

CHAPTER - I

Introduction

1.1 Background of the study

Bank is a financial institution, which plays a significance role in the development of the country. It helps the growth of agriculture, trade, commerce and industry of the national economy.

The banking sector is large 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. The banking 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 programme, the banks have contributed to the economic growth of the economy (S. Shrestha, Investment planning of commercial bank in Nepal, unpublished Ph.D Thesis)

Banking institution are inevitable for the resources mobilization and the all round development of the country. They have resources for economic development, and they maintain economic confidence of various segments and entered credit to people. (Ronald Graywinshki, the New Fashioned Banking, Harvard Business Review)

Banking concept existed even in the ancient period, when the gold smiths and the rich people used to issue receipt to the common people against the promise to safe keeping of their valuable items on the presentation of the receipt, the depositors would get back their gold and valuable after paying a

small amount for the safe keeping and saving. (Paul, A. Samuelson Economics New York: Me Grew hill Company)

This is the main reason for accepting banks since ancient time in some form. Previously goldsmiths performed this task but now various types of banks have taken over this task.

Banks refer to any firms that are basically concerned with the transaction of money, however, today's banks are established for specific purposes. Different types of banks Focus different types of services to their customers although the basic principle is the same. Today different types of the financial institutions have been established with different purposes. Such as:

1. Merchant Bank
2. Overseas Bank
3. The national saving and Giro Bank
4. Clearing Bank.
5. The discount house.
6. Trustee saving Bank.
7. Mobile serving Bank etc.

These banks give different types of services to people. Basically, banks performs various types of services like collection of deposit, from the public, granting loans to the investors in different sectors, overdraft, guarantee against payment, letter of credit, discounting bills, promissory notes, selling of shares agency function etc.

Regarding the origin of modern banking Bank DE RIALTO is considered to be the first bank of the world, which was established in 1587 A.D. in Venice, Italy.

The history of the development of financial institution in Nepal is not very long. The history of Nepalese banking begins from the establishment of the commercial Bank, Nepal Bank Limited in 1994 B.S. in non-government sectors. The establishment of Nepal Rastra Bank central bank of Nepal, In

2013 B.S. was a significant dimension in the development of banking sector. The second commercial bank is Rastrya Banijya Bank Ltd, Which was established in 2021 B.S. as fully owned of government bank. There after other banks were established gradually.

According to Nepal commercial bank Act. 2031 B.S. "A commercial bank is the one which exchanges money, deposits money, accepts deposits, grants loan and performs commercial banking functions and which is not a bank meant for co-operative agriculture, industries as for such specific purposes". (The Nepal Commercial bank Act. 2031 B.S.)

When the government adopted liberal and market oriented economic policy since mid 1980's, Nepal allowed foreign banks on Joint venture basis to operate in the country after getting the approval from Neapl Rastra Bank. These foreign joint venture banks are allowed maximum of 50% foreign equity. Participation. As a result, first only there JVB's Namely Nepal Arab Bank Ltd; Nepal Indo-Suez Bank Ltd; and Nepal Grindlays Bank Limited were established in 2041, 2042 and 2043 B.S. respectively.

Now , there are 32 commercial banks in operation. Among them two are under government control and other 30 are non-government and joint venture banks. One of the most important achievements of the growth of commercial banks is domestic saving. JVB's gave a new horizon to the financial sector of the country. They were expected to bring the foreign capital, technology, experience, healthy competition, expertise and skills in Nepal. The list of the licensed commercial bank and their branches in Nepal has been tabulated here.

Table - 1 : List of Commercial Banks.

| S.N | Commercial bank | Head office | Establishment |
|-----|------------------------------|-------------|---------------|
| 1 | Nepal Bank Ltd. | Kathmandu | 1994/07/30 |
| 2 | Rastriya Banijya Bank | Kathmandu | 2022/10/10 |
| 3 | Agriculture Development Bank | Kathmandu | 2024/10/07 |

| | | | |
|----|-------------------------------------|-----------|------------|
| 4 | Nabil Bank Ltd | Kathmandu | 2041/03/29 |
| 5 | Nepal Investment Bank | Kathmandu | 2042/11/26 |
| 6 | Himalayan bank Ltd. | Kathmandu | 2049/10/05 |
| 7 | Nepal Bangladesh Bank Ltd. | Kathmandu | 2051/02/23 |
| 8 | Nepal SBI Bank Ltd. | Kathmandu | 2050/03/23 |
| 9 | Standard Charter Bank Nepal Ltd | Kathmandu | 2043/10/16 |
| 10 | Lumbini Bank Ltd. | Chitwan | 2055/04/01 |
| 11 | NIC Bank Ltd. | Morang | 2055/04/05 |
| 12 | Machapuchare Bank Ltd. | Pokhara | 2057/06/17 |
| 13 | Everest Bank Ltd. | Kathmandu | 2051/06/01 |
| 14 | Bank of Kathmandu Ltd. | Kathmandu | 2051/11/28 |
| 15 | Kumari Bank Limited. | Kathmandu | 2057/12/21 |
| 16 | Laxmi Bank Ltd | Parsha | 2058/12/21 |
| 17 | Siddhartha Bank Ltd. | Parsha | 2059/09/09 |
| 18 | Global Bank Ltd | Parsha | 2063/09/18 |
| 19 | Citizen Bank International Ltd | Kathmandu | 2064/01/07 |
| 20 | Prime Commercial Bank Ltd | Kathmandu | 2064/06/07 |
| 21 | Sunrise Bank Ltd | Kathmandu | 2064/06/25 |
| 22 | Bank of Asia Nepal Ltd | Kathmandu | 2064/06/25 |
| 23 | Grand Bank Ltd. | Kathmandu | 2065/02/12 |
| 24 | NMB Bank Ltd | Kathmandu | 2065/02/20 |
| 25 | Kist Bank Ltd. | Kathmandu | 2066/01/24 |
| 26 | Janata Bank Ltd. | Kathmandu | 2066/12/23 |
| 27 | Mega Bank Nepal Ltd. | Kathmandu | 2067/06/01 |
| 28 | Commerce and Trust Bank Ltd. | Kathmandu | 2067/06/04 |
| 29 | Civil Bank Ltd | Kathmandu | 2067/08/29 |
| 30 | Century Commercial Bank Ltd | Kathmandu | 2067/11/26 |
| 31 | Nepal Credit and Commerce Bank Ltd. | Rupandehi | 2053/06/28 |
| 32 | Sanima Bank Ltd. | Kathmandu | 2068 |

Sources: banking and Financial Statistics, Published by NRB.

1.2 Statement of the Problem

Establishment of commercial banks has continued in response to the economic liberalization policies of the Government. They have tendency to concentrate only in urban areas. This tendency can not contribute much to the socio-economic development of the country where 90% of population lives in the rural area and 74% of population depends upon agriculture. These commercial banks are reluctant to extent their operations in rural areas despite the circular of NRB, the central bank of Nepal. Which is compulsory investment of 12% of their total investment in the rural areas;

(annual report) these banks are inclined to pay fines rather than investing their resources in the less profitable sector. This problem remains to be solved, so that even the small investors in the rural areas will benefit from the services of such banks. Moreover, even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively. Moreover, the mobilized resources have not been properly utilized due to one reason or the other, i.e. not able to perform the activities for which they have been established. We have selected two JVB's Himalayan Bank and Everest Bank Ltd. as sample banks to be more precise in analyzing the problem of what comes on their way to effectively manage the collection and allocation of financial resources.

In the changed scenario, these banks need to explore their strength and weakness and improve their performance to remain well performing, competitive and Yet profitable especially in the present state of the Nepalese economy.

The following specific problems have been identified.

1. The sample bank i.e. Himalayan Bank Ltd. and Everest Bank Ltd. Seem to have been unable to mobilize the resources into investment properly.
2. These banks seem to have been unable to maintain and manage their liquidity, assets and capital structure efficiently.
3. They have not been able to raise their productivity to the satisfactory limits.
4. Based on the above state, it is evident that these banks have been exposed to more financial risk.

1.3 Objectives of the study

The Basic objectives of the study are to examine the financial performance of Himalayan Bank Ltd. and Everest Bank Ltd.

More specifically, the study has been under taken.

1. To high light the financial performance of Himalayan Bank Ltd. and Everest Bank Ltd.
2. To have comparative analysis of the liquidity position, profitability status, leverage standing and activity of these two banks.
3. To evaluate the trends and growth of loan, investment and total deposit patterns of these banks.
4. Based on the proper analysis and diagnosis, to recommend suggestion for the improvement of the financial performance of these two banks.

1.4 Importance of the study

The Present study is expected to be beneficial to the concerned two bank as well as other interested parties.

Especially it will be beneficial to

- 1) Lenders and borrowers of these banks.
- 2) Management of these banks.
- 3) Policy makers of these banks.
- 4) Shareholders, customers and public of the bank
- 5) other concerned parties and stock holders of these banks.

1.5 Limitations of the study

Despite ample efforts on the part of the researcher, this study is also not free from limitations. This is mainly due to time and resource constraints on the part of the researcher. The study has the following limitations.

1. The study has covered only the latest five financial year from 2005/2006 to 2009/010
2. The study has mainly been conducted on the basis of secondary data such as annual reports of these banks and other related journals, books, magazines etc.

3. This study covers the analysis of financial performance of only two banks i.e., Himalayan Bank Ltd. and Everest Bank Ltd.
4. The standard normal financial ratios are not available especially in the Nepalese context, so researcher has to depend upon his judgment and common sense in interpreting the data. In this context, concerned experts were consulted.

1.6 Chapter plan of the study.

The present research has been organized into the following chapters.

Chapter - I : Introduction.

This chapter introduces the subject matter of the research and includes background, statement of the problem, objectives of the study, importance/.significance of the study and limitation of the study.

Chapter -II : Review of Literature

This chapter reviews the existing literature on the concept of banking, concept of commercial bank, concept of joint-venture banks, development of banking system in Nepal, a brief profile of Himalayan Bank Ltd. and Everest Bank Ltd. and reviews of earlier studies on the financial performance of these banks.

Chapter - III : Research Methodology

This chapter introduces the research methodology used in the present research and explains the research design, sources of data, population and sample and method of data analysis.

Chapter - IV : Presentation and Analysis of Data

This is the main part of the research and in this part data have been systematically presented, analyzed and interpreted. Various financial and

statistical tools and techniques have been used to analyze and interpret the data.

Chapter - V : Summary, Conclusion and Recommendation

This is the final chapter of the present study that summarizes and concludes the research and offers necessary recommendation for future improvement of the financial performance of Himalayan bank Ltd. and Everest bank Ltd.

At the end of the study, bibliography and Appendices have also been incorporated.

CHPATER - II

REVEIW OF LITERATURE

This chapter reviews the literature and research related to the present study. In this section, an attempt has been made to explain how the present research differs from previously conducted researcher in the concerned field and adds a new dimension.

More specifically, in this section the following areas have been reviewed concept of banking, concept of commercial banks and joint venture banks, development of banking system in Nepal a brief profile of Himalayan Bank and Everest Banks Ltd, Financial performance of these banks, review of related thesis and other related literature reviewed during the course of conducting research.

2.1 Concept of Banking

Bank is a financial institution, which plays a significant role, in the development of country. The history of banking transaction is as old as our civilization. The exact period of the origin of bank is not found yet but the banking system has been developed since the London people used to save and keep their money with the persons having some credibility for security and for use in their old age. In ancient times, Goldsmiths started the lending

business for the first time in the world. Gold smith used to keep people's valuable goods for nominal charges against the deposit. Then people deposited their gold and valuable goods for the sake of security rather than earning interest. Mostly at that time goldsmiths performed this task, but now various types of banks have been acting in this field.

In England, goldsmiths were the bankers in an ancient period. They used to lend money to the government and also at the time of emergency to keep deposits for safety purposes. People used to keep their ornaments with goldsmiths for safety. In ancient times the function of foreign exchange also used to be done by goldsmiths, merchants and money lenders. (Dr. M. C. Regmi, Growth of Banking in Developing Economy, sathitya Bhawan Agra-3 1969)

Different scholars have different views about the origin of bank. The terms bank originated from the Italian word 'Banco'. "A bank is a business organization that receives and holds deposits from others, lends loans or extends credit and transfers fund by written orders of depositors. (Encyclopedia, The world Book America, Grolier incorporated vol 3, 1984)

The business in banking is one of collecting funds from the community and extending credit (making loans) to people for useful purpose. Banks have played a pivotal role in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit seeker it is expected to pay dividends and otherwise add to the wealth of its shareholders. (Report O Edimister Ph. D. financial Institution, New York, MCgrnaw Hill Book Company, 1980)

In the present Nepalese context, three types of banks have been separately performing their activities in different sectors, such as central bank, commercial banks and development banks. Three types of commercial

banks have been operating in Nepal, in the public sector like Nepal bank Limited, the joint venture with foreign banks like Himalayan banks limited, by private participations like.

Nepal Bank Limited is the first bank of Nepal, with was established under Nepal Bank Limited act 1994. This is the first organized bank of Nepal. Under Rastra Bank Act. 2013, Nepal Rastra Bank was established as the central bank of Nepal. After commercial bank act 2031 was enacted, other commercial banks, developing banks were established.

2.2 Concept of Commercial Bank

Commercial Banks are those financial institutions that deal in accepting deposits of persons and institutions and give loans against securities. They meet working capital needs of trade and industry and even of agricultural sectors. Moreover commercial banks provide technical and administrative assistance to industries, trades and business.

"Bank of England" is the first commercial bank in the world established in 1694 A.D. as a central bank of Britain.

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 activities to borrowers, individuals, business firms and services, from the producers to customers 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/ Gill/ smith, commercial Banking, New York: Practice Hall, Inc Englewood cliffs 1976)

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. (R. Grywin Shri, The New sashioned Banking, Horard Business Review, May-Jun-1991)

Nepal commercial Bank Act 2031 B.S. defines, "A commercial Bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for Co-operations, agriculture, industries or for such specific purposes. (Nepal commercial Bank Act B.S. 2031)

Commercial bank obtains deposits from customers under different accounts such as saving, fixed and current. Commercial banks also provide short-term drawing as necessary for trade and commerce e.g. hypothecation, against stock guarantee against any deviation in performing tasks, purchasing and selling of securities, discounting bills, exchanging promissory notes, overdrafts facilities, treasury bills, foreign currencies, performing such tasks on the behalf of requited as persons.

Central bank's main task is to monitor, direct and control the lending activities 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.

To sum up, a bank is defined as a financial institution, which performs widest range of economic and financial functions of any business firm in the economy. The 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, safekeeping of valuables, collection of bills, cheques, and overdraft facilities and provide modern banking facilities to industries and commerce.

2.2.1 Function of commercial Banks:

Commercial banks are the important financial institutions. The banking business is very board in modern business. The number and variety of banking services provided by commercial banks will probably expand. Recent innovation in banking includes the introduction of credit exchange cards, accounting service for business firms, factory, leasing participation in the Euro dollar market, and lock box banking (Reed, cotter, Gill, commercial Banking, New York: Practice Hall, Inc. England)

The American institute of Banking has lid down the four major functions of the commercial bank such as receiving and holding deposit, handling payments for its clients making loan and investments and creating money by extension of credit. (American institute of Banking, principle of Bank operation, USA 1972).

The Major functions of commercial banks are explained in brief.

a) Polling and saving

The commercial banks render very important service to all sectors of the economy by providing facilities for the polling and saving to be used for socially desirable purposes. The saver is rewarded by interest on his deposit. These pooled funds are made available to businessman who may use them for the expansion of their productivity capacity and to consume for such items as housing and consumers goods.

b) Safekeeping of Valuables

The safekeeping of valuables is one of the oldest services provided by commercial banks. The protection of valuables falls in two ways: safe deposit boxes and safekeeping. Safe deposit boxes are made available to customers on a rental basis that may be provided place for securities, deeds, insurance policies and personal items of valuable only to the owners.

C) Creating money

One of the major functions of commercial banks to create money and to deploy money, which accomplished by the lending and investing activities the power of commercial banking system is to create money of great economic significance as it results in the elastic credit system. That is necessary for economic progress.

d) Payment Mechanism

Payment mechanism or the transfer of funds is one of the important functions performed by commercial banks and it is increasing in importance as greater reliance is placed on the use of cheque and credit cards. Moreover, bank credit card can be used to withdraw cash from a depositor's account and transfer funds between a depositor's saving account.

e) Extension of Credit

The major function of commercial bank is to extend credit to worthy borrowers. Bank lending is very important to the economy for financing agricultural, commercial and industrial activities of the country. Moreover, the issue of commercial letter of credit has facilitated foreign trade transaction.

f) Facilities Foreign Trade

The other main function of commercial bank is to create arrangement for the amount of foreign exchange needed by business organization to pay to the foreign country. bank provides more satisfactory guarantee to an individual or firms including a commercial letter of credit, telegraphic transfer (TT) and accepting traveler's letter of credit or traveler's cheque.

g) Other Activities

The commercial bank plays some other crucial roles in the community. Sometimes they render services of government by central bank's authority.

2.3 Concept of Joint Venture Banks

A joint venture bank is the joint entrepreneurship of two or more than two enterprises for the purpose of carrying out a specific operation i.e. industrial and commercial investment, production or trade. (D.P Gupta, The banking system its Role in Export Development, The financing of exports from developing countries. Industrial trade center, UNCTAD/ GATT. Geneva, 1984)

"When two or more independent firms mutually decide to participate in business venture, contributing to the equity in business venture, contributing to the total equity or more or less capital and establish a new organization it is known as joint venture." (Jajuch and cluck business policy and strategic Management, M.C. Grawhill Book Company, 5th edition)

Firms within a country as well as operating in different countries may participate in a venture that happens to be more common firms in different countries. The foreign joint venture banks with full fledged banking functions in Nepal are formed under the company Act 2021 B.S. and operated under the Banijaya Bank Act 2031 B.S. Joint venture Banks have been established for trading to achieve mutual exchange of goods and services, for sharing comparative advantage by performing joint investment schemes between Nepalese investors, financial and non-financial institutions as well as private investors and their parent banks. The parent banks that have experience in highly mechanized and efficient modern banking services in the many parts of the world have come to Nepal with superior technology, advanced management. Skills and international network of banking institutions.

The existence of foreign joint venture banks is presented an environment of healthy competition among the existing commercial banks. The increased

competition has led to improve their quality and has caused an extension of services by simplifying procedures and training". (S Chopra, Role of foreign Banks in Nepal, NRB samachar, April 1990)

The concept of joint venture bank is a new innovation in finance and it is at a growing stage, mostly in developing countries.

Joint venture bank in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under the supervision, controlling and directions of Nepal Rastra Bank. Nepal Arab Bank Limited is the first joint venture bank of Nepal established in 2041 Ashar 29th B.S. JVBS are expected to mobilize the passive fund toward trade and commerce, to provide economic assistance to entrepreneurs and to create saving habits to public.

2.3.1 Role of Joint Venture Banks

A joint venture banks is the joint entrepreneurship of two or more than two enterprises for the purpose of carrying out a specific operation.

According to, Jajuch and Cluck "When two or more independent firms mutually decided to participate in business venture, contributing to the total equity or more or less capital and established a new organization it is known as joint venture.

As government decided to establish joint venture, two benefits were expected. First the competition would force domestic banking to be more efficient, second, the introduction of new banking procedures, method and technology.

"Joint venture Bank pose a serious challenge to the existence of the inefficient native banks. But some challenges can be taken by the domestic

banks as an opportunity to modernize themselves and sharpen their competitive positions". (Murari R. Sharma, Joint venture Banks in Nepal: coexisting or crowing out, Prakashan Lalitpur: The Nepalese journal of Public Administration July 1988)

It is undoubtedly true that the JVBS have already been playing the increasingly dynamic and vital role in the economic development of the country, which has been described below more specifically.

a) Introducing New Methods and Technology in Banking Services

The joint venture banks have to invite a new age of banking in this remote Himalayan Kingdom by introducing high technology and efficient methods in the banking business. Other areas of expertise cover foreign exchange transaction by importers and exporter's merchant banking, international banking market for money and securities, arranging foreign currency loans etc.

B) Creating a competitive Environment.

Customers can be benefited either by higher rate of interest in their deposits or by lower rate of interest on credit. It is possible only under competitive environment. After the arrival of JVBs old banks have also been competitive. Fair competition among banks is desirable for not only the economy, but also is fair personnel management and efficient financial performance.

C) National Economy

In the present context of open market, liberalized and laissez- faire economic programmers adopted by HMG, modern banking systems have been preferred. Joint venture Banks, comparatively, have been adopting new banking systems. They have already been established and have been

contributing to financial, Ornaments, agriculture and housing needs and playing a significant role to contribute to the national economy.

d) The JVBS have played a Significant Role in Channeling additional resources for investment for the development of the countries. Although it is argued that resources have been raised locally from the prevailing market that these resources would have been mobilized by any other domestic institutions. It is assured that the JVBS have mobilized net additional resources in the local market.

e) Offering Better Links With International Market

The JVBS are usually in a better to raise resources internationally for valuable project in a developing country like Nepal; mainly due to their credibility in and easier access to international markets. In other words it is very much easier for Nepalese business to procure international linkage through the joint venture banks.

2.3 Historical Development of Banking System in Nepal

The history of the development of banking system is different in different countries / societies but the purposes and dealings of the ancient banking and the modern banking are similar in many extents. It is found that banking system led the industrial development in some countries and industrial development caused the banking development in some other countries.

The every country, there happens to be a logical historical order of the development of financial structure and Nepal is no exception.

According to historical records, the king of Kathmandu, Guna Kam Dev borrowed money to reconstruct his kingdom in 723 A.D. merchant named

"Shankhadhar", paid all the debts of people and 'Nepal sambat' established for the remembrance of that occasion in 880 A.D.

The regular history of coinage in Nepal is generally assumed to have begun from about the beginning of the 5th century A.D. It was the commodity money such as gold and silver coins which was generally accepted as a means of payment most of the coins of that period bear image of animals and other religious symbols, but the denominations and dates of these coins are not known as they bear no inscription on them. Likewise Jayasthiti Mall classified people in 4 classes and 64 castes according to their occupations. One of these castes that was engaged in money lending business at that time. i.e. end of the 14th century was named as 'Tanka Dhari'. All of this describes the evidence of prevalence of money lending and borrowing practices in the ancient Nepal.

The history of banking in Nepal may be described as a component of the gradual and orderly evaluation in the financial and economic share of Nepalese line. The existence of unorganized money market consisting landlords, Shabukars, shopkeepers and other indigenous, individual moneylender has acted as barrier to institutionalized credit.

During the prime ministerhip of 'Ranoddip Sing' around 1877 A.D. Tejarath Adda fully subscribed by the government was established in Kathmandu. This is the first financial institution of the country. The primary tasks of the 'Tejarath Adda' was granting of loans and safeguarding of total national deposits. At that time Indian Currency was commonly used in most parts of the Terai. The primary task of 'Tejarath Adda was to attract deposits in government exchequer at the beginning but later on, general public were also allowed to take the loan at the same rate of interest with gold and silver ornaments as securities or collateral. Although this

institution did not accept any deposits, it had played an important role in development process of banking system in Nepal.

However, the institution of 'Kausi Tosha Khana as banking agency during the regime of King Prithivi Narayan Shah could also claim to be regarded as the first step towards initiating banking development in Nepal.

For few decades, following the establishment of the 'Adda' neither was there any steps taken to setup other financial institution nor was there any effort to expand the services of 'Adda' to more parts of the country. Moreover, as the 'Adda' was set up with the sole objectives of providing credit; it did not accept deposits from the public. Thus in the absence of any saving mobilization the 'Adda' faced financial problems. Therefore for quite a long time, several unorganized bankers and the indigenous money lenders continued to flourish as the sole provider of credit to the general public.

Later 'Tejarath Adda' was replaced by commercial bank 'Nepal bank Ltd' at the time of Rana Primeminister 'Juddha Shamsar'. In this way Nepal's banking history began with the establishment of Nepal bank Ltd. On November 1937 A.D. under Nepal Bank Act 1937 under 49 percent ownership of public and remaining part under the ownership of government.

'Sadar Mulukikhana' started to issue currency notes since 1945 A.D. However, Nepal Rastra Bank was established as a central Bank in 26 April 1956 AD.

After a long gap, the second commercial bank was established in 1966 AD as Rastriya Banija Bank with full government ownership. Next, Agriculture Development Bank was established for the promotion of agricultural sector in country.

When the government adopted liberal and market oriented economic policy in the mid 80s; Nepal allowed the entry of foreign banks on joint ventures basis with foreign capital, technology and experience. At present there are 32 commercial banks in Nepal.

2.5 Himalayan Bank : A brief Profile

2.5.1 Introduction:

Himalayan Bank Limited was established as a joint venture bank with Habib Bank Limited of Pakistan in 1992 A.D. under the company Act. 1964. This is the first joint-venture bank with maximum share holding by the Nepalese private sector. Its head office is located at Thamel Kathmandu.

The promoters and their share holding patterns of Himalayan Bank Ltd. are as follows:

| | |
|-------------------------|-----|
| Nepali Promoters | 47% |
| Habib Bank of Pakistan | 20% |
| Karmachari Sanchaya Kos | 14% |
| General Public | 19% |

2.5.2 Share capital of Himalayan Bank Ltd.

a) Authorized capital

30000000 ordinary share Rs 100 per share = Rs 3000000000

b) Issued capital

20000000 ordinary shares @ Rs 100 per share = Rs 2000000000

c) Paid up capital

20000000 ordinary share @ Rs 100 per share = Rs 2000000000

2.5.3 Functions of Himalayan Bank Ltd.

Banking services to its customers are as follows:

- a. Accepting deposits i.e. current deposits, saving deposits, fixed deposits and other call deposits account.
- b. Extending credit facilities in terms of loan and working capital.
- c. Letter of credit and bank guarantee.
- d. Transfer of Fund.
- e. Exchange of foreign currency as directed by NRB.
- f. Discounting and purchase of Bills.
- g. Other modern service using modern technologies.

2.6 Everest Bank Limited : A brief profile

2.6.1 Introduction:

Everest Bank Limited is a joint venture commercial bank with Punjab National Bank of India which was established in 1993 A.D., under the company Act 1964 and the bank is listed in Nepal stock exchange Board in 1995 A.D. Its head office is located at New Baneshowar, Katmandu.

The promoters and their share holding pattern of Everest Bank Limited are as follows

| | |
|----------------------|-----|
| Nepali Promoter | 50% |
| Punjab National Bank | 20% |
| General Public | 30% |

2.6.2 Share Capital of Everest Bank Ltd.

a) Authorized Capital **2000000000**

i) 18400000 ordinary share @ Rs 100 per share = Rs 1840000000

ii) 1600000 Preference share @ Rs 100 per share = Rs 160000000

b) Issued Capital **1391635700**

i) 12316357 ordinary share @ Rs. 100 per share = 1231635700

ii) 1600000 Preference share @ Rs. 100 per share = 160000000

c) Paid up capital

1391635700

- i) 12316357 ordinary share @ Rs 100 per share = Rs 1231635700
(Including 8398421 bonus share fully paid)
- ii) 1600000 Preference share @ Rs 100 per share = Rs 160000000

2.6.3 Function of Everest Bank Ltd.

- a. Accepting deposit ie. current deposit, saving deposit, fixed deposit and other call deposit account.
- b. Exchange of foreign currency supported by NRB.
- c. Helps the banking services to import and export business.
- d. Bills discount and purchase.
- e. Extend credit facilities by the way of term loan and working capital.
- f. Letter of credit and bank guarantee.
- g. Transferring of fund by other countries.
- h. It provides lookers facilities.

2.7 Review of Journal Thesis Related to commercial bank or Joint- Venture Banks

Various studies in the field of financial performance of commercial banking sector are very much relevant sources for this study. Thus some of them are presented below in some brief extents.

The study under taken by Bista Bagat in his book Nepal Ma Adhunik Banking Byabastha, he made an attempt to highlight some of the important factor that have contributed to the efficiently and performance of joint venture banks. He concluded that the establishment of joint venture banks a decade back, market the beginning of modern banking era in Nepal. The joint venture banks have brought in many new banking techniques such as computerization hypothecation consortium finance and modern fee-based activities in to the economy. (Bagat Bista, Nepal Ma Adhunik Banking Byabastha, Indu Chhapa Khan, Lalitpur 2048 B.S.)

Joshi Deepak concluded a study a entitled, A study of commercial Banks of Nepal with special Reference to Financial Analysis of Rstriya Banijya Bank. He concluded that the two banks had lower liquidity position than required, capital structure highly geared and there was gradual increase in the amount of funded debt. The return on assets was not satisfactory. he found that the main objective of the launching joint venture banks operation in Nepal was to fulfill the shortage of funds required rather than to invest in development works and to compete with the domestic commercial banks. he suggested that the banks should have invested their resources in more productive sectors and equity financing should have been emphasized. (Deepak Joshi, A study on commercial Banks of Nepal with special reference to financial Analysis of RBB, An unpublished master degree's dissertation, T.U. 2003)

Shakya, D.R. in his study, financial analysis of joint venture Banks Nepal has given conclusion as NGBL is comparatively between in liquidity position than NABIL. NABIL is comparatively more successful in assets utilization than NGBL. NGBL's capital structure position is more riskier than that of NABIL. NGBL's profitability position is better than the same of NABIL. (D.R. Shakya, Financial Analysis of JVB in Nepal with special reference to NABIL and NGBL on unpublished Master's dissertation T.U. 2002)

Adhikari, Dev Raj conducted in his study Evaluating the financial performance of Nepal Bank Ltd. he had concluded that investment portfolio of the banks had not been managed so efficient to maximize the returns. Therefore, the banks have suffered from series of operational efficiency, which was not satisfactory. Likewise allocation of loans and advanced by the bank was not so meaningful as the productive sector had little share in the loan portfolio. Similarly, lower return on investment and lower market

value of the bank's share against the book value was reflection of the weaker financial performance of the bank. Nothing was satisfactory expect liquidity position of Nepal performance of Nepal bank Ltd. An unpublished Master's Degree's Dissertation. T.U. 2003)

Bajracharya, Buddhi B. in his article 'Monetary policy and Deposit Mobilization in Nepal, has concluded that mobilization of the domestic prime objective of the monetary policy in Nepal and commercial banks are the most active financial intermediary for generating resource in the form of deposit of private sector and providing credit to the investors in different sector of the economy. (Buddhi B. Bajracharya, Monetary policy and Deposit mobilization in Nepal, Rajat Jayanti Smarika Rastriya Banijya bank Katmandu, 2047 B.S.)

Sharma M.R., explains in his article, joint venture Banks in Nepal co-existing or crowding out that it would be definitely unwishful for Nepal not to let JVBS to operate in the country and not to take advantage of additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to let the development of the JVBS at the cost of domestic banks. So far, one should admit frankly, no differential treatment has been made to the domestic and joint venture banks, at least from the latter's bargaining.

If the JVBS show strength and briskness to come forward to share the trails and tribulation of this poor country, both types of bank will collapse and co-exist complementing each other, contributing to the nations accelerated development on the contrary if the joint venture banks use their strength against treading to the comber some path of development along with the domestic banks and government, they will eventually throw out the domestic banks form the more profitable and lucrative urban sectors unless reincarnated by the determination of the government. (M.R. Sharmas, joint

venture Banks in Nepal co-existing or crowding out, prashasan. The Nepalese journal of Public Administration year- 1988)

Mr. Sharma has made a comparative study of two different natures of banks, especially no-nature of transaction and expertise in banking network. JVBs basically were orientated in urban areas whereas the local banks are set up and conducted their transactions both in urban and rural areas. Moreover a number of commercial banks are situated in rural than in urban areas.

Bajracharya, Mr. R.R. expressed his view in his article entitled RBB, a comparative performance study, as deposit growth in commercial banks is not consistent. There is slow growth of deposit in local bank as compared to JVBs. whereas local banks are better in terms of mobilization of rural saving. In terms of credit expansion, joint venture banks are more efficient than the local banks. Credit deposit ratio is better in joint venture banks. The ratio of non-performing loan is greater JVBs. The competition between the local and joint venture bank is not healthier. (R.R.Bajracharya, RBB Rajat jayanti Smarika, RBB a comparative performance study, KTM 2047 B.S.)

In this observation, he clearly states that there is no ground of comparison between local commercial banks and private commercial banks regarding their performance

In another research study conducted by Negendra B. Amatya's on An Appraisal Financial Position of NBL, he reflects that the liquidity position of the bank has been fairly, maintained and the bank has found to have adopted the conservative financing policy. i.e. low portion of equity capital has been resorted to finance total assets. The bank has successfully operated beyond the break-even point over the study period. (Negendra B. Amatya, An Appraisal of Financial position of NBL, An unpublished master Degree's Dissertation T.U. 1993)

CHAPTER -III

RESEARCH METHODOLOGY

3.1 Introduction

The prime objectives of this study are to evaluate the financial performance (i.e. strength, weakness and financial position) of the two commercial banks, Himalayan Bank Limited and Everest bank Limited Comparatively, with a view to recommending suggestion for further improvement of their performance.

In order to realize the objectives, an appropriate research methodology has to be designed to carry out the research. Research refers to a search of knowledge again and again. Research may be defined as the objectives and systematic method of finding solution to problem i.e. systematic collection, recording analysis, interpretation and reporting of data and information about various facts on a phenomenon under study. It would be appropriate to mention here that research projects are not meaningful to any one unless they are in sequential order, which will be determined by the particular problem at hand. (C.R. Kothari, Quantitative Technique, Vikas publishing House put ltd. Delhi 1989) In other world, research methodology describes the method and process applied in the entire aspect of the study.

In this chapter, the methodology used in carrying out research has been explained.

3.2 Research Design

Research design refers to the conceptual structure within which the research is conducted. (Ibid) The study is both descriptive and analytical. This study is based on secondary data. Secondary data are collected from their respective annual report, other publications of the related banks published by Nepal Rastra Bank, Nepal Stock exchange and other related magazines.

3.3 Sample and Population

At present there are 32 commercial banks operating in Nepal. That form the population and the two banks, Himalayan Bank Ltd and Everest Bank Ltd have been selected as a sample. That represents 20% of the population. This study covers the period between 2005 and 2010.

More specifically, the population consists of

- 1 Nepal Bank Ltd.
- 2 Rastriya Banijya Bank
- 3 Agriculture Development Bank
- 4 Nabil Bank Ltd
- 5 Nepal Investment Bank
- 6 Himalayan bank Ltd.
- 7 Nepal Bangladesh Bank Ltd.
- 8 Nepal SBI Bank Ltd.
- 9 Standard Charter Bank Nepal Ltd
- 10 Lumbini Bank Ltd.
- 11 NIC Bank Ltd.
- 12 Machapuchare Bank Ltd.
- 13 Everest Bank Ltd.
- 14 Bank of Kathmandu Ltd.
- 15 Kumari Bank Limited.

| | |
|----|-------------------------------------|
| 16 | Laxmi Bank Ltd |
| 17 | Siddhartha Bank Ltd. |
| 18 | Global Bank Ltd |
| 19 | Citizen Bank International Ltd |
| 20 | Prime Commercial Bank Ltd |
| 21 | Sunrise Bank Ltd |
| 22 | Bank of Asia Nepal Ltd |
| 23 | Grand Bank Ltd. |
| 24 | NMB Bank Ltd |
| 25 | Kist Bank Ltd. |
| 26 | Janata Bank Ltd. |
| 27 | Mega Bank Nepal Ltd. |
| 28 | Commerce and Trust Bank Ltd. |
| 29 | Civil Bank Ltd |
| 30 | Century Commercial Bank Ltd |
| 31 | Nepal Credit and Commerce Bank Ltd. |
| 32 | Sanima Bank Ltd. |

The Sample selected are

1. Himalayan Bank Ltd.
2. Everest Bank Ltd.

3.4 Sources of Data

The study is mainly based on secondary data. This data were collected from the respective annual reports especially profit and loss account, balance sheet and other publications of the banks and other related information were gathered from the related banks and auditors report, Nepal stock exchange, Nepal Rastra Bank, economic generals etc.

3.5 Method of Data Analysis

The data were first collected and tabulated into separate tables systematically. The data were tabulated for simple statistical analysis, such

as average and percentages. And these have been presented and analyzed in a descriptive way. Necessary graphs and charts have also been presented to interpret the data. Appropriate tools of financial analysis have been used.

3.5.1 Financial Analysis

Analysis of financial statements helps take managerial and financial decisions.

To make rational decisions in line with the objectives of the firm, the financial manager must have certain analytical tools to analyze the financial health. The company itself and outside suppliers of capital, creditors and investors all are interested in financial analysis. The firm's purpose is not only 'internal control' but also to have better understanding and relation with the suppliers of resources who are interested in the financial condition and performance of the company.

According to I.M. Pandey, "Financial analysis is the process of identifying the financial strengths and weaknesses of the firms by properly establishing relationship between the items of the balance sheet and the profit and loss Account. (I.M. Pandey, financial Management, Vikas publishing House Pvt. Ltd. New Delhi 1991)

In the present research, various financial tools have been employed for the sake of analysis, which have been explained below.

Ratio Analysis

Ratio analysis is a very powerful tool of financial analysis. Financial ratios help us to find the symptoms of problems. The cause of any problems may be determined only after the location of symptoms. The operational and financial problem of corporation can be ascertained by examining the behavior of these ratios.

Financial statement analysis is a process of evaluating relationship between component part of financial statement to obtain a better understanding of the firm's position and performance. (Metaclf R.W. and Titad P.L. Principles of Accounting, Philadelphia, 1976)

A financial ratio is the relationships between accounting figures, expressed mathematically. The term "ratio" refers to the numerical or quantitative relationship between any two items or variables. (S.F. Western and E .R. Brigham, Managerial Finance, The Dryden Press, Mins date 7the edition)

There are more than 200 ratios but all are not applicable in one situation. Western and Brigham have classified ratios into six fundamental types. These are 1) liquidity ratio 2) leverage ration 3) Activity ratio 4) profitability ratios 5) Growth ratio 6) Valuation ratios.

In his book "Financial management and policy" james C. Vanhorn writes about types of ratio , "For our purpose, financial ratios can be grouped into five types; Liquidity ratio, debit- ratio, profitability ratio, coverage ratio and market - value ratios. no one ratio gives complete information by which the financial condition and performance of a firm can be judged. By analyzing a group of ratios, reasonable judgments in this regard can be made. We must be sure to take into account any seasonal character of a business, underlying trends may be assessed only through a comparison of raw figures and ratios at the same time of years" (james C Vanhorn, Financial Management and policy, 10th edition, Practice -Hall of India Pvt. Ltd; M-97, connaught circus New Delhi)

The technique of ratio analysis is a part of the whole process of the analysis of financial statement of any business or industrial concern, especially to take output and credit decisions (C.R. Kothari, Ibid)

This types of relationship can be expressed by a number of ratios that help to summarize the large quantities of financial data and to make qualitative judgment about the firms financial performance.

3.5.1.1 Liquidity Ratio

Liquidity ratios measure the firm's ability to meet current / short term obligations. (i.e. for the repayment of the short term loans and advances and current and saving deposits) A firms should ensure that it does not suffer from lack of liquidity and that it does not have excess liquidity. A very high degree of liquidity if also bad, idle assets earn nothing. Important liquidity ratios that have been used in the study are listed below:

- a) Current ratio
- b) Cash and bank balance to total deposit ratio.
- c) Fixed deposit to total deposit
- d) Saving deposit to total deposit.

3.5.1 Activity Ratio / Utilization Ratio

Activity ratios are employed to evaluate the efficiency with which the firms manages and utilizes its assets. These ratios are also called turnover ratios. Activity ratios reflect the firm's efficiency in utilizing its assets. Following important activity ratios have been calculated in this research.

- a) Investment to total deposit ratio
- b) Loan and advance to total deposit ratio
- c) Loan and advance to fixed deposit ratio
- d) Loan and advance to total assets ratio

3.5.2.1 Leverage Ratio

Leverage ratio is calculated from the balance sheet items to determine the proportion of debt in total financing. The following leverage ratios have been used in the study.

- a) Debt-equity ratio
- b) Total debt to total assets ratio
- c) Long-term debt to total assets ratio
- d) capital adequacy ratio
- e) Net worth to total assets ratio

3.5.2.2 Profitability Ratios:

Profitability ratio indicates the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operational efficiency of a business enterprise. By analyzing profitability ratios the lenders and investors decide whether to invest in a particular company or not. Some of the important profitability ratios used in the analysis are as follows.

- a) Return on net worth ratio
- b) Return on total assets ratio
- c) Return on total deposit ratio
- d) Interest earned to total assets ratio

3.5.2.3 Other Ratios

- a) Interest paid to interest income ratio
- b) Earning Per share
- c) Dividend per share
- d) Dividend pay out ratio

3.5.3 Operating Income and Expenses Analysis

- a) Foreign Exchange earned
- b) Interest Earned
- c) Other Income
- d) Interest Paid
- e) Staff Expenses
- f) Office operating expenses
- g) Provision for staff bonus.

3.5.4 Statistical Tools

There are many statistical tools to be applied for the study of relationship between two or more figures for the purpose of financial performance analysis. Karl Pearson's Co-efficient of correlation is one of them. Karl Pearson's co-efficient of correlation measures the intensity or degree of linear relationship between two variables; this has also been used to analyze the data.

Co-efficient of correlation between two random variables say X and Y, simply denoted by r^{xy} or r has also been calculated in this study.

3.5.4.1 Probable Error

Probable error of correlation of co-efficient usually denoted by P.E(r), which is a very useful tools. It is a method of testing the reliability of the calculated value of 'r' in so far as it depends upon the condition of random sampling. That interprets the value of 'r' and is worked out as under Karl Pearson's co-efficient of correlation. PE. of the co-efficient of correlation is obtained by the following formula,

$$P.E = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

Where, 0.6745 is the constant value

r= co-efficient of correlation

N= No. of pairs of observation

The above mentioned financial and statistical tools and techniques have been used for this study.

Interpretation of PE

- i) When $r < PE$, the value of 'r' is not at all significant, so there's so evidence of correlation.
- ii) When $r > 6PE$. the value of 'r' is significant so the co-efficient of correlation is practically certain.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

The present study has been undertaken with the objectives of making a comparative analysis of the financial performance of Himalayan Bank Limited and Everest Bank Ltd. Keeping in mind the objectives, in this section relevant data have been tabulated first and ratios have been computed, analyzed and interpreted subsequently; for the purpose liquidity, capital structure and profitability ratios have been calculated and analyzed to understand the comparative performance of these banks.

4.1 Liquidity Ratio

Liquidity ratios measure the ability of the firm to meet its current obligations. Liquidity ratios establish and relationship between current assets and current liabilities and provide an quick measure of liquidity. A firm should ensure that it does not suffer from liquidity problem and should ensure that it doesn't have access liquidity as well. The failure of company to meet its short-term obligations, due to insufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence or even in legal suits resulting in the closure of the company at the extreme.

A very high degree of liquidity is also not desirable, as idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets.

There fore, it is necessary to strike a proper balance between high liquidity and insufficient liquidity.

4.1.1 Current Ratio

The current ratio is a measure of the firm's short-term slovenly. It indicates the availability of current assets in rupees for every one rupee of current liability. Current ratio is calculated as follows.

$$\text{Current ratio} = \frac{\text{CurrentAssets}}{\text{CurrentLiability}}$$

Current assets include cash, bank balance, interest receivables and other assets, which can be converted in to cash within a year or a financial period of the company. Marketable securities, debtors' inventories and prepaid expenses are also considered as current assets as they represent the payments that will measure in the particular financial year or can be converted into cash within that period.

All obligations maturing within a year or payable within the financial year are included in current liabilities. Current liabilities include creditors, bills, payable, accrued expense, short-term bank loan, income tax liability and debt maturing in the current year.

Current ratio of 2:1 or more is generally considered satisfactory, which is not a strict rule. This conventional rule is based on the assumption that even if the current assets is decreased by half, the firm can easily meet its current obligations. Table 4.1 exhibits the current assets, current liabilities and current ratios of the selected banks.

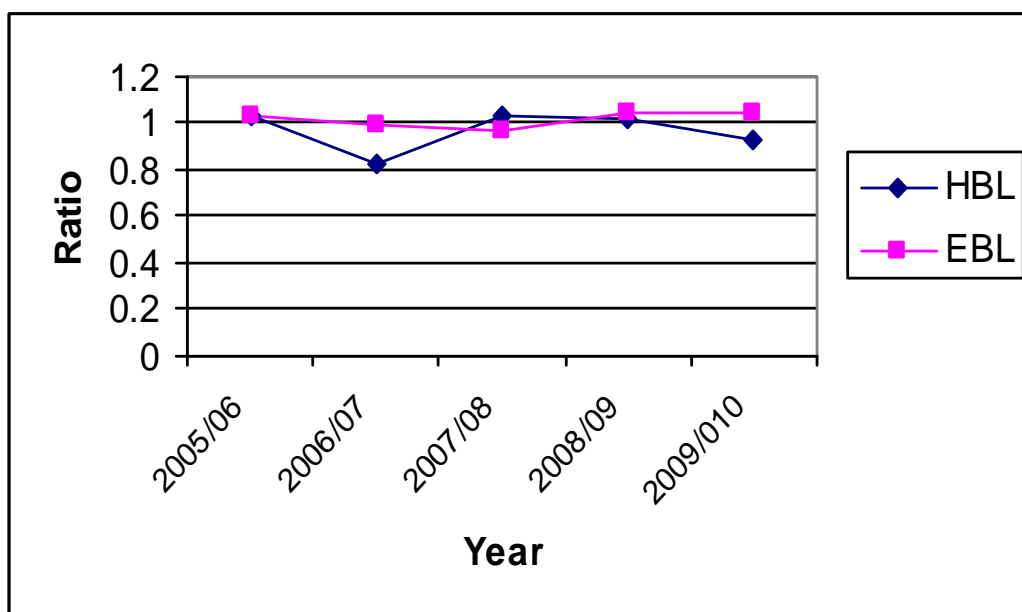
Table 4.1 : Current Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|----------------|---------------------|-------|----------------|---------------------|-------|
| | Current assets | current liabilities | times | current assets | current liabilities | times |
| 2005/06 | 6686.65 | 6470.38 | 1.03 | 547.20 | 530.11 | 1.03 |
| 2006/07 | 6820.84 | 8335.57 | 0.82 | 1282.26 | 1287.61 | 1.00 |
| 2007/08 | 10988.05 | 10698.75 | 1.03 | 2077.32 | 2127.09 | 0.97 |
| 2008/09 | 15605.42 | 15311.04 | 1.02 | 3334.59 | 3204.27 | 1.04 |
| 2009/010 | 17359.42 | 1874.46 | 0.93 | 5049.85 | 48.85 | 1.04 |
| Average | | | 0.96 | | | 1.02 |

Source: Balance sheet of respective banks.

Trend line of current ratio



This table clearly shows that the current ratios of the two banks are always less than 2:1 but almost equal to 1, sometimes slightly more and sometimes slightly less than 1. This clearly indicates unsatisfactory liquidity position of all the banks.

More specifically the current ratio of Himalayan Bank Limited has ranged between 0.82 (in 2006/07) and 1.03 (in 2005/06). Whereas in case of Everest bank the ratio is in between 0.97 (in 2007/08) and 1.04 (in 2008/09). Comparatively, the average ratio of Everest Bank is better, i.e. the ability to discharge the short-term obligation of EBL is better than that of HBL.

Though the current ratio of these banks is below the normal standard, it cannot be concluded that the liquidity position is poor. This is because this ratio is only the ratio of quantity and not a test of quality. A company could be getting into cash problem and still have a strong current ratio. To test the quality of current ratio, quick ratio is generally used. In the banking sector this ratio is called cash and bank balance to total deposit ratio.

4.1.2 Cash and Bank Balance to Total Deposits Ratio

Cash and bank balance to total deposit ratio measures the capacity of bank to meet unexpected demand made by depositors, i.e. current account holders, saving depositors, call and other depositors. This ratio is computed by using the following formula

Cash and bank balance to total deposit ratio =

$$\frac{\text{TotalCashandBankbalance}}{\text{Totaldeposit}} \times 100$$

Cash and bank balance includes cash on hand, foreign currency in hand/cheque and other cash items, balance with domestic bank and balance held abroad. The total deposits include current deposits saving deposits, fixed deposits, money at call short notice and other deposits.

Higher cash and Bank balance to total deposit indicates higher liquidity position and ability to cover the deposits and vice versa.

A bank must maintain adequate cash and bank balance in order to honor the large withdrawals by its customers. However, too high ratio is disadvantageous, as idle assets earn nothing.

The following table shows the comparative ratio of cash and bank balance to total deposit.

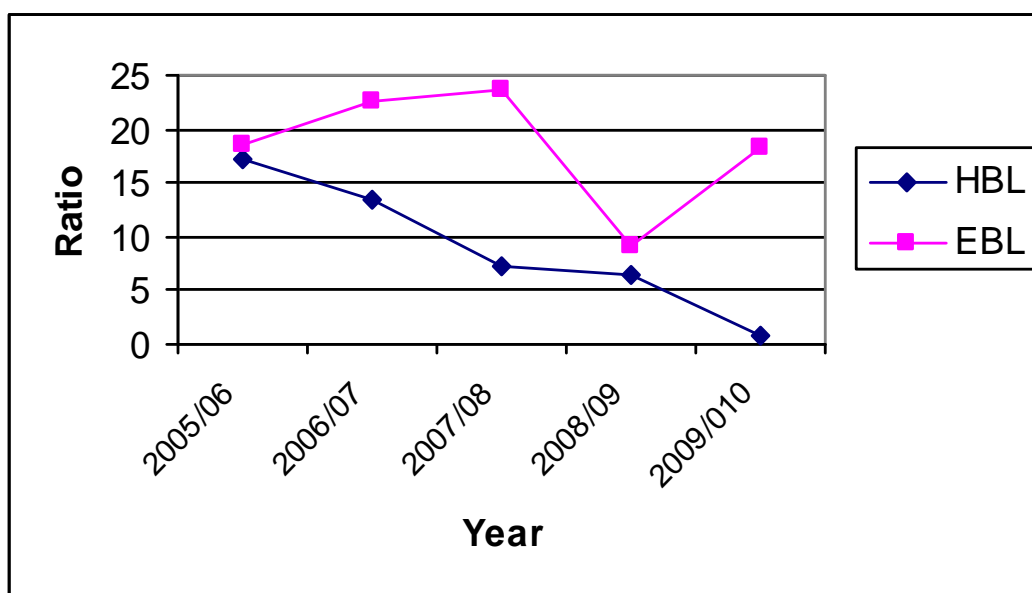
Table No 4.2 : Cash and Bank Balance to Total Deposit Ratio

(Fig in Rs. Million)

| Financial year | HBL | | Ratio % | EBL | | Ratio % |
|----------------|---------------------|---------------|---------|---------------------|---------------|---------|
| | Cash / bank balance | Total Deposit | | Cash / bank balance | Total Deposit | |
| 2005/06 | 1001.73 | 5839.05 | 17.16 | 87.33 | 471:66 | 18.52 |
| 2006/07 | 1029.11 | 7713.60 | 13.34 | 255.15 | 1124.90 | 22.68 |
| 2007/08 | 726.99 | 9779.72 | 7.34 | 460.71 | 1948.94 | 23.64 |
| 2008/09 | 901.91 | 14043.10 | 6.42 | 278.60 | 3057.43 | 9.11 |
| 2009/010 | 1435.81 | 17532.4 | 8.18 | 834.99 | 4574.51 | 18.25 |
| Average | | | 1056 | | | 18.44 |

Source: Balance sheet of respective banks.

Trend line of Cash and Bank Balance to Total Deposit Ratio



The above table no 4.2 and trend line shows that cash and bank balance to total deposit of the selected banks. The ratio has fluctuated during the period of study in case of all the banks.

More specially, HBL has the lowest cash and bank balance percentage than EBL. This ratio of HBL has reached the maximum i.e. 17.16 in the financial year 2005/06 and has continuously decreased over the study period.

Similarly, the average ratio (i.e. 18.44%) of EBL is higher than that of HBL. The ratio of EBL is the highest (23.64%) in the year 2007/08 and lowest (i.e. 9.11) in the financial year 2008/09.

Thus it is concluded from the above analysis that cash and bank balanced percentage with respect to total deposit in the case of EBL. Comparatively in the terms of this ratio, EBL is better than HBL. it clearly shows that case and bank balance percentage is the lowest in case of HBL.

4.1.3 Fixed Deposit to Total Deposit Ratio.

Interests bearing deposit more fixed deposit may be an advantage if it can be invested in long term credit this ratio is calculated in order to find out the proportion of fixed deposit in total deposit and banks can mobilize them on investment loans and advances.

Fixed deposit to total deposit ratio can be calculated by dividing ratio can be calculated by dividing the amount of fixed deposit by the amount of total deposit.

$$\text{Fixed deposit to total deposit ratio} = \frac{\text{FixedDeposit}}{\text{TotalDeposit}} \times 100$$

In this study fixed deposit includes only amount of fixed deposit account. It has fixed time period to mature. Total deposit includes saving deposit. Current deposit, fixed deposit, call deposit and other deposits.

The higher the proportion of fixed deposits, the lower the proportion of current saving or short term deposit in the total deposits. This situation shows higher short term liquidity position of the bank.

The following table and trend line shows the comparative fixed deposit to total deposit ratio.

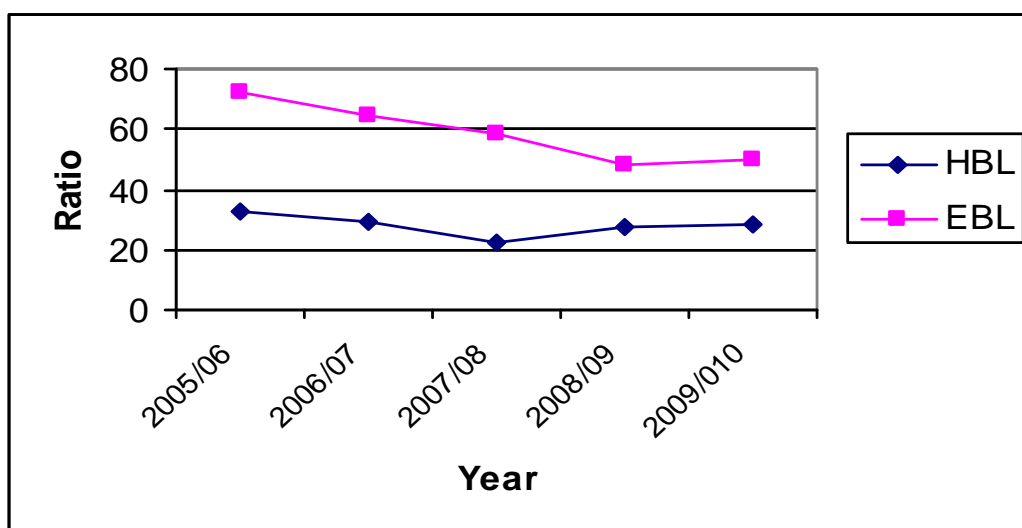
Table No. 4.3 : Fixed deposit to total deposit ratio.

(Fig. In. Rs. Millions)

| Financial year | HBL | | Ratio % | EBL | | Ratio % |
|----------------|---------------|---------------|---------|---------------|---------------|---------|
| | Fixed deposit | Total Deposit | | Fixed Deposit | Total Deposit | |
| 2005/06 | 1894.20 | 5839.05 | 32.44 | 339.52 | 471.66 | 71.98 |
| 2006/07 | 2225.59 | 7713.60 | 28.85 | 721.38 | 1124.90 | 64.13 |
| 2007/08 | 2190.38 | 9779.72 | 22.40 | 1132.08 | 1948 | 58.09 |
| 2008/09 | 3917.14 | 14043.10 | 27.89 | 1478.89 | 3057.43 | 48.37 |
| 2009/010 | 4927.37 | 17532.40 | 28.10 | 2284.64 | 4574.51 | 49.94 |
| Average | | | 27.92 | | | 58.50 |

Source: Collection from secondary data

Trend line fixed deposit to total deposit



The above table no 4.3 shows that fixed deposit to total deposit ratio of the selected two banks. The ratios have fluctuated over the study period .

Himalayan Bank Limited has the lowest fixed deposit percentage of the two bank. Fixed deposit ratio of HBL has reached the highest (i.e. 32.44%) in the year 2005/06 and lowest (i.e. 22.40) in the year 2007/08.

The ratio of Everest Bank Limited has been continuously decreasing over the study period. It has reached the maximum (i. e. 71.98%) in the year 2005/06 and dropped down to the minimum (i.e.48.37%) in the year 2008/09.

The above analysis shows that EBL has the highest fixed deposit to total deposit ratio of this two banks. The liquidity position of EBL is better than that the HBL.

4.1.4 Saving Deposit to Total Deposit Ratio

Saving deposit is short-term interest bearing deposit and it has medium rate of interest. Saving deposit is generally regarded short term obligation as it can be withdrawn or without prior notice or with short notice. This ratio shows the proportion of saving deposits on total deposit.

Saving deposit to total deposit ratio can be calculated by dividing the amount of saving deposits by the amount of total deposits.

$$\text{Saving deposit to total deposit ratio} = \frac{\text{SavingDeposit}}{\text{Totaldeposit}} \times 100$$

Saving deposit includes only the amount of saving deposit account. It has lower interest rate than fixed deposit. And total deposit includes the total sum of current, saving, fixed, call and other deposits.

The higher the saving deposits the lower the proportion of current and fixed or long-term deposit in the total deposit. Generally, short-term deposit is not beneficial to the bank, it cannot be invested on long-term basis. Therefore lower ratio shows higher short-term liquidity position of the bank.

The following table and trend line shows the comparative saving deposit to total deposit ratios of the selected two banks.

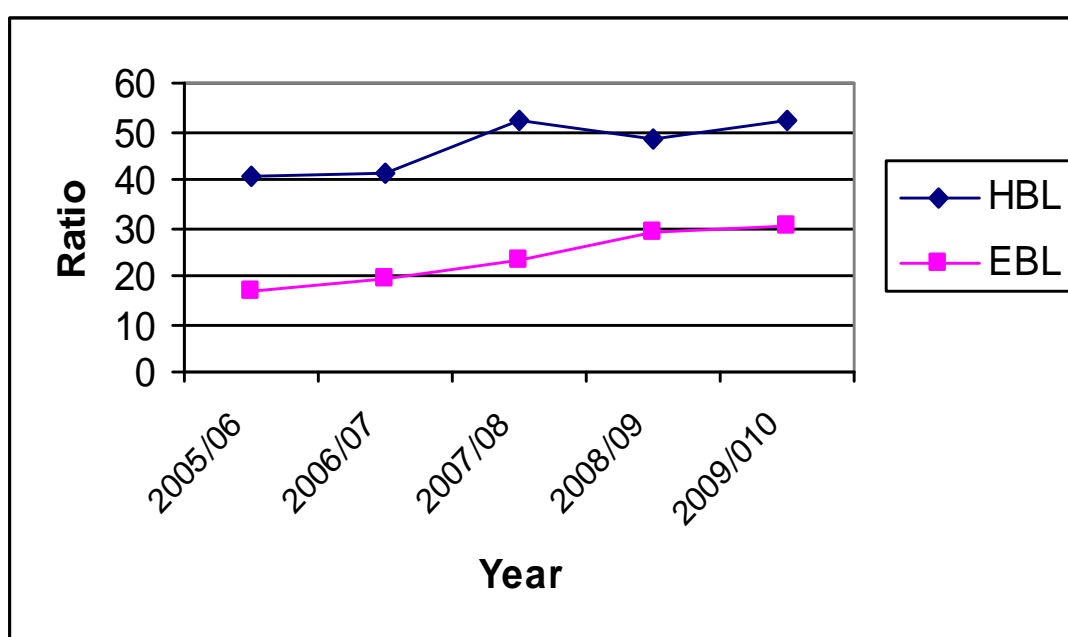
Table 4.4: Saving Deposit to total Deposit Ratio

(Fg. In Rs. Millions)

| Financial year | HBL | | Ratio % | EBL | | Ratio % |
|----------------|----------------|---------------|---------|----------------|---------------|---------|
| | Saving deposit | Total Deposit | | Saving Deposit | Total Deposit | |
| 2005/06 | 2373.32 | 5839.05 | 40.65 | 79.03 | 471.66 | 16.76 |
| 2006/07 | 3183.38 | 7713.60 | 41.27 | 217.84 | 1124.90 | 19.37 |
| 2007/08 | 5096.65 | 9779.72 | 52.11 | 448.00 | 1984.94 | 22.99 |
| 2008/09 | 6833.16 | 4.43.10 | 48.66 | 891.75 | 3057.43 | 29.17 |
| 2009/010 | 9144.47 | 17532.4 | 52.15 | 1384.06 | 4574.51 | 30.26 |
| Average | | | 46.97 | | | 23.71 |

Source: Collection from secondary data.

Trend line of saving deposit to total deposit



The above table shows that the ratio of saving deposit to total deposit of Himalayan bank Ltd. has shown an increasing trend except in the year 2008/09 . HBL has the highest ratio (i.e. 52.15%) in the year 2009/010 and the lowest ratio (i.e. 40.18%) in the year 2005/06. Its yearly average (46.97%) is more than Everest Bank Ltd.

Similarly, the ratio of Everest Bank Ltd has shown continuously rising trend over the study period. It has reached the highest point (i.e.30.26%) in 2009/010 and lowest point (i.e.16.76%) in the year 2005/06. Average saving deposit to fixed deposit ratio is 23.71, which is less than that of HBL.

The average ratio of Himalayan Bank Ltd. has been higher than of Everest banks. Since the saving deposit is the short term obligation, it means the liquidity position of EBL has been better than HBL.

4.2 Activity Ratio

Activity ratio or utilization ratio is employed to measure the efficiency with which the bank manages and utilizes its resources. Hence, these ratios are also called efficiency ratios assets utilization management ratios or turnover ratios.

This ratio indicates the efficiency, speed and rapidly with which the assets have been used or converted into sales. The greater the ratio the more efficient the utilization of resources.

In this section, some of the activity ratios have been calculated to measure the efficiency of assets management of Himalayan Bank Ltd and Everest Bank Ltd.

4.2.1. Short-term Investment to Total Deposit Ratio

Commercial Banks utilize the outside fund for profit generation purpose. Investment is a very important part of in the banking sector. Bank can not utilize whole of its fund in advancing loans only. So the bank goes for short-term investment such as government securities, treasury bills etc. This ratio measures the extent to which banks have been successful in mobilizing total deposits on investments.

Short-term investments to total deposit ratios has calculated by applying this formula.

$$\text{Short-term Investment to Total Deposit Ratio} = \frac{\text{ShortTermInvestment}}{\text{Totaldeposit}}$$

Short-term investment includes government treasury bills, development bonds, other companies' shares and other short-term investments. Total deposit includes current deposit, fixed deposit, saving deposit and all kinds of call and short deposits. These types of deposits are outsiders' fund for which the bank has to pay interest.

A high ratio indicates bank's efficiency in term of secured investment and lower ratio indicates bank's inability to invest in liquid investment. This is because it helps to maintain a sound liquidity position. But higher ratio indicates low efficiency in form of low interest yielding investments.

In the following table, investment to total deposit ratios have been presented.

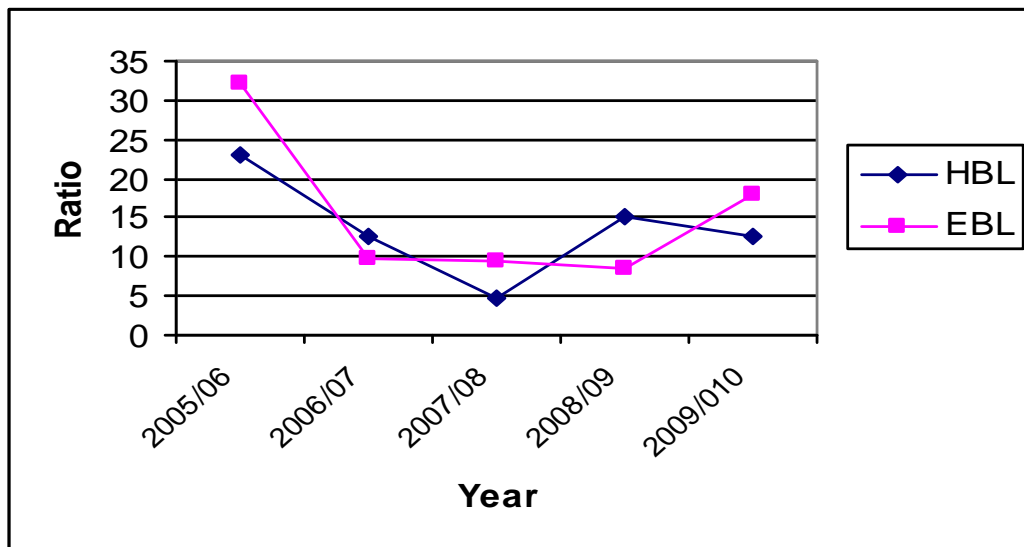
Table 4.5: Short term investment to total deposit ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio % | EBL | | Ratio % |
|----------------|------------|---------------|---------|------------|---------------|---------|
| | Investment | Total Deposit | | Investment | Total Deposit | |
| 2005/06 | 1349.18 | 5839.05 | 23.11 | 152.29 | 471.66 | 32.29 |
| 2006/07 | 970.88 | 7713.60 | 12.59 | 111.05 | 1124.90 | 9.87 |
| 2007/08 | 459.45 | 9779.72 | 4.70 | 184.91 | 1948.94 | 9.45 |
| 2008/09 | 2206.92 | 14043.10 | 15.05 | 157.61 | 3057.43 | 8.42 |
| 2009/010 | 2224.30 | 17532.40 | 12.69 | 823.00 | 4574.51 | 17.99 |
| Average | | | 13.63 | | | 15.61 |

Source: Collection from secondary data.

Trend line of short term investment to total deposit



The above table and the accompanying trend lines reveal the ratio has been widely fluctuating over the study period.

In case of EBL, it has reached the lowest point (i.e. 8.42) in the year 2008/09 and in case of Himalayan bank Ltd, it has reached the lowest point (i.e. 4.70) in the year 2007/08.

The average ratio of Everest bank ltd. has recorded the highest than the Himalayan Bank Ltd, but this is actually because of the high skewness in the first year of the study i.e. 32.29%.

But only investment to total deposit ratio can't measure the efficiency of the banks. So it is necessary to calculate loan and advance to total deposit ratio, which indicates the efficiency of bank in investing in high interest yielding loans.

4.2.2. Loan and Advance of Total Deposit Ratio

This ratio measures the Bank's ability to mobilize the depositors fund to earn profit by providing loan and advances. It also measures the extent to

which the banks are successful in mobilizing deposits for the purpose of profit generating.

$$\text{Loan and Advance to total deposit ratio} = \frac{\text{LoanAndAdvanes}}{\text{Totaldeposit}} \times 100$$

Loan and advances refer to total sum of loan, advances, credit, overdraft, local and foreign bills purchased and discounted. Total deposit includes total outsiders fund or all kind of deposits.

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

The following table exhibits loan and advances to total deposit ratio of the selected two banks.

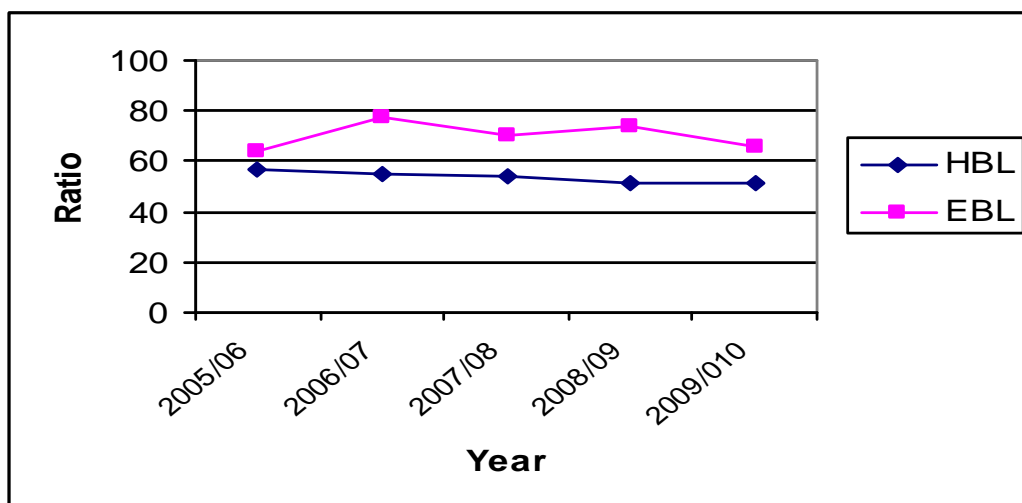
Table 4.6 : Loan Advance to Total Deposit Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio % | EBL | | Ratio % |
|----------------|------------------|---------------|---------|------------------|---------------|---------|
| | Loan and Advance | Total Deposit | | Loan and Advance | Total Deposit | |
| 2005/06 | 3321.42 | 5839.05 | 56.88 | 302.19 | 471.66 | 64 |
| 2006/07 | 4223.06 | 7713.60 | 54.75 | 871.68 | 1124.09 | 77.48 |
| 2007/08 | 5311.66 | 9779.72 | 54.31 | 1364.89 | 1948.94 | 70 |
| 2008/09 | 7224.73 | 14043.10 | 51.45 | 2270.18 | 3057.43 | 74 |
| 2009/010 | 9015.35 | 17532.40 | 51.42 | 3005.76 | 4574.51 | 65.7 |
| Average | | | 53.76 | | | 70.53 |

Source: Collection from secondary data.

Trend Line of Loan and Advance to Total Deposit



The above table and the accompanying trend lines reveal that loan and advance percentage with respect to total deposit have indicated different trend in the two cases.

In case of Himalayan bank ltd, it has slightly decreased and seem more or less constant over the study period. In other words, it has ranged between 56.88% and 51.42% (i.e. in the beginning and in the end of the study year).

In case of Everest Bank Ltd. it has fluctuated up and down and has not recorded any particular trend. It has ranged between 77.48% and 64 percentage.

However, EBL has been more successful in utilizing the depositors fund as indicated by the average ratio i.e. 70.23 percentage as compared to HBL which are 53.76%.

Although the ratio indicates the efficiency of utilizing depositors' fund, it is only the gross measurement of efficiency as total deposits include saving and current deposit also, which might be demanded immediately by many customers. In this case the bank may face the problem. Hence a better ratio in terms of quality of investment is necessary.

4.2.3 Loan and Advance to Fixed Deposit Ratio

This ratio indicates how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable deposit and is payable only after certain date. hence, the bank must utilize the fixed deposit properly. Loan and advance to fixed deposit ratio indicates how properly the fixed deposit has been utilized.

The ratio is calculated by dividing loans and advance by fixed deposit.

$$\text{Loan and Advance to Fixed deposit ratio} = \frac{\text{LoanAndAdvance}}{\text{FixedDeposit}} \times 100$$

Loan and advance includes total loans, advance, cash credit, overdraft etc. Fixed deposit is that kind of deposit, which has fixed time period to maturity.

A high ratio indicates more efficiency in utilize their fixed deposit and vice versa.

The following table displays the ratio of loan and advance to fixed deposit ratio .

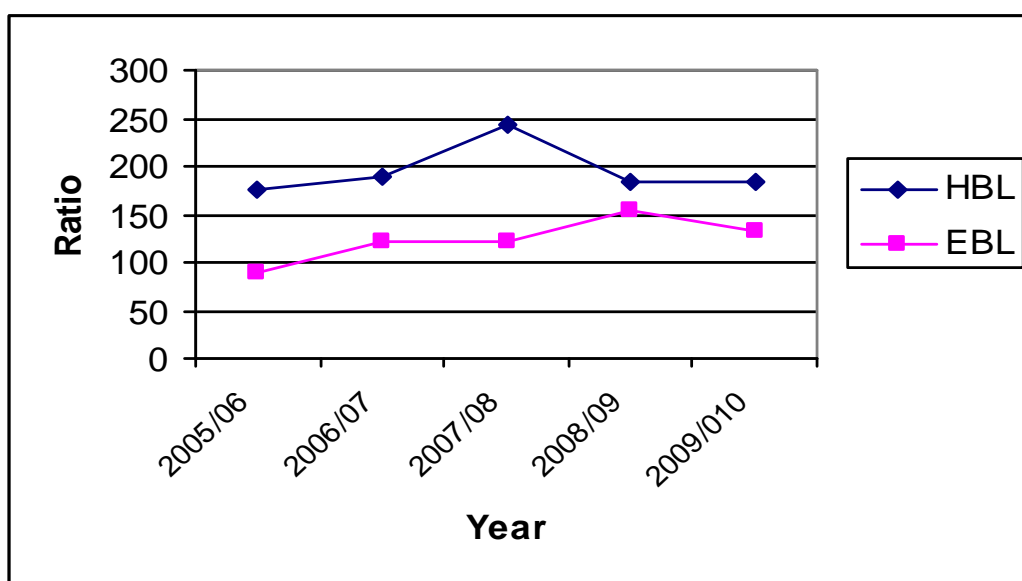
Table 4.7: Loan and Advance to Fixed Deposit Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio % | EBL | | Ratio % |
|----------------|------------------|---------------|---------|------------------|---------------|---------|
| | Loan and Advance | Fixed Deposit | | Loan and Advance | Fixed Deposit | |
| 2005/06 | 3321.42 | 1894.20 | 175 | 302.19 | 339.52 | 89 |
| 2006/07 | 4223.06 | 2225.59 | 190 | 871.68 | 721.60 | 121 |
| 2007/08 | 5311.66 | 2190.38 | 242 | 1364.89 | 1132.08 | 121 |
| 2008/09 | 7224.73 | 3917.14 | 184 | 2270.18 | 1478.89 | 154 |
| 2009/010 | 9015.35 | 4927.34 | 183 | 3005.76 | 2284.64 | 132 |
| Average | | | 195 | | | 123 |

Source: Collection from secondary data.

Loan and Advance to Fixed Deposit Ratio



In case of Himalayan Bank Ltd. it has increased in the first two years and then decreased in the next two years of the study period. It is always more than 100 percent and in an average it is almost double the fixed deposit.

In case of Everest Bank Ltd. the ratio has recorded a trend of gradual rise over the study year except in the year 2009/010. Except in the beginning year, the ratio has indicated full utilization of fixed assets in extending loan and advances.

Thus, it seems from the table that loan and advances to fixed deposit ratio of Himalayan Bank Ltd. is better than of Everest Bank Ltd.

In other word, two banks are able to utilize the fixed deposit properly. However Himalayan bank Ltd. Seems better in this regard. But only loan and advance to fixed deposit ratio cannot measure the efficiency of the banks completely. And it is necessary to calculate loan and advance to total assets ratio.

4.2.4 Loan and Advance to Total Assets Ratio

Loan and advance to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets.

$$\text{Loan and Advance to total Assets Ratio} = \frac{\text{LoanAndAdvance}}{\text{TotalAssets}} \times 100$$

Loan and advance includes total loan and advance and total assets include current assets, fixed assets, investment on shares, misc.assets, loan advance etc.

A high ratio is more desirable to the bank and indicates more successful to mobilize the total assets.

The following table displays the loan and advance to total assets ratio.

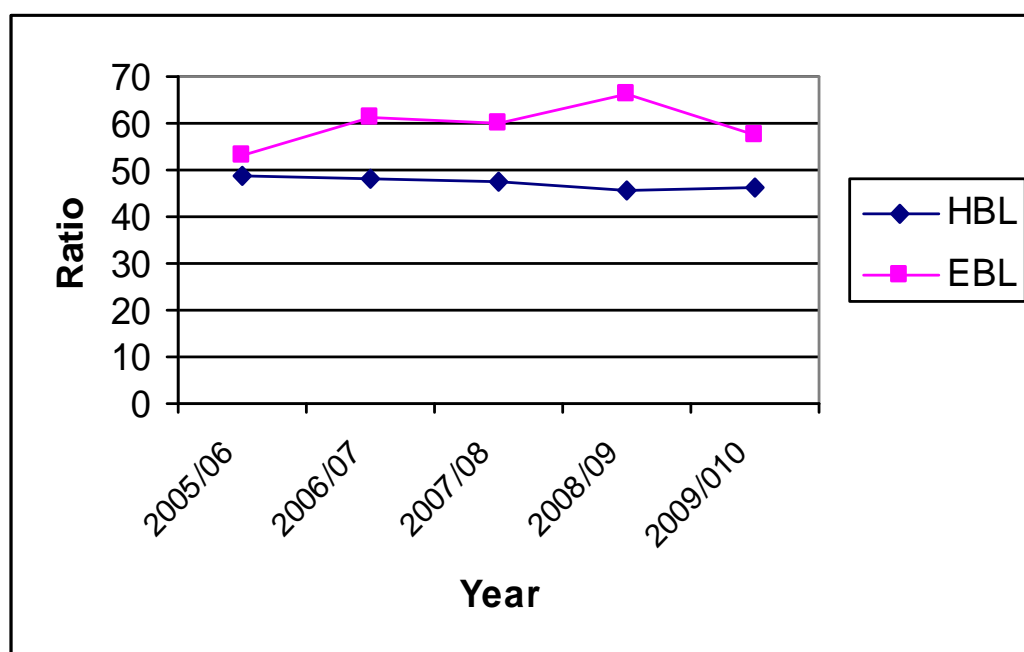
Table 4.8 : Loan and Advance to Total Assets Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio % | EBL | | Ratio % |
|----------------|------------------|--------------|---------|------------------|--------------|---------|
| | Loan and Advance | Total Assets | | Loan and Advance | Total Assets | |
| 2005/06 | 3321.42 | 6790.41 | 48.91 | 302.19 | 569.34 | 53.07 |
| 2006/07 | 4223.06 | 8734.54 | 48.35 | 871.68 | 1416.59 | 61.53 |
| 2007/08 | 5311.66 | 11168.87 | 47.56 | 1364.89 | 2275.01 | 60.00 |
| 2008/09 | 7224.73 | 15863.74 | 45.55 | 2270.18 | 3411.70 | 66.54 |
| 2009/010 | 9015.35 | 19500.58 | 46.32 | 3005.76 | 5202.58 | 57.77 |
| Average | | | 47.32 | | | 59.78 |

Source: Collection from secondary data.

Trend line of Loan and Advance to Total Assets.



In the case of Himalayan Bank Ltd. the ratio is more or less constant, as it has ranged between 48.91 percent and 45.55 percent. But the ratio of HBL is the lowest among the ratios of other banks. Thus indicates the inability of this bank to maximally utilize the assets.

In the case of Everest Bank Ltd. the ratio has recorded no particular trend over the study years. EBL has ranged between 66.54 percent in the year 2008/09 and 53.07 percent in 2005/06, the average ratio being 59.78 percent.

Thus it seems that EBL has comparatively successful than the Himalayan Bank in terms of utilization of total assets.

4.3 Leverage Ratio

Leverage ratio, also known as capital structure ratio, indicates the proportionate relationship between debt and equality. Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of outsider's fund and shareholder's fund of the bank.

Like short-term creditors, like bankers and supplier who are more concerned with the firm's current debt paying ability, long-term creditors, like debenture holders financial institutions etc are more concerned with the firms long term financial strength. As a general rule, there should be an appropriate mix of debt and owner's equality in financing the firm's assets.

The manner in which assets are financed has a number of implications. Debt financing is more risky from the firm's point of view but it is more profitable and vice versa.

The firm has a legal obligation to pay interest to debt holders, irrespective of the profits made or losses incurred by the firms. Second use of debt is advantageous for shareholders in two ways.

- a) They can retain control over the firm with the limited stake.
- b) Their earning will be magnified i.e. when the firms earn a rate of return on total capital employed higher debt financing on results in higher return of equity.

However, leverage can work in opposite direction as well. If the cost of debt is higher than the firm's overall rate of return, the earning of shareholders will be reduced. In addition, there is a threat of insolvency too.

A highly debt-burdened firm will find difficulty in raising fund from the creditors and owners in future creditors treat the owner's equity as a margin of safety; if the equity base is thin, the creditors risk will be high. Thus leverage ratios are calculated to measure the financial risk and the firm's ability of using debt to shareholders advantage.

4.3.1 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

$$\text{Debt Equity Ratio} = \frac{\text{TotalDebt}}{\text{TotalEquity}}$$

Total debt refers to current liabilities. Short-term loan, bills payable, tax provision, staff bonus, dividend payable, and other liabilities. Total equity includes share capital, reserves (general, capital, exchange fluctuation and the like undistributed profit).

This measure tells us the relative importance of debt in the capital structure. The ratio computed here has been based on book value figures; it is sometimes useful to calculate this ratio using market values also.

Generally very high debt to equity ratio is unfavorable to the business. Excess debt allows the third parties to have legal claims or dominancy on the company. These claims are for interest payment at regular interval plus repayment of the principle by the agreed time. If the firm becomes unable to pay interest and principle in time, the creditors can take legal action to get the repayments.

Similarly, a very low debt to equity ratio is also unfavorable from the shareholder's point of view as it affects their profitability. They want this ratio to be high, so that they can get more profit with less capital. Employment of debt in the business is considered beneficial when the interest rates are less than the overall return and vice-versa.

The following table displays the debt to equity ratio of the selected two banks.

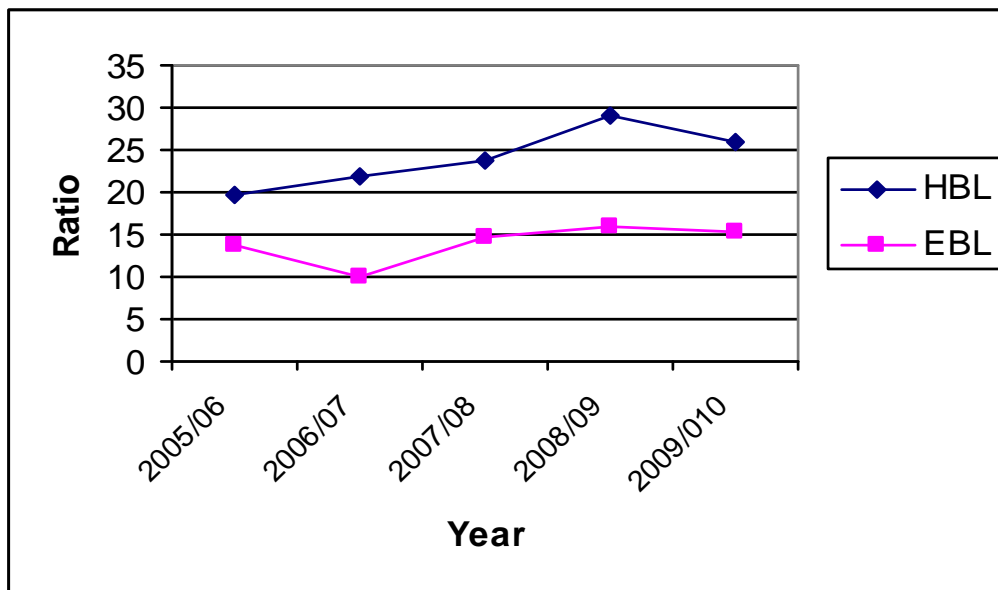
Table 4.9: Debt Equity Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio Times | EBL | | Ratio Times |
|----------------|------------|--------------|-------------|------------|--------------|-------------|
| | Total Debt | Total equity | | Total Debt | Total equity | |
| 2005/06 | 6479.53 | 329.37 | 19.67 | 531.01 | 38.31 | 13.86 |
| 2006/07 | 8350.48 | 384.06 | 21.74 | 1289.16 | 127.43 | 10.12 |
| 2007/08 | 10717.69 | 451.18 | 23.75 | 2129.84 | 145.16 | 14.67 |
| 2008/09 | 15337.69 | 526.05 | 29.16 | 3208.86 | 202.85 | 15.82 |
| 2009/010 | 18779.98 | 720.59 | 26.06 | 4883.18 | 319.40 | 15.29 |
| Average | | | 24.07 | | | 13.95 |

Source: Collection from secondary data.

Trend line of Debt- Equity ratio



Comparatively the debt to equity ratio of Himalayan Bank Ltd. is the higher than Everest Bank Ltd. and in an average 24 times equity fund has been the amount of debt financing which is very high in normal cases but being the banks business, this ratio can not be considered too dangerous.

In general debt to equity ratio of two banks have not fluctuated widely. As long as these banks are able to pay their current liabilities and long-range debts will in time, such high capital structure is not a problem and can be accepted as normal.

The interview with the concerned authority revealed that these banks have not faced problem of debts payment so high leveraged of these banks can be considered their strength rather than their weakness.

4.3.2 Debt-Assets Ratio

Debt to assets ratio reflects the financial contribution of outsiders and owners on total assets of the firm. It also measures the financial security to the outsiders. Generally creditors prefer a low debt ratio and owners prefer

high debt ratio in order to magnify their earnings on the one hand and to maintain their concentrated control over the firm on the other.

This ratio show what portion of the capital assets is financed by outside fund; a high debt ratio implies a banks success in exploiting debt to be more profitable and it also implies riskier capital structure.

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

$$\text{Debt to assets Ratio} = \frac{\text{TotalDebt}}{\text{TotalAssets}}$$

Total debt includes short term loans, long term loans and all kinds of deposits, bills payable, tax provision, staff bonus etc. Similarly total assets include current assets, fixed assets, investment for share, debentures and likely other, misc-assets etc.

Higher the debt ratio higher the financial risk as well as increasing claims of outsiders in total assets. On the other hand lower the ratio, lower the financial risk as well as decreasing claims of outsiders.

The ratio of 1:2 is considered to be satisfactory

The following table displays the ratio of total debt to total assets of these banks respectively.

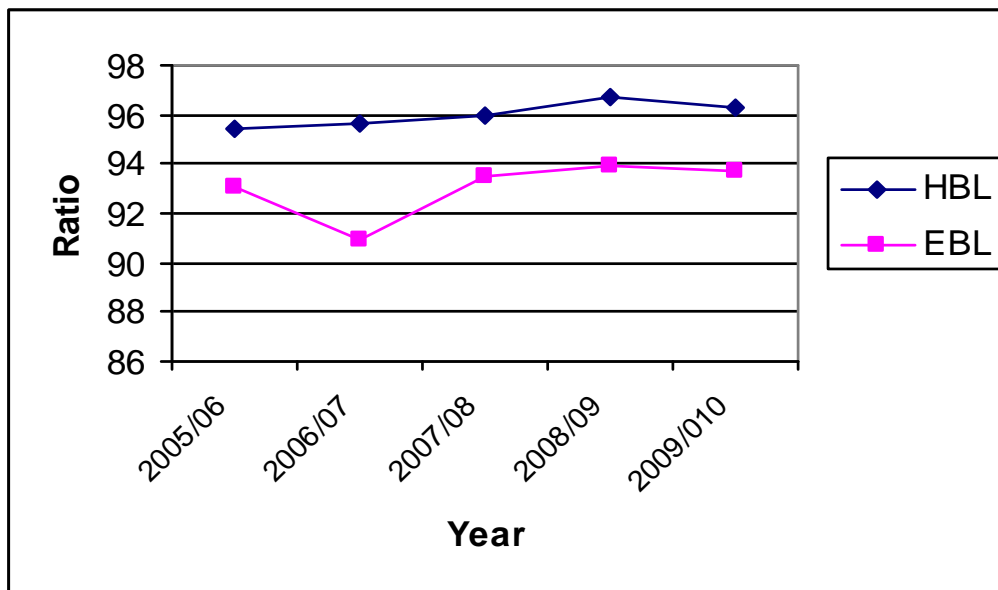
Table 4.10 : Debt- Assets Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio % | EBL | | Ratio % |
|----------------|------------|--------------|---------|------------|--------------|---------|
| | Total Debt | Total Assets | | Total Debt | Total Assets | |
| 2005/06 | 6479.53 | 6790.41 | 95.42 | 530.11 | 569.34 | 93.11 |
| 2006/07 | 8350.48 | 8734.54 | 95.60 | 1289.16 | 1416.59 | 90.89 |
| 2007/08 | 10717.69 | 11168.87 | 95.95 | 2129.84 | 2275.01 | 93.49 |
| 2008/09 | 15337.69 | 15863.74 | 96.70 | 3204.27 | 3411.70 | 93.92 |
| 2009/010 | 18779.98 | 19500.58 | 96.30 | 4874.79 | 5202.58 | 93.70 |
| Average | | | 96 | | | 93 |

Source: Collection from secondary data.

Trend line of Debt assets Ratio (Rs in Million)



The table and the trend line clearly indicates that this rates in two banks are almost constant ie 1:1 through out the study period of course there are some insignificant variations compared to the standard of 1:2, this ratio indicates high leveraged ness in case of the two banks, i.e more debt capital has been used then it is reasonable.

It may be concluded from the above analysis that debts to assets ratio of these banks are not much satisfactory has not been maintained by either of the banks.

4.3.3 Long term Debt to Total Assets Ratio

Long term debt to total assets ratio reflects the percentage of total assets that have been financed by long-term debt. If the firm uses more long-term debt it is said to have adopted conservative financing policy and it has less risk of facing the problem of shortage of fund. If the firm uses less long-term debt and more short-term debt it is said to have adopted aggressive financing policy. An aggressive financing policy makes the firm more risky.

The ratio of 1:1 is considered to be satisfactory in term of modern banking customary.

The ratio is calculated by dividing long term debt by total assets.

$$\text{Long Term Debt to Total Assets Ratio} = \frac{\text{LongTermDebt}}{\text{TotalAssets}}$$

Long-term debt includes fixed deposits and borrowings from other books and total assets include all the amounts of right hand side of balance sheet.

The following table displays the ratio of long-term debt to total assets of the selected banks.

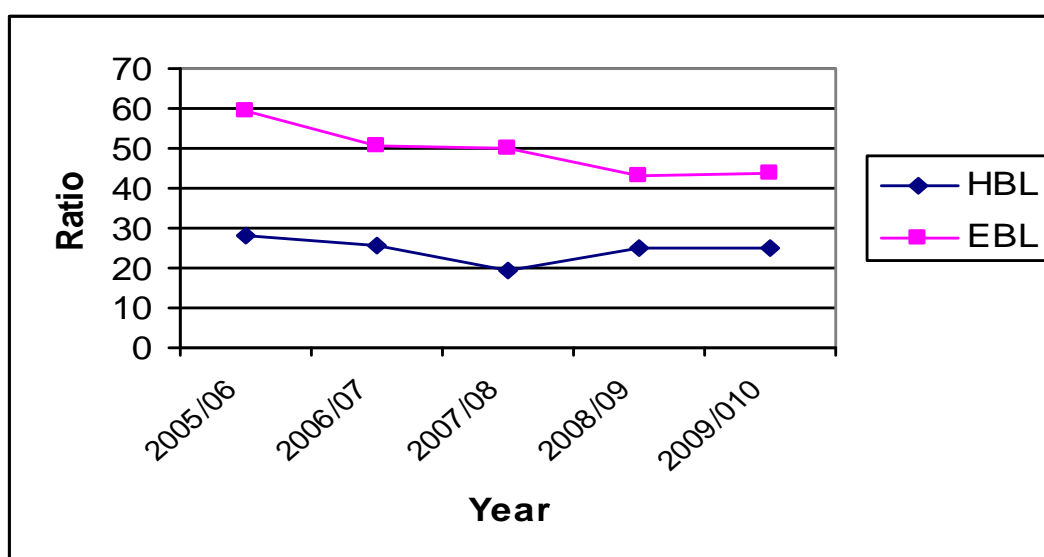
Table 4.11 : Long term Debt to Total Assets Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|----------------|--------------|-------|----------------|--------------|-------|
| | Long term Debt | Total Assets | | Long Term Debt | Total Assets | |
| 2005/06 | 1894.20 | 6790.41 | 27.89 | 339.52 | 569.34 | 59.63 |
| 2006/07 | 2225.59 | 8734.54 | 25.48 | 721.38 | 1416.59 | 50.92 |
| 2007/08 | 2190.38 | 11168.87 | 19.61 | 1132.08 | 2275.01 | 49.76 |
| 2008/09 | 3917.14 | 15863.74 | 24.69 | 1478.89 | 3411.70 | 43.35 |
| 2009/010 | 4927.37 | 19500.58 | 25.27 | 2284.64 | 5202.58 | 43.91 |
| Average | | | 24.59 | | | 49.52 |

Source: Collection from secondary data.

Trend line of long term debt to total assets ratio



The above table and trend lines reveal that long-term liabilities to total assets ratios of the commercial bank have slightly fluctuated over the study year. The ratio of Everest bank ltd is highest than of Himalayan Bank Ltd. in case of Himalayan Bank ltd. is the lowest (i.e 24.59 percent) ratio.

In case of EBL it has been decreasing over the study period. While in case of HBL's ratio has fluctuated and recorded on particular trend.

4.3.4 Capital Adequacy Ratio

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 the central banks.

In this context, Nepal Rastra Bank has issued directives to all commercial banks. That every commercial bank is required to maintain at least 8% capital fund of total deposit by mid 1992 and there after.

Banks have been directed to meet any short fall in capital adequacy ratio by transferring part of profit to general reserve and there by increasing equity fund.

Capital adequacy ratio is calculated by dividing the capital fund by total deposit of the firm.

$$\text{Capital Adequacy Ratio} = \frac{\text{CapitalFund}}{\text{TotalDeposit}}$$

Capital fund includes paid-up capital, general reserves and undistributed profit. Total deposit includes current, saving and fixed deposit and all kind of call deposit.

The following table displays the capital adequacy ratio of the selected banks.

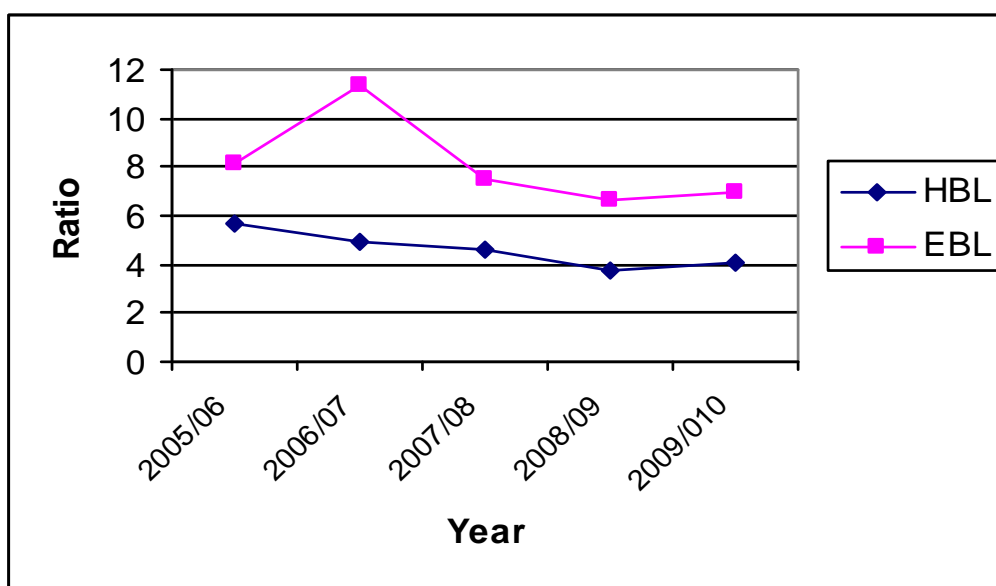
Table 4.12 : Capital Adequacy Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|--------------|------------|-------|--------------|------------|-------|
| | Capital Fund | Total Debt | | Capital Fund | Total Debt | |
| 2005/06 | 329.37 | 5839.05 | 5.65 | 38.31 | 471.66 | 8.12 |
| 2006/07 | 384.06 | 7713.60 | 4.97 | 127.43 | 1124.90 | 11.33 |
| 2007/08 | 451.18 | 9779.72 | 4.6 | 145.16 | 1948.94 | 7.45 |
| 2008/09 | 526.05 | 14043.10 | 3.74 | 202.85 | 3057.43 | 6.63 |
| 2009/010 | 720.59 | 17532.40 | 4.11 | 319.40 | 4574.51 | 6.98 |
| Average | | | 4.61 | | | 8.10 |

Source: Collection from secondary data.

Trend line of capital Adequacy



In case of HBL, the ratio has been decreasing over the years except in 2009/010 during the study period. This bank has been unable to balance the capital adequacy ratio i.e. 8 percent as prescribed by Nepal Rastra Bank, as the maximum adequacy ratio of this bank is 5.64 percent.

Regarding to EBL, the capital adequacy ratio of the initial two years has been within the prescribed limit (i.e. 8.12-11.33) but in the remaining years, this bank has been too unsuccessful to comply with the direction of NRB. The trend line indicates no particular trend of this ratio.

It can be concluded from the above analysis that capital adequacy ratio of EBL is comparatively better than HBL yet not satisfactory.

4.3.5 Net worth to Total Assets Ratio

Net worth to total assets ratio reflects the sufficiency of shareholders' fund against the total assets. This ratio is calculated by dividing net worth by total assets.

$$\text{Net worth to total assets ratio} = \frac{\text{NetWorth}}{\text{TotalAssets}} \times 100$$

Where net worth refers to ordinary share capital, bonus share capital, preference share capital and all kinds of shareholders' reserve. And total assets include current assets, fixed assets, investments in share and investment in debentures and misc. assets etc.

The following table and trend line displays the ratio of all

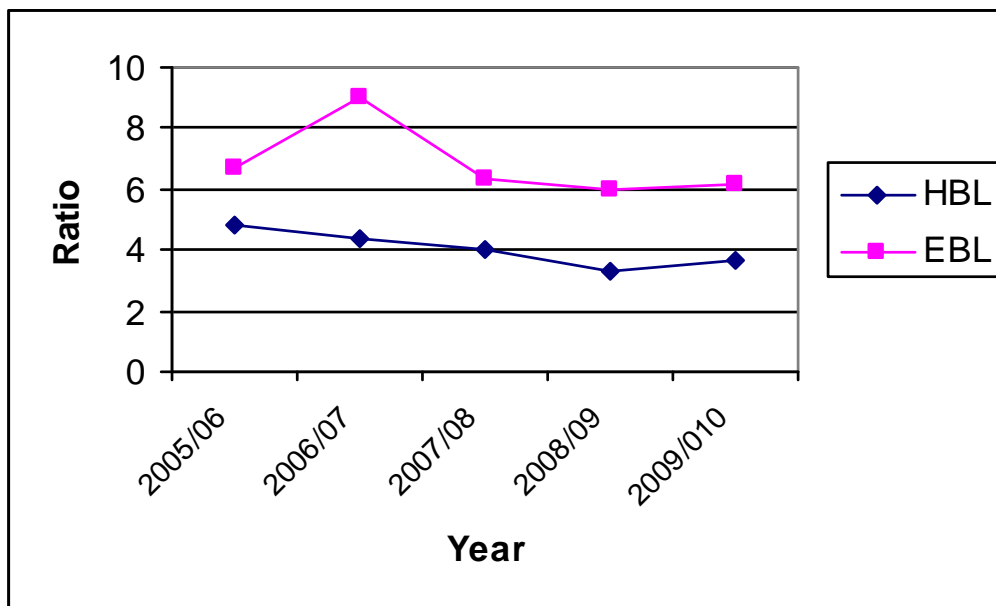
Table 4.13 : Net worth to total Assets Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|-----------|--------------|-------|-----------|--------------|-------|
| | Net worth | Total Assets | | Net worth | Total Assets | |
| 2005/06 | 329.37 | 6790.41 | 4.85 | 38.31 | 569.34 | 6.73 |
| 2006/07 | 384.06 | 8734.54 | 4.40 | 127.43 | 1416.59 | 8.99 |
| 2007/08 | 451.18 | 11168.87 | 4.04 | 145.16 | 2275.01 | 6.38 |
| 2008/09 | 526.05 | 15863.74 | 3.31 | 202.85 | 3411.70 | 5.95 |
| 2009/010 | 720.59 | 19500.58 | 3.69 | 319.40 | 5202.58 | 6.14 |
| Average | | | 4.05 | | | 6.84 |

Source: Collection from secondary data.

Trend line of Net worth to total Assets ratio



In case of Himalayan Bank Ltd. the ratio has been slightly decreasing over the study period and the average ratio is 4.05.

In case of Everest Bank Ltd. it has maintained maximum ratio over the study period then other banks. It has yearly average ratio is 6.84 percent and the ratio has maximum (i.e. 8.99 percent) in 2006/07 and minimum (i.e. 6.14 percent) in 2009/10.

Thus, it has been conducted from the above analysis that EBL has less uniform ratio than that of other bank. HBL has uniform than other and they have been also able to perform well ever with a low capital base as compared to EBL.

4.4 Profitability Ratio

A bank should earn profits to survive and grow over a long period of time. Profits are essential, but it would be working to assume that every action initiated by management of a company should be aimed at maximizing profit without considering social consequences. It is a fact that sufficient

profits must be earned to sustain in the operations of the business and to be able to obtain fund from investors for expansion and growth and to contributed towards the social overheads for the welfare of the society.

Profit is the difference between revenues and expenses over a certain period of time. Profit is the ultimate output of a company and it's existence in not justified if it fails to make sufficient profits. Therefore the company should continuously evaluate the efficiency of the company in terms of profit. The profit ability ratios are calculated to measure the operating efficiency of the company. Besides the management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get reasonable rate of return on their investment. Company's employees also want sufficient staff bonus. This is possible only when the company earns enough profits.

Generally, two major types of profitability ratios are calculated.

- a) Profitability in relation to sales.
- b) Profitability in relation to investment.

4.4.1 Return on Net worth

Return on net worth reflects how well the firms has used the resources of the owners. In fact, this ratio is one of the most important relationships in financial analysis. The earning of satisfactory return is the most desirable objectives of business as common or ordinary shareholders are entitled to the residual profits. Though the rate of dividend is not fixed, the earning may be distributed to shareholders or retained in the business. Nevertheless the net profit after taxes represents the return.

Return on net worth ratio is known as total equity ratio or return on shareholders equity. It is calculated by dividing profit after tax by net worth.

$$\text{Return on Equity} = \frac{\text{NPAT}}{\text{Networth}}$$

Here, NPAT refers to net profit after tax as per profit and less account and net worth refers to paid up capital, share premium, reserve and surplus less accumulated losses.

The ratio of net profit owner's equity reflect the extent to which social responsibility toward owners has been accomplished. This ratio is thus of great interest to present as well as prospective shareholders and a great concern to management.

The following table and trend line exhibit the total equity ratio of the banks.

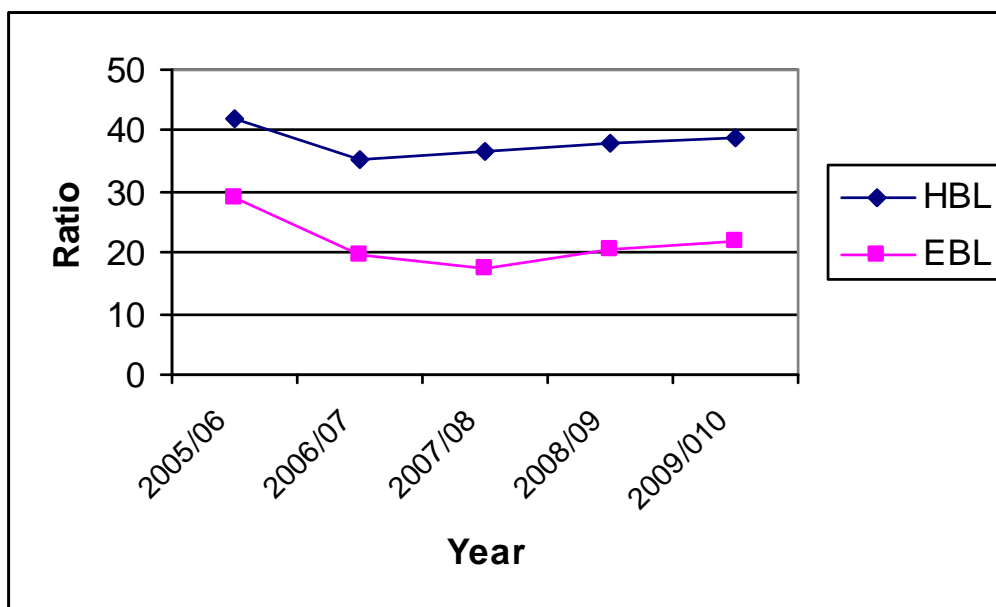
Table 4.14 : Return on net worth

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|--------|-----------|-------|-------|-----------|---------|
| | NPAT | Net Worth | | NPAT | Net Worth | |
| 2005/06 | 138.10 | 329.37 | 41.92 | 11.04 | 38.31 | (28.82) |
| 2006/07 | 135.98 | 387.06 | 35.10 | 25.03 | 127.43 | 19.64 |
| 2007/08 | 165.25 | 457.18 | 36.6 | 25.24 | 145.16 | 17.38 |
| 2008/09 | 199.38 | 526.05 | 37.9 | 41.27 | 202.85 | 20.35 |
| 2009/010 | 280.69 | 720.59 | 38.95 | 69.70 | 319.14 | 21.82 |
| Average | | | 38.09 | | | 10.07 |

Source: Balance sheet of related bank.

Trend line of Return on net worth.



In case of Himalayan Bank Ltd. it has been increasing gradually. The ratio has ranged between 41.92 percent and 35.10 percent. The trend line is more or less horizontal over the study period.

In case of Everest bank Ltd. the trend line shows that the ratio is some what improving over the study period. In an average the ratio is 10.07 percent because of about ten million losses in the beginning of the study period. It has recorded the maximum of 21.82 (2009/010) and the minimum of negative ratio 28.82 (2005/06)

Thus , it may be concluded form the above analysis that net return on net worth ratio of HBL seems better but that of EBL is not satisfactory i.e. not able to mobilize shareholders fund properly.

4.4.2 Return on Total Assets 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 measures earning power and overall operation efficiency of a firm. This

ratio is a good measure of earning power as much as it is an extension of the input-output analysis. These ratios also help the management in identifying the factors that have a bearing on overall performance of the firm.

Return on total assets is calculated by dividing net profit after tax by total assets of the company .

$$\text{Return on total assets ratio} = \frac{NPAT}{TotalAssets} \times 100$$

NPAT refers to net profit after tax and interest as per profit and loss a/c and total assets refer to the total assets as per balance sheet.

Higher return on total assets indicates the higher efficiency in the utilization of total assets and vice-versa.

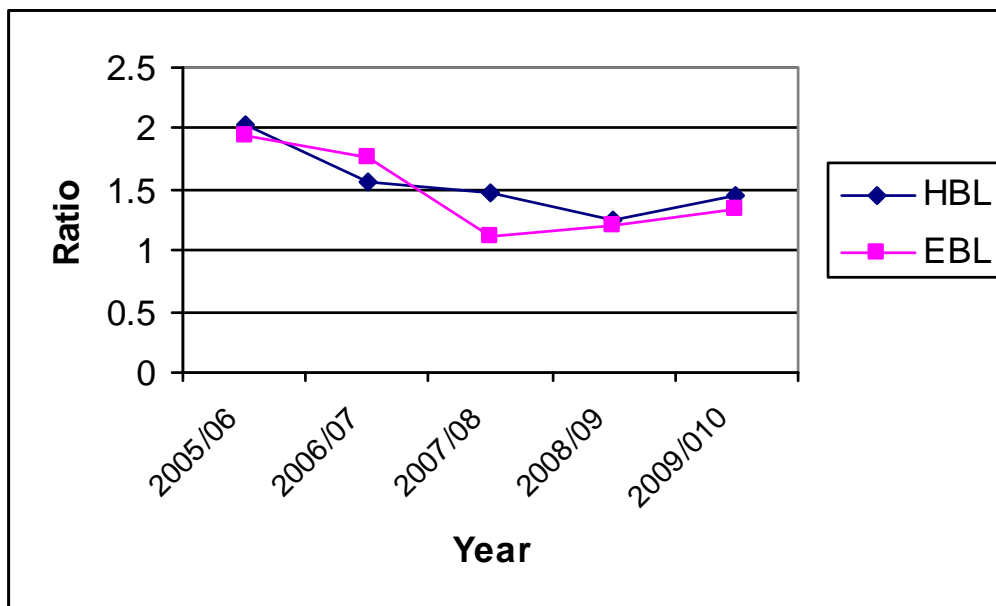
Table 4.15 : Return on total Assets Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|--------|--------------|-------|-------|--------------|-------|
| | NPAT | Total assets | | NPAT | Total Assets | |
| 2005/06 | 138.10 | 6790.41 | 2.03 | 11.04 | 569.34 | 1.94 |
| 2006/07 | 135.98 | 8734.54 | 1.56 | 25.03 | 1416.59 | 1.77 |
| 2007/08 | 165.25 | 11168.87 | 1.48 | 25.24 | 2275.01 | 1.11 |
| 2008/09 | 199.38 | 15863.74 | 1.26 | 41.27 | 3411.70 | 1.21 |
| 2009/010 | 280.69 | 19500.58 | 1.44 | 69.70 | 5202.58 | 1.34 |
| Average | | | 1.55 | | | 0.69 |

Source: Balance sheet of related bank.

Trend line of Return on Total Assets



In all the case, the ratio has been about 1 percent or so: However the performance of the EBL is less impressive compare to other bank.

More specifically, in case of HBL, it has been continuously decreasing except in the last year when it has increased. The ratio has maximum i.e. 2.03 percent in the beginning and dropped down to minimum ratio i.e. 1.26 percent in the year 2008/09.

Similarly, in case of EBL it has recorded no particular trend and is more or less constant. In the beginning of the study period, due to loss, the ratio is negative and so has averaged at 0.69 percent to conclude that the analysis indicates less efficiency of EBL in mobilizing the assets of the company properly.

The types of assets also determine the ability to generate profit. Moreover HBL seems to have invested fund in more productive sector. But this measure does not fully explain the efficiency by which resources have been utilized. Sometimes this ratio may be low but shareholders are enjoying lost

of profit. So another ratio needs to be analyzed i.e. return on total deposit ratio.

4.4.3 Return on Total Deposit Ratio

Return on total deposit ratio measures how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits; an explanation of the ability of management in efficient utilization of deposits. The ratio is calculated as:

$$\text{Return on total Deposit Ratio} = \frac{NPAT}{TotalDeposit} \times 100$$

NPAT refers net profit after tax and interest. A total deposit refers to fixed deposits, saving deposit and current deposits as exhibited in balance sheet of the banks.

The ratio is a mirror of bank's overall financing performance, deposits are outsiders' capital funds that entails paying fixed interest, this affects NPAT ultimately.

Shareholders, depositors and management are concerned with this ratio. This ratio and trend line is tabulated below.

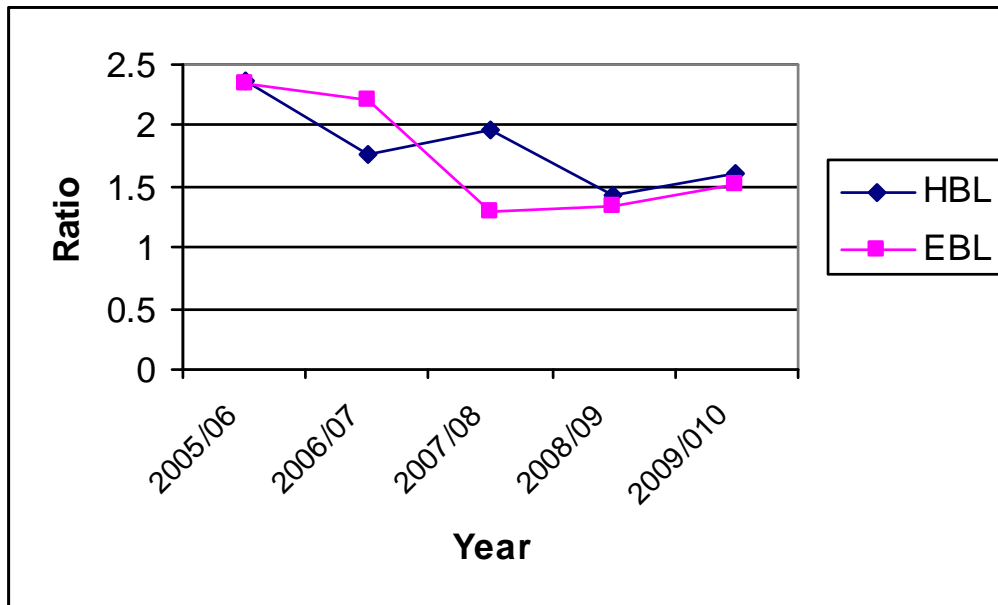
Table 4.16 : Return on Total Deposit Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|--------|---------------|-------|-------|---------------|-------|
| | NPAT | Total Deposit | | NPAT | Total Deposit | |
| 2005/06 | 138.10 | 5839.05 | 2.37 | 11.04 | 471.66 | 2.34 |
| 2006/07 | 135.98 | 7713.60 | 1.76 | 25.03 | 1124.90 | 2.22 |
| 2007/08 | 165.25 | 9779.72 | 1.96 | 25 | 1948.94 | 1.29 |
| 2008/09 | 199.38 | 14043.10 | 1.42 | 41 | 3057.43 | 1.35 |
| 2009/010 | 280.69 | 17532.40 | 1.60 | 69 | 4574.51 | 1.52 |
| Average | | | 1.82 | | | 0.81 |

Source: Balance sheet and P/L A/C of related bank.

Trend line of Return on total Deposit Ratio



In case of HBL, it has not adopted any particular trend line over the study period. In the beginning it has the highest ratio of 2.37 percent because of the lowest total deposits. In the last year through it has earned the highest amount of profit. The ratio is not so much because of the highest total deposits.

But in case of EBL the ratio indicates under performance compared to the other banks it. Its average ratio is 0.81 and it shown no sign of improvement over the years.

It may be concluded from the above analysis that in terms of return on total deposit ratio, HBL is doing better comparatively.

4.4.4 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 banks. Generally banks earn interest through the provision of loans and advances, overdraft and investment in securities.

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

The following formula is used to calculate this ratio.

$$\text{Interest earned to total Assets ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

"Interest Earned" represents the total interest shown in the income side of profit and loss account. And "total assets" represent the total of the balance sheet.

By using the formula, the following table and trend line have been developed for visual presentation of this ratio of these banks.

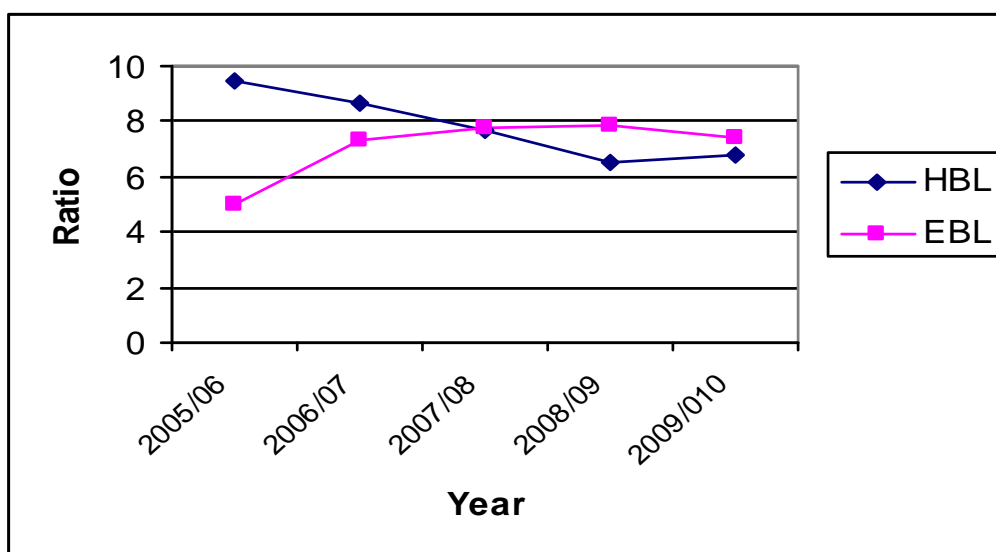
Table 4.17 : Interest Earned to Total Assets Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|-----------------|--------------|-------|-----------------|--------------|-------|
| | Interest Earned | Total Assets | | Interest Earned | Total Assets | |
| 2005/06 | 640.25 | 6790.41 | 9.43 | 28.24 | 569.34 | 4.96 |
| 2006/07 | 753.97 | 8734.54 | 8.63 | 104.20 | 1416.59 | 7.36 |
| 2007/08 | 862.05 | 11168.87 | 7.72 | 175.94 | 2275.01 | 7.73 |
| 2008/09 | 1033.66 | 15863.74 | 6.51 | 267.44 | 3411.70 | 7.84 |
| 2009/010 | 1326.38 | 19500.58 | 6.80 | 385.02 | 5202.58 | 7.40 |
| Average | | | 7.82 | | | 7.056 |

Source: Balance sheet of related bank.

Trend line of Interest Earned to Total Assets



The table shows that interest earned to total assets ratio of HBL has recorded a falling trend except in 2009/010. This ratio of HBL has ranged between 9.34 percent (2005/06) and 6.51 percent (2008/09) average ratio being 7.82 percent.

But in case EBL it has adopted a rising trend over the study period. The ratio of EBL has ranged between 7.84 percent (2008/09) and 4.96 percent in the beginning.

To sum up, the ratio of HBL has always been highest than EBL throughout the study period and it indicates that HBL has been able to earn more interest in relation to total assets, i.e. efficient utilization of total assets for earning purpose. One of the worth nothing aspects is, in case of two banks, the amount of interest and total assets have been increasing over the study period though the ratios of interest increasing and total assets increasing are different.

4.5 Other Ratio

In addition to the above ratios, there are other widely used ratios related to the financial aspects of the company, some of which has been discussed here in this section to supplement the analysis.

4.5.1 Interest Paid to Interest Income Ratio

Interest paid to interest income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different sources.

Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice-versa.

This ratio can be calculated by using the following formula.

$$\text{Interest paid to interest income ratio} = \frac{\text{Interest Paid}}{\text{Interest Income}}$$

In this present study, "Total interest expenses" includes interest paid on deposit and borrowings. And "Interest income" includes the interest from loan and advance, cash-credit and overdraft, government securities, inter bank and other investments.

The ratio of these selected banks over the study period has been tabulated below.

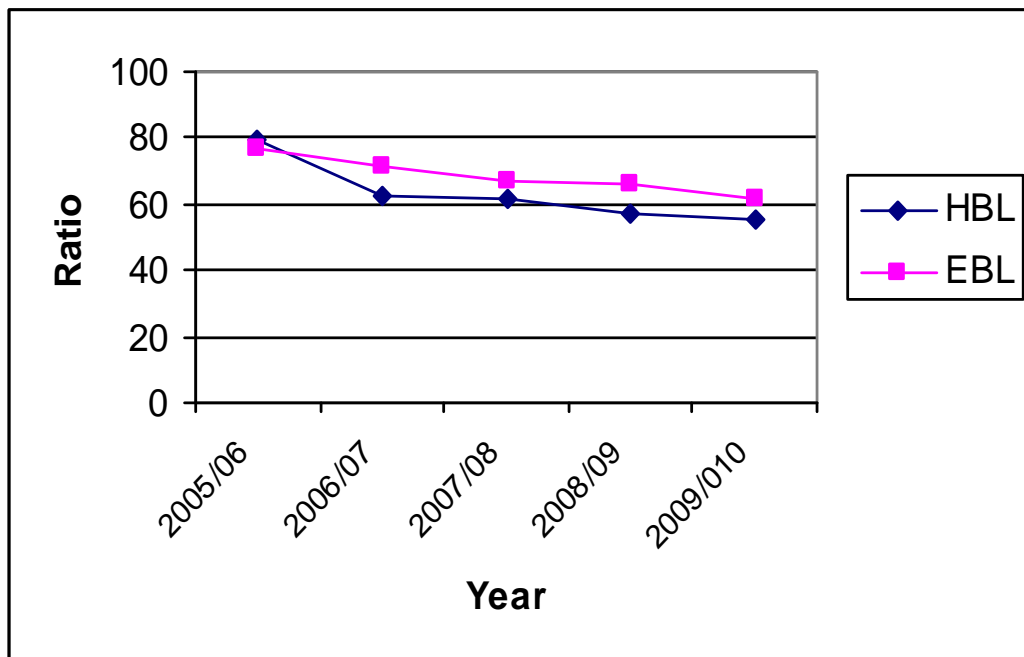
Table 4.18 : Interest paid to Interest Income Ratio

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|---------------|-----------------|-------|---------------|-----------------|-------|
| | Interest paid | Interest Income | | Interest Paid | Interest Income | |
| 2005/06 | 364.68 | 460.25 | 79.29 | 21.80 | 28.24 | 77.2 |
| 2006/07 | 473.79 | 753.97 | 62.84 | 74.45 | 104.20 | 71.45 |
| 2007/08 | 532.55 | 826.05 | 61.78 | 118.12 | 175.94 | 67.14 |
| 2008/09 | 593.44 | 1033.66 | 57.41 | 177.89 | 267.44 | 66.51 |
| 2009/010 | 732.69 | 1326.38 | 55.23 | 236.14 | 385.02 | 61.33 |
| Average | | | 63.3 | | | 68.72 |

Source: Profit and Loss account of related banks.

Trend line of interest paid to interest Income



In general, this ratio has recorded a decreasing trend in the all banks. In the two banks, this ratio stands at an average of sixty plus. However, the average ratio of EBL is the highest (i.e. 63.3). It indicates the ability of HBL to reduce the interest expenses vice versa interest income.

4.5.2 Earning Per Share

The profitability of the common shareholders' investment can also be measured in terms of earning per share. The earning per share is calculated by dividing the profit after tax by total number of common (ordinary) share outstanding.

$$\text{Earning per share} = \frac{\text{Profit After Tax}}{\text{No. of Common Share Outstanding}}$$

Earning per share calculated over the years indicates whether the firm's earnings power on per share basis has changed over that period or not the industry average or the earning per share of other firms to be of some relevance. EPS simply shows the profitability of the firm on a per share basis; it does not reflect how much is paid as dividend and how much is

retained in the business. But as a profitability index, it is a valuable and widely used ratio.

Earning per share of these banks has been tabulated bellow.

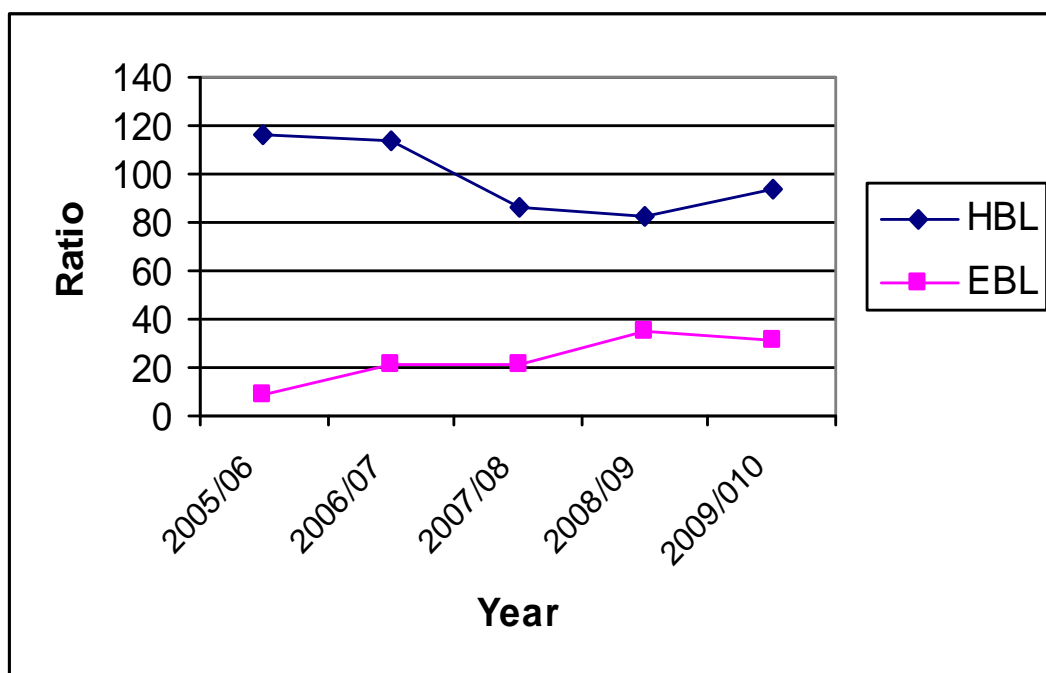
Table 4.19: Earning per Share

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|--------|--------------------|--------|-------|--------------------|-------|
| | NPAT | No of equity share | | NPAT | No of equity share | |
| 2005/06 | 138100 | 1200 | 115.8 | 11040 | 1200 | 9.20 |
| 2006/07 | 135980 | 1200 | 113.32 | 25030 | 1175.6 | 21.29 |
| 2007/08 | 165250 | 1920 | 86.07 | 25240 | 1184.3 | 21.31 |
| 2008/09 | 199380 | 2400 | 83.08 | 41270 | 1184.2 | 34.85 |
| 2009/010 | 280690 | 3000 | 93.56 | 69700 | 2208.6 | 31.56 |
| Average | | | 98.22 | | | 19.96 |

Source: Balance sheet and P/C Account of related banks.

Trend line of Earning per share



The table shows that earning per share ratio of HBL has been rapidly falling over the study period except in the year 2009/010. The ratio of HBL has ranged between Rs. 115.08 and Rs 83.08, average ratio being Rs. 98.22, which has been recorded as the highest of all. This is some what contradictory.

Similarly in case of EBL too has been raising over the years except in the year 2009/010. This ratio has ranged between Rs. 34.85 and (Rs. 9.20) average ratio being Rs. 19.96, which is the lowest than HBL.

Thus, the highest EPS ratio of HBL indicates success to generate more profit than that of other but this has been counter balanced by falling trend of EPS in this bank.

But earning per share only the measures how much one share earns but it cannot measure how much shareholders get. So it is necessary to calculated dividend per share ratio always.

4.5.3 Dividend Per Share

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

$$\text{Dividend Per share} = \frac{\text{Earning Paid To Shareholders}}{\text{No. Of .Ordinary shares outs tan ding}}$$

Since there is no standard recommending DPS so it has to be compared with previous years or with that of other banks. Higher ratio shows good

performance in terms of payment of more dividends and there by attracting more ordinary shareholders but it also indicates fewer funds available for the further expansion of business.

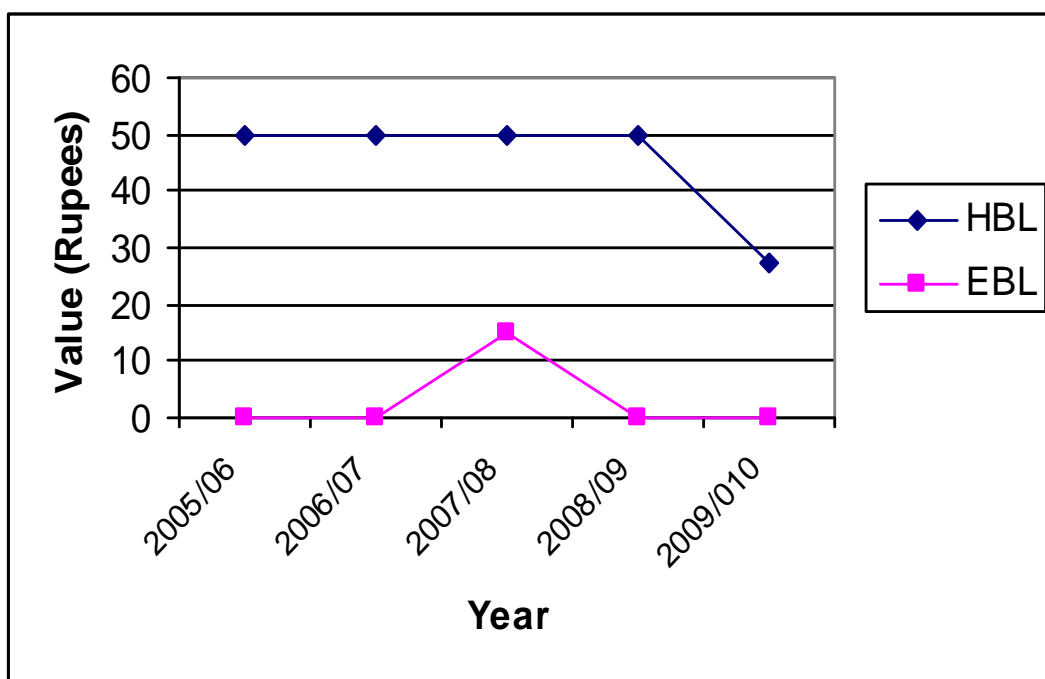
Table 4.20 : Dividend Per Share

(Fig. in Rs. Million)

| Financial year | HBL | | Ratio | EBL | | Ratio |
|----------------|-----------------|-------------|-------|-----------------|-------------|-------|
| | Equity Dividend | No of share | | Equity Dividend | No of share | |
| 2005/06 | 60.00 | 1200 | 50.00 | 0.00 | 600 | 0.00 |
| 2006/07 | 60.00 | 1200 | 50.00 | 0.00 | 1175.6 | 0.00 |
| 2007/08 | 96000 | 1920 | 50.00 | 17760 | 1184.3 | 15.00 |
| 2008/09 | 120.00 | 2400 | 50.00 | 0.00 | 1184.2 | 0.00 |
| 2009/010 | 82500 | 3000 | 27.50 | 0.00 | 2208.6 | 0.00 |
| Average | | | 45.50 | | | 3.00 |

Source: Financial statement of related banks.

Trend line of Dividend per share



The table shows that dividend per share ratio of HBL has been constant over the study period except in the year 2009/010. It indicates continuity of dividend payment and accepted as a healthy practice.

In case of EBL has paid no dividend except in the year 2007/08 when it has paid only small amount of dividend per share.

Thus, it may be concluded from the above analysis, that, the ratio of HBL is promising and attracts most of the potential Nepalese shareholder. However we can not say that the other banks are doing poorly because they might have retained parts of their earning for further expansion. But this argument is falsified by the fact that the other banks stand inferior to HBL even in terms of EPS. To sum up, HBL and EBL rank first and second in terms of both EPS and DPS.

4.5.4 Operating Income Analysis

'Income' refers to the financial return from one's business, labor or invested capital. This term is usually used for money received by an individual organization, whether earned through work or other wise.

Income is an important indicator of financial performance of banks, so it will be relevant to analyze the sources of income of the selected banks.

The basis sources of income of a commercial bank is interest earned from various heads of investments title i.e. loan and advances, overdraft, government securities, commission and discounts, dividend received, foreign exchanges, gain in foreign exchange fluctuation and other miscellaneous items.

1. Income from Interest

In the present study, interest earned includes the interest income from loan advances and overdraft, investment on government securities, investment on debentures, money at short call, interest, and bank loans.

Since interest earned reflects the operational efficiency of banks, higher ratio indicates higher efficiency.

Interest income ratio is obtained by using the following formulas

$$\text{Interest income} = \frac{\text{InterestIncome}}{\text{TotalIncome}}$$

2. Commission and Discount

‘Commission and discount’ includes income received as commission. Besides, the commission received from letter of credit drafts, bank transfer guarantee commission, selling share, remittance charges, other charges and commissions are other prominent items of commission and discount.

It is calculated by dividing commission and discount by total income

$$\text{Commission and discount income} = \frac{\text{CommissionAndDiscountIncome}}{\text{TotalIncome}}$$

3. Foreign Exchange Income

These commercial banks have been authorized by Nepal Rastra bank to deal in foreign exchange and to generate income by dealing in foreign exchange. It earns not only by gain on sale of foreign currency but also by gain in revaluation to the currency.

4. Other Income

‘Other income’ consists of net income from sale of investment and assets, non banking assets, subsidy from Nepal Rastra Bank, fixed assets written back, income from lockers facilities etc.

The following table and the pie chart exhibit the operating income from various sources.

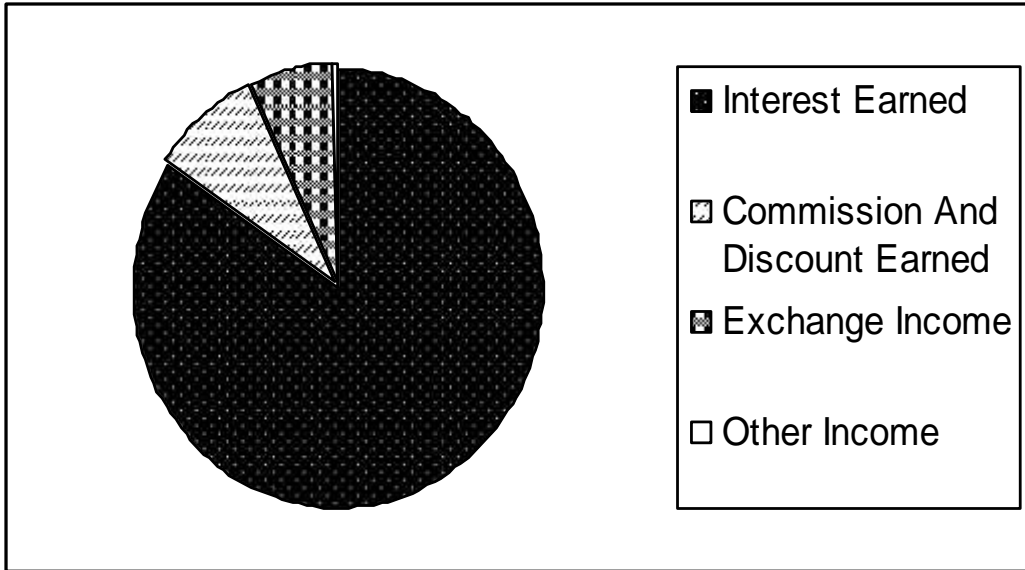
Table 4.21 : Operating Income

(Fig in Percentage)

| Fiscal Year | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/010 | Average |
|---------------------------------------|---------|---------|---------|---------|----------|---------|
| Interest Earned | | | | | | |
| HBL | 87.73 | 83.23 | 83.40 | 83.29 | 84.33 | 84.40 |
| EBL | 91.16 | 76.23 | 81.64 | 82.10 | 82.96 | 82.82 |
| Commission And Discount Earned | | | | | | |
| HBL | 8.25 | 7.91 | 9.87 | 8.90 | 8.00 | 8.58 |
| EBL | 5.71 | 10.78 | 10.93 | 7.95 | 6.58 | 8.39 |
| Exchange Income | | | | | | |
| HBL | 3.26 | 8.36 | 6.19 | 7.04 | 7.26 | 6.43 |
| EBL | 1.90 | 1.75 | 1.48 | 1.07 | 3.56 | 1.95 |
| Other Income | | | | | | |
| HBL | 0.76 | 0.48 | 0.54 | 0.78 | 0.41 | 0.59 |
| EBL | 1.23 | 11.24 | 5.95 | 8.88 | 6.90 | 6.84 |
| Total | | | | | | |
| HBL | 100 | 100 | 100 | 100 | 100 | 100 |
| EBL | 100 | 100 | 100 | 100 | 100 | 100 |

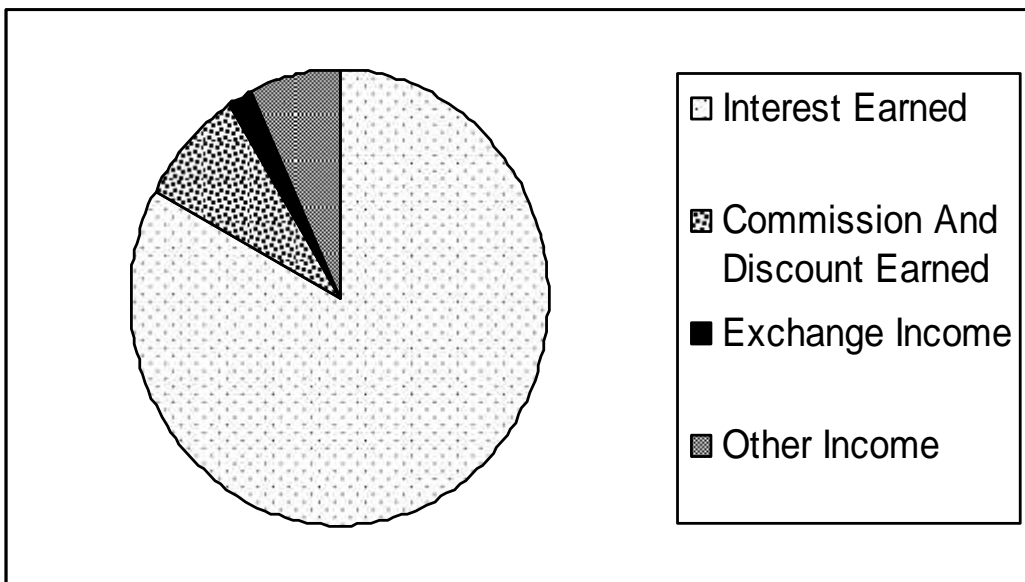
Sources: Financial Statement of related banks.

To clearly exhibit the operating income of the selected banks, the income from different sources have been exhibited in the pie chart below.



The pie chart clearly explains the significantly high proportion of interest income (around 85 percent) visa-versa other sources. Other income constitutes the lowest i.e. below 1 percent

Average Income of Everest Bank Ltd.



The pie chart clearly explains the significantly high proportion of interest income (around 83 percent) visa-versa other sources. Exchange income constitutes the lowest i.e. below 2 percent.

The above table clearly shows that interest earned has contributed highest proportion of operating income for in the banks. In an average HBL has out performed the other banks in terms of this ratio.

The above table shows that “commission and discount income” has been the second main the banks. In an average HBL has the highest ratio than EBL.

In an average HBL has out performed the other bank in this regard.

The above shows that other income earned by EBL has been the highest than HBL.

Thus, operating income analysis shows that interest-earning component has been the highest component in all the banks, commission and discount earned comes and foreign exchange earning following next.

4.5.5 Operating Expenses Analysis

Commercial Bank have various heads of expenses also the major heads of expenses are interest and commission paid, staff expenses, office operating expenses, provision for staff bonus etc. The total amount of operating expenses of the banks have been exhibited on the following table.

4.5.5.1 Interest Paid

Interest expenses include interest paid to depositors, interest paid for banks. Borrowing including fee and commission paid on. In average expenses in the form of interest constitutes about 68.09% and 63.93 % in HBL and EBL respectively. This indicates that in all the banks about 2/3 of the expenses are meant for interest payment.

The trend of interest payment is increasing over the study period except in case of HBL. The interest payment ratio of EBL is the lowest of the HBL, which indicates that it is using less of the outsider’s fund comparatively.

4.5.5.2 Office Operating Expenses

“Office expenses” occupy the next major expenses in all the banks next to interest payment expenses. “Office operating expenses” includes rent, water charges, lighting and heating, normal repair and maintenance of premises and other assets, insurance, postage, telex and telephone, office equipment and furniture repair, traveling, printing and stationary, subscription, advertisement, legal expenses, conations, board expenses, audit fees, depreciation on fixed assets, computer maintenance, entertainments, annual general meeting expenses etc.

4.5.5.3 Staff Expenses

“Staff expenses” includes salaries, allowances, training expenses, contribution to provident funds and other expenses relating to personnel i.e. dresses materials, medical claims etc. It holds third large proportion of the operating expenses group. The staff expenses ratio of EBL is always higher than that of HBL.

4.5.5.4 Provision for Bonus

Bonus is an extra dividend paid to shareholders or to the employees in the bank as an incentive for their efficient services. Bonus is distributed out of profit as an effort to uplift the moral of employees as well as shareholders.

Table 4.22 : Operating Expenses

(Fig in Percentage)

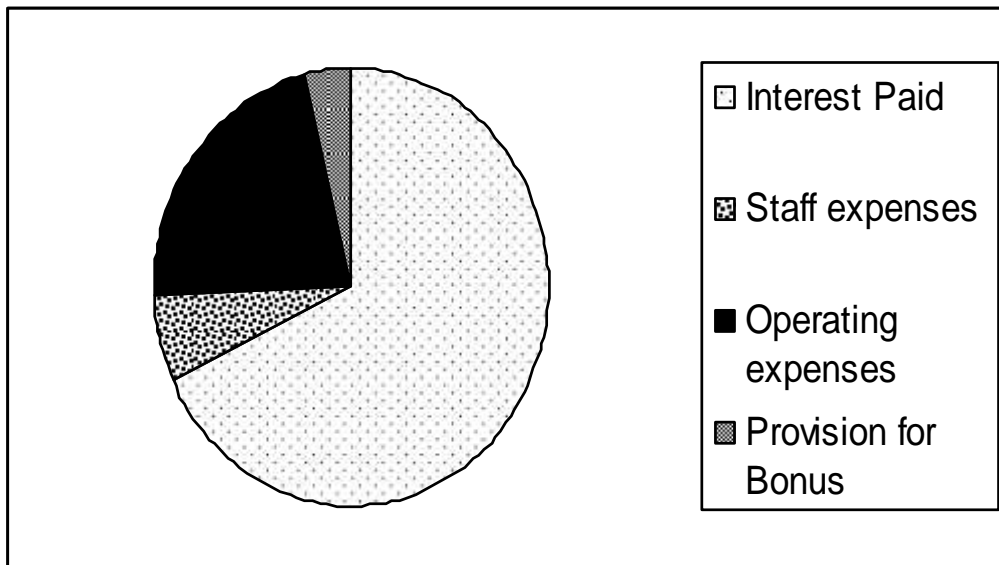
| Fiscal Year | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/010 | Average |
|---------------------|---------|---------|---------|---------|----------|---------|
| Interest Paid | | | | | | |
| HBL | 70.50 | 69.64 | 18 | 65.25 | 65.56 | 68.09 |
| EBL | 51.04 | 66.46 | 66.79 | 68.64 | 66.70 | 63.93 |
| Staff expenses | | | | | | |
| HBL | 5.76 | 6.68 | 6.15 | 6.58 | 6.88 | 6.41 |
| EBL | 10.11 | 6.86 | 7.57 | 7.19 | 7.33 | 7.81 |
| Operating expenses | | | | | | |
| HBL | 19.37 | 19.82 | 21.03 | 24.33 | 23.23 | 21.55 |
| EBL | 38.84 | 24.18 | 23.14 | 21.57 | 22.87 | 26.12 |
| Provision for Bonus | | | | | | |
| HBL | 4.36 | 3.56 | 3.63 | 3.83 | 4.33 | 3.94 |
| EBL | 0.00 | 4.50 | 2.5 | 2.6 | 3.20 | 2.56 |
| Total | | | | | | |
| HBL | 100 | 100 | 100 | 100 | 100 | 100 |
| EBL | 100 | 100 | 100 | 100 | 100 | 100 |

Sources: Financial Statement of related banks. (see appendix)

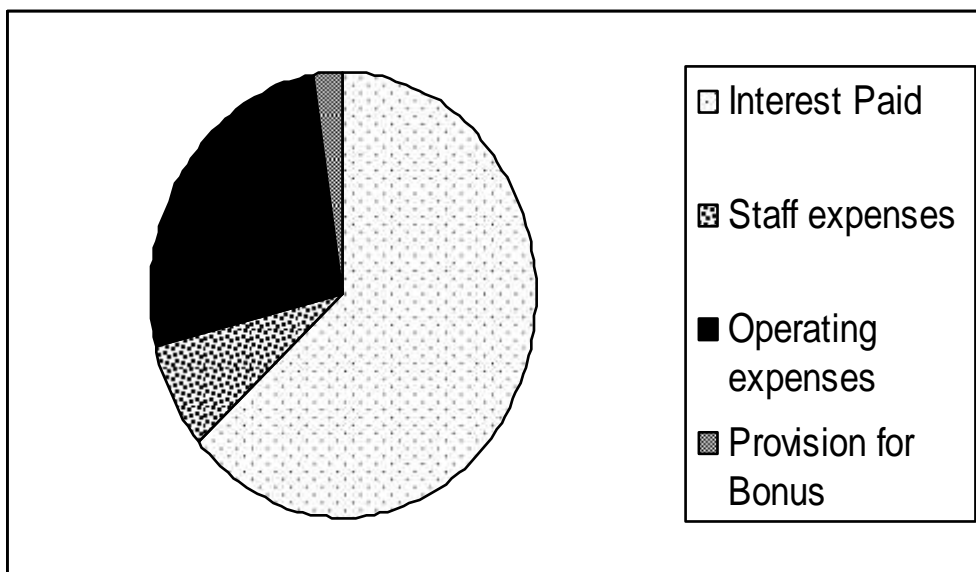
In case of selected banks, the table clearly explains the significantly high proportion of interest office operating expense takes the second position 121-26 percent of total expenses. Provision for bonus constitutes the lowest i.e. below 4 percent.

More specifically, in terms of interest paid and provision for bonus, EBL records the lowest proportion i.e. around 64 percent and 2.5 percent respectively. On the other hand, EBL proportionately spends more in staff expenses i.e. about 7.8 percent.

The above analysis has been clearly exhibited in the following pie-chart.



Average expenses percentage of Everest Bank Ltd.



The above pie charts of the two banks clearly explain the significantly low proportion of provision for bonus visa-versa other expenses. Office operating expenses ratio has recorded slightly decreasing trend of EBL. EBL has highest average ratio i.e. it indicates that EBL has proportional spent more in this head of expenses.

In case of bonus, it constitutes around three percent of total expenses in all the banks. And there is no significant deviation among the banks regarding proportion bonus payment.

4.6 Statistical Tools

To supplement the above analysis an attempt has been made to analyze the data to shed some more significant light and interpretation. For this some relevant statistical tools have been used.

4.6.1 Co-efficient of Correlation

Karls Pearson's coefficient of correlation measures the intensity or degree of linear relationship between two variables. Karls Pearson (1861=1936) a British Biometric Cian, developed a formula called correlation coefficient.

Coefficient of correlation between two random variables X and Y. Usually denoted by $r(x,y)$ or simply r_{xy} , is a numerical measure of linear relationship.

Probable Error

The probable error of the coefficient of correlation helps in interpreting its value. It helps to determine the reliability of the value of the coefficient.

The probable error of the coefficient is obtained as follows.

$$P.F.r = 0.6745 \frac{1-r^2}{\sqrt{N}}$$

Where, r = coefficient of correlation and N = Number of observation.

- i. If the value of r is less than the probable error, there is no evidence of correlation, i.e. the value of r is not at all significant.
- ii. If the value of r is more than six times the probable error, the coefficient of correlation is practically certain, i.e. the value of r is significant.
- iii. Coefficient of correlation is expected to lie within the range of ± 1 per.

By using the above formula coefficient of correlation between “Return and Net worth” and probable error of Himalayan Bank Ltd and Everest bank Ltd are calculated below.

Net worth and Return of Himalayan Bank Ltd.

| Year | Net Worth (x) | Return (y) |
|----------|---------------|------------|
| 2005/06 | 329.37 | 138.10 |
| 2006/07 | 384.06 | 135.98 |
| 2007/08 | 451.18 | 165.25 |
| 2008/09 | 526.05 | 199.38 |
| 2009/010 | 720.59 | 280.69 |

Sources: Financial Statement of Himalayan Bank Ltd.

We have attempted to calculate the linear relationship between return and net worth of HBL and EBL. It is calculated to justify whether the net worth is significant in generation more return or not.

In this context, coefficient of correlation is calculated by the method of deviation taken from an actual mean and the formula is:

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

Where,

R = Coefficient of correlation between variable x and y.

N = Number of pairs in observation.

$\sum xy$ = Sum of the deviation of x and y series from an actual mean.

X = values of first variable (shareholders net worth)

Y = Values of second variable (Return of Company)

$\sum x$ = sum of deviation of x series.

$\sum y$ = sum of deviation of x series

$\sum x^2$ = sum of the squares of the deviation of x series.

$\sum y^2$ = sum of the squares of the deviation of y series.

Calculation of coefficient of correlation of HBL.

Table 4.23 : Analysis of Net worth and return

| Year | X | X ² | Y | Y ² | Xy |
|----------|---------|----------------|--------|----------------|------------|
| 2005/06 | 329.37 | 108484.59 | 138.10 | 19071.61 | 45489.997 |
| 2006/07 | 384.06 | 147502.08 | 135.98 | 18490.56 | 52225.478 |
| 2007/08 | 451.18 | 203563.39 | 165.25 | 27307.56 | 74557.49 |
| 2008/09 | 526.05 | 276728.60 | 199.38 | 3975.38 | 104883.84 |
| 2009/010 | 720.59 | 519249.95 | 280.69 | 78786.88 | 202262.407 |
| N = 5 | 2411.25 | 1255538.62 | 919.40 | 183408.99 | 479414.226 |

$$\begin{aligned} (\sum x)^2 &= (2411.25)^2 \\ &= 5814126.56 \end{aligned}$$

$$\begin{aligned} (\sum y)^2 &= (919.40)^2 \\ &= 845296.36 \end{aligned}$$

Substituting the value in the formula,

$$\begin{aligned}
 r_{xy} &= \frac{\sum xy - \frac{\sum x \cdot \sum y}{n}}{\sqrt{\sum x^2 - \frac{(\sum x)^2}{n}} \sqrt{\sum y^2 - \frac{(\sum y)^2}{n}}} \\
 &= \frac{479414.22 - \frac{2411.25 \times 919.40}{4}}{\sqrt{1255528.62 - \frac{5814126.56}{5}} \sqrt{183408.99 - \frac{845296.36}{5}}} \\
 &= \frac{36033.58}{304.47 \times 119.79} \\
 &= \frac{36033.58}{36472.70} = 0.987
 \end{aligned}$$

The calculation shows that the coefficient of correlation between return and net worth of HBL is 0.987, which is approximately +1. It means there is a perfect positive correlation between two variables.

This correlation indicates that higher the net worth higher is the chances of more return and management can exploit this information by taking proper capital structures decisions. However this finding should be properly authenticated by computing probable error.

Computation of Probably error of HBL.

$$\begin{aligned}
 PEr &= 0.6745 \frac{1 - (0.987)^2}{\sqrt{5}} \\
 &= 0.0077
 \end{aligned}$$

Since the value of r is with in the limit of $r \pm per$. Or the value of r is more than six times the probable error (i.e. $6 \times 0.0077 < 0.987$), the value of r is significant. It further warrants that deploying more net worth in the capital structure seems to be beneficial in terms of profitability for HBL.

New worth and return of Himalayan bank Ltd.

| Year | Net worth (x) | Return (y) |
|----------|---------------|------------|
| 2005/06 | 38.31 | (11.04) |
| 2006/07 | 127.43 | 25.03 |
| 2007/08 | 145.16 | 25.24 |
| 2008/09 | 202.85 | 41.27 |
| 2009/010 | 319.40 | 69.70 |

Sources: Financial statement of Everest Bank Ltd.

In this context, coefficient of correlation is calculated by the method of deviation taken from an actual mean and the formulas is :

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

Where,

R= coefficient of correlation between variable x and y.

N= Number of pairs in observation.

$\sum xy$ = sum of the deviations of x and dy series from an actual mean.

$\sum X$ = Values of first variable (shareholders net worth)

$\sum Y$ = value of second variable (Return of company)

$\sum X^2$ = sum of the deviation of x series.

$\sum Y^2$ = sum of the deviation of y series.

$\sum X^2$ = sum of the squares of the deviations of x series.

$\sum Y^2$ = Sum of the square of the deviation of y series.

Calculating coefficient of correlation of Everest Bank Ltd.

Table 4.25 Analysis of Net worth and Return

| Year | X | X ² | Y | Y ² | Xy |
|----------|--------|----------------|--------|----------------|----------|
| 2005/06 | 38.31 | 1467.66 | 11.04 | 121.88 | (422.94) |
| 2006/07 | 127.43 | 16238.40 | 25.03 | 626.50 | 3189.57 |
| 2007/08 | 145.16 | 21071.42 | 25.24 | 637.06 | 3663.84 |
| 2008/09 | 202.85 | 41148.12 | 41.27 | 1703.21 | 8371.62 |
| 2009/010 | 319.40 | 102016.36 | 63.70 | 4858.09 | 22262.18 |
| N = 5 | 833.15 | 181941.97 | 150.20 | 7946.74 | 37064.00 |

$$\begin{aligned} (\sum x)^2 &= (833.15)^2 \\ &= 694138.92 \end{aligned}$$

$$\begin{aligned} (\sum y)^2 &= (150.20)^2 \\ &= 22560.04 \end{aligned}$$

Substituting the value in the formula,

$$\begin{aligned} &= \frac{37064.27 - \frac{833.15 \times 150.20}{5}}{\sqrt{181941.97 - \frac{694138.92}{5}} \sqrt{7946.74 - \frac{22560.04}{5}}} \\ &= \frac{37064.27 - 25027.83}{207.64 \times 58.61} \\ &= \frac{12036.42}{12168.89} \\ &= 0.989 \end{aligned}$$

The calculation show that the coefficient of correlation between net worth and return of EBL is 0.989. It means there is perfect positive correlation. The management can exploit this information by taking proper capital structure decision. Bank is successful to take an appropriate decision for promotion.

Compilation of probable error of EBL

$$\begin{aligned} \text{P.Er.} &= 0.6745 \frac{1 - (0.989)^2}{\sqrt{5}} \\ &= 0.6745 \frac{0.02879}{2.23606} \\ &= 0.00659 \end{aligned}$$

Since the value of r is within the limit of $\pm \text{P.Er.}$ or the value of r is more than 6 times the probable error (i.e. $6 \times 0.00659 < 0.989$) the value of r is significant. It reveals that deploying more worth in the capital structure seems to be benefited in terms of profitability for EBL.

Thus, the coefficient of correlation between return and net worth of each of the JVBS i.e. Himalayan Bank Ltd and Everest Bank Ltd and Everest Bank are highly positive, there is a positive impact on return if each bank increases its net worth.

Despite this result, coefficient of correlation shows the degree and direction of relationship but it does not explain the cause and effect of such degree and direction. So it should be further put to examination by using other quantitative and judgmental tools before actions are taken.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This chapter focuses on some selected actionable findings and recommendations. Such findings are based on the analysis of financial statements of the selected banks.

At present thirty two commercial banks have been operating in Nepal. After government adopted liberal financial policy, commercial banks and financial companies have increased in number. They have been rendering high quality banking services to their clients.

The present comparative study has been undertaken to evaluate the financial performance of two joint venture banks in Nepal: Himalayan Bank Ltd. And Everest Bank Ltd. This study is mainly based on secondary data. For example, published annual report, especially profit and loss account, balance sheet and other publications of the banks and other related information were gathered from the related banks and auditors' report, Nepal stock exchange, Nepal Rastra bank, economic journals etc. The financial statements of the last five years (i.e. 2005/06 to 2009/10) have been examined and analyzed. The data have been analyzed by using financial correlation coefficient, pie chart, trend line analysis etc.

5.2 Findings

The key findings to the analysis are presented below.

1. Liquidity Position

The study reveals that current ratio of all the banks is always below the normal standard of 2:1, which generally indicates unsatisfactory liquidity position. But it can not be assumed that the liquidity positions of all the banks are poor because current ratio is only a test of quantity not a test of quality of liquidity position. And moreover banking sector is different than other general sectors. In the present study, liquidity position of Everest bank is comparatively better.

To get a clear picture of liquidity standing of all the banks, other liquidity ratios were analyzed and interpreted. In terms of liquidity position of cash and bank balance with respect to total deposit, Everest bank Ltd. Has outperformed other banks. Cash and bank balance to total deposit ratio is commonly called quick ratio in financial term and 1:1 is considered reasonable for general business. But banks being financial institutions and dealing in cash may not require to maintain 1:1 proportion. In the present study also, no bank has maintained this criteria of 1:1.

In an average, saving deposit to total deposit ratio of Everest bank Ltd. Has been recorded the lowest than other bank. It indicates better liquidity position of the bank to meet short-term obligation.

2. Activities Ratio / Utilities Ratio

Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.

In an average, short term investment to total deposit ratio of Everest Bank Ltd. Has recorded highest. But in case of loan and advances to total deposit

ratio and loan and advance to total assets ratio, the performance of Everest Bank Ltd. Has been satisfactory than Himalayan Bank Ltd. However in terms of loan and advance to fixed deposit ratio Himalayan Bank Ltd. Has outperformed other banks during the study period. Comparatively Everest Bank Ltd has utilized their resources much satisfactory.

3. Leverage / capital structure Ratio

Capital structure ratio of these banks indicates highly leveraged capital structure.

Total debt to equity ratio of all the banks reveals that the claims of the outsiders exceed far more than these of the owners over the banks assets. Comparatively Himalayan Bank Ltd. has more levered capital structure.

Similarly total debt to total assets ratio of these banks in to satisfactory being highly leveraged than normally accepted standard measures very high long- term debt to total assets ratio reflects the aggressive financial policy of all the banks, which has exposed them to more risk. Highly levered capital structure is profitable as long as the share of interest is less than earning per share.

As per the directives of Nepal Rastra Bank, minimum of 8 percent capital adequacy ratio should be maintain. The capital adequacy ratio of Himalaya Bank is unsatisfactory than that of Everest bank Ltd. Even in case of Everest Bank Ltd, It is not satisfactory in some years. Everest bank limited has maintained this minimum ratio only at the initial two years during the study period.

In terms of net worth to total assets ratio, Everest bank has more fluctuations but Himalayan bank Ltd has more uniform ratio comparatively.

4. Profitability Position

Profitability ratio indicates the degree of success in achieving desired profit level.

In terms of absolute net profit after interest and taxes, Himalayan Bank Ltd has performed better during the study period. Return on net worth of the Himalayan Bank is higher, however the trend line is more or less horizontal over the study period indicating no or nominal progress. However in case of Everest Bank Ltd, the trend line shows sign of improvement.

In case of return on total assets ratio, the banks have earned about 1 percent or so. However the performance of Himalayan bank Ltd is relatively higher.

In terms of return of total deposit, Himalayan Bank Ltd and Everest Bank Ltd have not adopted any particular trend during the study period.

Interest earned on total assets ratio of Himalayan Bank Ltd has recorded a facing trend during the study period. But in the case of Everest Bank Ltd, it has been more or less construct except in the beginning of the study period.

5. Other Ratios

On terms of interest paid to interest income, the ratio of these banks has recorded a decreasing trend. In the two banks, this ratio stands as an average range between sixty and seventy percent. Comparatively average ratio of EBL is the highest of two bank.

Earning per share of Himalayan Bank Ltd, has been rapidly decreasing over the study period, despite this, the average EPS ratio of HBL is the highest of all. However HBL has been able to earn more profit than EBL. In case of other banks EPS has recorded an increasing trend. Though EBL actually has increased loss in the beginning of the study period.

Regarding dividend per share, Himalayan Bank Ltd, has been the highest dividend paying bank i.e. Rs. 50. During the study period, Everest Bank Ltd, has not paid dividend expect in the year 2007/08.

Operating income of these banks has been increasing rapidly. However Himalayan Bank Ltd, has generated more operating income that lies between Rs. 729.81 million and Rs 1572 million and Everest Bank Ltd has generated the lowest operating income that lies between 30 million and Rs. 454 million. Interest earned from loan and advances (i.e. more than 75 percent) in the major component of operating income in all the banks.

Operating expenses of these banks has also been increasing. Interest paid is the major component of operating expenses in the two banks (i.e. more than 63 percent). Comparatively Himalayan Bank Ltd, has been more successful in reducing interest expenses over the years.

5.5 Suggestion And Recommendation

In the following section an attempt has been made to present some suggestions to better performance of the joint venture commercial banks. The suggestions and recommendations are based on the analysis of the financial performance as well as on the review of related literature.

- a) The commercial banks should consider seriously about the unsatisfactory liquidity position and should as certain whether this situation is a threat or normal in banking sector.
- b) Everest bank limited should be more concerned for efficient utilizing the deposits in loans and advances or other more profit generating sectors.
- c) These two banks are suggested to maintain an appropriate mix of debt and owner's equity by increasing equity debt and owner's equity by increasing equity base.

- d) The banks may grant mid-term loans for utilizing deposits adequately.
- e) The capital adequacy ratios should be maintained as per the Nepal Rastra Bank's directives. For this, all the banks should raise the amount of deposit in Nepal Rastra Bank to 8 percent of total deposit.
- f) These banks should do a lot of exercise in more credit certain and reducing the interest rate for loan and advances. This helps them to remain more competitive.
- g) Everest Bank Limited has maintained a provision for dividend but it has not distributed dividend except in 2007/08. It may distribute dividends regularly and evenly as a move to discharging social responsibility towards shareholders and create a good market image of the bank.
- h) Banks should adopt appropriate personnel policies according to the provision of labour Act 2048.
- i) These banks could do better by offering modern banking facilities like credit card system, global banking, internet banking facilities etc.
- j) All the banks can do better by discharging some social responsibilities by allocating a part of their resources to the promotion of banking facilities to the rural areas. This will indirectly contribute to the development of poor and disadvantaged groups on one hand, and opening branches in remote areas on the other hand is in companies with the directives of Nepal Rastra Bank.
- k) In all the banks, opening a new current account requires minimum deposit of Rs. 100 which is beyond the capacity of mass lower middle class depositors. Lowering the minimum balance can generate more fund that can be utilized in productive sectors to increase bank's profits as well as for the overall economic development of the country.

- l) These banks have mainly focused their investments especially on big cities and for big companies like multinational companies large scale industries manufactures of garments and carpets exporters. Small enterprises have not been benefited significantly by their investment. So as a part of discharging their social responsibilities, these banks should sanction loans to small entrepreneurs also.
- m) These banks can do better if they do exercises to extend their loans to more and more foreign investors who want to do business here in Nepal. The foreign investors and industrialists are unfamiliar with the indigenous rules and regulations, customers and other country specific situations. So the bank can help foreign investors and industrialists in this regard who in turn create more productive assets, more employment opportunities and contribute to national development process.
- n) Although these banks have played significant roles in terms of modern banking system that certainly leads to economical development of the nations, they are not playing the role of merchant bank properly. So these banks are suggested to play the role of financial intermediary and of merchant banks i.e. underwriting securities, acting as brokers, development of capital market and other supportive roles in the security exchange which will consequently be helpful for the upliftment of the country.

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