

Comparing the banks on the basis of loan loss provision to total loan disbursement, it can be concluded that EBL had better coverage of pass loans and restructured loan on total loan as the average ratio of loan loss provision of EBL (2.04%) is lower in comparison to that of HBL(3.41%). However, the LLP to total loan ratio of HBL in all cossuctive year are higher than EBL.

#### 4.1.3 Earning or Profitability Analysis

Earning performance allows the banks to remain competitive by providing the resources. The main objectives of banks are to earn profit and their level of performance is measured by profitability ratios. Profitability ratios measures the efficiencies of the banks, higher profitability ratio indicates higher efficiency and vice-versa.

##### 4.1.3.1 Return on Shareholders' Equity (ROE) Ratio

Return on shareholders' equity reflects how well the firm has used the resources of the owners. It is calculated by dividing net profit after tax by shareholders' equity. The ratio of net profit to owners' equity reflects the extent to which social responsibility toward owners has been accomplished. This ratio is thus a great interest to current as well as potential shareholders and a great concern to management.

**Table 4.7 Return on Shareholders' Equity Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | NPAT | SE | ROE (%) | NPAT | SE | ROE (%) |
| 2065/66 | 752.84 | 3119.80 | 24.13 | 638.70 | 2,621.60 | 24.36 |
| 2066/67 | 508.80 | 3439.20 | 14.79 | 831.80 | 3,169.10 | 26.25 |
| 2067/68 | 893.12 | 3995.00 | 22.36 | 931.30 | 3,554.30 | 26.20 |
| 2068/69 | 958.64 | 4632.00 | 20.70 | 1,090.60 | 4,719.70 | 23.11 |
| 2069/70 | 943.70 | 5299.71 | 17.81 | 1,471.10 | 5,468.80 | 26.90 |
| **Mean** | | | **19.96** | | | **25.36** |
| **S.D.** | | | **3.71** | | | **1.58** |
| **C.V.%** | | | **18.58** | | | **6.21** |

*Source: Appendix –I*

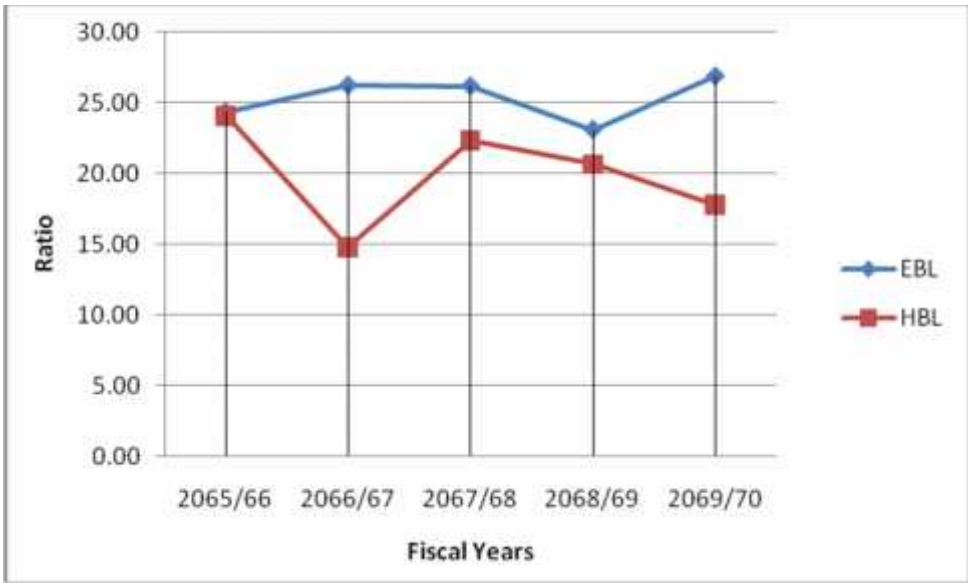


**Figure 4.6 Return on Shareholders' Equity Ratio**

The above table and figure show the capacity of the sampled banks in generating profit through proper mobilization of the shareholders' equity. The table showed that the return on shareholders' equity of HBL was fluctuating trend. The ROE of HBL 24.13% in the fiscal year 2065/66, which decreased to 14.79% in the fiscal year 2066/67, again increased to 22.36% in the fiscal year 2067/68, then decreased to

20.70% in the fiscal year 2068/69, and finally reached to 17.81% in the fiscal year 2069/70. In average, the ROE of HBL was 19.96%, which indicated that HBL generated Rs. 19.96 from Rs. 100 investment of shareholders' equity. Also, it can be inferred from the coefficient of variation of 18.58% that the ratio remained highly slightly inconsistent during the five year periods.

Alike the ROE of HBL, the ROE of EBL is also in fluctuating trend. The ROE of EBL 24.36% in FY 2065/66, is increase to 26.25% in FY 2066/67, and then gradually decrease to 26.20% and 23.11% in FY 2067/68 and 2068/69 respectively, again increase to 26.90% in FY 2069/70. In average, the ROE of EBL is 25.36%, which indicate that EBL generate Rs. 25.36 from Rs. 100 investment of shareholders' equity. Also, it can be inferred from the coefficient of variation of 6.21% that the ratios remain slightly inconsistent during the five year periods.

Over the study period, there is slightly increment in ROE of both banks in last fiscal year than first fiscal year. Comparing two banks on the basis of ROE, it can be concluded that EBL has the higher income earning capacity than HBL from effectively mobilizing the shareholder's equity , since the ROE of EBL is higher than that of HBL.

#### 4.1.3.2 Return on Assets (ROA) Ratio

Return on assets explains the contribution of assets to generating net profit. Return on total assets is calculated by dividing net profit after tax by total assets of the company. Higher return on total assets indicates the higher efficiency in the utilization of total assets and vice-versa.

**Table 4.8 Return on Assets Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | NPAT | TA | ROA (%) | NPAT | TA | ROA (%) |
| 2065/66 | 752.84 | 40,046.69 | 1.88 | 638.70 | 36,916.85 | 1.73 |
| 2066/67 | 508.80 | 43,860.25 | 1.16 | 831.80 | 41,382.76 | 2.01 |
| 2067/68 | 893.12 | 48,137.50 | 1.86 | 931.30 | 46,236.21 | 2.01 |
| 2068/69 | 958.64 | 55,367.47 | 1.73 | 1,090.60 | 55,813.13 | 1.95 |
| 2069/70 | 943.70 | 62486.56 | 1.51 | 1,471.10 | 65,741.15 | 2.24 |
| **Mean** | | | **1.63** | | | **1.99** |
| **S.D.** | | | **0.30** | | | **0.18** |
| **C.V.%** | | | **18.40** | | | **9.10** |

*Source: Appendix –I*

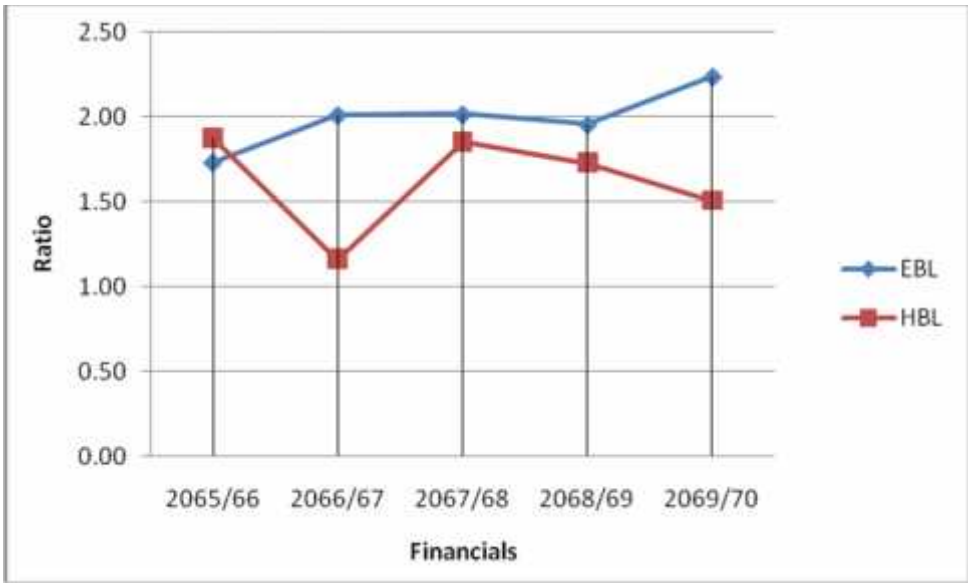


**Figure 4.7 Return on Assets Ratio**

The above table and figure delineated the capacity of the banks to convert the investment in total assets to profit. This shows that the net profit after tax of Himalayan bank is fluctuating trend and total assets of Himalayan bank is in increasing trend, the ROA of HBL was also in fluctuating trend. The ratio was 1.88% in the fiscal year 2065/66, which decreased to 1.16% in the fiscal year 2066/67, and increased to 1.86% in the

fiscal year 2067/68, and decreased to1.73% in the fiscal year 2068/69, and finally decreased to 1.51% in the fiscal year 2069/70. In average, the return on assets of HBL within the five year periods was 1.63%, which explicated that HBL generated Rs. 1.63 net profit from Rs. 100 investment in total assets. And the coefficient of variation was 18.40%.

Moreover, the ROA of EBL is also in fluctuating trend. The ratio is 1.73% in FY 2065/66, which increase to 2.01% in FY 2066/67, and remain as it is in FY 2067/68, then diminish to 1.95% in FY 2068/69, and finally rise to 2.24% in FY 2069/70. In average, the return on assets of EBL within the five year periods was 1.99%, which explicate that EBL generate Rs. 1.99 net profit from Rs. 100 investment in total assets. And the coefficient of variation is 9.10%.

Over the study period, there is a positive trend in overall ROA. Comparing two banks, it can be concluded that EBL has the greater capacity than HBL in effectively mobilizing the total assets to generate net profit. Thus, the investors of EBL can be optimistic in EBL capacity to generate higher profit in future.

#### 4.1.3.3 Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposit has been mobilized. This ratio is a mirror of bank's overall financing performance; deposits are outsiders' capital fund that entails paying fixed interest, this affects NPAT ultimately. Shareholders, depositors and management are concerned with this ratio.

**Table 4.9 Return on Total Deposit Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | NPAT | TD | Ratio (%) | NPAT | TD | Ratio (%) |
| 2065/66 | 752.84 | 34681.35 | 2.17 | 638.70 | 33,322.90 | 1.92 |
| 2066/67 | 508.8 | 37611.20 | 1.35 | 831.80 | 36,932.30 | 2.25 |
| 2067/68 | 893.12 | 40920.63 | 2.18 | 931.30 | 41,127.90 | 2.26 |
| 2068/69 | 958.64 | 47730.99 | 2.01 | 1,090.60 | 50,006.10 | 2.18 |
| 2069/70 | 943.7 | 53072.32 | 1.78 | 1,471.10 | 57,720.50 | 2.55 |
| **Mean** | | | **1.90** | | | **2.23** |
| **S.D.** | | | **0.35** | | | **0.23** |
| **C.V.%** | | | **18.23** | | | **10.11** |

*Source: Appendix –I*

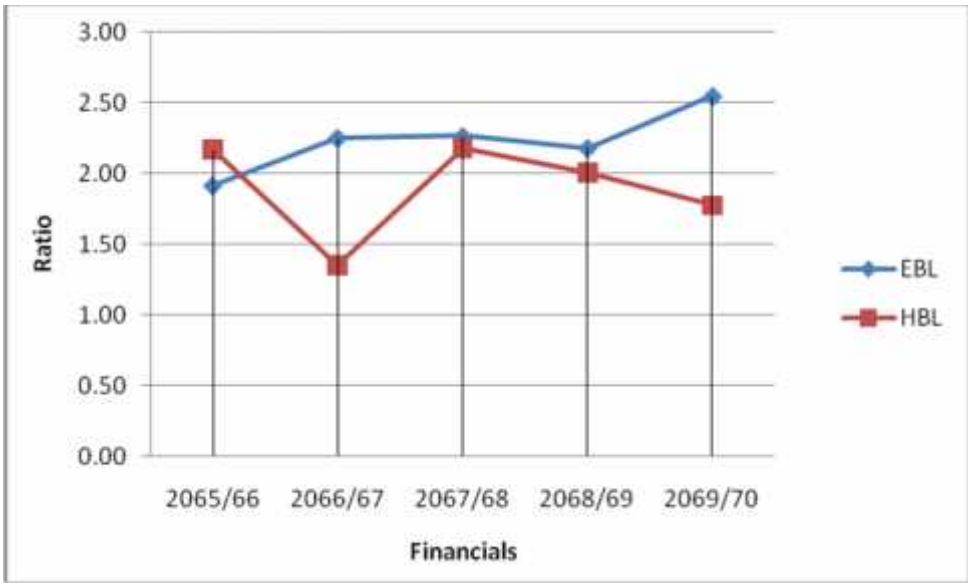


**Figure 4.8 Return on Total Deposit Ratio**

The table and figure delineate that the return on total deposit trend of HBL is in decrease in FY 2066/67, increase in FY 2067/68 and then decresing trend. The return on total deposit of HBL has swung up during the periods. Within the five year periods, the ratio has ranged from 1.35% in the fiscal year 2066/67 to 2.18% in the fiscal year 2067/68. In average, the return

on total deposit of HBL was 1.90%, which indicated that HBL earned Rs. 1.90 as net profit by investing Rs. 100 deposit collected.

Likewise, the return on total deposit of EBL has increase till FY 2067/68 and then decrease to 2.18% in FY 2068/69 and finally reached 2.55% in FY 2069/70. Within the five year periods, the ratio is lower of 1.92% in FY 2065/66 and higher of 2.55% in FY 2069/70. In average, the return on total deposit of EBL is 2.23%, which indicate that EBL earn Rs. 2.23 as net profit by investing Rs. 100 deposit collected.

Comparing two sampled banks on the ground of return on total deposit, it can be concluded that the capacity of turning total deposit into net profit of EBL is much more admirable than that of HBL. Hence, it can also be considered that the investment sector of the total deposit amount of EBL is more fruitful than that of HBL.

#### 4.1.3.4 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa. 'Interest earned' represents the total interest shows in the income side of profit and loss account. And 'total assets' represent the total of balance sheet.

**Table 4.10 Interest Earned to Total Assets Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | IE | TA | Ratio (%) | IE | TA | Ratio (%) |
| 2065/66 | 2,342.20 | 40,046.69 | 5.85 | 2,186.82 | 36,916.85 | 5.92 |
| 2066/67 | 3,148.61 | 43,860.25 | 7.18 | 3,102.45 | 41,382.76 | 7.50 |
| 2067/68 | 4,326.14 | 48,137.50 | 8.99 | 4,331.03 | 46,236.21 | 9.37 |
| 2068/69 | 4,724.89 | 55,367.48 | 8.53 | 4,960.00 | 55,813.13 | 8.89 |
| 2069/70 | 4627.34 | 62486.56 | 7.41 | 4,936.92 | 65,741.15 | 7.51 |
| **Mean** | | | **7.59** | | | **7.84** |
| **S.D.** | | | **1.23** | | | **1.35** |
| **C.V.%** | | | **16.24** | | | **17.27** |

*Source: Appendix –I*

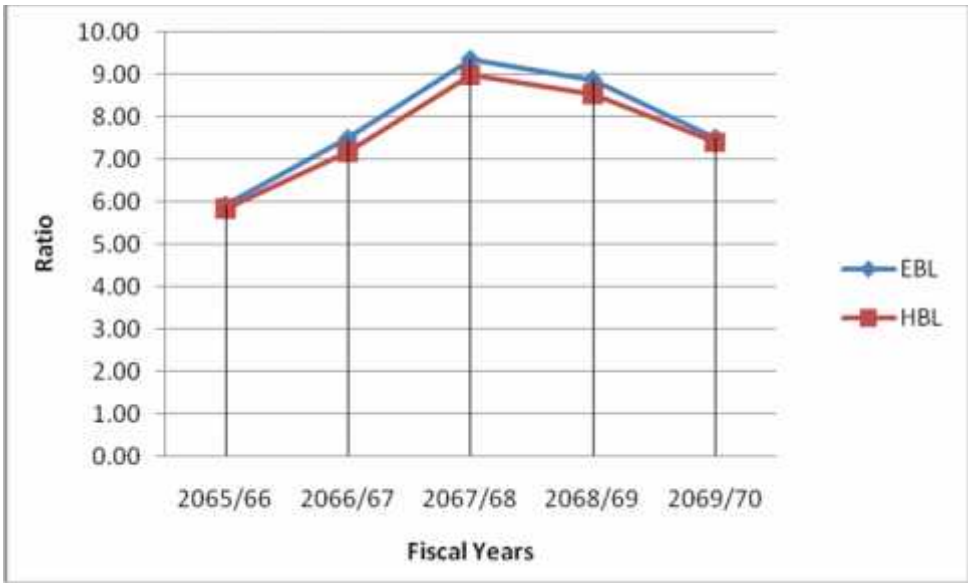


**Figure 4.9 Interest Earned to Total Assets Ratio**

The above table figure show that the interest earning capacity of HBL range from 5.85% in FY 2065/66 to 8.99% in FY 2067/68. In average, the interest earned to total assets ratio is 7.59%, means HBL generated Rs. 7.59 as interest income from Rs. 100 investment in total assets. The coefficient of variation on such ratios is 16.24%.

Similarly, the ratio in EBL range from 5.92% in FY 2065/66 to 9.37 % in FY 2067/68. In average, the interest earned to total assets ratio is 7.84%, which indicate that EBL generate Rs. 7.84 as interest income from Rs. 100 investment in total assets.

Comparing two banks on the basis of interest earned to total assets, it can be concluded that the capacity of utilizing total assets to generate interest income of EBL ismore admirable than HBL.

#### 4.1.3.5 Earning Per Share (EPS)

The earning per share shows the profitability of the bank on per share basis. It shows the earning available to each shareholder out of the total earning. The earning per share is calculated by dividing the net profit after tax by total number of common share outstanding.

**Table 4.11 Earning Per Share**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | **NPAT** | **No. of Share** | **EPS (in %)** | **NPAT** | **No. of Share** | **EPS (in %)** |
| 2065/66 | 752.84 | 1216.22 | 61.90 | 638.70 | 638.80 | 99.98 |
| 2066/67 | 508.80 | 1600.00 | 31.80 | 831.80 | 830.50 | 100.16 |
| 2067/68 | 893.12 | 2000.00 | 44.66 | 931.30 | 1,119.60 | 83.18 |
| 2068/69 | 958.64 | 2400.00 | 39.94 | 1,090.60 | 1,231.60 | 88.55 |
| 2069/70 | 943.7 | 2760.00 | 34.19 | 1,471.10 | 1,601.10 | 91.88 |
| **Mean** | | | **42.50** | | | **92.75** |
| **S.D.** | | | **11.95** | | | **7.37** |
| **C.V.%** | | | **28.12** | | | **7.94** |

*Source: Appendix –I*

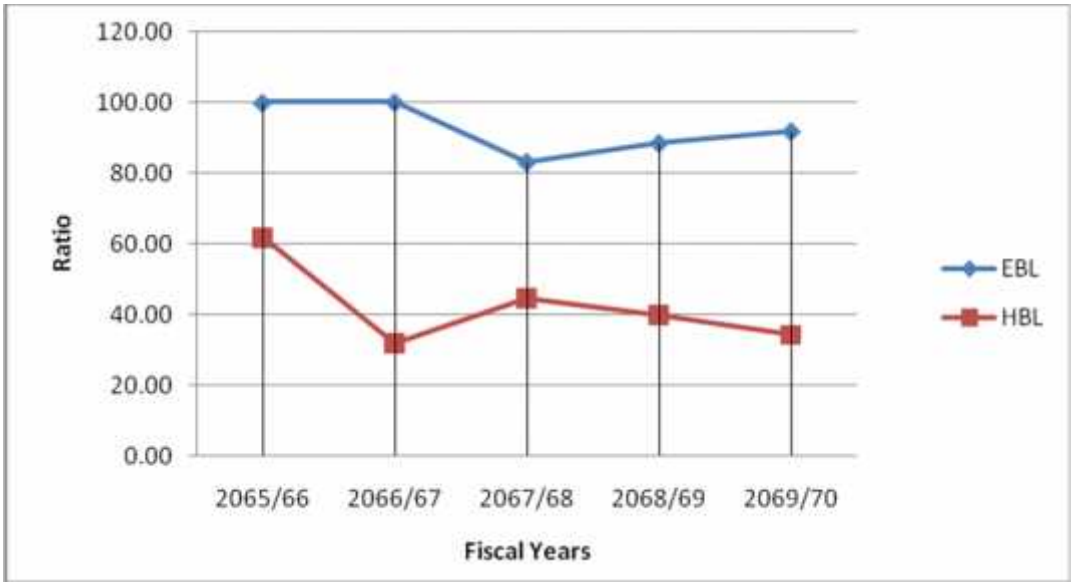


**Figure 4.10 Earning Per Share**

The above table and figure show the trend of EPS of the selected banks. The EPS of HBL take decreasing trend except FY 2067/68 i.e. Rs. Rs. 61.90, Rs. 31.80, Rs. 44.66, Rs. 39.94 and Rs. 34.19 in FY 2065/66 to 2069/70 respectively. Thus, in average HBL earn Rs. 42.50 per share and the C.V. on such EPS is 28.12%.

In contrast, the EPS of EBL follow increasing trend except in FY 2066/67. The EPS are Rs. 99.98, Rs. 100.16, Rs. 83.18, Rs. 88.55 and Rs. 91.88 in FY 2065/66 to 2069/70 respectively. In average, the EPS is Rs. 92.75 and the coefficient of variation is 7.94%.

Comparing two banks on the basis of EPS, it can be concluded that EBL earns the higher profit per share than HBL. Also, the uniformity in earning per share of EBL is greater than that of HBL. Thus, for the investors whose attitude is just to gain profit, the EPS of EBL can be fascinating.

#### 4.1.3.6 Dividend Per Share (DPS)

The profit earned by the company finally belongs to the equity shareholders. Therefore, all or some of them are distributed to them which are known as dividends. This ratio shows how much per share of stock held by them is paid out as dividends.

**Table 4.12 Dividend Per Share**

**(in % per share)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | CDW | BSD | TD | CDW | BSD | TD |
| 2065/66 | 12 | 31.56 | 43.56 | 30 | 30 | 60 |
| 2066/67 | 11.84 | 25 | 36.84 | 30 | 30 | 60 |
| 2067/68 | 16.84 | 20 | 36.84 | 50 | 10 | 60 |
| 2068/69 | 13.42 | 15 | 28.42 | 0 | 30 | 30 |
| 2069/70 | 10 | 5 | 15 | 50 | 10 | 60 |
| **Mean** | | | **32.13** | | | **54** |
| **S.D.** | | | **10.98** | | | **13.42** |
| **C.V.%** | | | **34.17** | | | **24.85** |

*Source: Appendix –I*

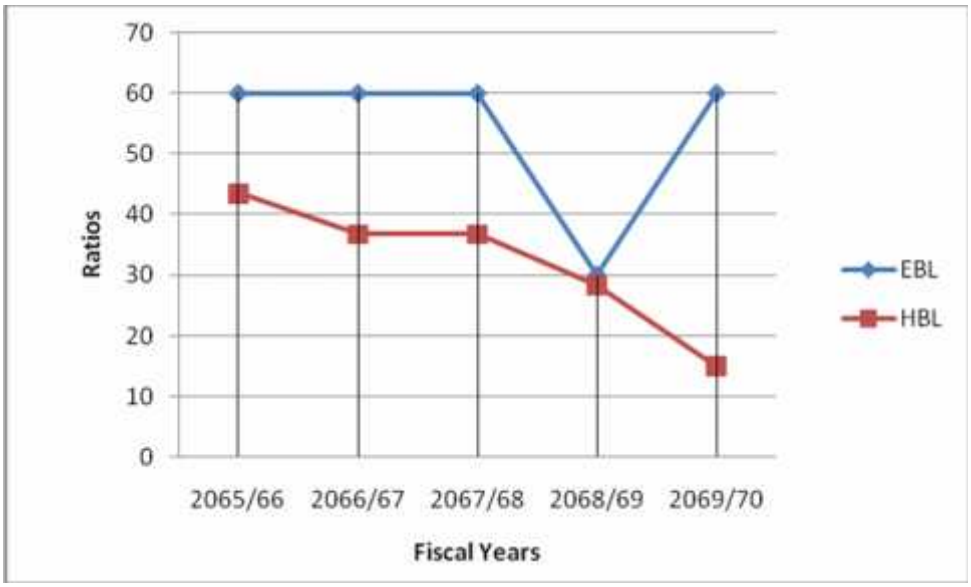


**Figure 4.11 Diviend Per Share**

The table and figure has depicted the dividend pattern of the sampled banks. The table shows that the cash dividend warrants paid by HBL per share are Rs. 12 in FY 2065/66, Rs. 11.84 in FY 2066/67 ,Rs. 16.84 in FY 2067/68, Rs.13.42 in FY 2068/69 and 2067/68 and Rs. 10 in FY 2069/70. HBL issue bonus share dividend equivalent to Rs. 31.56 in FY 2065/66, Rs. 25 in FY 2066/67, Rs. 20 in FY 2067/68 ,Rs 15 in FY 2068/69 and Rs. 5 in FY 2069/70 per share. In average, HBL has paid Rs. 32.13 total

dividends per share include Rs. 12.82 per share as cash dividend and Rs. 19.31 per share as bonus share dividend. The overall DPS is in decreasing trend till . Also, the coefficient of variation on dividend payment is 34.17%, indicating inconsistency.

Likewise, EBL has paid Rs. 30 as cash dividend per share in FY 2065/66 and 2066/67 and Rs. 50 cash dividend per share in FY 2067/68 and 2069/70. No cash dividend warrants is issued in FY 2068/69 as EBL needs to increment the paid up capital. The bank also distributes bonus share dividend per share equivalent to Rs. 30 in FY 2065/66, 2066/67, 2068/69 and Rs. 10 in FY 2067/68 and 2069/70 respectively. The average cash dividend Rs. 32 per share and average bonus share dividend of Rs. 22 per share making average dividend per share of Rs. 54 per share of EBL. The coefficient of variation on such dividend is 24.85%, shows the consistency in dividend payment i.e equal DPS in study period.

On the basis of DPS, it can be concluded that both HBL and EBL remain more success to retain its existing shareholders and to allure the potential shareholders toward it by distributing higher amount of dividend per share than other banks. However, there is less uniformity in dividend policy of EBL as the coefficient of variation on DPS of EBL is high compared to that of HBL.

#### 4.1.4.7 Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share. Banks distribute the earnings to shareholders in terms of dividend but they don't pay in the full value. They will retain some earnings in-order to expand the business. Higher dividend payout ratio indicates higher cash dividend to shareholders.

**Table 4.13 Dividend Payout Ratio**

**(in %)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | **DPS** | **EPS** | **DPR** | **DPS** | **EPS** | **DPR** |
| 2065/66 | 43.56 | 61.90 | 70.37 | 60 | 99.98 | 60.01 |
| 2066/67 | 36.84 | 31.80 | 115.85 | 60 | 100.16 | 59.91 |
| 2067/68 | 36.84 | 44.66 | 82.49 | 60 | 83.18 | 72.13 |
| 2068/69 | 28.42 | 39.94 | 71.16 | 30 | 88.55 | 33.88 |
| 2069/70 | 15 | 34.19 | 43.87 | 60 | 91.88 | 65.30 |
| **Mean** | | | **76.75** | | | **58.25** |
| **S.D.** | | | **26.05** | | | **14.51** |
| **C.V.%** | | | **33.94** | | | **24.91** |

*Source: Appendix –I*

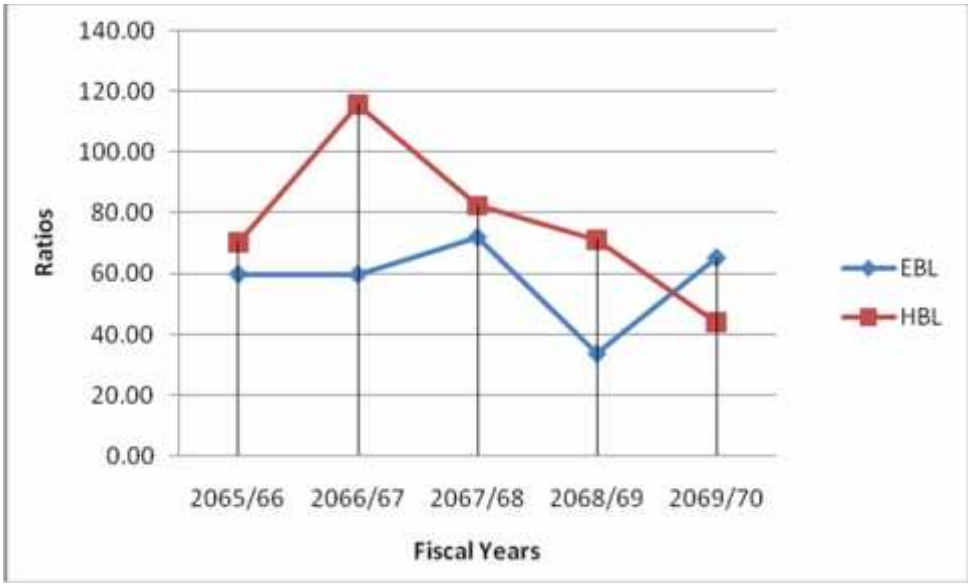


**Figure 4.12 Dividend Payout Ratio**

The table and figure show the dividend payout ratio of the sampled banks, HBL and EBL. This show that the dividend payout ratio of HBL 70.37%, 115.85%, 82.49%, 71.16% and 43.87% in FY 2065/66 to 2069/70. Also, the dividend payout ratio of EBL in the five consecutive years are 60.01%, 59.91%, 72.13%, 33.88% and 65.30% respectively.

In average, HBL and EBL distributed 76.75% and 58.25% respectively of the total earnings as dividend to the shareholders of the corresponding banks. Besides these, the coefficient of variations on dividend payout ratio of HBL is 33.94% and EBL was 24.91%.

Comparing two banks, it can be considered that the dividend payout ratio of HBL is better, since the average dividend payout ratio of NBL is higher compared to that of EBL. Hence, it can be considered that the shareholders of both HBL and EBL are more satisfied than other banks, as both banks' shareholders got more percentage of EPS in the form of dividend. However, on the basis of higher dividend payout ratio of HBL than EBL except in FY 2069/70, it can be considered that HBL is most matured bank than EBL.

**4.1.3.8 Earnings Per Employee**

Earning per employee is calculated by dividing net profit after tax by number of employees. Lower earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability.

**Table 4.14 Earning Per Employee**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | NPAT | No. of Employee | EPE | NPAT | No. of Employee | EPE |
| 2065/66 | 752.84 | 591 | 1.27 | 638.70 | 534.00 | 1.20 |
| 2066/67 | 508.80 | 577 | 0.88 | 831.80 | 568.00 | 1.46 |
| 2067/68 | 893.12 | 647 | 1.38 | 931.30 | 586.00 | 1.59 |
| 2068/69 | 958.64 | 793 | 1.21 | 1,090.60 | 625.00 | 1.74 |
| 2069/70 | 943.7 | 830 | 1.14 | 1,471.10 | 643.00 | 2.29 |
| **Mean** | | | **1.18** | | | **1.66** |
| **S.D.** | | | **0.19** | | | **0.41** |
| **C.V.%** | | | **15.93** | | | **24.52** |

*Source: Appendix –I*

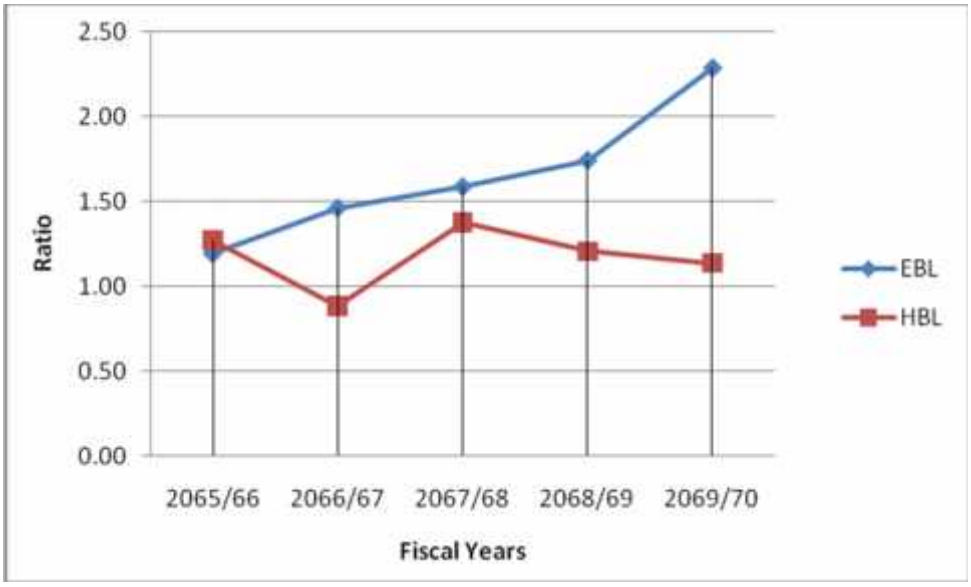


**Figure 4.13 Earning Per Employee**

The above table measures the productivity of the employee in terms of profit. The table and figure show that the earning per employee of HBL is almost in decreasing trend except FY 202067/68. The earning per employee of HBL are Rs. 1.27, 0.88, 1.38, 1.21 and 1.14 million in FY 2065/66 to 2069/70 respectively. In average, the earning per employee of HBL for the five year periods is Rs. 1.18 million and the coefficient of variation is 15.93%.

Similarly, the earning per employee of EBL is also in increasing trend. The earning per employee of EBL are Rs. 1.20, 1.46, 1.59, 1.74 and 2.29 million in FY 2065/66 to 2069/70 respectively. This shows that EBL made Rs. 1.66 million net profit per employee and the coefficient of variation is 24.52%.

Comparing two banks on the basis of earning per employee, it can be concluded that the employees of EBL are comparatively more productive than that of HBL. Since the earning per employee of EBL in more year and in average is greater than that of HBL, it can be inferred that EBL is more success in managing human resource than HBL.

### 4.1.4 Liquidity Analysis

The level of liquidity influences the ability of a banking system to withstand shocks. Liquidity risk arises when BFIs liability holder like depositors demand immediate cash for the financial claim they hold with bank and financial institutions.

#### 4.1.4.1 Cash Reserve Ratio

To ensure adequate liquidity in the commercial banks in order to meet the depositors demand, NRB has put the directives to maintain certain percent of total deposit in NRB by the commercial banks, known as cash reserve ratio.

**Table 4.15 Cash Reserve Ratio**

**(Ratio in %)**

| FY | NRB's Req. | HBL | | EBL | |
|---|---|---|---|---|---|
| | | CRR | Surplus/Deficit | CRR | Surplus/Deficit |
| 2065/66 | 5 | 6.76 | 1.76 | 14.26 | 9.26 |
| 2066/67 | 5.5 | 6.76 | 1.76 | 15.53 | 10.03 |
| 2067/68 | 5.5 | 5.75 | 0.25 | 9.55 | 4.05 |
| 2068/69 | 5.5 | 8.72 | 3.22 | 17.22 | 11.72 |
| 2069/70 | 6 | 6.08 | 0.08 | 15.19 | 9.19 |
| **Mean** | | **6.81** | | **14.35** | |
| **S.D.** | | **1.15** | | **2.89** | |
| **C.V.%** | | **16.91** | | **20.13** | |

*Source: Appendix –I*

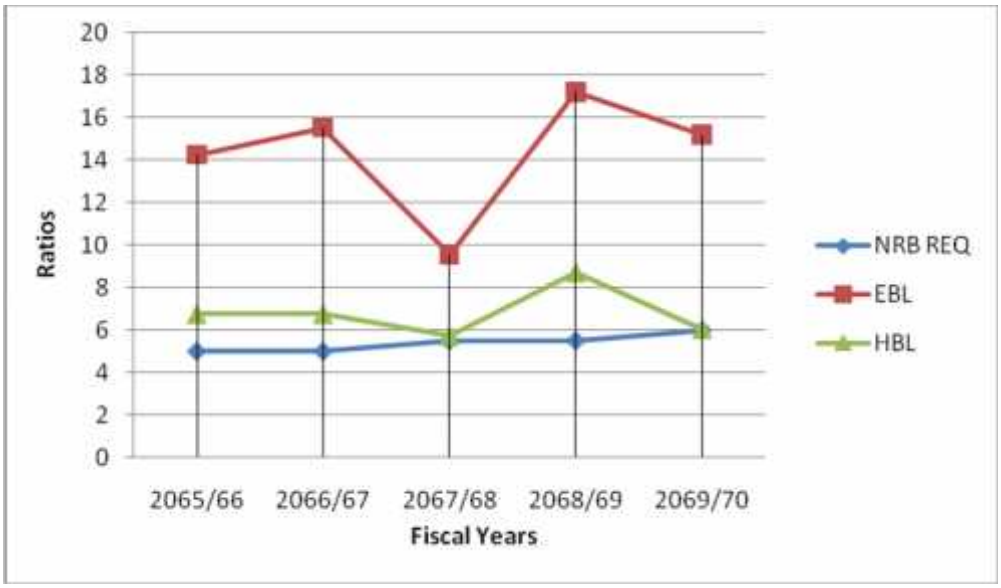


**Figure 4.14 Cash Reserve Ratio**

The above table shows the cash reserve ratio maintained by the sampled banks in compliance with the NRB's minimum requirement. It seems that HBL has truly implemented

the directives of NRB regarding the cash reserve ratio, since the CRR kept by the bank is above the minimum standard.The cash reserve ratios maintained by HBL are 6.76%,6.76%,5.75%,8.72% and 6.08% in FY 2065/66 to 2069/70 respectively. In average, the CRR of the bank for the five years periods is 6.81% and the coefficient of variation in these ratios is 16.91%.

In contrast, EBL has truly implemented the directives of NRB regarding the cash reserve ratio, since the CRR kept by the bank is above the minimum standard. The cash reserve ratios maintained by EBL are 14.26%, 15.53%, 9.5%, 17.22% and 15.19% in FY 2065/66 to 2069/70 respectively. In average, the cash reserve ratio of EBL for the five year periods is 14.35% and the coefficient of variation in the ratios is 20.13%, which shows consistency in maintaining CRR.

On the basis of the cash reserve ratio, it can be concluded that EBL had slightly more sound liquidity than Nabil. Also, within the five observed periods, EBL has only met the minimum cash reserve requirement.

#### 4.1.4.2 Cash at Vault to Total Deposit Ratio

This ratio shows the percentage of total deposits held as cash in hand at vault. This ratio is computed by dividing cash at vault by total deposits. Cash and foreign currencies in hand are included as cash in vault. Total deposits means current, savings and fixed deposits accounts as well as call account deposits and certificate of deposits.

**Table 4.16 Cash at Vault to Total Deposit Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | CAV | TD | Ratio (%) | CAV | TD | Ratio (%) |
| 2065/66 | 3,048.53 | 34,681.35 | 8.79 | 944.70 | 33,322.90 | 2.83 |
| 2066/67 | 3,866.49 | 37,611.03 | 10.28 | 1,091.50 | 36,932.30 | 2.96 |
| 2067/68 | 2,964.65 | 40,920.63 | 7.24 | 1,049.00 | 41,127.90 | 2.55 |
| 2068/69 | 6,362.30 | 47,730.99 | 13.33 | 1,700.99 | 50,006.10 | 3.40 |
| 2069/70 | 3648.20 | 53072.32 | 6.87 | 1,723.21 | 57,720.50 | 2.99 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Mean** | | | **9.30** | | | **2.95** |
| **S.D.** | | | **2.63** | | | **0.31** |
| **C.V.%** | | | **28.22** | | | **10.43** |

*Source: Appendix –I*

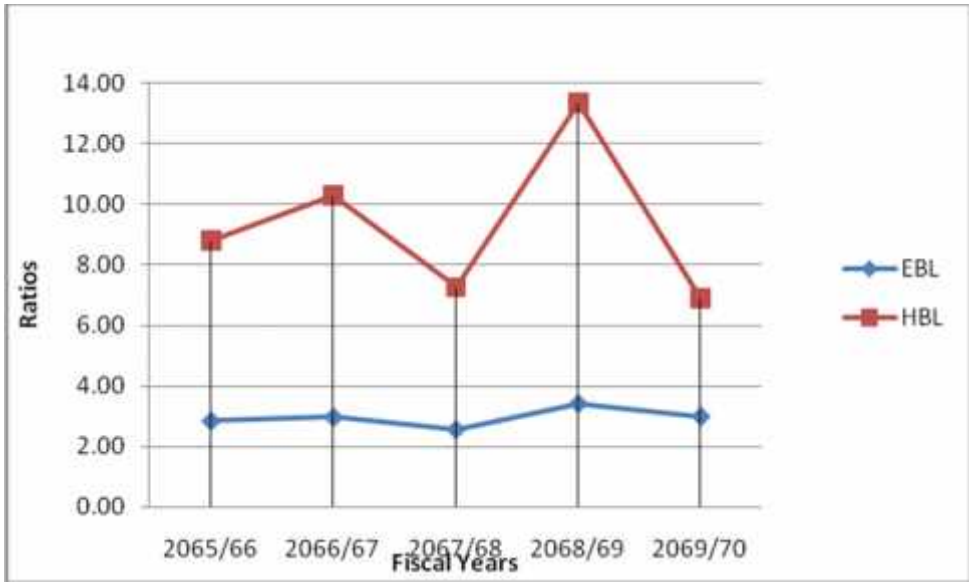


**Figure 4.15 Cash at Vault to Total Deposit Ratio**

The above table and figure measure the liquidity position of the bank considering cash at vault and the total deposit collected. This show that the cash at vault of HBL are in fluctuating treend and the total deposit of HBL are in increasing trend . The ratio of cash at vault to total deposit are 8.79%, 10.28%, 7.24%, 13.33% and 6.87%. In average, the cash at vault covered 9.30% of the total deposit liability and the coefficient of variation is 28.22%.

Likewise, both the cash at vault and total deposit of EBL are also in increasing trend. However, the ratio of cash at vault to total deposit of EBL followed increasing trend . The ratios are 2.83%, 2.96%, 2.55%, 3.40% and 2.99% in five fiscal years. In average, the ratio is 2.95% and the coefficient of variation in the ratio is 10.43%.

Comparing two banks, it can be concluded that HBL had better liquidity position than EBL; in the context of cash at vault and total deposit, since the ratio of cash at vault to total deposit of HBL far better than that of EBL.

#### 4.1.4.3 Liquid Fund to Total Deposits Ratio

The ratio of liquid assets to total deposit measures the level of liquid fund available with the bank to meet the short term obligations. It measures the overall liquidity position. The higher ratio shows the better liquidity position and the lower ratio shows the inefficient liquidity position of the bank.

**Table 4.17 Liquid Fund to Total Deposits Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | LF | TD | Ratio (%) | LF | TD | Ratio (%) |
| 2065/66 | 4,219.32 | 34,681.35 | 12.17 | 6164.37 | 33,322.90 | 18.50 |
| 2066/67 | 4,175.33 | 37,611.03 | 11.10 | 7618.81 | 36,932.30 | 20.63 |
| 2067/68 | 3,698.65 | 40,920.63 | 9.04 | 6122.86 | 41,127.90 | 14.89 |
| 2068/69 | 6,626.90 | 47,730.99 | 13.88 | 10363.30 | 50,006.10 | 20.72 |
| 2069/70 | 5710.03 | 53072.32 | 10.76 | 11215.79 | 57,720.50 | 19.43 |
| **Mean** | | | **18.83** | | | **11.39** |
| **S.D.** | | | **2.39** | | | **1.79** |
| **C.V.%** | | | **12.69** | | | **15.73** |

*Source: Appendix –I*

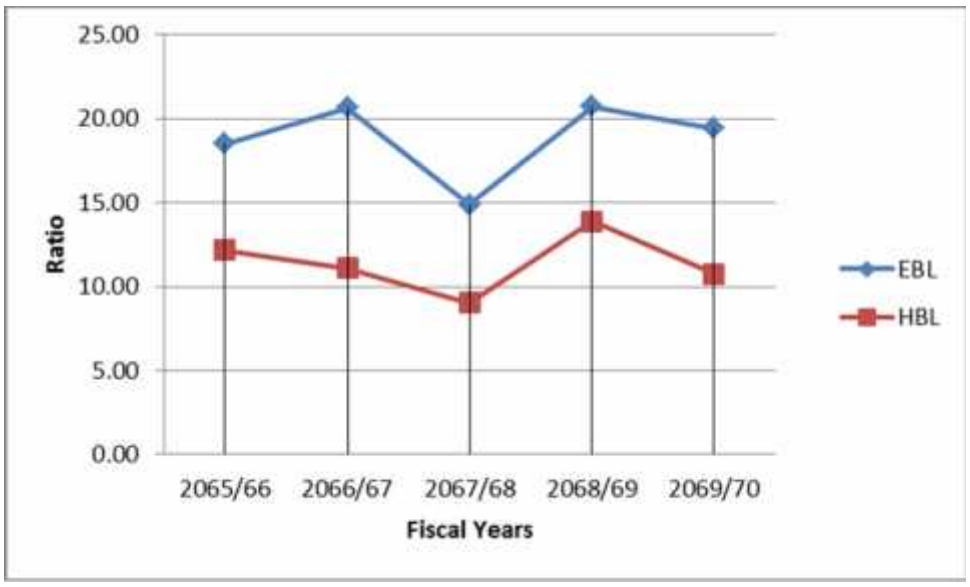


**Figure 4.16 Liquid Fund to Total Deposits Ratio**

The above table and figure measure the liquidity of the banks. This show that the total deposit collected of HBL is in increasing trend, and the liquid fund of the bank is in decreasing trend except F.Y.2068/69. The liquid fund range from least of Rs. 3698.65 million in FY 2067/68 to most of Rs. 6626.90 million in FY 2068/69 and the total deposits range from least of Rs. 34681.35 million in FY 2065/66 to most of Rs. 53072.32 million in FY 2069/70. However, the liquid fund to total deposit ratio is in fluctuating trend. The ratios are 12.17%, 11.10%, 9.04%, 13.88% and 10.76% in FY 2065/66 to 2069/70 respectively. In average, 11.39% of the total deposit is represented by the liquid fund of the bank and the coefficient of variation in the ratio is 15.73%, indicating quite inconsistency.

Alike in HBL, the liquid fund of EBL is in increasing trend except in FY 2067/68 and thus range from least of Rs. 6122.86 million in FY 2067/68 to most of Rs. 11215.79 million in FY 2069/70. However, the total deposit is in increasing trend and thus range from least of Rs. 33,322.90 million in FY 2065/66 to most of Rs. 57,720.50 million in FY 2069/70. Alike the trend of liquid fund, the ratio of liquid fund to total deposit is also in fluctuating trend, and thus is highest, 20.72% in FY 2068/69 and lowest 14.89%, in FY 2067/68. In average, 18.83% of the total deposit of EBL is represented by the liquid fund and the coefficient of variation in the ratio is 12.69%, indicating little bit consistency.

Comparing two banks, it can be concluded that the liquidity position of EBL is better than that of HBL, since the average liquid fund to total deposit of HBL is less good than that of EBL.

### 4.1.5 Efficiency Ratios

Under this section, the efficiency of the bank in mobilizing the deposit in loan and advances, in reducing the credit risk, i.e. nonperforming loan, in mobilizing the employees to achieve high yield per employee, and in alleviating operating expenses in relation to operating income has been measured.

#### 4.1.5.1 Credit to Total Deposits Ratio

This ratio measures the banks' ability to mobilize the depositor's fund to earn profit by granting credit. Credit refers to total sum of loan, advances, overdraft, local and foreign bills purchase and discounted. Total deposits include total outsiders' fund or all kinds of deposits.

A high ratio indicates higher efficiency to utilize depositor's fund and low ratio indicates bank's inability to efficiently utilize the depositor's fund.

**Table 4.18 Credit to Total Deposits Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | TC | TD | Ratio (%) | TC | TD | Ratio (%) |
| 2065/66 | 25,519.52 | 34,681.35 | 73.58 | 24,469.60 | 33,322.90 | 73.43 |
| 2066/67 | 29,123.76 | 37,611.03 | 77.43 | 28,156.40 | 36,932.30 | 76.24 |
| 2067/68 | 32,968.27 | 40,920.63 | 80.57 | 31,661.80 | 41,127.90 | 76.98 |
| 2068/69 | 35,968.47 | 47,730.99 | 75.36 | 36,616.80 | 50,006.10 | 73.22 |
| 2069/70 | 41057.40 | 53072.32 | 77.36 | 44,197.80 | 57,720.50 | 76.57 |
| **Mean** | | | **76.86** | | | **75.29** |
| **S.D.** | | | **2.61** | | | **1.81** |
| **C.V.%** | | | **3.40** | | | **2.41** |

*Source: Appendix –I*

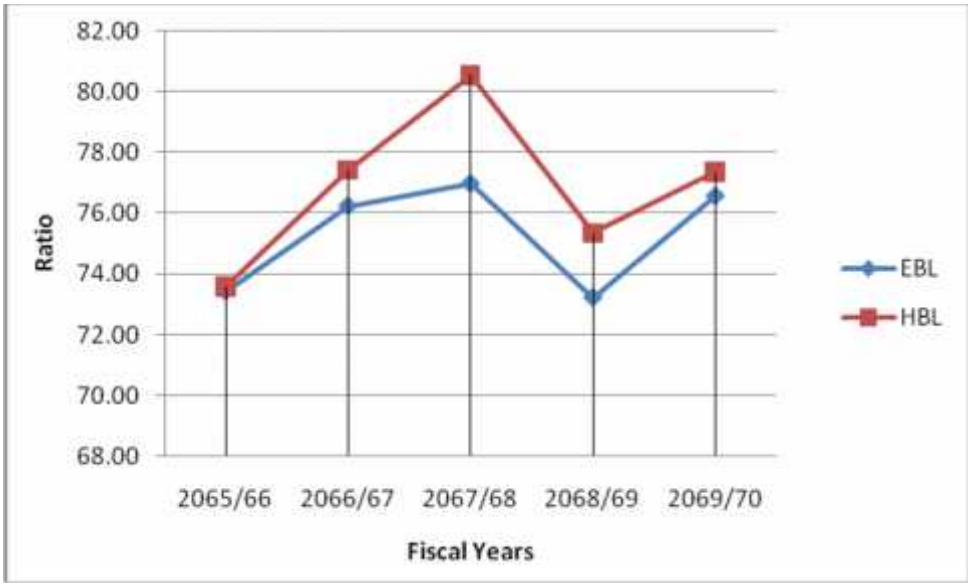


**Figure 4.17 Credit to Total Deposits Ratio**

The table and figure demonstrate the credit to total deposit of the selected banks, viz, HBL and EBL. The table shows that the ratio of credit to total deposit of HBL is found to have

been increasing trend during the observed periods except 2068/69. The ratio has range from 73.58% in FY 2065/66 to 80.57% in FY 2067/68. In average, 76.86% of the total deposit of HBL is utilized in granting credit and the coefficient of variation on such ratio is 3.40% only.

Similarly, the ratio of EBL also follows the fluctuating trend, i.e. the ratio is 73.22% in 2068/69 minimum and 76.98% in 2067/68 maximum among the five years period. In average, EBL is able to mobilize 75.29% of the total deposit in disbursing credit with coefficient of variation of only 2.41%.

Comparing two banks, it can be concluded that the ratio of credit to total deposit of HBL is higher than EBL. It can be said that the deposit mobilization in granting credit of both HBL and EBL is subtly better.

#### 4.1.5.2 Total Operating Expenses to Total Operating Revenue Ratio

The ratio of total operating expenses to total operating revenue is used as a proxy measure of the management quality. A high level of expenditure in unproductive activities may reflect an inefficient management. A high ratio of expenses to total revenue may give indication of inefficient operation and vice-versa.

**Table 4.19 Total Operating Expenses to Total Operating Revenue Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | TOE | TOR | Ratio (%) | TOE | TOR | Ratio (%) |
| 2065/66 | 759.30 | 1988.05 | 38.19 | 478.93 | 1,544.97 | 31.00 |
| 2066/67 | 886.09 | 2157.96 | 41.06 | 578.88 | 1,927.98 | 30.03 |
| 2067/68 | 1099.80 | 2586.74 | 42.52 | 676.24 | 2,192.94 | 30.84 |
| 2068/69 | 1348.67 | 2911.21 | 46.33 | 819.34 | 2,609.74 | 31.40 |
| 2069/70 | 1535.09 | 3523.96 | 43.56 | 971.30 | 3,372.85 | 28.80 |
| **Mean** | | | **42.33** | | | **30.41** |
| **S.D.** | | | **3.01** | | | **1.03** |
| **C.V.%** | | | **7.11** | | | **3.39** |

*Source: Appendix –I*

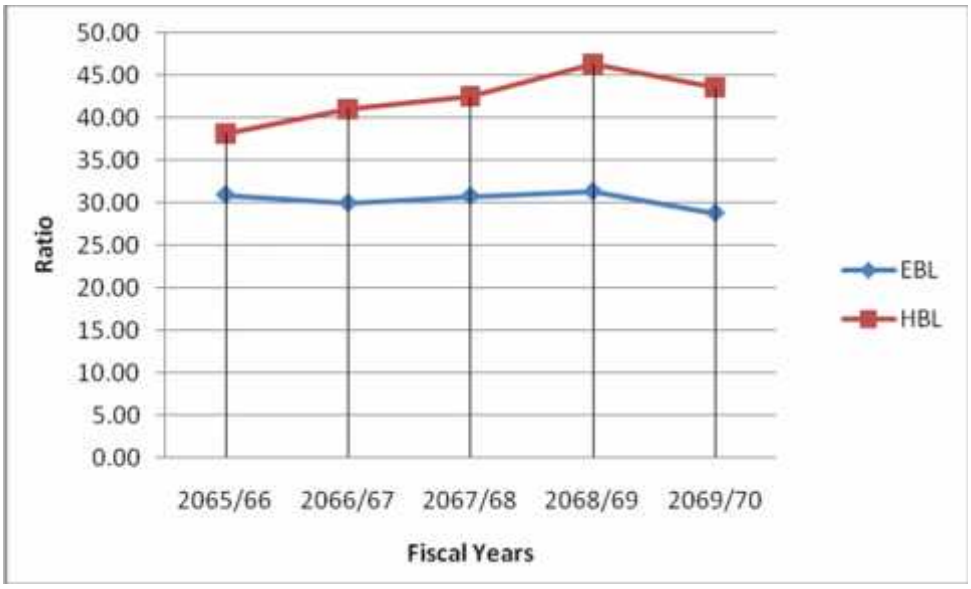


**Figure 4.18 Total Operating Expenses to Total Operating Revenue Ratio**

The above table scrutinize the soundness of the bank in managing operating expenses in terms of operating revenue. The table shows that both the operating expenses and operating income of HBL follow the increasing trend. The operating expenses of the bank range from Rs 759.30 million to Rs. 1535.09 million in FY 2065/66 to 2069/70 and the operating revenues for the same period range from Rs. 1988.05 million to Rs. 3523.96 million. However, the ratio of operating expenses to operating income of HBL increases except in 2069/70, which indicate that HBL has tough situation to control the operating expenses in relation to the operating income. In average, the ratio is 42.33% and the coefficient of variation in the ratio is 7.11%, which indicated uniformity in the ratio.

Alike in HBL, the operating expense in EBL is also in increasing trend followed by rising operating revenues and slightly fluctuation in the ratio. The operating expenses ranging from Rs. 478.93 million to Rs. 971.30 million with operating revenues ranging from Rs. 1,544.97 million to Rs. 3,372.85 million brings average total operating expenses to total operating revenue ratio of 30.41% with coefficient of variation 3.39%, which indicated uniformity in the ratio.

Comparing two banks, it can be concluded that EBL stands in better position than HBL in all fiscal years by reducing operating expenses in comparison to operating revenues. This is clearly shown in above figure.

#### 4.1.5.3 Non-Interest Bearing Deposit to Total Deposits Ratio

The ratio of non-interest bearing deposit to total deposit measures the interest free funds available with the bank. The higher ratio shows the better liquidity position and the lower ratio shows the inefficient liquidity position of the bank.

**Table 4.20 Non-Interest Bearing Deposit to Total Deposits Ratio**

**(Rs. in million)**

| FY | HBL | | | EBL | | |
|---|---|---|---|---|---|---|
| | NIBD | TD | Ratio (%) | NIBD | TD | Ratio (%) |
| 2065/66 | 3,884.36 | 34,681.35 | 11.20 | 5,196.63 | 33,322.90 | 15.59 |
| 2066/67 | 4,692.50 | 37,611.03 | 12.48 | 4,719.19 | 36,932.30 | 12.78 |
| 2067/68 | 4,913.61 | 40,920.63 | 12.01 | 5,476.82 | 41,127.90 | 13.32 |
| 2068/69 | 5,555.53 | 47,730.99 | 11.64 | 6,777.17 | 50,006.10 | 13.55 |
| 2069/70 | 6,765.00 | 53072.32 | 12.75 | 8,794.86 | 57,720.50 | 15.24 |
| **Mean** | | | **12.01** | | | **14.10** |
| **S.D.** | | | **0.62** | | | **1.24** |
| **C.V.%** | | | **5.19** | | | **8.82** |

*Source: Appendix –I*

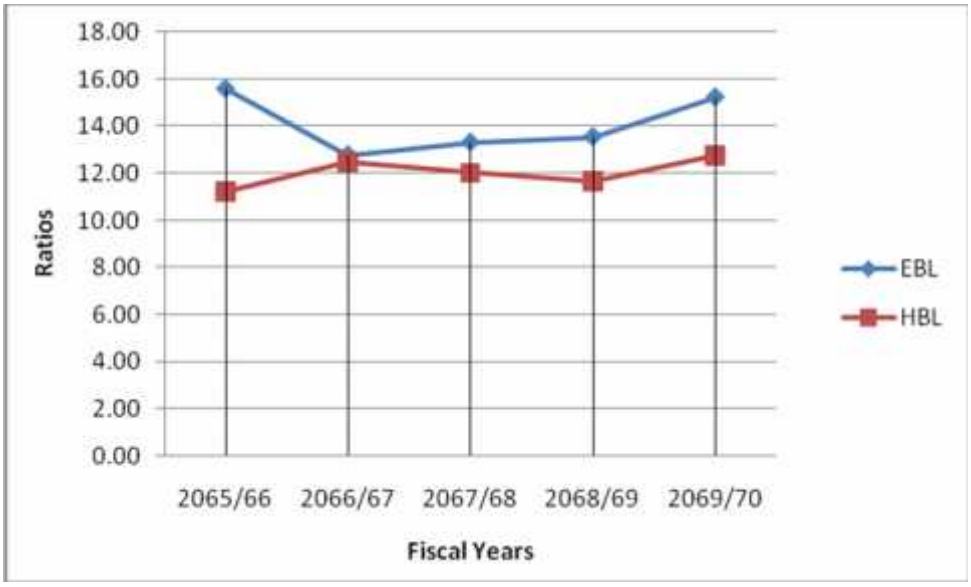


**Figure 4.19 Non-Interest Bearing Deposit to Total Deposits Ratio**

The table and figure depict the portion of non-interest bearing deposits in total deposits. The non-interest bearing deposits to total deposits ratio of HBL are 11.20%, 12.48%, 12.01%, 11.64% and 12.75% in FY 2065/66 to 2069/70. In average, out of total deposits, 12.01% deposits bear no interest and the coefficient variation in these ratios is 5.19%.

On contrast to this, the non-interest bearing deposits of EBL incline in the same way as total deposits except in FY 2066/67. This results the ratio 15.59% in FY 2065/66, then decline to 12.78% in FY 2066/67 and incline thereafter to 13.32%, 13.55% and 15.24% in FY 2067/68 to 2069/70 respectively. In average, EBL gets 14.10% of its total deposits which don't need to bear interest expenses and coefficient of variation on the ratio is 8.82%, is more consistent than HBL.

As shown in the above figure, in context of non-interest bearing deposits to total deposits ratio, EBL is better than HBL in all fiscal years.

#### 4.1.5.4 Sectorial Income to Total Income Ratio

This ratio is calculated by dividing total income by total sector wise income. Higher income ratio of one sector income reflects its dependency on that particular sector. And it reflects high risk in income generation also, if that income sector badly affected by any cause; resulting largely affected in bank total income and profit. Lower dependency of in income generation from one sector reflects low risk in income concentration.

**Table 4.21 Sectorial Income to Total Income Ratio**

**(Rs. in million)**

| | Particulars | Values & Ratio | | | | | Mean | S.D | C.V % |
|---|---|---|---|---|---|---|---|---|---|
| | | 2065/66 | 2066/67 | 2067/68 | 2068/69 | 2069/70 | | | |
| HBL | Interest Income | 2342.2 | 3148.61 | 4326.14 | 4724.89 | 4627.34 | | | |
| | Foreign Exchange Gain | 249.98 | 180.28 | 195.53 | 309.9 | 300.47 | | | |
| | Comm, Discount and Other Income | 334.46 | 394.99 | 495.74 | 700.88 | 721.23 | | | |
| | **Total Income (TI)** | 2926.64 | 3723.87 | 5017.41 | 5735.66 | 5649.04 | | | |
| | Interest Income to TI | **80.03** | **84.55** | **86.22** | **82.38** | **81.91** | **83.02** | **2.15** | **2.59** |
| | FOREX to TI | **8.54** | **4.84** | **3.90** | **5.40** | **5.32** | **5.60** | **1.57** | **27.95** |
| | Comm, Dis & other Income to TI | **11.43** | **10.61** | **9.88** | **12.22** | **12.77** | **11.38** | **2.24** | **21.54** |
| EBL | Interest Income | 2,186.81 | 3,102.45 | 4,331.03 | 4,960.00 | 4,936.92 | | | |
| | Foreign Exchange Gain (FREX) | 62.53 | 47.88 | 46.26 | 109.68 | 98.91 | | | |
| | Comm, Discount & Other Income | 308.50 | 350.43 | 351.53 | 413.39 | 516.21 | | | |
| | **Total Income (TI)** | **2,557.84** | **3,500.77** | **4,728.82** | **5,483.07** | **5,552.04** | | | |
| | Interest Income to TI | 85.49 | 88.62 | 91.59 | 90.46 | 88.92 | **89.02** | **2.31** | **2.59** |
| | FOREX to TI | 2.44 | 1.37 | 0.98 | 2.00 | 1.78 | **1.71** | **0.57** | **33.01** |
| | Comm, Dis & other Income to TI | 12.06 | 10.01 | 7.43 | 7.54 | 9.30 | **9.27** | **1.92** | **20.69** |

*Source: Appendix –I*

The table shows the ratio of sectorial income on total income. The portion of interest income, foreign exchange gain income and commission, discount & other income in total income is presented. As shown in the table, the major portion of income is from interest income, then commission, discount & other income and lower portion through foreign exchange (FOREX) of both the bank.

#### 4.1.5.5 Weighted Average Cost of Fund

Cost of fund reflects the banks how much spend for collecting deposit of Rs. 100 from market/depositors. It is calculated by dividing weighted average interest expenses by weighted average deposit. Low cost of fund reflects the banks efficiency as well as reputation and believes of customer upon bank.

**Table 4.22 Cost of Fund (in %)**

| FY | HBL | EBL |
|---|---|---|
| 2065/66 | 3.19 | 3.52 |
| 2066/67 | 4.80 | 4.75 |
| 2067/68 | 7.15 | 6.91 |
| 2068/69 | 6.94 | 6.66 |
| 2069/70 | 3.80 | 4.53 |
| **Mean** | **4.89** | **5.27** |
| **S.D.** | **1.16** | **1.46** |
| **C.V.%** | **23.78** | **27.64** |

*Source: Appendix –I*

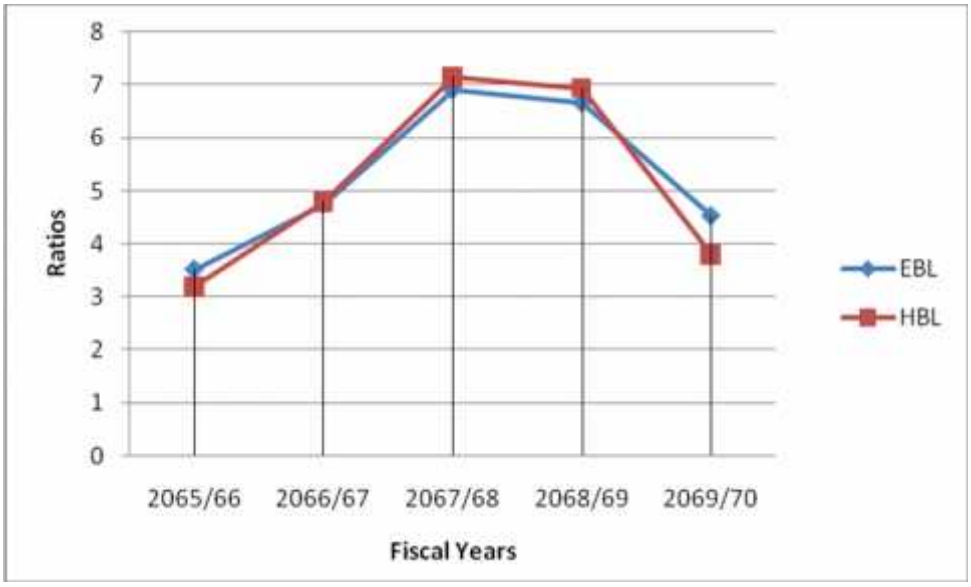


**Figure 4.20 Cost of Fund**

The above table scrutinizes the bank cost for collecting every 100 rupees from markets. As shown in above figure, Himalayan bank's cost of fund continuously increased till FY 2067/68 and decreased subsequently. The costs of fund are 3.19%, 4.80%, 7.15%, 6.94% and 3.80% in FY 2065/66 to 2069/70 respectively. In average, the cost of fund is 5.18 % and the coefficient of variation in the ratio is 34.81%, which indicates the inconsistency in the ratio.

Alike in HBL, the cost of fund of EBL is also in increasing trend till FY 2067/68 and decreases subsequently. The costs of fund are 3.52%, 4.75%, 6.91%, 6.66% and 4.53% in FY 2065/66 to 2069/70 respectively. In average, the cost of fund is 5.27% and the coefficient of variation in the ratio is 27.64%, which indicates less uniformity in the ratio.

With these, we can conclude that due to liquidity crisis, the cost of fund had gone to rise in FY 2067/68 and later on with ease of fund in the market, the cost gradually reduced in last fiscal years. Comparing two banks, it can be concluded that HBLl is more successful than EBL in collecting deposit from market with low cost of fund. This is due to HBL being older and well known bank than other banks.

#### 4.1.6.5 Weighted Average Interest Rate Spread

Weighted average Interest rate spread reflects the banks how much gap kept/made between lending rate and deposit rate. It is calculated by subtracting weighted average lending rate (Loan & advance) with weighted average deposit rate (in customer deposit). High gap or spread rate obviously help to bank generate maximum profit. It reflects the banks efficiency of managing it, through its goodwill.

**Table 4.23 Weighted Average Interest Rate Spread (in %)**

| FY | HBL | EBL |
|---|---|---|
| 2065/66 | 3.66 | 4.40 |
| 2066/67 | 4.21 | 4.78 |
| 2067/68 | 3.96 | 4.60 |
| 2068/69 | 4.25 | 5.32 |
| 2069/70 | 4.25 | 5.68 |
| **Mean** | **4.07** | **4.96** |
| **S.D.** | **0.26** | **0.53** |
| **C.V.%** | **6.32** | **10.69** |

*Source: Appendix –I*

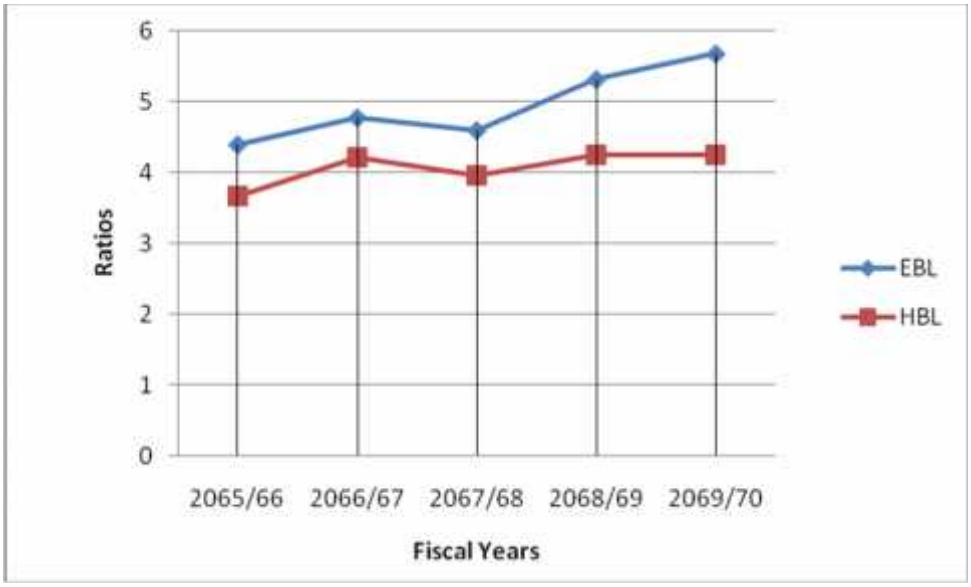


**Figure 4.21 Interest Rate Spread**

The above table and figure show the capacity of the sampled banks in generating profit through proper making margin between lending rate and deposit rate. The table shows that the weighted average interest rate spread of HBL is in increasing trend except fiscal year 2067/68 which is slightly dropped by 0.25%. In average, the weighted average interest rate spread of HBL within the five years period is 4.07%, which indicate that HBL charge 4.07% higher interest rate in lending (loan & advance) than borrowing (deposits) in average. Also, the coefficient of variation of 6.32% indicates uniformity in the ratio.

Alike, the weighted average interest rate spread of EBL is also in increasing trend except in FY 2067/68. In average, the weighted average interest rate spread of EBL within the five years period is 4.96%, which indicates that EBL made gap of 4.96% between lending (loan & advance) and borrowing (deposits). Also, the coefficient of variation of 10.69% indicates uniformity in the ratio.

Comparing two banks on the basis of weighted average interest rate spread, it can be concluded that EBL had succeed to made higher weighted average interest rate spread than HBL which results to high profit earnings.

### 4.1.7 Lending Capacity of Bank as per NRB Criteria

#### 4.1.7.1 Credit to Deposit and Core Capital Ratio

To protecting depositors, NRB sat ceiling in lending capacity of bank with making positive relation to tier one capital. Such ceiling can't be exceed by 80% by financial institution which is ratio of total local currency loans to local currency deposits plus tier one capital. High gap with ceiling rate shows capacity of additional investment of banks to fulfilling existing customer demand and new project.

**Table 4.24 Credit to Deposit and Core Capital Ratio**

**(Rs. in million)**

| FY | HBL | | | | EBL | | | |
|---|---|---|---|---|---|---|---|---|
| | LCY Loans | LCY Deposits | Tier 1 Capital | Ratio (%) | LCY Loans | LCY Deposits | Tier 1 Capital | Ratio (%) |
| 2065/66 | 25,363.37 | 29,823.55 | 3,074.44 | 77.10 | 24,466.10 | 32,659.41 | 1,981.58 | 70.63 |
| 2066/67 | 28,976.57 | 33,314.57 | 3,414.64 | 78.89 | 28,148.17 | 36,094.66 | 2,537.09 | 72.86 |
| 2067/68 | 31,302.46 | 37,018.77 | 3,916.97 | 76.47 | 31,486.68 | 40,469.54 | 2,927.17 | 72.56 |
| 2068/69 | 33474.29 | 44,276.18 | 4,600.15 | 68.49 | 36,107.57 | 47,671.25 | 3,990.93 | 69.89 |
| 2069/70 | 38,988.10 | 48533.28 | 4972.17 | 72.87 | 42,869.28 | 54,233.55 | 4,639.76 | 72.82 |
| **Mean** | | | | **74.76** | | | | **71.75** |
| **S.D.** | | | | **4.13** | | | | **1.39** |
| **C.V.%** | | | | **5.53** | | | | **1.94** |

*Source: Appendix –I*

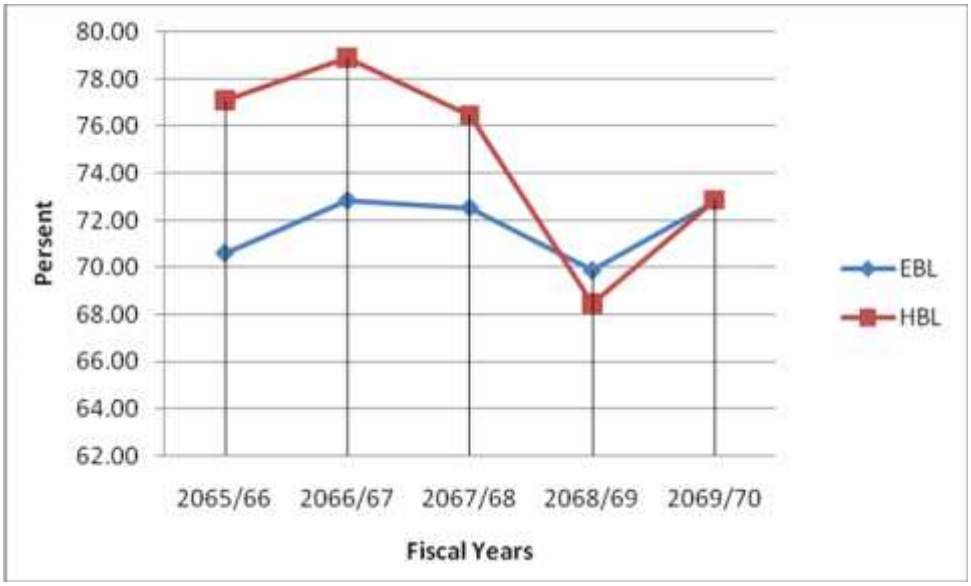


**Figure 4.22 Credit to Deposit and Core Capital Ratio**

As per above data of Nabil and EBL, it's additional or remaining capacity of lending to existing customer and new project in end of FY 2069/70 are as follows:

**Table 4.25 Lending Capacity of Bank as per NRB Criteria**

**(Rs. in million)**

| Particulars | HBL | EBL |
|---|---|---|
| Total Loan & Advance in FY 2069/70 | 41057.40 | 44197.76 |
| NRB Ceiling, 80% of LCY Loans to LCY Deposits plus Tier 1 Capital | | |
| Existing/Actual Ratio as per Table 4.23 | 72.87% | 72.82% |
| Remaining Capacity in % | **7.13%** | **7.18%** |
| Remaining Capacity in Million | **2927.40** | **3173.40** |

*Source: Appendix –I*

Table 4.23 and Figure 4.22 show that HBL's ratio of local currency loans to local currency deposit plus tier one capital is less than 80% in all fiscal years. The bank is able to meet the NRB guideline on lending capacity of bank in fiscal years. As per Table 4.24, HBL's such ratio is 72.87% in FY 2069/70, which reflect, if HBL's tier one capital & local currency deposits remain unchanged then it can grow its total loan and advance by 7.13% in that year. This means, other things remaining the same, HBL can fulfill its existing customer additional credit demand by 7.13% or Rs. 2927.40 million. Further, HBL can only provide fresh credit facility to new customer by Rs. 2927.40 million, if the local currency deposits and tier one capital remained unchanged at the same time the additional credit is not provided to existing customer.

In contrast to HBL, EBL's ratio of local currency loans to local currency deposits plus tier one capital are below 80% in all fiscal years making average ratio of 71.75%. This indicates that EBL can't deploy fund effectively. During the five years, such ratio is highest in FY 2066/67 i.e. 72.86% and lowest in FY 2068/69 i.e. 69.89%. Based on these, if we look at this ratio in FY 2069/70, EBL can increase the credit to existing customer or sanction fresh credit to new customer by 7.18% or by Rs. 3173.40 million.

### 4.2 Correlation of ROE and ROA with Other Financial Ratios

The relationships of ratios depicted in the study are connected with ROE and ROA using correlation, which helps to measure the effects of other ratios in ROE and ROA. The effect of any of the above mentioned ratios on ROE and ROA are elucidated in terms of perfect positive, perfect negative, zero, high degree of positive or negative, low degree of positive or negative correlation, which is presented in below table:

**Table 4.26 Karl Person's Correlation Coefficients**

**Between ROA and Other Financial Ratios**

| S. N. | Ratios | ROA | | Impact | |
|---|---|---|---|---|---|
| | | HBL | EBL | In HBL | In EBL |
| 1 | Capital Adequacy Ratio | 0.00 | 0.13 | Absent | Low Positive |
| 2 | Total Risk Weighted Exposure to Total Assets Ratio | -0.28 | 0.90 | Low Negative | High Positive |
| 3 | Non-Performing Loan to Total Loan Ratio | -0.23 | 0.06 | Low Negative | Low Positive |
| 4 | Loan Loss Provision to Total Loan Ratio | -0.30 | -0.86 | Low Negative | High Negative |
| 5 | Return on Total Deposits Ratio | 1.00 | 1.00 | Perfect Positive | Perfect Positive |
| 6 | Earnings Per Share | 0.77 | -0.37 | HIgh Positive | Low Negative |
| 7 | Cash at Vault to Total Deposit Ratio | -0.12 | 0.07 | Low Negative | Low Positive |
| 8 | Liquid Fund to Total Deposit Ratio | 0.05 | 0.67 | Low Negative | High Positive |
| 9 | Credit to Deposit Ratio | -0.14 | 0.71 | Low Negative | High Positive |
| 10 | Total Operating Expenses to Total Operating Revenue Ratio | -0.04 | -0.79 | Low Negative | High Negative |
| 11 | Interest Rate Spread Ratio | -0.64 | 0.78 | High Negative | High Positive |

*Source: Appendix –II*

The above table shows the relationship of ROA with various other financial ratios. In case of HBL, ROA and return on total deposits ratio is perfectly positive correlated. ROA has high negative correlation with Interest Rate Spread ratio (-0.64)), low positive correlation with Liquid Fund to Total Deposit Ratio(0.05).High positive correlation with Earning Per Share (0.77), Beside these, all other ratios taken into consideration are Low Negative correlated with ROA.

Similarly in case of EBL, ROA and return on total deposits ratio is perfectly positive correlated. Further, ROA has high negative correlation with loan loss provision to total loan ratio (-0.86) and total operating expenses to total operating revenue ratio (-0.79), low negative correlation with earnings per share (-0.37). There is low positive correlation of ROA with capital adequacy ratio (0.13) and non-performing loan to total loan ratio (0.06) whereas is high positive correlation with liquid fund to total deposit ratio (0.67) , total risk weighted exposure to total assets ratio (0.90), cash at vault to total deposit ratio (0.99), credit to deposit ratio (0.71) and interest rate spread ratio (0.78).

**Table 4.27 Karl Person's Correlation Coefficients**

**Between ROE and Other Financial Ratios**

| S. N. | Ratios | ROE | | Impact | |
|---|---|---|---|---|---|
| | | HBL | EBL | In HBL | In EBL |
| 1 | Capital Adequacy Ratio | -0.08 | -0.06 | Low Negative | Low Negative |
| 2 | Total Risk Weighted Exposure to Total Assets Ratio | -0.41 | 0.40 | Low Negative | Low Positive |
| 3 | Non-Performing Loan to Total Loan Ratio | -0.27 | -0.61 | Low Negative | High Negative |
| 4 | Loan Loss Provision to Total Loan Ratio | -0.32 | -0.32 | Low Negative | Low Negative |
| 5 | Return on Total Deposits Ratio | 0.97 | 0.68 | High Positive | High Positive |
| 6 | Earnings Per Share | 0.89 | -0.01 | High Positive | Low Negative |
| 7 | Cash at Vault to Total Deposit Ratio | -0.10 | -0.81 | Low Negative | High Negative |
| 8 | Liquid Fund to Total Deposit Ratio | 0.09 | -0.31 | Low Positive | Low Negative |
| 9 | Credit to Deposit Ratio | -0.26 | 0.94 | Low Negative | High Positive |
| 10 | Total Operating Expenses to Total Operating Revenue Ratio | -0.22 | -0.81 | Low Negative | High Negative |
| 11 | Interest Rate Spread Ratio | -0.77 | 0.12 | High Negative | Low Positive |

*Source: Appendix –II*

The table 4.26 shows the relationship of ROE with various other financial ratios. In case of HBL, ROE has high negative correlation with interest rate spread ratio (-0.77) ,high positive correlation with Return on Total Deposit Ratio(0.97), Earning Per Share(0.89) and low positive correlation with Liquid Fund to Total Deposit Ratio (0.09) and interest rate spread (0.43), Beside these, all other ratios taken into consideration are Low Negative correlated with ROE.

In case of EBL, ROE has high negative correlation of ROE with non-performing loan to total loan ratio, liquid fund to total deposit ratio and total operating expenses to total operating revenue ratio. And ROE of EBL is highly affected by return on total deposit ratio, cash at vault to total deposit ratio and credit to deposit ratio as these have high positive correlation with ROE. Similarly, there is low negative correlation of ROE with capital adequacy ratio, loan loss provision to total loan ratio and earnings per share. ROE has low positive correlation with total risk weighted exposure to total assets ratio (0.40) and interest rate spread (0.12).

### 4.3 Major Findings of the Study

After analyzing secondary data with the aid of ratio analysis and statistical tools, the following major findings have been drawn:

i. Banks under study are well capitalized and they are complying with the directive of NRB on capital adequacy ratio. However, their capital base relative to the risk-weighted assets is not so strong. According to the international rating convention, total capital should be greater than 19.5% of the total risk weighted assets of commercial banks in order have a strong capital base. However, none of the banks under study have the capital fund greater than 19.5% of the total risk weighted assets.

ii. Comparing HBL with EBL on the ground of debt-equity ratio, it can be concluded that total assets of EBL is more risky than that of HBL, as EBL uses higher portion of debt capital to finance the total assets than EBL does. This ratio also affects the profit of the EBL because equity capital should be permanent, has no fixed charges on earnings, and must be legally subordinated to depositors and creditors.

iii. Risk weighted assets to total assets ratio and non-performing loan to total loan ratio are used to measure the quality of assets being held by the banks. The increasing trend of these ratios shows the deteriorating quality of bank assets. In case of HBL ,the risk weighted assets to total assets ratios are in increasing trend and the non-performing loan ratio are average. EBL has remarkably improved its NPL to TL ratio in FY 2069/70 than HBL. Both banks have been able to decline such ratio which reflects a better quality of their assets in recent year. Comparing HBL with EBL on the ground of such ratios, HBL is in better position than EBL.

iv. Similarly, the average loan loss provision to total loan of HBL is 3.41% and that of EBL is 2.04%. On the basis of these, the assets quality of EBL is less risky than that of HBL.

v. The average ROE of HBL is 19.96% and EBL is 25.36%. Likewise, the average ROA of HBL is 1.90% and that of EBL is 2.23%. Similarly, in average, EPS of HBL stands at Rs. 42.50 and EBL stands to Rs. 92.75, DPS of HBL is Rs. 32.13 and EBL is Rs. 54 and DPR of HBL is 76.75% and EBL is 58.25%.

vi. Both banks liquidity are complying with the NRB requirement in all fiscal years. In average, the CRR of HBL is 6.81% and EBL is 14.35%. Likewise, cash at vault to total deposit of HBL is 9.30% and EBL is 2.95%. Further average liquid fund to total deposits of HBL is 11.39 % and EBL is 18.83 %. In stance of cash management, EBL keep lower cash in vault than HBL, which help to generate higher profit.

vii. The credit to deposit ratio (CDR) is a major tool to examine the liquidity of a bank and measures the ratio of fund that a bank has utilized in credit out of the total deposit collected. Higher the CDR more the effectiveness of the bank to utilize the funds it collects. Although there is no standard for CDR in Nepal, a ratio of 75% can be accepted to be adequate. In an average, both banks have been able to utilize nearly 3/4$^{th}$ portion of the depositors fund in the form of credit. It seems both banks are efficient to utilize the funds collected as deposit, though HBLl is slightly more efficient than EBL by 1.57%

viii. The average operating expenses to operating income of HBL is 42.33% and that of EBL is 30.41%. Similarly the earning per employee of HBL is Rs. 4.07 million and EBL is Rs. 4.96 million. Hence, management of EBL is much sound than that of HBL, which also help to generate more profit than HBL.

ix. Contribution of fee based income in total income shows bank income generation portion from fee based income i.e. commission, discount and other incomes. It shows bank capability to generate income from other than interest income and FOREX gain. The average fee based income to total income ratio of HBL is 11.38% and EBL is 9.27%. It shows HBL's ability to earn higher fee based income in average than EBL. Similarly, the average non-interest bearing deposit is 12.01% and 14.10% of HBL and EBL respectively of its total deposit. The interest free deposits are good for higher profit generation.

x. Similarly, the average cost of fund of HBL is 5.18% and EBL is 5.27. It reflects EBL bears additional Rs. 0.09 annually for every deposit of Rs. 100 than HBL. It conclude, the fund used by EBL is costly than HBL.

xi. The weighted average interest rate spread measures how large the spread between interest revenues and interest costs that management has been able to achieve by close control over earning assets and the pursuit of the cheapest sources of funding. According to the international standard its minimum value for a healthy bank is considered about 4%. A small change in the interest margin has a huge impact on profitability. Higher spread is associated with profitable banks by maintaining good asset quality. In comparison, EBL is more successful to maintain higher average interest spread than HBL. It seems the profitability of the EBL is satisfactory as well greater than HBL.

xii. Both banks' lending capacity has very low as per people believe and expectation as a top commercial bank of nation. If Nepalese political and economic environment changes in favors of investor/entrepreneurs and they demand additional loan and advance from bank for increasing its capacity of existing business as well as investing in new project, HBL can't provide loan and advance more than additional 7.13% or Rs. 2927.40 million of it's total

current loan & advance for existing customer and new project. Similarly, EBL also can't provide loan and advance more than additional 7.18% or Rs. 3173.40 million of total current loan and advance to its existing customer and new project. It reflects remaining lending capacity of both bank is very low than expectation of people and in case the new project requiring huge amount of loan and advance come to an existence in nation i.e. hydropower both banks can't fulfill the demand for credit solely.

xiii. In case of both banks, ROA has high positive correlation with total risk weighted exposure to total assets ratio, Liquid fund to total deposit ratio,Credit to deposit ratio and interest rate spread ratio, it indicates that change in these ratios have significant impact on ROA. Further, the total operating expenses to total operating revenue ratio of both banks has inverse impact on ROA. ROA of both banks are perfectly positive correlated with return on total deposits ratio.

xiv. If we look at the ROE of selected banks, the changes in return on total deposits ratio and Earning per share have significant impact over ROE. On the other side, the Non- performing loan to total loan ratio and interest rate spread ratio, having high negative correlation with ROE, indicate inverse impact of the ratio over ROE.

xv. In line with NRB guidelines, EBL has to increase its paid up capital to Rs. 200 billion by the Ashadh end, 2071 from Rs. 176.12 billion now. Hence, the bank must be able to distribute at least 14% bonus share from the earnings of FY 2070/71. If we scrutinize over the growth of sampled banks, we can presume that both HBL and EBL are able to grow as leading commercial banks even without merger. Though these banks might get merger with other suitable BFIs, if there exist the synergistic effect of merger.

xvi. Considering these all, performance of EBL is quite better than that of HBL. However, we can't say the performance of HBL as bad.

# CHAPTER V
# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Summary

A bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services. To the greater extent, economic growth rate is based on the banks and financial institutions' performance in an economy. Many researches have revealed that banks and economic condition are two wheels of the same chariot. Nowadays, banking activities are spreading all over the world. During the thesis work, there are thirty commercial banks operating in Nepal, licensed by NRB up to May,2014. This clearly states intense competition in the banking industry. Only those banks, providing better services and having a greater profit margin will survive in the long run.

The primary objective of this study is to analyse the financial performance of the sampled commercial banks in terms of ratio on the basis of liquidity, profitability, efficiency and leverage. This analysis also helps to provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of its shareholders based on the findings of the study.

The researcher has identified the research problem of the commercial banks then the objectives are determined on the basis of research problem. Related literatures are reviewed on the base of the purposive study. Then the relevant data are collected from secondary sources and excerpt as required. These data are analysed as per the objectives set in this study. The five years financial statements, covering from the fiscal year 2065/66 to 2069/70, have been examined for the purpose of the study. The analysis and interpretation of data has been done by applying the wide varieties of methodology as stated in earlier chapter.

The objective of the study also identified as to come up with conclusion of the ratio analysis of HBL and EBL with regard to key financial variables based on the findings of analysis. This will provide possible suggestions that will be beneficial for selected banks. Ratio analysis is done to determine the bank's financial position in order to identify its current strengths and weaknesses and to suggest action that might enable the firm to take advantage of its strengths and correct its weaknesses. By using financial and statistical tools, the overall

ratio analysis of the financial statement of the bank has been tried to analyse. Various financial ratios, statistical tools viz. Mean, Standard Deviation and Coefficient of Variation along Correlation Coefficient have revealed the financial condition of the bank over the last five years.

### 5.2 Conclusion

Regard to the financial performance of the banks under study, we can conclude that both the sampled banks are well capitalized and are complying with the directive of NRB on capital adequacy ratio. However, the capital base relative to the risk-weighted assets of banks is not so strong according to the international rating convention. The increasing trend of non-performing loan to total loan ratio of HBL reflect the deteriorating quality of bank assets. In case of EBL, such ratio is in slow increasing trend though in average below than HBL. Comparing these banks on the ground of such ratio, EBL is in far better position than HBL in average. Moreover, it can be avoided that both the banks prefer inside funding, including reserves and capital, to long term debt while financing the assets. The burden of interest associated with the long term debt could be the main reason behind such preference. Between two banks, EBL is more aggressive than HBL in funding the assets through long term debt.

It can also be assumed that granting credit is the major utilization of the collected fund. In this context, both banks have mobilized more preponderance of collected deposit. Similarly, liquidity position of the HBL is better than that of EBL, since the cash at vault to total deposit ratio of HBL is higher than that of EBL. HBL, however, has maintained high liquid fund to total deposit ratio than that of EBL.

Also, it can be assumed that EBL is much efficient than HBL in controlling the operating expenses in relation to the operating income. Though the manpower in EBL is in increasing trend than that of HBL, per employee earning of EBL is higher than that of HBL, reflecting better management of human resources in EBL. Though the cost of fund of EBL is higher than HBL, the profitability of EBL is satisfactory as well greater than HBL as the weighted average interest rate spread of EBL is higher than HBL. Further, EBL is more efficient than HBL in generating profit, since all the ratio viz. return on equity, return on assets, return on total deposit, interest earned on total assets are higher in EBL. From the point of view of shareholders, the DPS of EBL Is better than HBL instead of higher EPS of EBL as the capital

base of EBL is smaller than HBL. Eventually, on the basis of the ratio analysis conducted, it can be concluded that the HBL, being the one of the oldest and leading private commercial bank.

Further it can be assumed that, ROE is positively correlated with return on total deposits ratio and earnings per share, it indicates that an increase in such ratios will lead to an increase in ROE. Similarly, ROA is positively correlated with capital adequacy ratio, liquid fund ratio and return on total deposits it indicates that an increase in these ratios will lead to an increase in ROA.

As per the ratio of local currency loans to local currency deposit plus tier one capital, both banks' remaining lending capacity is very low as per expectation with top commercial banks of nation. And in case any new entrepreneurs request for borrow the huge amount of loan and advance to finance new project i.e. hydropower in such case single bank can't invest due to NRB ceiling without increasing its local currency deposits and tier one capital.

### 5.3 Recommendations

The following recommendations have been provided for the financial enhancement of the banks:

i. Both the banks are well capitalized and are complying with the directive of NRB on capital adequacy ratio. Though, their capital base relative to the risk-weighted assets is not as strong as per international rating convention. So that bank should give priority for increasing the core capital, as having strong capital could confront the banking risks, such as credit risk, operating risk and market risk.
ii. Both the banks should increase the amount of the long term debt, as the long term debt to total capital of both the banks is quite low.
iii. Both the banks should focus on optimally utilizing the total deposit and total assets to generate return. It would be better if HBL and EBL recognize the unnecessary interest expenses on the total deposit and try to minimize such expenses to increase profit.
iv. The banks should have efficient credit management team. Both the banks should pay concern to prevent the credit default, and should scrutinize the credit proposal meticulously to barricade the chance of the credit default.
v. The capacity of flowing highest amount of loan is not shrewd if the bank remains unable to collect the principal in the same speed that the loan has been disbursed. So,

it is recommended that the observed banks introduce the efficient loan collection policy to decrease the amount of outstanding loan.

vi. EBL bank needs to pay close concern to the minimum cash reserve ratio specified by the NRB. Since, having poor liquidity loses the credibility of the bank to the depositors, investors and other related parties. And in case of HBL, it should try to decrease vault cash limit as it impact on profitability.

vii. NRB makes guidelines regarding interest rate spread. The average interest rate spread i.e. interest income over interest cost of both the bank is over 4% and below the NRB guideline i.e. 5%. However, the interest rate spread in FY 2069/70 is above 5%, with implementation of NRB, the profitability of both bank will be slightly affected.

viii. Similarly, the average cost of fund of HBL is lower than EBL. So that EBL must give emphasis to increase its non-interest bearing deposit with comparing to interest bearing deposit and try to reduce fixed deposits portion in total deposit. Similarly, EBL should be pay more attention to increase saving accounts and try to reduce unnecessary expenses to increase profit.

ix. Both banks success in managing human resource properly, though productivity of HBL staffs is quite lower than EBL. Hence, HBL should give more attention while recruiting new staffs and provide trainings to enhance efficiency of staffs.

x. Both banks remaining lending capacity is observed very low as per people believe and expectation as top commercial banks of nation. For increasing its lending capacity with considering NRB ceiling, both bank should increases its tier one capital as well as local currency deposits. For this bank's management should be try to reduce cash dividend portion and try to increase stock dividend portion in distribution of profit/earning to its shareholders.

xi. In contrast to this, it is recommended that both banks should keep the doors open to suitable partner for merger to compete and reach the peak in the banking sector. In a nutshell, both banks should be interested in acquisition of apt BFIs.

xii. Last but not the least, the present study is concentrated on two leading commercial banks about their financial performance. But the researcher is unable to conduct study on other aspects viz. human resource management, assessment of their share in terms of deposits, loans, customer base etc. in overall banking industry and qualitative phenomenon like goodwill, customer satisfaction. Therefore, it is strongly recommended to other researchers to carry out further research on such remaining aspects.

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www.everestbankltd.com

www.nabilbank.com

www.nrb.org.np

# APPENDIX I

A) Calculation of Mean, S.D. and C.V. of Capital Adequacy Ratio of HBL and EBL

| FY | X | Y | $x = X - \bar{X}$ | $y = Y - \bar{Y}$ | $x^2$ | $y^2$ | xy |
|---|---|---|---|---|---|---|---|
| | HBL | EBL | | | | | |
| 2065/66 | 11.02 | 11.34 | 0.0220 | 0.3100 | 0.0005 | 0.0961 | 0.0068 |
| 2066/67 | 10.72 | 10.77 | -0.2780 | -0.2600 | 0.0773 | 0.0676 | 0.0723 |
| 2067/68 | 10.68 | 10.43 | -0.3180 | -0.6000 | 0.1011 | 0.3600 | 0.1908 |
| 2068/69 | 11.02 | 11.02 | 0.0220 | -0.0100 | 0.0005 | 0.0001 | -0.0002 |
| 2069/70 | 11.55 | 11.59 | 0.5520 | 0.5600 | 0.3047 | 0.3136 | 0.3998 |
| Total | 54.99 | 55.15 | | | 0.4841 | 0.8374 | 0.6193 |

i) Calculation of Mean ($\bar{X}$):

For HBL

Mean ($\bar{X}$) = $\frac{\Sigma X}{n}$ = 54.99/5= 10.998=11

For EBL

Mean ($\bar{Y}$) = $\frac{\Sigma Y}{n} = \frac{55.15}{5}$ = 11.03

ii) Calculation of Standard Deviation ($\sigma$):

For HBL

$\sigma_x = \sqrt{\frac{\Sigma(X-X)^2}{n}} = \sqrt{0.4841/5}$ =0.35

For EBL

$\sigma_y = \sqrt{\frac{\Sigma(Y-Y)^2}{n}} = \sqrt{\frac{0.8374}{5}}$ = 0.46

iii) Calculation of Coefficient of Variation(C.V.):

For HBL

C.V. x = $\frac{\sigma}{X} \times 100 = 0.35/11.00$ = 3.16

For EBL

C.V. y = $\frac{\sigma}{Y} \times 100 = \frac{0.46}{11.03} \times 100$ = 4.15

Note: i) The same process has been adopted to calculate the mean, standard deviation and coefficient of variation of other variables.

ii) The data used here are extracted from the annual reports of HBL and EBL.

## APPENDIX II

| | X | Y | | | |
|---|---|---|---|---|---|
| **Year** | **ROE** | **CAR** | **XY** | **$x^2$** | **$y^2$** |
| 2065/66 | 24.13 | 11.02 | 265.91 | 582.26 | 121.44 |
| 2066/67 | 14.79 | 10.72 | 158.55 | 218.74 | 114.92 |
| 2067/68 | 22.36 | 10.68 | 238.80 | 499.97 | 114.06 |
| 2068/69 | 20.7 | 11.02 | 228.11 | 428.49 | 121.44 |
| 2069/70 | 17.81 | 11.55 | 205.71 | 317.20 | 133.40 |
| **Total** | **99.79** | **2046.66** | **1097.09** | **2046.66** | **605.26** |

A) Calculation of Correlation Coefficient between ROE and CAR

HBL

EBL

| | X | Y | | | |
|---|---|---|---|---|---|
| **Year** | **ROE** | **CAR** | **XY** | **$x^2$** | **$y^2$** |
| 2065/66 | 24.36 | 11.34 | 276.24 | 593.41 | 128.60 |
| 2066/67 | 26.25 | 10.77 | 282.71 | 689.06 | 115.99 |
| 2067/68 | 26.2 | 10.43 | 273.27 | 686.44 | 108.78 |
| 2068/69 | 23.11 | 11.02 | 254.67 | 534.07 | 121.44 |
| 2069/70 | 26.9 | 11.59 | 311.77 | 723.61 | 134.33 |
| **Total** | **126.82** | **3226.59** | **1398.66** | **3226.59** | **609.14** |

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

i) Calculation of Correlation Coefficient ($r_{xy}$) i) Calculation of Correlation Coefficient ($r_{xy}$)

$r_{12}$ = - 0.08

$r_{12}$ = -0.06

Note: i) The same process has been adopted to calculate the Correlation Coefficient of ROA and ROE with other ratios.

ii) The data used here are extracted from the Appendix I.

# APPENDIX III



## Principal Indicators

**Schedule 31**

**(As at 15 July 2013)**

| S.N. | PARTICULARS | INDIC-ATORS | FINANCIAL YEAR 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|---|---|---|---|---|
| 1 | Net Profit/Gross Income | % | 29.68 | 30.56 | 24.11 | 22.29 | 23.74 | 32.66 |
| 2 | Earnings Per Share | Rs. | 115.86 | 113.44 | 83.81 | 70.67 | 83.23 | 95.14 |
| 3 | Market Value per Share | Rs. | 5,275 | 4,899 | 2,384 | 1,252 | 1,355 | 1,815 |
| 4 | Price Earning Ratio | Times | 45.53 | 43.19 | 28.45 | 17.72 | 16.21 | 19.08 |
| 5 | Dividend (including bonus) on share capital | % | 100.00 | 85.00 | 70.00 | 30.00 | 60.00 | 65.00 |
| 6 | Cash Dividend on Share Capital | % | 60.00 | 35.00 | 30.00 | 30.00 | 40.00 | 40.00 |
| 7 | Interest Income/Loans & Advances | % | 8.04 | 8.82 | 10.41 | 12.50 | 12.85 | 11.64 |
| 8 | Employee Expense/Total Operating Expense | % | 21.17 | 23.96 | 13.79 | 11.91 | 12.26 | 19.59 |
| 9 | Interest Expense on Total Deposit and Borrowings | % | 2.64 | 3.22 | 4.43 | 6.15 | 5.74 | 3.67 |
| 10 | Exchange Gain/Total Income | % | 7.81 | 7.47 | 6.17 | 4.60 | 6.26 | 7.20 |
| 11 | Staff Bonus/ Total Employee Expenses | % | 41.42 | 43.50 | 44.29 | 42.05 | 48.26 | 48.90 |
| 12 | Net Profit/Loans & Advances | % | 3.96 | 4.02 | 3.47 | 3.73 | 4.14 | 5.04 |
| 13 | Net Profit/ Total Assets | % | 2.32 | 2.55 | 2.37 | 2.43 | 2.80 | 3.25 |
| 14 | Total Credit/Deposit | % | 68.18 | 73.87 | 71.17 | 78.29 | 77.91 | 74.90 |
| 15 | Total Operating Expenses/Total Assets | % | 3.86 | 4.34 | 5.54 | 6.91 | 6.73 | 4.84 |
| 16 | Adequacy of Capital Fund on Risk Weighted Assets | | | | | | | |
| | a. Core Capital | % | 8.75 | 8.74 | 8.77 | 8.83 | 9.30 | 9.98 |
| | b. Supplementary Capital | % | 2.35 | 1.96 | 1.73 | 1.75 | 1.71 | 1.61 |
| | c. Total Capital Fund | % | 11.10 | 10.70 | 10.50 | 10.58 | 11.01 | 11.59 |
| 17 | Liquidity (CRR) | % | 8.37 | 9.03 | 3.02 | 4.90 | 8.60 | 9.32 |
| 18 | Non Performing Loans/Total Loans | % | 0.74 | 0.80 | 1.48 | 1.77 | 2.33 | 2.13 |
| 19 | Weighted Average Interest Rate Spread | | 3.94 | 4.16 | 4.40 | 4.37 | 4.95 | 5.48 |
| 20 | Book Net Worth per Share | Rs. | 354 | 324 | 265 | 225 | 269 | 275 |
| 21 | Total Shares | Number | 6,892,160 | 9,657,470 | 14,491,240 | 20,297,694 | 20,297,694 | 24,368,414 |
| 22 | Total Permanent Employees | Number | 416 | 505 | 557 | 657 | 650 | 742 |
| 23 | Weighted Average Number of Ordinary Shares Outstanding | Number | 6,442,910 | 9,089,256 | 13,590,702 | 18,929,598 | 20,297,694 | 23,320,064 |
| 24 | Return on Equity | % | 29.35 | 33.93 | 30.27 | 29.02 | 30.25 | 32.78 |
| 25 | Return on Assets | % | 2.32 | 2.55 | 2.38 | 2.43 | 2.80 | 3.25 |
| 26 | Dividend Payout Ratio | % | 92.33 | 79.62 | 89.05 | 42.45 | 71.80 | 68.32 |
| 27 | Earnings Yield | % | 2.20 | 2.32 | 3.52 | 5.64 | 6.17 | 5.24 |
| 28 | Dividend Yield | % | 1.90 | 1.74 | 2.94 | 2.40 | 4.43 | 3.58 |
| 29 | Cost to Income Ratio | % | 51.14 | 52.11 | 56.31 | 63.50 | 57.16 | 48.60 |
| 30 | Total Assets to Shareholders' Fund | times | 15.24 | 14.01 | 13.59 | 12.73 | 10.09 | 9.56 |
| 31 | Shareholders' Fund to Liability including Contingent Liability | % | 5.74 | 5.98 | 6.21 | 6.61 | 7.71 | 8.33 |
| 32 | Number of Offices | Number | 28 | 38 | 49 | 49 | 52 | 51 |
| 33 | Number of ATMs | Number | 32 | 48 | 63 | 68 | 78 | 81 |

contd.

# 02

# OPERATİNG AND FİNANCİAL REVİEW

## ANALYSİS OF KEY İTEMS OF STATEMENT OF FİNANCİAL POSİTİON OF PAST 5 YEARS

The bank has recorded steady growth in its business size, operating avenues and income generation over the past five year period. The bank has significantly strengthened its delivery channels, IT infrastructure, operating policies and risk management practices. Tables presented in this section reflect on the bank's financial position during the past five years.

NRs.000

| AT MID JULY | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| **CAPITAL & LIABILITIES** | | | | | |
| 1. Share Capital | 3,046,052 | 2,435,723 | 2,029,769 | 2,028,774 | 1,448,621 |
| 2. Reserves & Surplus | 3,643,093 | 3,008,278 | 2,536,748 | 1,807,933 | 1,681,620 |
| 3. Debentures & Bonds | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| 4. Borrowings | - | 311,080 | 1,650,599 | 74,900 | 1,681,305 |
| 5. Deposits | 63,609,808 | 55,023,695 | 49,696,113 | 46,410,701 | 37,348,256 |
| 6. Bills Payable | 529,598 | 179,142 | 415,768 | 425,444 | 463,139 |
| 7. Proposed Dividend | 974,737 | 811,908 | 608,931 | 434,737 | 338,011 |
| 8. Income Tax Liabilities | 66,873 | 51,107 | 44,104 | 24,904 | 80,232 |
| 9. Other Liabilities | 1,071,100 | 1,072,481 | 859,406 | 644,291 | 526,214 |
| **Total** | **73,241,260** | **63,193,414** | **58,141,437** | **52,151,684** | **43,867,398** |
| **ASSETS** | | | | | |
| 1. Cash Balance | 1,140,212 | 1,050,659 | 744,592 | 635,987 | 674,395 |
| 2. Balance with Nepal Rastra Bank | 4,789,295 | 3,681,980 | 1,473,986 | 549,455 | 2,648,596 |
| 3. Balance with Banks/Financial Institutions | (46,939) | (456,817) | 217,971 | 214,657 | 49,521 |
| 4. Money at Call and Short Notice | 1,634,306 | 826,436 | 2,452,512 | 3,118,144 | 552,888 |
| 5. Investment | 16,332,043 | 14,048,966 | 13,081,206 | 13,703,024 | 10,826,379 |
| 6. Loans, Advances and Bills Purchased | 46,369,835 | 41,605,683 | 38,034,098 | 32,268,873 | 27,589,933 |
| 7. Fixed Assets | 872,322 | 887,543 | 935,089 | 779,540 | 660,989 |
| 8. Non Banking Assets | - | - | - | - | - |
| 9. Other Assets | 2,150,186 | 1,548,964 | 1,201,984 | 882,005 | 864,696 |
| **Total** | **73,241,260** | **63,193,414** | **58,141,437** | **52,151,684** | **43,867,398** |

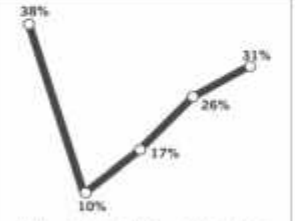
# 02
# ANALYSIS OF KEY ITEMS OF INCOME STATEMENT OF PAST 5 YEARS

| PERIOD ENDING MID JULY | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| 1. Interest Income | 5,702,123 | 6,126,855 | 5,254,030 | 4,047,726 | 2,798,486 |
| 2. Interest Expense | 2,186,185 | 3,155,490 | 2,955,431 | 1,960,108 | 1,153,280 |
| Net Interest Income | 3,515,938 | 2,971,364 | 2,298,600 | 2,087,618 | 1,645,206 |
| 3. Commission and Discount Income | 393,051 | 366,387 | 290,855 | 215,482 | 179,693 |
| 4. Other Operating Income | 209,905 | 201,085 | 180,570 | 169,548 | 144,164 |
| 5. Foreign Exchange Income | 489,051 | 447,070 | 276,103 | 291,441 | 251,920 |
| Total Operating Income | 4,607,945 | 3,985,907 | 3,046,128 | 2,764,088 | 2,220,983 |
| 6. Staff Expense | 646,760 | 500,713 | 454,042 | 366,940 | 339,898 |
| 7. Other Operating Expense | 468,781 | 430,909 | 401,425 | 334,186 | 265,158 |
| 8. Foreign Exchange Loss | - | - | - | - | - |
| Operating Profit before Loan Loss Provision | 3,492,404 | 3,054,285 | 2,190,661 | 2,062,962 | 1,615,927 |
| 9. Provision for Possible Losses | 27,451 | 413,949 | 109,470 | 355,829 | 45,722 |
| Operating Profit | 3,464,953 | 2,640,336 | 2,081,190 | 1,707,133 | 1,570,205 |
| 10. Non Operating Income /(Expense) | 13,469 | 13,840 | 6,981 | 6,455 | 2,190 |
| 11. Provision for Possible Losses Write Back | 24,728 | - | 7,101 | 39,792 | 10,618 |
| Profit from Regular Activities | 3,503,149 | 2,654,176 | 2,095,273 | 1,753,379 | 1,583,013 |
| 12. Income/(Expense) from Extra-ordinary Activities | (17,454) | (3,037) | 3,148 | 34,322 | 43,522 |
| Profit from All Activities | 3,485,695 | 2,651,139 | 2,098,421 | 1,787,701 | 1,626,534 |
| 13. Provision for Staff Bonus | 316,256 | 241,639 | 190,943 | 162,518 | 147,867 |
| 14. Provision for Income Tax | 950,678 | 720,109 | 569,733 | 486,083 | 447,615 |
| **Net Profit/(Loss)** | **2,218,762** | **1,689,392** | **1,337,745** | **1,139,099** | **1,031,053** |

## NET PROFIT

The bank's after tax net profit in the last five years has been very good both in terms of volume and growth rate. Annual growth rate during this period ranged from 10% to 31%. While compounded annual growth rate achieved during this period is 24.34%. From volume perspective, the profit in year 2007/08 was mere NRs.746.47 million which grew tremendously and reached to NRs.2,218.76 million in year 2012/13. NabilÕs performance in this period could be regarded as one of the best performances in the nepalese banking industry.

**ANNUAL GROWTH RATE IN NET PROFIT**




## NET INTEREST INCOME AND INTEREST RATES

Net interest income of the bank has increased from NRs.1.22 billion at 15 July 2008 to NRs.3.52 billion at 15 July 2013, recording a compounded annual growth rate of 23.57% through five years. This is almost a three-fold increment or an absolute growth of 188.13%.

As depicted in the adjacent graph, the bank has maintained fairly a good amount of net interest margin throughout the period of 5 years. Starting from the financial year 2008-09 through 20012-13, the share of

## Main Indicators

*Schedule 4.31*

| | Particulars | Indicator | Financial Years 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---|---|---|---|---|---|---|---|
| 1 | Net Profit/Total Income | % | 24.92 | 16.49 | 14.27 | 14.36 | 17.69 |
| 2 | Per Share Earning (after tax income) | Rs. | 99.99 | 100.16 | 83.18 | 88.55 | 91.88 |
| 3 | Market Price Per Share | Rs. | 2455 | 1630 | 1094 | 1033 | 1591 |
| 4 | Price/Earning Ratio | Times | 24.55 | 16.27 | 13.15 | 11.67 | 17.32 |
| 5 | Dividend on Share- Bonus Share | % | 30 | 30 | 10 | 30 | 10 |
| 6 | Cash Dividend | % | 30 | 30 | 50 | – | 50 |
| 7 | Interest Income/Loans & Advances | % | 7.57 | 9.95 | 12.22 | 12.30 | 10.49 |
| 8 | Employee Expenses/Total Operating Expenses | % | 12.53 | 10.52 | 9.13 | 9.53 | 14.66 |
| 9 | Interest Expenses/Total Deposits & Borrowing | % | 2.98 | 4.18 | 6.05 | 5.75 | 3.72 |
| 10 | Exchange Income/Total Income | % | 2.44 | – | 0.05 | – | 0.08 |
| 11 | Staff Bonus/Total Employee Expenses | % | 47.68 | 52.48 | 45.41 | 44.26 | 45.49 |
| 12 | Net Profit/Loans & Advances | % | 2.61 | 2.95 | 2.94 | 2.98 | 3.33 |
| 13 | Net Profit/Total Assets | % | 1.73 | 2.09 | 2.10 | 2.11 | 2.39 |
| 14 | Total Loans & Advances/Total Deposits | % | 73.43 | 76.24 | 76.98 | 73.22 | 76.57 |
| 15 | Total Operating Expenses/Total Assets | % | 4.04 | 5.20 | 6.95 | 6.62 | 4.79 |
| 16 | Capital Adequacy Ratio: | | | | | | |
| | a) Core Capital | % | 8.52 | 8.39 | 8.46 | 9.61 | 9.31 |
| | b) Supplementary Capital | % | 2.82 | 2.38 | 1.97 | 1.41 | 2.28 |
| | c) Total Capital Funds | % | 11.34 | 10.77 | 10.43 | 11.02 | 11.59 |
| 17 | Cash Reserve Ratio (CRR) | % | 14.26 | 15.53 | 9.55 | 17.22 | 15.19 |
| 18 | NPAs/Total Loans & Advances | % | 0.48 | 0.16 | 0.34 | 0.84 | 0.62 |
| 19 | Weighted Average Interest Rate Spread | % | 4.40 | 4.78 | 4.60 | 5.32 | 5.68 |
| 20 | Book Net Worth (Rs. in Lacs) | Rs. | 22054 | 27571 | 36407 | 40173 | 46678 |
| 21 | Total Shares | Number | 6388210 | 8304673 | 11196095 | 12316357 | 16011264 |
| 22 | Total Employee | Number | 534 | 568 | 586 | 625 | 643 |
| 23 | Others | | | | | | |
| | - Per Employee Business (Rs. in Lakh) | Rs. | 1082 | 1146 | 1242 | 1386 | 1585 |
| | - Employee Expenses/Total Income | % | 7.29 | 4.50 | 4.49 | 4.65 | 5.56 |

*Note: CRR Amount has been taken as Year end Balance*

एभरेस्ट बैंक लिमिटेड
EVEREST BANK LIMITED
(A Joint Venture with punjab national bank,India)
Consistent, Strong & Dependable

(Annexure I)

Progress made by the Bank during five years period is provided for reference:

TABLE 1 : Paid up Capital, Reserve & Surplus and Business:

(Rs. in Lacs)

| Particulars | 2065/066 (2008/09) | 2066/067 (2009/10) | 2067/068 (2010/11) | 2068/069 (2011/12) | 2069/070 (2012/13) |
|---|---|---|---|---|---|
| Paid Up Capital-Ordinary shares | 6388 | 8305 | 11196 | 12316 | 16011 |
| Statutory General Reserve | 4508 | 6172 | 8034 | 10216 | 16158 |
| Share Premium | 148 | 148 | 148 | 185 | 185 |
| Capital Adjustment Reserve | 2841 | 3671 | 3671 | 3671 | 3671 |
| Other Free Reserve | 252 | 533 | 542 | 541 | 558 |
| Capital Redemption Reserve | 1400 | 1400 | 1400 | 1400 | 1400 |
| Debenture Redemption Reserve | 1200 | 1800 | 2400 | 3000 | 469 |
| Deferred Tax | 337 | 345 | 629 | 738 | 994 |
| Proposed Bonus Share | 1916 | 2491 | 1120 | 3695 | 1601 |
| Retained Profit | 824 | 726 | 361 | 4375 | 5595 |
| Provision for possible losses | 6182 | 6100 | 6042 | 7059 | 8046 |
| Total Funds | 26216 | 31691 | 35543 | 47197 | 54688 |
| Total Deposit | 333229 | 369323 | 411279 | 500061 | 577205 |
| Total Advances | 244696 | 281564 | 316618 | 366168 | 441978 |
| Total Investment | 59485 | 50083 | 77439 | 78636 | 92654 |

TABLE 2 : Profitability

(Rs. in Lacs)

| Particulars | 2065/066 (2008/09) | 2066/067 (2009/10) | 2067/068 (2010/11) | 2068/069 (2011/12) | 2069/070 (2012/13) |
|---|---|---|---|---|---|
| Total Income | 25653 | 35355 | 47475 | 56586 | 55605 |
| Interest Expenses | (10129) | (15728) | (25359) | (28733) | (21792) |
| Staff Expenses | (1630) | (2077) | (2395) | (3156) | (3741) |
| Operating Expenses | (2920) | (3525) | (3831) | (4673) | (5095) |
| Operating Profit | 10974 | 14025 | 16160 | 20023 | 24977 |
| Provision for possible losses | (931) | (770) | (983) | (2520) | (988) |
| Provision for staff bonus | (891) | (1188) | (1331) | (1558) | (2101) |
| Provision for staff gratuity | (239) | (187) | (536) | (365) | (877) |
| Profit before Income Tax | 8913 | 11880 | 13310 | 15581 | 21010 |
| Provision for Income Tax | (2527) | (3562) | (3997) | (4675) | (6299) |
| Net profit after Tax | 6387 | 8318 | 9313 | 10906 | 14711 |