

**A COMPARATIVE ANALYSIS ON FINANCIAL
PERFORMANCE OF BANKS
(WITH REFERENCE TO EBL, HBL AND NSBIL)**

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RECOMMENDATION

This is to certify that the Thesis

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Entitled:

**A STUDY ON ACOMPARATIVE ANALYSIS ON FINANCIAL
PERFORMANCE OF BANKS
(WITH REFERENCE TO EBL, HBL AND NSBIL)**

*has been prepared as approved by this Department in the prescribed format of the
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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master Degree of Business Studies (MBS)

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DECLARATION

I here by declare that the work reported in this thesis entitled “**A Comparative Analysis on Financial Performance of Banks (With reference to EBL HBL and SBI)**”submitted to Shanker Dev Campus Faculty management ,Tribhuvan University ,is my original work done in the form of partial fulfillment of the requirement for the master’s Degree of business studies (M.B.S.) under the supervision of Prof .**Snehalata kafle** of Shanker Dev Campus.

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This study has been prepared for partial fulfillment of the requirement for the master degree in business studies. It is my privilege to complete this thesis entitled "**A Comparative Analysis on Financial Performance of Banks (With reference to EBL HBL and SBI)**" which analyzes the Performance Evaluation of some leading commercial banks of Nepal

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ABBREVIATIONS

ABBS	=	Any Branch Banking Service
A/c	=	Account
ADBL	=	Agricultural Development Bank
ATM	=	Automatic Teller Machine
Avg.	=	Average
BAFIA	=	Bank and Financial Institutions act
BFI	=	Banks and Financial Institutions
B.S.	=	Bikram Sambat
CENMAC	=	Central Management Committee
CEO	=	Chief Executive Officer
C.V.	=	Coefficient of Variation
EBL	=	Everest Bank Limited
EPF	=	Employee Provident Fund
EPS	=	Earning Per Share
Fig.	=	Figure
FY	=	Fiscal Year
Govt.	=	Government
HBL	=	Himalayan Bank Limited
i.e.	=	That is
JVBs	=	Joint Venture Banks
Ltd.	=	Limited
MPS	=	Market Price per Share
NABIL	=	Nepal Arab Bank Emirate Limited
NBA	=	Non-Banking Assets
NBB	=	Nepal Bangladesh Bank
NIBL	=	Nepal Investment Bank Limited
N/n	=	Number of Year
NPAT	=	Net Profit after Tax

NSBI	=	Nepal State Bank of India
PNB	=	Punjab National Bank
NPA	=	Non-Performing Assets
NRB	=	Nepal Rastra Bank
P.E	=	Probable Error
PSA	=	Premium Saving Account
RBB	=	Rastriya Banijya Banks
ROA	=	Return on Total Assets
ROE	=	Return on Equity
Rs.	=	Rupee
SCBNL	=	Standard Chartered Bank Nepal Limited
S.D.	=	Standard Deviation
TU	=	Tribhuvan University
US	=	United States
Viz.	=	Namely
WTO	=	World Trade Organization

CHAPTER - I

INTRODUCTION

1.1 Background of Study

In the context of water resources Nepal is the second in the world and other resources also enough if they are utilized for country development processes but Nepal's political leader never looks ahead for country they are fighting for their self interests till now. So we all educated person should fight against their activities for country.

That's why Nepal's current situation is very poor .most of people is under poverty line many process of development are now under the shadow of political in stability of country. In such situation every financial intuition must be aware to achieve their goals and they should analyze there situation in this situation every moment and to analyze competitors effectiveness in their performance.

Capital accumulation plays an important role in accelerating the economic growth of a nation, which in terms is basically determined, among others, by saving and investment propensities. However, the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption. As a result, such countries are badly entrapped in to the circle of poverty. So, the basic problem for the developing countries is raising the level of saving and thus investments.

The basis for the financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision- making. The financial information of an enterprise is contained in the financial statement or accounting reports.

"Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of

future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision”*Bernsten, Leopard, Wild,(1983;3)*

Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn, it diminishes our uncertainty in decision-making. It does not lesson the need for expert judgment but rather establishes an effective and systematic basis for making business decisions.

Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance, strength, and weakness of the firm, many types of tools and techniques are used.

Ratio analysis is one of the very popular and widely used tools of financial analysis. Ratio analysis is done with different ratios. Which are calculated from the accounting data contained in the financial statement? It is the primary tool for examining the firm's financial position and performance. Ratios are used as yardstick for evaluating the financial condition and performance of the firm.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. Indicators of the last decade shown that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also compels. This constitutional network

and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

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

The researcher has attempted to analysis the comparative financial performance of EBL, SBI and HBL and their individual strength on the basis of their internal reports and published annual reports. For the purpose, different tools and techniques have been applied to judge the performance of these organizations, drawn out the strength and weakness of the firms and try to prescribe measures to improve the performance of these three banks.

Brief profiles of these three banks are given below:

Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network and over 250 correspondent banks across the globe. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transactions from any branches other than where they have their account.

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

The bank has been focusing on expanding its operations outside Nepal and has identified some of the emerging economies which offer large business potential. Bank has also set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Share subscription with joint venture and capital structure:

Subscription	%Holding
Local Promoters	50
Punjab National Bank India	20
General Public	30

Authorized capital: Rs750000000

Issued capital : Rs465000000

Paid-up capital : Rs455000000

Nepal SBI Bank Limited

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/I.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 325. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 87.45 Crores, respectively. The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. Fifty five percent of the total share capital of the Bank is held by the State Bank of India, fifteen percent is held by the Employees Provident Fund and thirty percent is held by the general public. Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India(SBI), Employees Provident Fund(EPF)and

Agricultural Development Bank Ltd.(ADBL)through a Memorandum of Understanding signed on 17th July 1992. NSBI was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/1.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 325. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license No. NRB/I.Pra.Ka.7/062/63. The Authorized and Issued Capitals have been increased to Rs. 200 Crores and Rs. 131.76 Crores, respectively. In terms of the Technical Services Agreement concluded between SBI and the Bank, SBI provides management support to the bank through its 3 expatriate officers including Managing Director who is also the CEO of the Bank. A core management team viz. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Assistant General Manager(Credit) oversees the overall banking operations in the Bank. ADBL divested its stake in the Bank by selling its entire 5% promoter shares to SBI on 14th June, 2009. Consequently, the Bank's corporate status has undergone change from its previous status as a Joint-venture Bank to a Foreign Subsidiary Bank of SBI. Presently fifty five percent of the total share capital of the Bank is held by the SBI, fifteen percent is held by the EPF and thirty percent is held by the general public

Share Subscription with joint venture and capital structure

Subscription	% Holding
State Bank of India(SIB)	50%
Employees Provident Fund(EPF)	15%
Agriculture Development Bank(ADB/N)	5%
General Public	30%

Authorized Capital: Rs 2,000,000,000/-

Issued capital: Rs. 1,311,791,760/-

Paid up capital: Rs. 874,527,840/-

Himalayan Bank Limited

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Habib Bank Limited, one of the largest commercial bank of Pakistan. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking.

The bank at present has the five branches in Kathmandu Valley, namely Thamel, New Road, Maharajgunj, Pulchowk (Patan) and Nagarkot besides three branches outside Kathmandu in Birgunj, Bharatpur and Tandi. The bank is also operating a counter in the premise of the Royal Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the kingdom in the near future.

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Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The Bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

Shares Subscription with joint venture and Capital Structure

Subscription	% Holding
Nepali Promoters	50%
Habib Bank of Pakistan	20%
Karmachari Sanchaya Kosh	14.66%
General Public	15.34

Authorized capital: Rs. 1000000000

Issued capital: Rs. 810810000

Paid up capital: Rs 810810000

1.1.1 Concept of Banking

Bank is a financial institution, which plays a significant role, in the development of a country. "Banking institutions are inevitable for the resources mobilization and all round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people" (*Ronald, 1993: 87*).

"The banking sector is largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending in different sectors of economy. The banking sector has now reached to most remote areas of the country and has experienced a good deal in the growth of the economy. By lending their resources in small scale industries under intensive banking program has enabled the banks to share in the economic growth of the economy" (*Shrestha, 1993: 32*).

Banks are institutions whose debits-usually referred to as "bank deposits" are commonly accepted in final settlement of other people's debt. Bank is also defined as an institution, which accepts deposits from the public and in turn advances loan by creating credit. It is different from other financial institutions in the sense that they cannot create credit through they may be accepting deposits and making advances. Banking institution is in dispensable in a modern society. It plays a pivotal role in the economic development of a country and forms the core of the money market in the advanced country.

Various types of banking institutions are performing different functions. There is for instance the central bank, which controls the entire currency and credit of the country. It is the organ of government that under takes the major financial operations and by other means influences the behavior of financial institutions so as to support the economic policy of the government. Similarly, commercial banks also perform different functions by accepting the deposits and advancing loans etc. but in modern times, commercial banks are concentrated in their activities of fulfilling the financial needs of their customers. The commercial banks have become the heart of financial system as they hold the deposit of the people, government and business units and investing activities to individuals, business firm and government.

1.1.2 Historical development of Banking System in Nepal

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

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

The establishment of the "Tejarath Adda" by prime ministers "Ranoddip Singh" during the year 1877 AD was fully subscribed by government of Kathmandu valley,

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

The main defects of this institution showed that there was no further financial institution set-up and there was no effort to expand the services. Above all of the defects, this institution did not accept any deposit from the public. In the absence of saving mobilization, the "Adda" faced financial problems making it impossible to charter to the country. Udyog Parishad (Industrial Development Board) was constituted in 1936 A.D. One year after its establishment, it formulated the "Company act" and "Nepal Bank Act" In 1937 A.D.

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

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

commercial bank act 2031. With the opening of NABIL the door of opening joint venture banks was opened to the private sector.

1.1.3 Concept of Commercial Banks

Financial intermediaries play significant role to the development of national economy. They influence savings and surpluses considerably, which results investments. Financial intermediaries collect financial resources and supply them to the productive sectors that boosts the trade and industry and at last development of the country's economy.

Commercial banks are also financial intermediaries they mediate people who save money and who want to secure the use of money by accepting the deposits, burrowing funds and advancing loans. In addition to these primary functions, commercial banks, collect checks and bills, open later of the credit, guarantee on behalf of customers, undertake capital and other many activities, exchange foreign currencies etc.

"A commercial bank is one which exchanges money, deposits money, accepts, grants loan and performs commercial banking functions and which is not a bank meant for co-operative agriculture industries or for such specific purpose" (*Nepal Commercial Bank, Act, 2031: 1*).

Commercial Banks are heart of financial system they hold the deposits of many person, government establishment business unit. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services for the producers to customers and the financial activities of the government. They provide the large portion of the medium of exchange and they are media through which monetary policy is affected. These facts show that the commercial banking system of nation is important to the functioning of the economy (*Read, Cotler, Will, Smith, 1976: 39*).

In content of Nepal, commercial banks are operated under "Commercial Bank Act 2031 B. S.", In addition to Commercial Bank Act, Nepal Rastra Bank also lays down other many directives.

1.1.3.1 Importance of Commercial Banks

Regarding the importance of commercial banks, a commercial Banks act state that a commercial Banks is one that exchange money, accept deposits, grants loan and porferms commercial banking function.The importance and services of modern commercial banks are as follows:

(i) Accepting Deposits

A commercial bank accepts deposits from customers in the forms of current, saving and fixed deposits. These deposits are repayable on demand. The depositors other than current A/c are paid interest.

(ii) Granting Loans and Deposits

The second main importance is to grant loans and advances to businessman, the industrialist, the individuals, the different organizations etc. in the forms of term loans, cash credit, overdraft, trust receipts, hire purchase loans etc. Banks charges interest on such loan and advances, which is the largest source of total income.

(iii) Agency Service

A modern commercial banks act as an agent of individual's customers, business institutions and different organization. The agency services of banks may involve collection of interest and dividends on debt and share capital. A bank buys and sells securities on behalf of the customers. Bank also collects cheques, draft promissory notes etc and receives their payments. Sometimes, it makes payments of insurance premium, bills of electricity, telephone etc. It takes commission for the services rendered.

(iv) Provides remittance service

Sending and receiving fund to from various places is the necessity of today. The remittance service of bank has benefited both business and personal customers. Funds transfers are made through various modes like demand drafts, telegraphic payment order, swift, fax and mail payment orders.

(v) Guarantee on Behalf of Customers

The need of bank guarantee arises in business. Generally, business customers enjoy this service. Sometimes, personal customers may also need a bank guarantee. A guarantee is a definite and

irrevocable under taking by a bank on behalf of its customers to make payments up to a specified sum of money to the beneficiary on demand in case of default by its customers.

(vi) Issuance of Traveler's Cheque

The people traveling outside the country want to reduce the fear of getting money stolen during the travel. Bank sells the traveler's cheque. The unique feature of the traveler's cheque is that unless the purchaser of traveler's cheque signs for encashment it cannot be encashed.

(vii) Opening Letter of Credit

Today letter of credit has become very popular in foreign business. The letter of credit is established /opened by the bank on the request of the customers.

(viii) Other Services

Modern commercial banks are equally important in undertaking safe custody of important valuable and documents. Banks also offer some of the bank services at the door of highly valued customers. Few large banks conduct research and survey in the economic conditions and they supply trade statistics and information. In addition to these, banks also inform their customers about the credit standing of other parties.

1.1.4 Concept of Joint Venture Bank

A Joint Venture Bank is joining of forces between two or more enterprises for the purchase of carrying out a specific operation i.e. industrial and commercial investment production or trade" (*Gupta, 1984: 15*).

The joint venture is common variant for expansion. "A joint venture business involves in equity arrangement between two or more independent enterprises which results in the creation of new organization" (*Jauch and Glueck, 1988: 232*). this thought identified the joint venture as a mutual understanding among two or more firms then bringing a new enterprise in existence.

Basically, they are constant about the ownership of new firms. In what proportion they are, going to contribute ownership is also decided mutually.

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

"The existence of foreign joint venture bank has presented an environment of healthy competition among the existing commercial banks. The increased competition had led to improve their quality and has caused an extension of services by simplifying procedures and training" (*Chopras, 1990: 231*).

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

"HMG's deliberate policy of allowing foreign JVB's to operate in Nepal is basically targeted to encourage local traditionally run commercial banks to enhance their balanceable capacity through competition efficiency, modernization via computerization and prompt customer service" (*Shrestha, 2041: 44*).

Joint venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance, operate under supervision, controlling and direction of Nepal Rastra Bank. Nepal Arab Bank Limited was the first joint venture bank of Nepal, established in 29th Ashar 2041 B. S. until now there are nine joint venture banks operating in different parts of Kingdom of Nepal.

The following are the JVBs that have been established in Nepal.

S. N.	Joint Venture Banks	Established Date	Head Office
1	Nepal Arab Bank Limited	2041/3/29 B.S.	Kathmandu
2	Nepal Investment Bank Limited (Formerly Nepal Indo-suez Bank)	2042/11/16 B. S.	Kathmandu
3	Standard Chartered Bank Limited (Formerly Nepal Grindlays Bank)	2043/10/16 B. S.	Kathmandu
4	Himalayan Bank Limited	2049/10/05 B. S.	Kathmandu
5	Nepal SBI Bank Limited	2050/03/23 B. S.	Kathmandu
6	Nepal Bangladesh Bank Limited	2051/02/23 B. S.	Kathmandu
7	Everest Bank Limited	2051/07/01 B. S.	Kathmandu
8	Bank of Kathmandu Limited	2051/11/28 B. S.	Kathmandu
9	Nepal Bank of Cylon Limited	2053/06/28 B. S.	Siddharthanagar

1.1.4.1 Role and function of Joint Venture Banks

With the entry of foreign joint venture banks with foreign collaboration advanced managerial skills, international network personalized manpower, and modern computerized technology have created serious challenges to the existence of the traditionally running inefficient domestic state owned banks. JVBs are able to provide quality-banking service at the cheaper costs. At same time, JVBs create the opportunity and environment to the domestic bank to improve their style of doing business by modernizing themselves and sharpening the internal strength.

The JVBs have already been providing a dynamic and vital role for the development of the efficient financial market as well as for successful mobilizing and utilizing financial resource sin the country, which can be illustrated in the following headings.

(I) Providing Advanced Banking Services

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

(II) International Management Network

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

(III) Creation of Healthy Competition in the Banking Industry

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

(IV) Advantage of Foreign Investment

The JVBs play a remarkable role in making available foreign financial resource for the investment. They act as mediators between foreign investors and native investors and promoters. That will help for the promotion of the trade and commerce in the country.

Recently, the JVBs are being criticized, as they only want to operate in urban and suburban areas rather than to rural ones driven by profit motive. However the JVBs have been contributing much in the direction of the development and modernization of the efficient banking system, financial system, domestic saving, and creation of the employment opportunities.

1.2 Statement of the Problems

In modern days, especially in Nepal, Banks are being considered not as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well.

In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors. As a result, we see a rapid growth in the numbers of commercial banks in the country and of course, the rapid increment in numbers of commercial banks in small kingdom like Nepal has created tough and bottle neck competition among bankers. This study will try to seek the answers of the following statements relating to commercial banks of Nepal.

1. How these banks have been managing their position relating to the liquidity?
2. How these banks are being able to utilize the fund?
3. In which way do these banks are managing to increase the value for sustainability or otherwise?
4. What are the operational results to their profitability?
5. What is the relationship between total deposit and total investment over the year?
6. To what extent the operating profit is related to interest earned?
7. To what extent these banks have been successful in minimizing the non-performing assets?

1.3 Objectives of the Study

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

-) To analyze mobilization of its assets into profit generation project.
-) To evaluate the liquidity position of selected banks.
-) To offer a package of suggestion to improve a financial performance.
-) To examine the mobilization of the collected funds.
-) To analyze price earning, market value to book value per share and dividend payout.
-) To evaluate the earning and profitability position of selected banks.
-) To analyze the relationship between total deposit and total investment.
-) To analyze the relationship between interest earned and operating profit.

1.4 Significance of the Study

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

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

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

1.5 Limitation of the Study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher, this thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master's of Business Studied) degree. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

- a. This thesis is based on secondary data collected from concerned banks. Thus, the result of the analysis depends on the information provided by them.
- b. This thesis covers three commercial banks only viz. Everest Bank Ltd, Nepal SBI Bank Ltd. and Himalayan Bank Ltd. only.

- c. The thesis is limited to analyze five years period i.e. from FY (2004/2005 - 2008/2009) B.S.
- d. Standard normal performance level is not available especially in Nepalese context. So, interpretations of data are depended upon common sense. In thesis context, concerned experts are also consulted.
- e. This study is used limited financial tools and techniques to analyze the collected sources.

1.6 Organization of the Study

This study is organized into five chapters. Each chapter describes on some aspects of the study viz. Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusion and Recommendation.

Chapter - I: Introduction

The introduction chapter briefly explains about the meaning and historical background of commercial bank in Nepal and also the joint venture banks. It describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter - II: Review of Literature

In this second chapter, the brief explanation of Ratio Analysis has been presented. The relevant and pertinent literature and various studies have also reviewed.

Chapter - III: Research Methodology

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

Chapter - IV: Presentation and Analysis of Data

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

Chapter - V: Summary, Conclusion and Recommendation

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

Finally, bibliography and appendix are represented at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature means reviewing research studies and other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. (Joshi, 2001) Review of literature is the review of concepts as well as review of past researches in the related field of study. The purpose of review of research is to know the out comes of the past research in the proposed areas of studies where similar concept and methodology had been used successfully. Review of literature will help researcher to formulate satisfactory structure of the report. It also helps to familiarize with concepts, characteristics, interpretation and Terminology used in the report. (Joshi, 2001)

Reviewing different available literature from various sources is the major objective of this chapter. The prime focus for collecting external literacy information through various textbooks, research journals and research thesis. Various articles relating to different aspects of commercial bank will help to conduct the study smoothly. Review of literature is divided into two categories.

2.1 Conceptual Frame Work/Theoretical Review

Financial decisions are very sensitive and important and cannot be taken blindly or in a vacuum. Financial decisions must be based on proper financial analysis by using, financial tools-such as financial ratios are used to measure the financial performance of the company. "Financial analysis is to analyze the achieved statement to see if the result meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems" (*Pradhan, 2000: 120*).

"Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm's financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm's profitability overtime" (*Vanhorn & Watchowlcz, 1997: 120*).

Similarly, Hampton has stated that "It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm's management, as reflected in the financial records and reports" (*Hampton, 1998; 98*).

In financial analysis, certain guideline or criteria are included:

- a. Historical evidence of performance as a base of financial performance analysis.
- b. Economic consideration such as trend and averages of price level, business profit interest rates, dividend policy, security price movements.

Financial statement gives insight knowledge on the firm's financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms of assets, liability, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, activity, capital structure and market.

"Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify the current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness" (*Weston, Besley & Brigham, 1996: 78*).

The following are the some important financial ratios to analysis the financial performance of selected banks:

(i) Liquidity Ratio

A liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of company to meet its obligation due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

(ii) Leverage Ratio

The short-term creditors, like bankers and suppliers of raw materials, are more concern with the firm's debt-paying ability. On the other hand, long-term creditors, like debenture holders, financial institutions etc., are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated. These ratios indicate mix of debt and owners' equity in financing the firm's assets. The process of magnifying the shareholders' return through the use of debt is called financial leverage or financial gearing or trading on equity.

(iii) Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratios are employed to evaluate the efficiency with the bank manages and utilizes funds. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turned over into sales.

(iv) Profitability Ratio

A company should earn profits to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails to make sufficient profits. Therefore, the

financial manager should continuously evaluate the efficiency of the company in terms of the profits. The profitability ratios are calculated to measure the operating efficiency of company. Besides management of the company, creditors and owners are also interested in the probability of the firm. Creditors want to get interest and repayment of principal regularly only when the company earns enough profits.

(v) Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments.

Financial statement published by the listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the financial performance of the concerned company. In fact, financial statement comprises of:

Balance sheet

Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. Balance sheet is the base for the analysis of financial performance of any company. Balance sheet contains information about resources and obligations of a firm entity and about its owners' equity. Balance sheet provides a snapshot of the financial position of the firm at the closed of fiscal year.

As we know, Balance sheet is very important tools for the analysis of financial performance. The functions severed by Balance sheet can be pointed out as follows:

-) It gives concise summary of the firm's resource obligations.
-) It is a measure of the firm's liquidity.
-) It is a measure of the firm's solvency.

Statement of profit and loss account:

Profit and Loss account presents the summary of revenues and expenses and net income of a firm. It serves as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

- a. It gives a concise summary of the firm's revenue and expenses during a period.
- b. It measures the firm's profitability.
- c. It communicates information regarding the results of the firm's activities to owners and other.

Statement of Retained Earning

This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

Financial analysis is done on the basis of financial statement of the concerned company. The objective of financial analysis can be described as:

-) To get the entire information that can be used at the time of decision making.
-) To judge overall performance and management effectiveness.
-) To identify the deficiencies and weaknesses.
-) To take corrective action in time to check such deficiencies and improve the performance.
-) To evaluate the possible implications of alternative course of actions.
-) To get in depth information of possibilities of bringing changes worthwhile.

2.2 Review of Books, Journals and Dissertations

Under this, various books, articles and dissertations have been reviewed for the purpose of clarification of financial statement and performance of the company under consideration.

2.2.1 Review of Related Books

Western & Copeland (1991; 843-851) in the 20th chapter "*Short Term Financial Management*", the author has highlighted the types of short-term financing and its related issues. Following are the objectives of this chapter.

- a. Discuss the nature and type of short-term financing.
- b. Evaluate the significance of working capital management of the firm.
- c. Explain the relationship between sales growth and the need to finance in current assets.

Short-term financing is defined as debt scheduled for repayment within one year. A large number of short-term credits are available and the financial manager must know the advantages and disadvantages of each. The main types of short-term financing are:

A. Trade Credit

Trade credit is a customary part of doing business in most industries. It is convenient and informal. Whether trade credit costs more or less than other forms of financing is a moot question. Because in such cases the buyer has no option but to buy the goods from the creditors. The trade credit is not applicable to the commercial banks.

B. Loans from Commercial Banks

Loan from the commercial banks is very important source of financing. Commercial banks take into consideration of following factors while providing loan to its customer. (*Western and Copeland 1991*)

-) Forms of loan
-) Size of Customers
-) Maturity
-) Security
-) Compensation Balance
-) Repayment of Bank loan

C. Commercial Paper

In recent years, the issuance of commercial paper has become an increasingly important source of short term financing for many types of corporations, including utilities, finance companies, insurance companies, and bank holding companies and manufacturing companies. Commercial paper consists of unsecured promissory notes issued by the firms to finance short-term credit lines.

In conclusion, the author has quoted that trade credit is the largest single category of short-term financing. It is especially important for smaller firm. Bank credit occupies a pivotal position in the short-tem money market. Banks provide the marginal credit that allows the firms to expand more rapidly than is possible through retained earnings and trade credits. Commercial paper is physically similar to a bank loan. It is sold in broad and impersonal market. The highest rated firms are the main users of the commercial paper. Working capital management encompasses all aspects of administration of current assets and current liabilities. Short-term financial management is widely used in place of working capital management and it covers all decisions of an organization involving cash flows in short term. (*Western and Copeland 1991*)

Horne (2000; 429-441) in the 14th chapter called “*Liquidity, Cash and Marketable Securities*”, the author has focused on the current assets and short-term financing. According to the author, Liquidity and liquid assets like cash and cashable assets are more important for the company to discharge the current liabilities. The objectives of the chapter can be explained as follows:

-) Discuss the term liquidity and its role.
-) Explain the various aspects of cash management and collections.
-) Explain the various aspects of investment in marketable securities.
-) Also to focus on the aspect of portfolio Management.

The, term liquid assets refer to money and assets that are readily convertible into cash. Cash is said to be more liquid asset in comparison to other assets. Because other assets have varying degree of liquidity depending on the way of conversion into cash. For the other assets, liquidity has two dimensions (i) the time necessary to convert the assets into money (ii) the degree of certainty, associated with conversion ratio. Since, assessment of financial performance also

depends on the degree of liquidity of the company, so the company under consideration should be enough liquid to discharge its current liability in time. Other aspects of liability involve cash management and collections. Cash management refers to managing monies of the firm in order to maximize cash availability and interest income on any idle funds. The financial manager has to tackle the cash management and collection of funds seriously. Cash management and collection comprises various aspects like.

-) Transferring funds.
-) Concentration Banking.
-) Lockbox System.
-) Control of disbursements.
-) Mobilizing funds and slowing disbursement.
-) Payroll and dividend disbursements.
-) Zero Balance Account.
-) Electronic funds Transfers.

The author has also highlighted on investment in marketable securities to properly maintain the liquidity in the firm. According to author a good financial manager should always try to invest the portion of an excess liquid assets. The yields on these sorts of marketable securities may vary due to default risk, coupon rate and other factors involved. The financial manager should consider following aspects while taking decision regarding the investment in marketable securities:

-) Default risk.
-) Marketability.
-) Maturity Period.
-) Coupon Rate.
-) Taxability.

Types of marketable Security

-) Treasury Security.
-) Repurchase Agreement - Agency Security.

-) Banker's Acceptance.
-) Commercial Paper.
-) Negotiable Certificates of Deposits.
-) Euro Donors.
-) Short-Term Municipal Bonds.

Regarding the portfolio management, the author has emphasized that the financial manager should invest the investment portfolio in accordance with the need of fund. The term 'portfolio' means collection of investments in different securities. In portfolio analysis, financial manager should analyze future risk and return of securities. The objective of portfolio management is to help developing a portfolio that has the maximum return at chosen level of risk efficient portfolio provides the highest possible return for any specified rate of return. In portfolio analysis, the financial manager should estimate the expected return and the risk of holding securities in a portfolio. In portfolio management, expected return and portfolio risk calculated as follows.

Portfolio Returns

The portfolio returns is calculated by using following formula

$$r_p = W_1 r_1 + \dots + W_n r_n$$

Where,

- r_p Expected portfolio return
- r_1 Expected return for stock 1
- r_2 Expected return for stock 2
- W_1 Weight for stock 1
- W_2 Weight for stock 2

Portfolio Risk

Portfolio risk is measured by the variance or standard deviation of the return of the portfolio. The variance of returns from a portfolio made up of two assets is defined by following equation:

$$\sigma_p^2 = w_1^2 \sigma_1^2 + w_2^2 \sigma_2^2 + 2w_1w_2\text{cov}(r_1r_2)$$

Where,

σ_p^2 = variance of the portfolio's rates of return

w_1 = weight for asset 1

σ_1^2 = variance for assets 1

w_2 = weight for asset 2

σ_2^2 = variance for asset 2

$\text{Cov}(r_1r_2)$ = Covariance of returns between asset 1 and asset 2

Instead of Variance, standard deviation (σ_p) can be used to measure the risk of the portfolio. Standard deviation is equally valid as the variance but is easier to interpret. The following equation is used for the calculation of standard deviation of a two asset portfolio.

In conclusion, for the cash management the company should attempt to accelerate cash collections and handle disbursement so that maximum liquidity is maintained in the company. On the other hand, the financial manager should try to use the excess cash in a number of securities. The financial manager should select the best possible portfolio considering the cash flow pattern and other things of the company.

Pandey, (2001; 30-53), for the financial analysis of any company there needs the financial information. The base of financial planning, analysis and decision-making is the financial information. Financial information is need to predict, compare to evaluate the firm's earning and expanding ability. It is also needed to help in economic decision making like investment and financing decision-making.

In this book, the author has pointed out of the following objectives in 2nd chapter "Statement of Financial Information".

- a. Discuss the nature, content, form and utility of two financial statements, viz. Balance sheet and profit and loss account
- b. Show relationship between Balance sheet and profit and loss statements.
- c. Distinguish between accounting profit and economic profit.

Any firm communicates financial information to the users through financial statements and reports. Thus, financial statements contain summarized information of the firm's financial affairs. These statements are the means to present the firm's financial situations to the users. Preparation of these statements is the responsibility of top management. As the investors, and financial analysis to examine the firm's performance in order to make investment decision use this statement, they should be prepared very carefully and contain as much information as possible. There are two basic financial statements prepared for the analysis of financial performance of any Company, (i) Balance sheet or statement of final position and profit and loss account or Income statement.

Balance Sheet:

Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. Balance sheet is the base for the analysis of financial performance of any company. Balance sheet contains information about resources and obligations of a firm entity and about its owners' equity. Balance sheet provides a snapshot of the financial position of the firm at the closed of fiscal year. (*Pandey, 2001*)

As we know, Balance sheet is very important tools for the analysis of financial performance. The functions severed by Balance sheet can be pointed out as follows:

-) It gives concise summary of the firm's resource obligations.
-) It is a measure of the firm's liquidity.
-) It is a measure of the firm's solvency.

Profit and Loss Account

Balance sheet plays very significant role for the banker and other creditors because it indicates the firm's financial Solvency and liquidity, where as profit and loss account reflect the earning capacity and potentiality of the firm. The profit and loss account is a scoreboard of the firm's

performance during a period. Since the profit and loss account reflects the results of operations for a period, it is a flow statement. In contrast, balance sheet is a stock or status statement as it shows assets, liability and owners' equity at a point of time.

Profit and Loss account presents the summary of revenues and expenses and net income of a firm. It serves as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

- a. It gives a concise summary of the firm's revenue and expenses during a period.
- b. It measures the firm's profitability.
- c. It communicates information regarding the results of the firm's activities to owners and other.

In conclusion, financial information is required for a financial planning, analysis and decision-making. The user of financial information includes owner's managers, employees, customers, suppliers and society.

The financial statements like Balance Sheet and P/L account are the basic instruments for the analysis of financial performance. (*Poudel, 2053*)

Sharma (2058; 226-237), in the 6th chapter called "***Financial Structure***", the author has explained about the financial structure of firm. According to the author, the term financial structure is wider than the capital structure. It refers to the structure of total finance of the company. It consists of both short-term financing and long-term financing. The objectives of this chapter can be explained as follows:

-) Discuss and explain the term financial structure
-) Explain about various financial leverages.
-) Also explain about financial leverage and risk associated.
-) Explain the various factors affecting financial structure.

The financial decision of the firm is one of the important decisions for the achievement of the maximization of the shareholder' wealth. For this, a financial manager should select a sound financial mix (financial structure), which help to achieve the objective of the firm. The term financial structure refers to the proportion of each type of capital, such as debt, preferred stock, and common equity issued by the firm.

The financial leverage is concerned with the relationship between the firm's earnings before interest taxes and the earning available for common stock holder. Financial leverage measures financial risk, and financial performance of the firm. It shows how much debt the firm employees in its capital structure.

Financial Leverage and Degree of Financial Leverage can be measured by using following equations:

$$FL \times \frac{EBIT}{EBT}$$

Here,

FL= Financial leverage

EBIT =Earning before interest and tax

EBT = Earning before tax

The effect of financial leverage is such that an increase in the firm's EBIT results in a more than proportional increase in the fir's earning per share. Where as a decrease in the firm's EBIT results in a more than proportional decrease in EPS.

Measuring the Degree of Financial Leverage (DFL)

Hampton, (1998) The degree of the financial leverage (DFL) is the numerical measure of the firm's financial leverage. The following equation is used to, calculate DFL.

$$DFL \times \frac{\% \text{ change in EPS}}{\% \text{ change in EBIT}} \Psi_1$$

Here,

DFL = Degree of financial leverage

EPS = Earning per share

EBIT = Earning before interest and tax

The degree of financial leverage is defined as the percentage change in EPS due to a given percentage change in EBIT.

In this chapter, the author has pointed out following factors that affects the financial structure of the company. Following are the main factors that affect the financial structure:

- a. Growth rate of sales
- b. Sales stability
- c. Assets structure
- d. Management attitude.
- e. Lender attitude
- f. Competitive structure

A company's financial-structure is affected by above factors. Therefore, in choosing an appropriate capital structure, the financial manager should consider above mentioned factors.

2.2.2 Review of Related Articles

Bhatta (1998), In this article "*Financial policies to Prevent Financial Crisis*", Nepal Rasta Bank Samchar, the author has suggested that the financial markets have become an exciting, challenging and ever changing sector in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for financial planners and policy makers. The growth of financial markets has caused complexities in the management and if they are not managed and addressed properly with appropriate policies, then the result is the financial crisis. The financial crisis, which took place in Chile in 1992, Mexico in 1994, South Asian countries 1997, Russian Federation in 1998, Ecuador and Brazil in 1999 and Argentina in the late 2001 were the result of an abrupt growth in the size of financial markets posing serious challenges to their management.

According to the author of the article, the financial crisis in most of the markets, particularly in emerging market, undergo several stages. The, initial stage is deterioration' in financial and non-balance sheets and which promotes the second stage that is currency crisis. The third stage is a further determination of financial and non- financial balance sheets as a result of the currency crisis. This stage is the one that caused the economy to full- fledged financial crisis with its devastating consequences.

Policies to prevent Financial Crisis

The author has suggested following policies to be adopted for preventing financial crisis:

1. Prudential Supervision

Banking sector problems promote most of the financial crisis. The experience of crisis hit countries show that the deterioration in banks' balance sheet increase financial crisis. Further, foreign exchange crisis also lead to a full-blown financial crisis. The supervisory system must give special emphasis on following to prevent financial crisis:

- i) Stop undesirable activities of financial institutions.
- ii) Adequate resources and statutory authority for prudential supervisors.
- iii) Accountability of supervisors.
- iv) Restrictions on connected lending.
- v) Limiting too-big to fail (too-bit- to fail is a policy in which all depositors at a big bank are fully protected if the bank fails)

2. Accounting standards and disclosure requirements

It is true that both markets and supervisors need enough information so as to effectively monitor financial institutions to stop excessive risk taking. There is a practice of making bad loan good by providing additional loan to the troubled borrowers. As a result, it become harder for the markets or supervisors to decide when the banks are insolvent and need to be closed down. In this respect, implementation of proper accounting standards and disclosure requirements helps to established healthy financial institutions.

3. Legal and Judiciary system

The efficient functioning of the financial system requires an efficient legal and Judiciary framework in many developing countries, the legal system may not well be defined about the use of certain assets as collateral or makes attaching collateral a costly and time consuming process. Thus, an effective legal and judiciary system is required to secure the investment of the lender and other similar cases by decreasing information problem.

4. Monetary policy and price stability

Monetary policy and price stability can also help to prevent financial crisis. When the countries have in past high inflation, foreign debt contracts make the financial system more fragile and thus trigger a financial crisis. Achieving price stability is a necessary condition for having sound currency and with sound currency it is easy to banks and non-financial firms and system government to raise debt in local currency.

5. Exchange rate regimes and foreign exchange reserves

Exchange rate regime and foreign exchange reserves can also create financial instability. The experiences of crisis - hit countries have also shown that economies with low amount of foreign currency reserve seemed to be more vulnerable to crisis though, pegged/ fixed exchange rate regime is an efficient mechanism for inflation control, but the same can create server problem if the economy is dominated by substantial amount of foreign debt. Thus, some researchers have advocated that increased holding of foreign currency reserves is required to insulate countries from financial crisis.

6. Encouraging market based discipline

Market based discipline is very much essential for a sound financial system. This can be maintained by:

- Disclosure requirement, which provides information to the markets that, assist them to' monitor financial institutions and keep them away from taking oil too much risk.
- Having credit ratings to financial institutions. Requiring them to issues sub-ordinated debt.

7. Entry of Foreign Bank

A liberalized economy with sound supervisory/ regulatory infrastructure can permit foreign banks to enter in financial system. The adverse shocks in economy will not affect the functioning of these banks since their risk is adversities and their enter can encourage the adaptation of best practices in the banking industry. It is believed that these banks come with better risk management techniques and more efficient banking system.

8. Limitation of too- big to fails hi the corporate sector

When some corporate houses considered to be too- big -to fail (or politically influential) by the government, these corporations enjoy in excessive risk taking. If such is the case, lenders do not hesitate to supply additional fund to the troubled corporations and which violates the market discipline. Therefore, too- big to fails as ' in the banking sector should be eliminated.

In conclusion, the author has remarked that there is no doubt is no doubt that the key to preventing future financial crisis is to implement sound domestic economic policies and build robust financial institutions. The experiences of the crisis hit countries, especially during the decade of nineties, has proved that a country opening to liberalized economic policy should adopt sequencing policies constraining the pace of participation in the global market place until a sound domestic infrastructure can be put into place.

Shrestha (2009), In this article "*Supervisory Challenges in the Nepalese Banking Sector*", Nepal Rastra Bank Samachar, the author has suggested that the Current global crises is among the greatest challenges to the world economy. Unlike past financial crises, which were confined to particular regions, the current financial continent is quickly spreading across continents. Many countries around the world have experienced impact of global financial crises. The global financial crisis has led policy makers to focus increased attention on the crucial role of banking supervision. Ongoing changes in the structure and nature of banking as well as banking crises, across the globe have focused the attention of policy makers on the appropriate structure, scope and degree of independence of banking supervision. Independence for banks and financial institutions (BFI) supervisory authorities enhances their ability to enforce actions. The issue regarding the independence of supervisory authorities is the degree to which BFI supervisors should be subject to political and economic policy pressure and influence. How these issues are addressed is important because policies that fail to provide for an appropriate BFI supervisory framework may undermine BFI performance and even lead to full-scale BFI crises.

What Nepal Rastra Bank (NRB) is doing?

BFI supervision is concentrated mainly on lowering the probability of a situation where a BFI becomes insolvent, whereby it pursues the objective of preventing a disruption to the stability of

the financial system as a whole. The NRB is responsible for two other important assignments besides monetary policy. The first is to ensure that those who are placing their resources in BFIs are protected. The NRB is required to ensure that BFIs are completely managed completely transparent. The second responsibility of the NRB is to ensure that BFIs act as efficient financial intermediaries utilizing the domestic savings effectively to create jobs and improve national welfare.

The NRB has worked vigorously to enhance enforcement of the Banking and Financial Institution Act, 2063 (BAFIA) and the various regulations that govern implementation of this statute. The NRB had also revised prudential regulations based on global experience. During the past few years, the NRB supervision has identified several infringements to the banking laws and regulations. One major problem area was the categorization of loans (Housing, Margin Lending, Personal Loan etc.) Where several BFI has failed to conform to prudential regulations by categorizing loans to have been of better quality than was warranted following a close examination of the collateral offered. Failure to categorize loans properly led to under provisioning making some BFIs appear healthier by declaring higher dividends than were actually justified. Re-categorization required by the NRB supervision process led to the need for additional provisioning to meet statutory requirements and increased transparency and accountability for the benefit of both the customer and the financial sector.

The NRB supervisors have thoroughly scrutinized the margin lending activities of the BFIs and provided proper regulations on this matter. The NRB has implemented BASEL II framework for the commercial banks for better capitalizations of the banks. However, the effective implementation of BASEL II is demanding and requires on the part of banks and supervisors considerable efforts and significant resources.

The NRB has also continuously analyzing the connected lending activities of the BFIs for the better implementations of the corporate governance practices. The NRB's efforts on having more transparency on the BFIs activities also bought good results in the performance of banking and financial sector. However, lot many things have to be done further for the development of effective supervision to ensure resilient banking and financial system in Nepal.

Why has the performance of BFIs been Disappointing?

The financial services industry continues to become more global in its reach. This demands the development of innovative supervisory and co-operative arrangements. Supervision and regulation of BFIs contributes to ensuring stability in the financial sector. Although the manner of NRB supervision over the banking sector depends on the political, economic and cultural conditions, the trend appear to be being built consolidated supervision is a reflection of developments in financial markets through the influence of market integration, financial innovations and technological progress.

The banking sector data analysis revealed that the performance of large government owned banks is very much disappointing as their presence are associated with slower financial and economic development. However, the performance of some private sector BFI is also disappointing and need more corrective actions immediately. They have weak incentives for sound lending and recovery, credit misallocation etc. The borrowers of these BFIs also have culture of non-payment of loan. Generally, Nepalese BFIs are facing the problem of poor governance and bad management, which is frequently evidenced by political intervention, poor lending practices, bad concentrations of credit, connected lending, poor internal control, less transparency, insider abuse and fraudulent activities.

Challenges in the NRB Supervision

The three main pillars constitute the vision for banking sector in Nepal. First is the achievement of sound legal framework for the banking sector. Second is the achievement of an efficient and stable financial sector. Third is increased access to financial service. However, the shortcomings in legal framework should be reviewed for addressing the gaps, inconsistencies and deficiencies in the prevailing legislation. With regard to efficiency, the NRB aim to achieve a more competitive financial sector.

The NRB supervision resolve to eradicate instances of noncompliance brought to light a number of challenges. These problems of an inadequate legal framework for enforcing remedial action and gaps in supervisory capacity to perform critical transaction and to form an independent opinion on the value of securities that collateralize non-performing loans. The second challenges were to comprehensively review the unified directives issued in 2062 and to align them to

international best practice. The unified guidelines focused in improving asset quality and ensuring higher standards of corporate governance should be improved further according to global best practice.

An important challenge faced by the BFIs has been the disposal of collateral used to secure non-performing loans. This problem should be addressed immediately by the NRB for gradual elimination of over-reliance on collateral based lending and implementation of a prompt write-off policy for non-performing assets. These changes have the benefit of improving credit allocation in favor of creditworthy borrowers, maintaining financial discipline among borrowers and early recognition of bad debts. In order to deal with problems associated with non-performing loans, the NRB supervisory approach should be changed by placing a greater emphasis on the specific risks that individual BFIs face. In this regard, the adoption of pro-active risk based supervisory methods is highly suggested. The traditional approach is largely reactive and often attempted to address weakness that had occurred.

A risk based supervision approach demands fundamental changes in the manner which BFIs approach their business. All business decisions must henceforth be subjected to a rigorous risk based assessment and all potential risks associated with these decisions will be identified, measured, monitored and controlled. The main challenge to risk based supervision approach is the need to enhance the supervisory skills of the NRB staffs so as to ensure that the BFIs risk management frameworks are properly monitored and evaluated for adequacy. The risk management guidelines should be elaborated further, in order to assist BFIs in overcoming this challenge, which spell out minimum requirements for risk management systems and frameworks.

The publication of interest rates bank charges and fees should be in favor of bank customers to make informed choices on which BFIs they bank with. The NRB believes that continued publication of charges and fees would enhance competition in the provision of products and services.

The level of quality of banking supervision depends on its institutional structure, which influences, to a large extent, the stability and efficiency of the banking sector and thereby the

whole economy. Thus, strengthening of regulation and supervision capacity of NRB to the best international practices is very much urgent. The prime focus should be given on prevailing regulations on loan loss provisioning, credit exposure, connected lending, corporate governance, transparency and prompt corrective action.

Another issue, which is most, discussed in the banking arena that the undercapitalized BFIs should or should not be allowed to operate? This issue is particularly important for private BFIs without a reputation to protect. Last but not the least, the prevailing licensing policies for BFIs should be revised according to the actual banking need of the country and the process of 'fit and proper test' should be conducted in such a way that ensures presence of good governance and transparency from the very beginning.

Keeping views on ever increasing number of BFIs, the NRB supervision jobs is being very challenging in the sense of coverage, problem identification, resolutions and prompt corrective actions.

Concluding Remarks

The global financial crises have revealed that weak financial systems and their supervision are the most important factors contributing to macro instability. Financial markets are different from product markets and therefore, greater liberalization goes along with deeper supervision and higher degree of regulation. Any destabilization in financial markets affects even those who are not in financial markets. On the other hand, financial markets can drive the real economy. Therefore, transparency disclosures, prudential norms and capitalization are the main fundamentals in the banking and financial sector. This is essential because depositors have no other security except that BFIs are well regulated. For the depositors' protection and ease the supervision job, the NRB should revisit the present licensing policy to ensure well-diversified ownership and control, 'fit and proper' status of important shareholders, Directors and CEO, minimum capital/net worth for optimal operations and systemic stability and transparency and fairness of policy and process of the BFIs. As the financial system is changing, its supervision must change as well. Last but not the least, to drive the change and meet the challenges we need bankers with not only requisite leadership and technical skills but also ethical standards of the highest order.

2.2.3 Review of Related Thesis

Saud, (2006), conducted his master thesis on “*A Study of Financial Performance of Selected Commercial Bank in Nepal (Himalayan Bank, NB Bank and Everest Bank)*” has pointed out following objectives.

- i. To evaluate the trends and growth of loan,
- ii. To evaluate the investment and total deposit patterns,

Major Findings of the study are as follows:

- i. Due to lower liquidity position (below than normal standard) and highly leveraged structure and lower liquidity position as profitability as long as more risky
- ii. In case of earning capital and utilization of profit researcher come into the following conclusion.
- iii. Himalayan Bank has performed better in terms of net profit during the study period. All of these three sample banks are able to earn above 1% on total asset and to mobilize deposit properly
- iv. In case of dividend all sample banks are not able to pay regular dividend to its stockholder. However they maintaining its EPS above its value.
- v. Regarding earning per share all of the sample banks are no able to retain its EPS on its previous level. The researcher concluded that during the study period trend line shows the decreasing pattern of net income after tax.

Upreti. (2007), in his thesis entitled "*A comparative study of financial performance of NIBL, HBL, SCBNL and EBL*", has pointed out following objectives.

- i) To study the present of the four joint venture banks
- ii) To do the comparative study about the financial performance of these banks with regard to their profitable liquidity, efficiency and capital structure.
- iii) To provide recommendation and suggestion on the findings to improve financial performance of these banks.

Major Findings of the study are as follows:

- i. Among all the sample banks, HBL has the lowest ratio and EBL has not mobilized its assets into profit generating projects.
- ii. SCBNL has been successful in earning more net profit by the proper use of its available assets.
- iii. EBL with the highest ratio has been successful in generating more interest by the proper use of its available assets.
- iv. EBL and HBL seem to have held more cash and bank balance rather than other commercial banks.

Karki, (2005), in his thesis entitled "*A comparative analysis of financial performance of NABIL and SCBNL*", has pointed out following objectives.

- i. To evaluate liquidity position of both banks.
- ii. To analyze comparative financial performance of both banks.
- iii. To study the comparative position of both banks.
- iv. To offer a package of suggestion to improve the financial performance
- v. To identify the relationship between interests earned and operating profit.

Major Findings of this study are as follows:

- i. SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profits.
- ii. Liquidity position of NABIL bank is favorable in many cases it seems excessive. The proposed recommendation for these banks are to reduce its excessive non-performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury bills), while SCBNL must strength the liquidity position.
- iii. Comparatively SCBNL's profit ability position is better than that of NABIL.

Pradhan, (2004), in his thesis entitled "*A comparative study on financial performance of HBL and SCBNL*" has pointed out following objectives.

- i. To analyze comparative financial performance of both banks.
- ii. To evaluate liquidity position of both banks.
- iii. To identify the relationship between interests earned and operating profit.
- iv. To offer a package of suggestion to improve the financial performance.

Major findings of this study are as follows:

- i. Current ratio of both the banks are below the standard, this might affect the liquidity position of these banks.
- ii. SCBNL's loan and advances to total deposits ratio are significantly lower than that of HBL.
- iii. SCBNL is strongly recommended to follow liberal lending policy and invest more and more percentage amount of total deposits in loan and advances.
- iv. HBL is strongly recommended to increase its earning per share and dividend per share to keep investors within the bank.

Subi, (2003), in her thesis entitled "*Financial performance of Nepal Investment Bank Limited*", has tried to summarize the financial performance of NIBL. And she has pointed out the following objectives:

- i. To evaluate liquidity position of NIBL.
- ii. To analyze the financial performance of this bank.
- iii. To offer a package of suggestion to improve the financial performance
- iv. To identify the relationship between interests earned and operating profit.

Major Findings of the study are as follows:

- i. The result of the analysis indicates that the bank had the high debt equity ratio which again exhibits that the creditors have invested more in the bank than the owners.
- ii. The result of the analysis indicates that the bank has better mobilization of saving deposits in loans and advances for income generating purpose.

Udas,(2001)has submitted his master's thesis on "*A comparative appraisal of financial performance of Nepal Bangladesh Bank and Bank of Kathmandu*" with the objectives

- i. To examine the financial performance of Bank of Kathmandu and NBB for a period of 2051/52 to 2055/56 BS
- ii. To show the causes of changes in cash position of the two banks at two balances date.
- iii. To suggest and recommend the banks to improve their financial performance

Major Findings of the study

The researchers found the current ratio of NBB was high. NBB is utilizing its deposits more effectively than BOK. All the profitability rates were found to be higher in case of NBB than BOK. Since BOK is suffering losses in three fiscal years. Thus, showing its operational deficiencies in mobilizing the resources in production sectors. On the other hand NBB has always been increasing its profit from the outset. On average BOK was generating more cash from financing activities than NBB. However, the contribution of financing activities in the final cash and bank balance of the banks was not as significant that of operating and investing activities.

Ojha,(2000), has conducted a research on “*Financial Performance and Common Stock Pricing*”. The main objectives of his research were;

- i. To study and examine the difference of financial performance and stock
 - a. Prices.
- ii. To examine the relationship of dividends and stock price.
- iii. To explore the signaling effects in stock price.

Major Findings of the study

Nepalese stock market is in infancy stage, in general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have a relatively stable profitability parameters that the firm established after the economic liberalization of 1990. Older firms have been issuing bonus share more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been highly fluctuating. Due to lack of proper investment

opportunity most of the investors have directed their saving towards the secondary stock market. There is significant positive correlation between the dividends paid and stocks prices of banking and manufacturing industries. All other industries have not a perfect correlation between the dividends paid and stock prices. There is a positive correlation between the net worth per share and stock prices of banking, airline and hotel industries, there is no perfect correlation between the net worth per share and common stock price.”

Joshi,(2004) has submitted his master’s thesis on “*Financial Analysis of Nepalese Commercial Banks*” with the objectives of finding the comparative financial strength and weakness of various commercial banks, return rate and expected return to the shareholders, systematic and unsystematic risk of the banks and providing recommendation on the basis of research findings. By using financial ratios he concluded that lending condition of banks is in decreasing tend. Strength banks are holding good customers and discouraging low rated and less amount loan. Instead of that they are initiated towards remittance bank guarantees and other commission generating activities, while other banks are showing aggressive and are spontaneously increasing loan loss provision. Deposit in the banks is also decreasing while son banks are holding enough funds toward the credit sector because return on credit sector is higher than on investment sector. Loan loss provision of SCBNL is comparatively higher. It is recommended to control while sanctioning loan outflows. So, the bank should improve credit management.

2.3 Research Gap

Though large numbers of research are available bearing the same topic, "A comparative analysis of financial performance of commercial Banks", I’m trying to give something new in my thesis. However, the researcher will sustain gap by covering the relevant data and information from the year 2004/05 to 2008/09. Moreover, the researcher has selected three commercial banks of Nepal as sample banks i.e. Everest Bank Ltd., Nepal SBI Bank Ltd and Himalayan Bank Nepal Ltd. That itself demonstrates the gap of this research from the previous one because the researcher has not found any research done in these banks in collective form. Under this topics many researcher have been done but none of the researcher undertaken regarding the case study of financial performance between the Everest Bank Ltd, Nepal SBI Bank Ltd and Himalayan Bank Ltd. These banks are leading commercial banks as compared to other commercial banks by

which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank.

EBL, NSBI and HBL are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank. And also I want to suggest all the my respective friend and other by the limitation of several case I'm not analyze the how the government rule is affecting the selected banks activities though they can add this objective in same topics in future.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that we generally adopted by a researcher, studying his research problem along with the logic behind them.

“Research is the process of systematic and in-depth study or search for any particular topic, subject or area of investigation, backed by collection, presentation and interpretation or relevant details or data.” (*Michael, 1985: 57*). In other words, research methodology is a systematized way to solve the research problem.

The prime objective of this study is to compare, evaluate and assess the financial performance of selected joint venture banks, i.e. Everest Bank Limited, Nepal SBI Bank Limited and Himalayan Bank Limited. This chapter contains these methods that make convenience for comparison of the performance made, so far by these banks by analyzing the strength and weakness of the financial performance of these three joint venture banks.

“Research Methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view.” (*Kothari, 1994: 19*). A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

3.2 Research Design

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variances. In other words research design is the frame work for a study that helps the analysis of data related to study topic. “A research design is

the arrangement of conditions, for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” (*Chaire, Selliz and others, 1967: 261*).

Research design is very important for scientific investigation. Research design gives the investigator a systematic direction to research work. Actually, research design is a plan for data collection and analysis. It presents a series of guideposts to enable the researcher to proceed in the right direction in order to achieve the goal.

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern or framework of the project that stipulates what information to be collected from which sources by what procedures. There are various approaches of research design. For our convenience, in this thesis, a comparative analysis of financial performance of three joint venture banks based on descriptive and analytical research design.

3.3 Sources of Data

This study is mainly based on secondary data. Secondary data are collected from their respective annual reports especially from profit and loss accounts, balance sheets and other publications made by the banks. Also some data has been gathered from Nepal Stock Exchange’s Website. Similarly, articles, journals related to the financial performance study, previous research reports etc., have also been taken into account while collecting information.

3.4 Populations and Sample

At present there are 26 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, three commercial banks viz. Everest Bank Limited, Nepal SBI Bank Limited and Himalayan Bank Limited have been taken as sample of this study and rest of the commercial banks are considered as population. Five years data are taken to conduct the study from FY i.e. 2004/05 to 2008/09. Following commercial banks have been selected for the study. They are :

- 1.Everest Bank Limited
- 2.Nepal SBI Bank Limited
- 3.Himalayan Bank Limited

3.5 Data Collecting Procedure

Besides the above stated sources of data, a detailed review of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Library of Shanker Dev Campus, Central Library of Tribhuvan University, Library of Nepal Commerce Campus and Library of Nepal Rastra Bank. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results were concluded and interpretations were made.

3.6 Method of Data Analysis

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial with the statistical tools.

3.6.1 Financial Tools

In this study, the following financial tools have been used to measure the strength and weakness of the sample banks.

3.6.1.1 Ratio

Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and profit and loss account (*Van Horne, 1979: 231*). Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth (*Poudel, 2053: 67*).

3.6.1.1.1 Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short-term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. The liquidity ratio measures the ability of a firm to meet its short-term obligation. In order to ensure short-term solvency, the JVBs must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor high. If the liquidity ratio of the bank is not enough, it will

result in bad credit ratings, less creditors, confidence, eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it will be unnecessarily tied up in current assets. Thus the banks should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency. The following ratios are used to find out the short-term solvency of the banks.

a. Current Ratio

The current ratio indicates bank's liquidity and short-term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities. Thus;

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

Current assets are those assets, which can be converted into cash within a short period of time. Normally, not exceeding one-year. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable, debtors, bills purchased and discounted and miscellaneous are the examples of current assets. Similarly, current liabilities are those obligations which are payable within a short period. Sometimes it is called working capital ratio. Deposit and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous are the examples of current liabilities.

Generally, the current assets of the company should be twice than current obligations to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm is less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bills and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance in case of seasonal business ratio and the nature of business.

b) Cash and Bank Balance to Current Deposits Ratio

This ratio is used to measure the bank's ability to meet the current obligations to its current depositors. It examines the commercial bank liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the banks to make the

quick payment of its customer deposits. This ratio is computed by dividing cash and bank balance by current assets. It is calculated by the following formula:

$$\text{Cash and Bank Balance to Current Deposits Ratio} \times \frac{\text{Cash and Bank Balance}}{\text{Current Deposits}} | 100$$

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice-versa. Both higher and lower ratios are not desirable. The reason is that if a finance company maintains higher ratio of cash, it has to pay interest on deposits and some earning may be lost. In contrast, if bank maintains low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

c) **Cash and Bank Balance to Total Deposits**

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by the following formula:

$$\text{Cash and Bank Balance to Total Deposits} \times \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher.

3.6.1.1.2 Leverage Ratio

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of debt and equity in financing. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. The following ratios are used for

analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs.

a) Debt-Equity Ratio

Debt-equity ratio examines the relative claims of creditors and owners against the banks' assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is computed by using the following formula:

$$\text{Debt-Equity Ratio} \times \frac{\text{Total Debts}}{\text{Net Worth}} \times 100$$

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners.

b) Debt-Assets Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. This ratio is calculated by using the following formula:

$$\text{Debt-Assets Ratio} \times \frac{\text{Total Debts}}{\text{Total Assets}} \times 100$$

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice-versa. This ratio implies a commercial bank success in exploiting debt to be more profitable.

c) Net Worth to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund. This ratio is derived by dividing shareholders fund by total assets. This can be stated as,

$$\text{Net Worth to Total Assets Ratio} \times \frac{\text{Net Worth}}{\text{Total Asset}} \times 100$$

Generally, this ratio measures the relative claims of owners of the commercial banks over the bank's assets. A high ratio indicates that out of total assets, shareholders have more controlled owner command and vice-versa.

3.6.1.1.3 Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

a) Loan and Advance to Total Deposits Ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. This ratio is calculated by using the following formula:

$$\text{Loan and Advance to Total Deposits Ratio} \times \frac{\text{Loan and Advances}}{\text{Total Deposits}} \times 100$$

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa.

b) Loan and Advances to total working fund ratio

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

$$\text{ratio} = \frac{\text{Loan and Advance}}{\text{Total working fund}} \times 100$$

Here, the denominator includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bands and other investment in share, debenture and other etc. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

c) Total Investment to Total Deposits Ratio:

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the following formula:

$$\text{Total Investment to Total Deposits Ratio} = \frac{\text{Total Investment}}{\text{Total Deposits}} \times 100$$

The numerator consists of investment of government securities, investment on debenture and bonds, shares in subsidiary commercial bank share in other companies and other investment. A high ratio indicates that the commercial bank's efficiency is more investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

3.6.1.1.4 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarding as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio, better the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a. Net Profit to Total Assets Ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This is found by using the following formula :

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice-versa.

b. Total Interest Expenses to Total Interest Income Ratio

This ratio measures the percentage of total interest expenses against total interest income. It is calculated by the following formula :

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}} | 100$$

The numerator consists of total interest expenses on total deposit, loan and advance, borrowing and other deposits. A high ratio indicates high interest expensed on total interest income.

c. Net Profit to total deposits (Return on Total Deposits)

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of profit. It is calculated by using the following formula.

$$\text{Net Profit to total deposits} = \frac{\text{Net Profit}}{\text{Total Deposits}} | 100$$

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call and short deposits and other. Generally, higher ratio indicates better utilization of total deposits and vice-versa.

d. Staff Expenses to Total Income Ratio

This ratio measures the percentage of staff expenses against total income of the banks. It is calculated by using the following formula:

$$\text{Staff Expenses to Total Income Ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}} | 100$$

The nominator consists of staff expensed on total income and other deposits. A high ratio indicates high staff expensed on total income.

e. Return on Net Worth Ratio

This ratio shows the capacity of the banks to utilize its owner's fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher ratio represents the sound management and efficient mobilization of owner's equity. It is calculated by the following formula :

$$\text{Return on Net Worth Ratio} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100$$

Here, net worth focuses not only the paid up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

f. Interest Earned to Total Asset Ratio

This ratio is used to measure the percentage of interest earned in relation to total assets of the banks. It signifies the mobilization of the bank's assets in interest generating purpose. Higher ratio signifies better efficiency in utilizing the resources in interest generating sectors. It is calculated by using following formula :

$$\text{Interest Earned to Total Asset Ratio} = \frac{\text{Total Interest Income}}{\text{Total Assets}} \times 100$$

The numerator comprises total interest income from loans, advances, cash credit and overdrafts, government securities, inter commercial bank and other investment. A high ratio is an indicator of high earning power, and better performance of the JVBs on its total working fund and vice-versa.

g. Return on Investment Ratio

This ratio measures the percentage of return on total investment. It is calculated by using following formula :

$$\text{Return on Investment Ratio} = \frac{\text{Net Profit}}{\text{Total Investment}} \times 100$$

The numerator consists of investment of government securities, investment on debenture and bond, share in subsidiary companies and other investment. A high ratio indicates commercial bank efficiency is more beneficial on its investment.

h. Earning Per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over that period. EPS shows the profitability of the company of a per share basis. It is calculated by the following formula:

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit after tax}}{\text{No. of common shares}}$$

i. Dividend Payout Ratio (D/P Ratio)

This ratio reflects at what percentage of net profit is distributed term of dividend and what percentage is retained in the bank. It is calculated by the following formula:

$$\text{Dividend Payout Ratio (D/P Ratio)} = \frac{\text{Divident perShare}}{\text{EarningPerShare}} | 100$$

j. Price Earning Ratio (P/E ratio)

This ratio shows the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by the following formula:

$$\text{Price Earning Ratio (P/E ratio)} = \frac{\text{Market Value perShare}}{\text{Earning per Share}} | 100 \quad \text{k.}$$

Market Value per Share to Book Value Per Share

This ratio shows the ratio of market value per share to the book value per share. The market value per share is divided by the book value per share. This ratio shows the price being paid by outsider for each rupee reported in balance sheet. It is calculated by the following formula:

$$\text{Market Value per Share to Book Value per Share} = \frac{\text{Market Value pershare}}{\text{Book value per share}} \times 100$$

3.6.1.1.5 Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments. The following ratios are used under the credit ratio :

a. Investment on Govt. Securities to Total Working Fund Ratio

This ratio shows that commercial bank investment on government securities in comparison to the total working fund. It is very significant to know the capacity of commercial bank to mobilize their working fund of different types of government securities to maximize the income. All the deposits of the commercial bank should not invest in loan and advances and other credit from security and liquidity point of view. Therefore, up to some extent, commercial banks seem to be invested to utilize their deposits by purchasing government securities. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

$$\begin{aligned} & \text{Investment on Govt. Securities to Total Working Fund Ratio} \\ &= \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}} \times 100 \end{aligned}$$

This ratio shows that out of total working fund, how much percentage of it has been occupied by the investment on government securities.

b. Total Investment to Total Deposits Ratio

This ratio shows the proportion of total deposits mobilization in the different investing areas. It is calculated by using the following formula :

$$\text{Total Investment to Total Deposits Ratio} = \frac{\text{Total Investment}}{\text{Total Deposits}} \times 100$$

This ratio shows that out of total deposits, how much percentage of it has been occupied by the investing in different areas.

3.6.2 Statistical Tools

The statistical tools selected for the comparative study of three banks (EBL, HBL and NSBI) are as follows.

3.6.2.1 Arithmetic Mean

Average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observation is their sum divided by the number of observation (Gupta, S.C. 1995:331).

Mathematically, $\bar{X} = \frac{x_1 + x_2 + \dots + x_n}{n}$

Where,

\bar{X} = Arithmetic Mean

$x_1 + x_2 + \dots + x_n$ = Values of Variable

x = Sum of the values of variables x

n = Number of observation.

3.6.2.2 The Coefficient of Variation

For comparing the variability of two distributions, we compute the coefficient of variation. A distribution with smaller C.V. is said to be more homogenous or uniform or less variable than other and the series with greater C.V. is said to be more heterogeneous or more variable than others. The coefficient of variation is a relative measure which is useful in comparing the amount of variation in data group with different means :

Mathematically,

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

$$S.D. = \sqrt{\frac{1}{n} \sum (x - \bar{X})^2}$$

Where,

S.D. = Standard Deviation

\bar{X} = Mean

C.V. = Coefficient of variation

3.6.2.3 Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

Where,

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

- n = No. of observation of X and Y.
 x = Sum of the observations in series X.
 y = Sum of the observations in Series Y.
 x² = Sum of square observations in series X.
 y² = Sum of square observations in series Y.
 xy = Sum of product of the observations in series X and Y.

3.6.2.4 Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. It is worked out as:

$$P.E. = 0.6745 \frac{\sum r^2}{\sqrt{n}}$$

Where,

r = Correlation Coefficient

n = No. of pairs of observation

r > PE (r) x 6 (correlation coefficient more than six times of probable error ..r is significant)

r < PE (r) (Correlation coefficient less than six times of probable error ... r is insignificant)

3.6.2.5 Coefficient of Determination

The coefficient of determination is the primary way we can measure the extent, or strength of the association exists between two variables X and Y, It is worked out by squaring the coefficient of correlation.

Where,

$$R = r^2$$

r = Coefficient of correlation

R = Coefficient of determination

3.6.3 Income and Expenditure analysis

Besides the various ratios, income and expenditure analysis be made for evaluation financial performance of the banks. The profit and loss accounts of the banks are used for this analysis.

3.7 Analytical Procedure

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial tool along with the statistical tool.

Financial tools have been used to measure strength and weakness of the three selected joint venture bank. Then, the selected banks have been compared and analysis according to the various ratios findings.

Statistical tools have been used to analysis the study for finding which bank have more homogenous or uniform than the other, according to the co-efficient of variation. Likewise, Karl person co-efficient of correlation should be used to measure the degree of relation between the two related variable. Probable error also should be used to analysis the reliability of the coefficient of correlation.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

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

4.1 Financial tools

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

4.1.1 Liquidity Ratio

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

A. Current Ratio

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

Table 4.1
Analysis of Current Ratio

(In times)

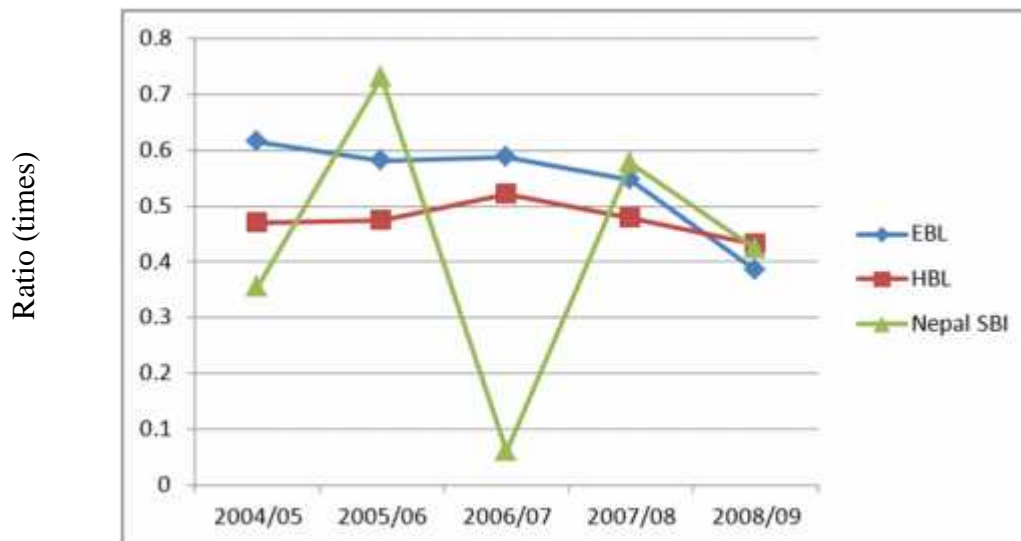
Name of Banks	Fiscal Year					Average	σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	0.6153	0.5816	0.5872	0.5473	0.3850	0.5433	0.0820	15.10
HBL	0.4709	0.4744	0.5221	0.4783	0.4317	0.4755	0.0287	6.04
NepalSBI	0.3547	0.7318	0.0606	0.5779	0.4229	0.4296	0.2259	52.58

(Source: Annex 1)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 0.3243 \text{ times}$$

Figure 4.1
Analysis of Current Ratio



In the above table and chart, current Ratio has been calculated dividing current assets by current liabilities. The above table and chart shows that the current ratio of all the banks is below the normal standard of 2:1. On an average basis, current ratio is EBL is 0.5433, which is the highest ratio among sample banks; whereas HBL & Nepal SBI has 0.287 & 0.2259 respectively. However, considering the average ratio, EBL is found slightly better liquid than other.

From S.D point of view, Nepal SBI has the highest S.D of.2259 Next to it there is EBL with S.D of .0820. HBL has the lowest S.D. of 0.0287. It implies that Nepal SBI has high fluctuation (less homogeneity) with respect to current assets to current liabilities. Similarly, HBL has low fluctuation (more homogeneity) with respect to current assets to current liabilities.

The grand average of three banks is 0.3243 this indicates that below this level the performance will be poor. But here all the banks has above the level. So, all banks are performing good.

B. Cash and Bank Balance to Total Deposit Ratio

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

Table 4.2
Cash and Bank Balance to Total Deposit ratio

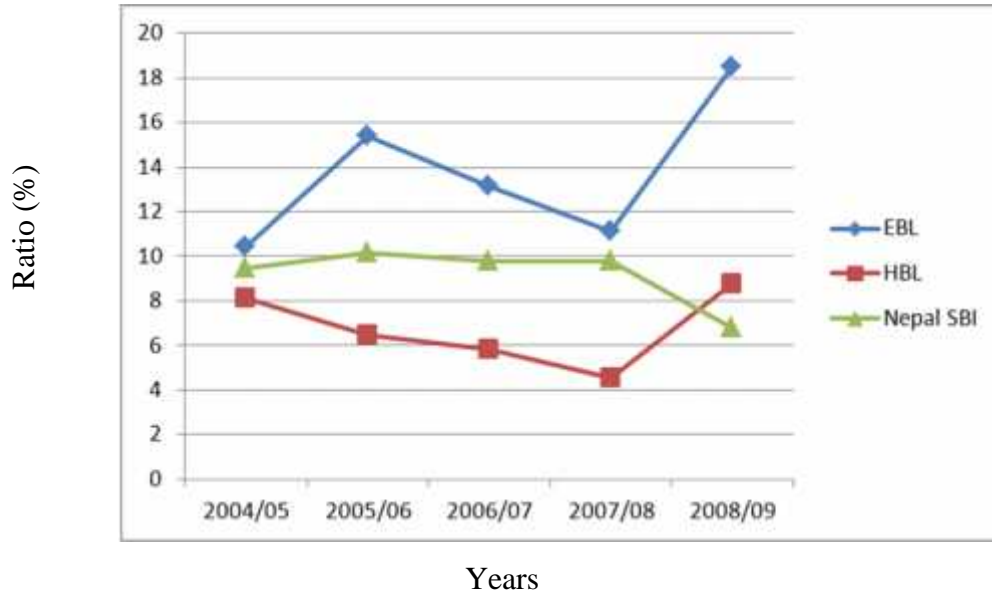
(In percentage)

Name of Banks	Fiscal Year					Average	Σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	10.40	15.38	13.15	11.13	18.50	13.71	2.95	21.51
HBL	8.12	6.48	5.84	4.55	8.79	6.76	1.53	22.72
NepalSBI	9.48	10.16	9.81	9.79	6.81	9.21	1.22	13.22

(Source: Annex 2)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n} = 7.64\%$$

Figure 4.2
Cash and Bank Balance to Total Deposit ratio



In above table and chart, cash & bank balance to total deposit ratio has been calculated by dividing total cash and bank balance amount by total deposit amount. The above ratio reveals that the ability of banks to cover its short-term deposits. On an average basis, EBL is more in better position with an average 13.71% than all other sample banks. There is Nepal SBI next to it with an average of 9.21%, which is also in comfortable position is discharging its short-term liabilities. HBL falls under grand average level (i.e.6.76%),it means this bank has lower performance to meet their daily cash requirements of their customer deposits. EBL has maintain well and NSBL has somehow meet the level

From S.D point of view, EBL has the highest S.D. of 2.95. Next to it there is HBL with S.D. of 1.53. Nepal SBI has the lowest S.D of 1.22. It indicates that there is high fluctuation (Less homogeneity) in cash and bank balance to total deposit ratio of EBL and HBL over the study period. Nepal SBI with lowest S.D. of 1.22 indicates that there is low fluctuation (more homogeneity) in cash and bank balance to total deposit ratio.

From C.V. viewpoint, HBL has highest C.V. i.e. 22.72% and next to it EBL with C.V. is 21.51%. Nepal SBI has the lowest C.V. is 13.22%. This implies that HBL and EBL are more inconsistent in cash and bank balance to total deposit ratio over the study period. However,

Nepal SBI with lowest C.V. i.e. 13.22% indicates that it is consistent in cash and bank balance to total deposit ratio over the entire study period.

C. Cash and Bank Balance to Current Asset Ratio

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

Table 4.3
Cash and Bank Balance to current Asset Ratio (In percentage)

Name of Banks	Fiscal Year					Average	∑	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	19.18	21.23	23.79	22.46	51.84	27.7	12.17	43.92
HBL	17.69	14.98	12.57	10.41	21.72	15.47	3.96	25.56
NepalSBI	31.36	16.69	18.96	19.13	22.19	21.67	5.15	23.78

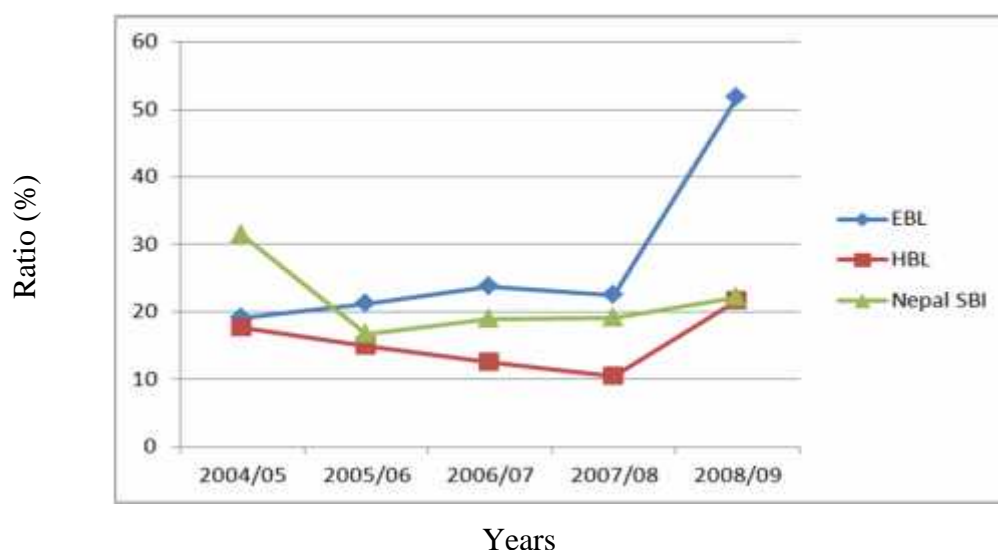
(Source: Annex 3)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 16.46\%$$

Figure 4.3

Cash and Bank Balance to current Asset Ratio



The above table and chart shows that the ratio has been derived dividing cash and bank balance by current assets. The above table and chart shows that the selected JVB_s have held less cash and bank balance and utilized the available fund into current assets by issuing short-term loans and advances. Over the study period, on an average EBL has highest ratio of 27.7%. Likewise, Nepal SBI and HBL have 21.67% and 15.47% respectively.

Therefore, on an average, EBL has the highest ratio and HBL has the lowest ratio of cash and bank balance to current assets. It implies that at some time EBL has held more cash and bank balance than other sampled JVBS and HBL has been successful in utilizing the depositor's money in short term loans.

Grand Average is 16.46%, but HBL falls under it and indicates that this bank has poor performance in managing cash. NSBI has maintained slightly and EBL shows good position among them.

From S.D viewpoint, EBL has the highest S.D i.e. 12.17. Next to it, there is Nepal SBI with 5.15. HBL has lowest S.D. of 3.96. It implies that EBL and Nepal SBI have thigh fluctuation (less homogeneity) with respect to cash and bank balance to current assets over the study period. Similarly, HBL with lowest S.D. of 3.969 has low fluctuation (more homogeneity) with respect to cash and bank balance to current assets.

From C.V. point of view, EBL has the highest C.V. of 43.92% and Nepal SBI has the lowest C.V. of 23.78%. It indicates that EBL has high degree of variability or is inconsistent in holding cash and bank balance to current assets over the study period. Nepal SBI has low degree of variability or is consistent in holding cash and bank balance to current assets over the study period.

4.1.2 Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. This ratio measures the proportion of each components of operating income to total operating income. The main components of operating income are interest earned, commission and discounts, exchange income and other income, bank receives interest from loans and advances, cash credit, overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-

bank loan and others. Bank receives commission by discounting bills of exchange, remittance, foreign currency fluctuation etc. Under this, following ratios are used.

A Net Profit to Total Assets Ratio

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

Table 4.4
Net Profit to Total Assets Ratio

(In percentage)

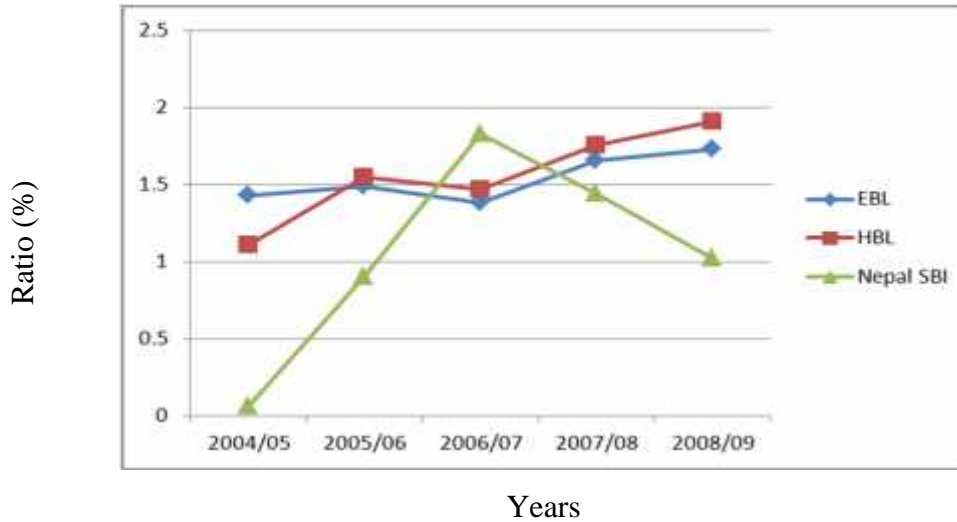
Name of Banks	Fiscal Year					Average	∃	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	1.43	1.49	1.38	1.66	1.73	1.538	0.135	8.76
HBL	1.11	1.55	1.47	1.76	1.91	1.56	0.273	17.51
NepalSBI	0.06	0.90	1.83	1.44	1.02	1.05	0.594	56.57

(Source: Annex 4)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 1.38\%$$

Figure 4.4
Net Profit to Total Assets Ratio



In the above table and figure, net profit to total assets ratio has been derived by dividing net profit by total assets. This ratio shows the relationship between net profit and total assets. On an average, I see that HBL has the highest percentage of net profit 1.56% on total assets. Next to it, there is EBL with 1.538%. Nepal SBI has the lowest profit i.e. 1.05% on total assets. It indicates that HBL has been successful to generate more profit than other banks by using its total assets.

NSBI shows the lower level of grand average among three banks. This means NSBI has not maintained to generate more profit than other banks by using total assets.

From S.D. point of view, Nepal SBI Bank has the highest S.D. of 0.594 point and EBL has the lowest S.D. of 0.135 point. It implies that Nepal SBI has high fluctuation (less homogeneity) in generating profit than other sampled JVB_s over the study period, whereas EBL has lowest S.D. of 0.135 point has low fluctuation (more homogeneity) in generating more profit.

From C.V. point of view, Nepal SBI has the highest C.V. of 56.57%. Next to it, there is HBL with C.V. of 17.51%, whereas EBL has the lowest C.V. of 8.76%. It implies that Nepal SBI and HBL have higher degree of variability or is inconsistent in generating net profit and EBL with lowest C.V has lower degree of variability or is consistent in generating more net profit by using total assets in a systematic way.

B. Net Profit to Total Deposit Ratio

This ratio of selected banks measure of NPAT earned by using total deposits. This ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generation. Because of the deposit made by its customer's is the major source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following table and chart.

Table No. 4.5
Net Profit to Total Deposit Ratio

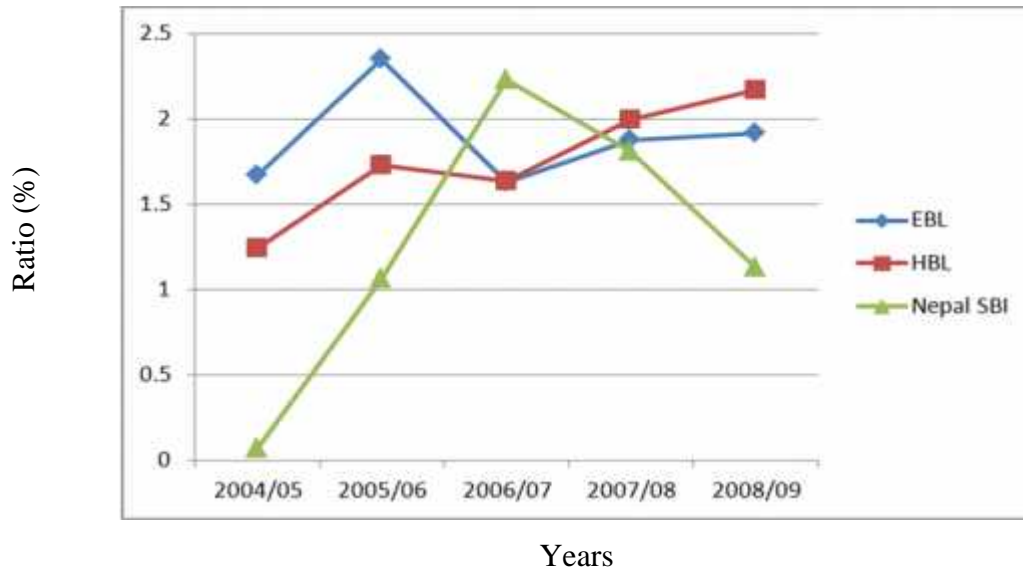
(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	1.67	2.35	1.63	1.88	1.92	1.89	0.26	13.57
HBL	1.24	1.73	1.64	2.00	2.17	1.76	0.32	18.21
NepalSBI	0.07	1.06	2.23	1.81	1.13	1.26	0.74	58.49

(Source: Annex 5)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$
$$= 1.64\%$$

Figure 4.5
Net Profit to Total Deposit Ratio



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

On an average point of view, EBL has the highest ratio of 1.89%. There is HBL next to it with 1.76% and Nepal SBI has the lowest ratio of 1.26% over the study period. It implies that EBL and HBL have been successful in utilizing the depositor's fund more efficiently in generating more profit. Nepal SBI has not managed the deposit efficiently and thus it has failed to generate more profit over the study period. The grand average of three banks is 1.64%, it shows that EBL and HBL have maintained the level of profit and deposit but NSBI has failed to do so.

From S.D. point of view, Nepal SBI has the highest S.D. of 0.74 point. Next to it; there is HBL with S.D. of 0.32 point. Moreover, EBL has the lowest S.D. of 0.26 point. It implies that Nepal SBI and HBL have high fluctuation (less homogeneity) in generating profit by using deposit whereas EBL with lowest S.D. of 0.26 indicates it has low fluctuation (more homogeneity) in generating profit by managing the deposit efficiently.

From C.V. point of view, Nepal SBI has the highest C.V. of 58.49%. EBL has the lowest C.V. of 13.57% over the study period. It implies that Nepal SBI has high degree of variability or is

inconsistent in generating profit and EBL has lower degree of variability or is more consistent in generating profit by employing the deposit efficiently.

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

This ratio reveals how profitably the banks have utilized the owner's funds. For the commercial banks, the objective is to earn maximum profit so as to provide reasonable return to the owners. Higher this ratio indicates sound and efficient management. It also indicates towards the favorable condition of wealth maximizations of the bank.

Table 4.6
Return on Shareholder's Equity or Net worth Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	21.86	24.65	27.24	23.49	24.13	25.25	2.57	10.17
HBL	20.00	25.90	22.91	25.30	24.13	23.65	2.09	8.85
NepalSBI	8.33	11.91	21.91	17.51	18.47	15.63	4.86	31.11

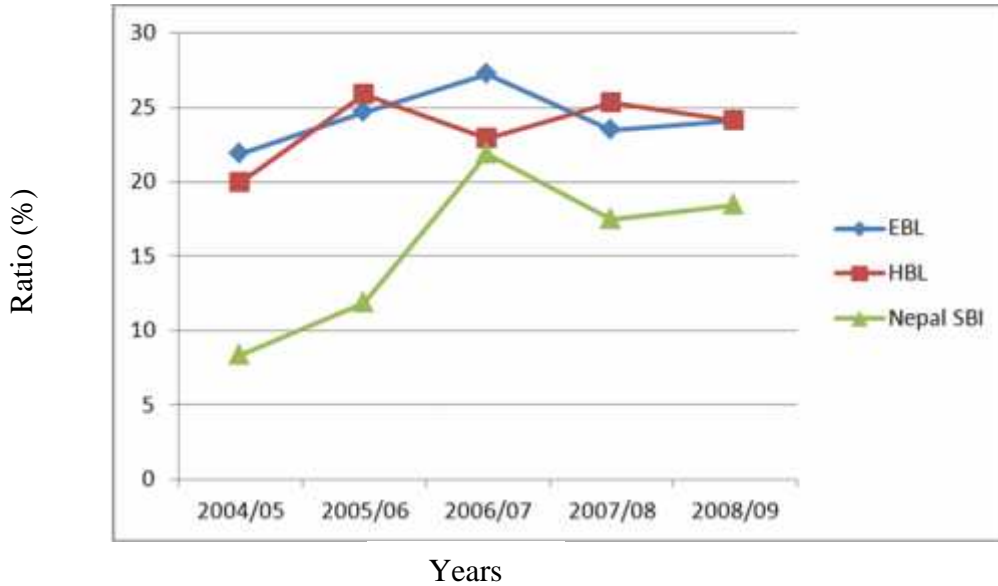
(Source: Annex 6)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 21.51\%$$

Figure 4.6

Return on Shareholder's Equity or Net worth Ratio



In the above table and figure, return on shareholder's equity or net worth ratio has been derived by dividing net profit by net worth or shareholder's equity. Over the study period, on an average of EBL has the highest ratio of 25.25%. Next to it; there is HBL with 23.36%. Nepal SBI has the lowest ratio of 15.63% over the study period. It indicates that EBL was providing highest return to its shareholder than other banks.

NSBI do not cover the grand average percentage, this shows that this banks has not maintain the shareholder's equity in average. On the other hand EBL and HBL have also slightly achieving that position.

From S.D. point of view, Nepal SBI has the highest S.D. 4.86 point. There is EBL next to it with S.D. of 2.57 point and HBL has the lowest S.D of 2.09 point. It implies that, over the study period, Nepal SBI and EBL have high fluctuation (less homogeneity) in giving the return to shareholders where as in case of HBL; there is low fluctuation (more homogeneity) in providing more rate of return to its shareholders over the study period.

From C.V. point of view, Nepal SBI has the highest C.V. of 31.11%. Next to it; there is EBL with C.V. of 10.17%. HBL has the lowest C.V. of 8.85%. It implies that Nepal SBI and EBL

have higher degree of variability or is inconsistent in providing return to their shareholders. In the same period, HBL with lowest C.V., has lower degree of variability or is consistent in providing return to its shareholder.

D. Net Interest Earned to Total Assets Ratio

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

Table 4.7
Net Interest Earned to Total Assets Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	3.58	3.16	2.93	3.37	3.18	3.24	0.22	6.73
HBL	3.18	3.32	5.30	3.15	3.58	3.71	0.81	21.89
NepalSBI	0.03	3.00	2.87	3.01	2.06	2.19	1.14	51.86

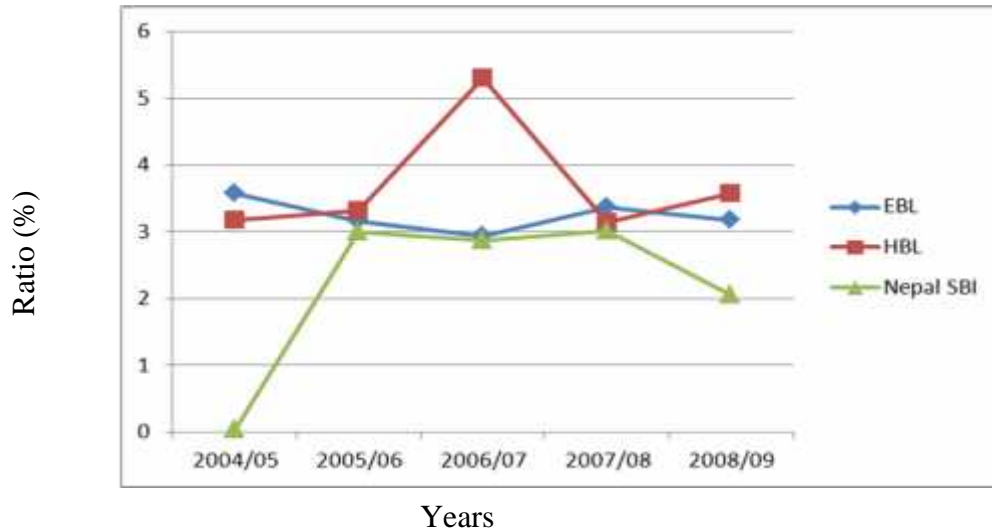
(Source: Annex 7)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{3}$$

$$= 3.05\%$$

Figure 4.7

Net Interest Earned to Total Assets Ratio



In the above table and figure, net interest earned to total assets ratio has been derived by dividing net interest earned by total assets. On an average, from the above table, I found that, HBL has the highest ratio of 3.71%. Next to it' there is EBL with 3.24%. It implies that HBL has been managing the assets competently and earning more interest out of it. Nepal SBI has the lowest ratio of 2.19%. It implies that Nepal SBI has not been able to utilize the assets efficiently and earning low interest.

The grand average of three banks is 3.05%. NSBI fall below it and remaining banks cover it slightly. It means EBL and HBL is maintaining the assets effectively as compare to NSBI.

From S.D. point of view, Nepal SBI has the highest S.D. with 1.14 point. Next to it' there is HBL with S.D. of 0.81 point. It implies that there is high fluctuation (less homogeneity) in interest earning capacity of Nepal SBI and HBL over the study period. Whereas, EBL with lowest S.D. of 0.22 indicates that it has low fluctuation (more homogeneity) in interest earning capacity over the entire study period among sampled banks.

From C.V. point of view, Nepal SBI has the highest C.V. of 51.86%. Next to it; there is HBL with C.V. of 21.89%. EBL has the lowest C.V. of 6.73%. It implies that Nepal SBI and HBL have high degree of variability or is inconsistent in earning interest by using of its assets over the

study period. Whereas, with the lowest C.V. of 6.73%, EBL is more consistent or has lower degree of variability in earning interest by the proper use of its total assets over the study period.

4.1.3 Activity Ratio

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

A. Loan and advances to total deposit ratio

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

Table 4.8
Loan and Advances to Total Deposit Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	75.45	71.01	75.13	76.49	71.68	73.95	2.19	0.59
HBL	50.07	55.27	56.57	61.23	71.49	58.93	7.22	2.45
NepalSBI	71.80	69.32	82.66	88.32	54.12	73.24	11.83	3.23

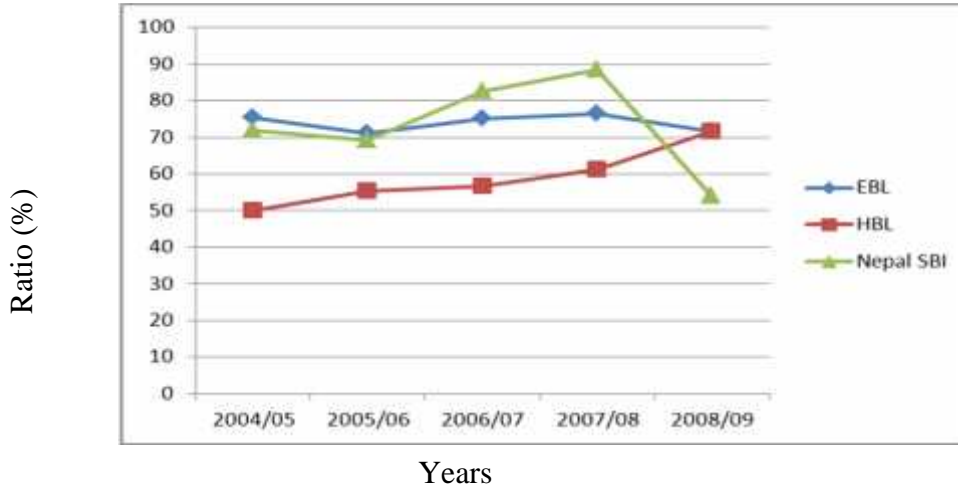
(Source: Annex 8)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{3}$$

$$= 68.71\%$$

Figure 4.8

Loan and Advances to Total Deposit Ratio



In the above table and figure loan and advances to total deposit ratio has been derived by dividing loan and advances amounts by total deposit amount. This ratio helps to analyze whether the banks have utilized the outsider's fund properly or not. The above table shows that, over the study period on an average basis, EBL has the highest ratio of 73.95%, followed by Nepal SBI with 73.24% and HBL has the lowest ratio of 58.93%. It implies that EBL and Nepal SBI have been successful in using the depositor's fund properly in loan and advances than HBL over the study period.

The grand average of three banks is 68.71%. HBL fall below it and remaining banks covers it slightly. It means EBL and NSBI is maintaining the loan and advance to total deposit effectively as compare to HBL.

From S.D. point of view, Nepal SBI has the highest S.D of 11.83 point where as EBL has the lowest S.D. of 2.19 point. It implies that Nepal SBI has high fluctuation (lowest homogeneity) in utilizing the depositor's fund in loan and advances whereas EBL with lowest S.D. indicates it has low fluctuation (more homogeneity) in using outsider fund in loan and advances over the study period.

From C.V. point of view, Nepal SBI has the highest C.V. of 3.23% whereas EBL has the lowest C.V. of 0.59%. It implies that Nepal SBI is inconsistent or has not been able to utilize the

outsider's (depositor's) fund properly in loan and advances, whereas EBL with lowest C.V. of 0.59% is consistent or has been successful in using outsider's fund properly in loan and advances.

B. Loan and Advances to Total assets Ratio

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

Table 4.9
Loan and Advances to Total Assets Ratio

(In percentage)

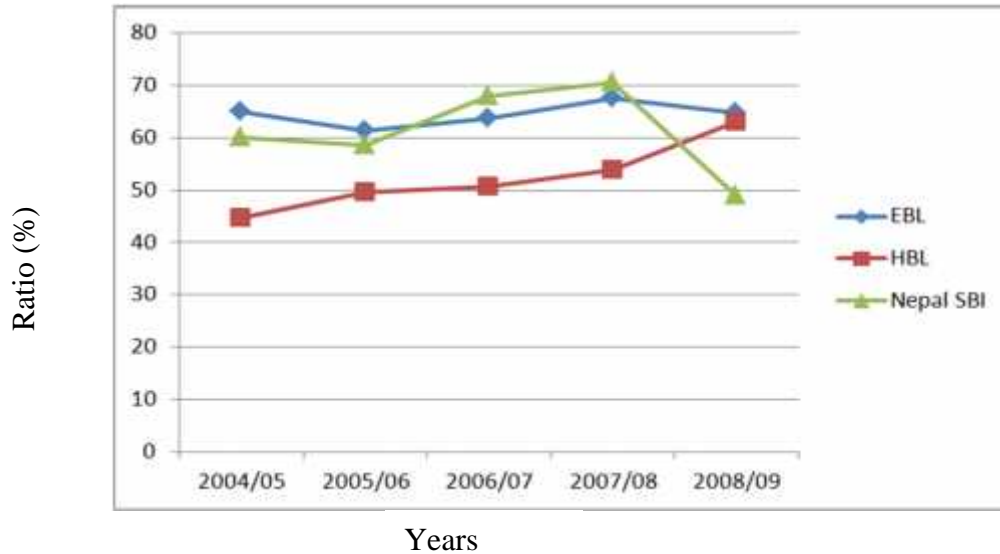
Name of banks	Fiscal Year					Average	∑	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	64.94	61.41	63.75	67.55	64.70	64.47	1.98	3.07
HBL	44.62	49.70	50.71	53.90	63.05	52.40	6.10	11.65
NepalSBI	60.06	58.51	68.05	70.48	48.94	61.21	7.64	12.48

(Source: Annex 9)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 59.36\%$$

Figure 4.9
Loan and Advances to Total Assets Ratio



In the above table and chart, loan and advances to total assets ratio has been derived by dividing loan and advances amount by total assets amount. This ratio helps to analyze whether the banks have utilized the total working fund properly or not. The above table shows that, over the study period on an average basis, EBL has the highest ratio of 64.47%. Next to it, Nepal SBI has 61.21% and HBL has the lowest ratio of 52.4%. It implies that EBL has been successful in mobilizing loan and advance on total working fund over the study period.

The grand average of three banks is 59.36%. HBL fall below it and remaining banks covers it slightly. It means EBL and NSBI is maintaining the loan and advance to total assets effectively as compare to HBL.

From S.D point of view, Nepal SBI has highest S.D of 7.64 point; Whereas EBL has the lowest S.D. of 1.98 point. It implies that Nepal SBI has high fluctuation (lowest homogeneity) in utility the total working fund in loan and advances whereas EBL with lowest S.D. indicates it has low fluctuation (more homogeneity) in using the total working fund properly in loan and advances over the study period.

From C.V. point of view, Nepal SBI has the highest C.V. of 12.48% whereas EBL has the lowest C.V. of 3.07%. It implies that Nepal SBI is inconsistent or has not been able to utilize the total working fund properly in loan and advances; whereas EBL lowest C.V. of 3.07 % is consistent or has been successful to mobilizing the total working fund properly in loan and advances.

C. Total Investment to Total Deposits Ratio

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

Table 4.10
Total Investment to Total Deposits Ratio

(In percentage)

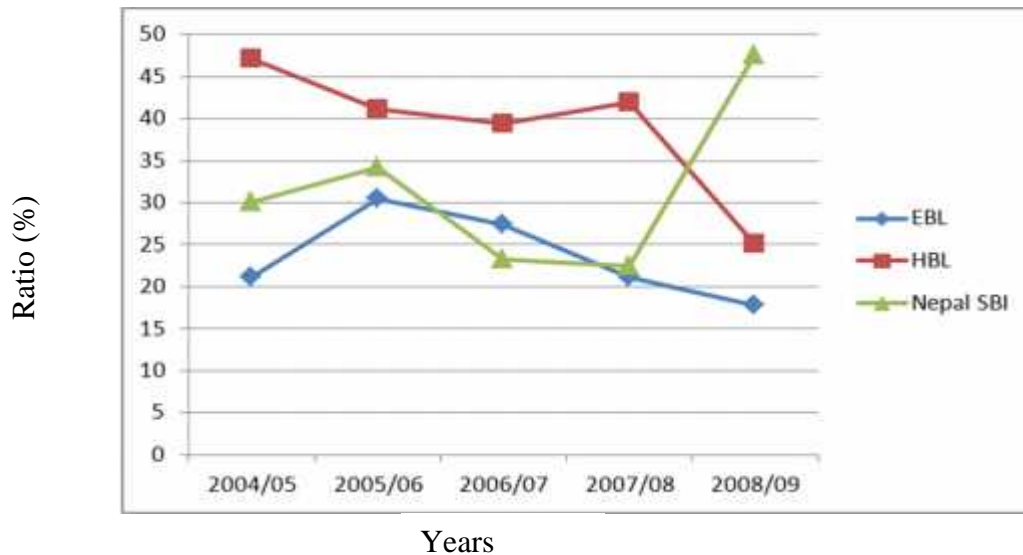
Name of banks	Fiscal Year					Average	Σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	21.08	30.43	27.41	21.10	17.85	23.57	4.62	19.61
HBL	47.12	41.10	39.35	41.89	25.12	38.92	7.37	18.93
NepalSBI	30.13	34.17	23.24	22.52	47.52	31.52	9.11	28.89

(Sources: Annex 10)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{3}$$

$$= 31.34\%$$

Figure 4.10
Total Investment to Total Deposits Ratio



In the above table and chart shows that on an average basis over the study period, HBL has the highest percentage of investment in non- risky project i.e. 38.92%, whereas EBL has the lowest percentage of investing in non-risky project i.e. 23.57%. It implies that HBL prefers in investing its depositors fund in non-risky project like government bonds, treasury bills, government securities, debentures of other organization etc. rather than choosing the risky portfolio like loan and advances to its credit customers.

The grand average of three banks is 31.34%.EBL fall below it and NSBI remaining almost equal to it. It means EBL has investing in risky assets and NSBI has maintained this, whereas HBL invest in non-risky projects.

From S.D. point or view, Nepal SBI has the highest S.D. of 9.11 point. Next to it, there is HBL with S.D. 7.37 point where as EBL has the lowest S.D. of 4.62 point. It implies that Nepal SBI and HBL have high fluctuation (less homogeneity) in using the depositors fund in non- risky portfolio and EBL has low fluctuation (more homogeneity) in using depositor fund in non- risky portfolio.

From C.V. point of view, Nepal SBI has the highest C.V. of 28.89% Next to it there is EBL with C.V. of 19.61% whereas HBL has lowest C.V. of 18.93%. It implies that Nepal SBI and EBL are inconsistent in investing in non- risky portfolio and HBL with lowest C.V is consistent in using its deposit in non- risky portfolio.

4.1.4 Leverage Ratio

Financial leverage or capital structure ratio are calculated to judge the long – term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. Generally, there should be an appropriate mix of debt and owners’ equity in financing the firm’s assets. Administration of capital can smoothly by carried with the help of such ratios.

A. Total Debts (Liabilities) to Net worth Ratio

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

Table 4.11
Total Debts (Liabilities) to Net worth Ratio

(In times)

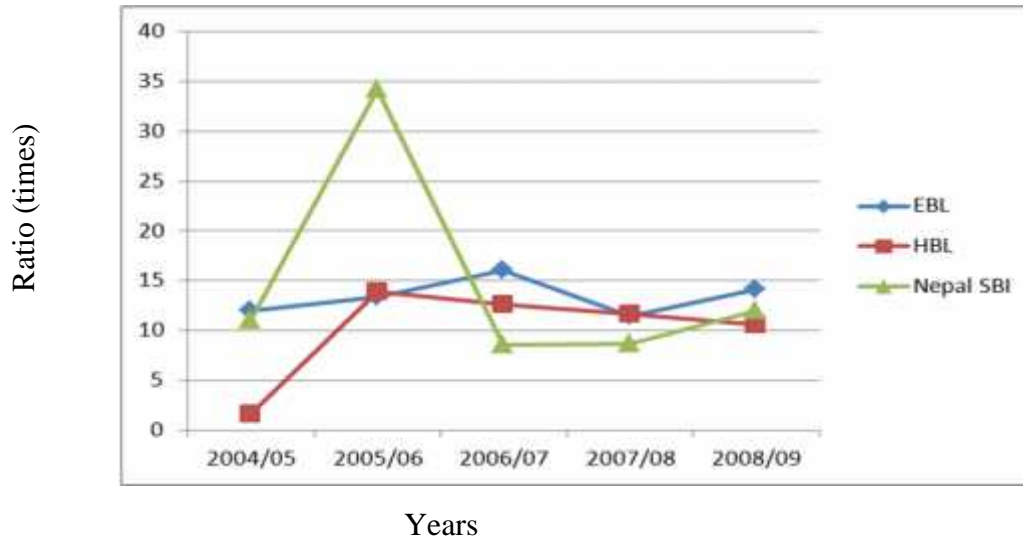
Name of banks	Fiscal year					Average	∃	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	11.95	13.37	16.01	11.45	14.15	13.39	1.63	12.17
HBL	1.61	13.88	12.66	11.62	10.58	10.13	4.39	43.36
NepalSBI	11.05	34.17	8.58	8.73	11.96	14.90	9.72	65.27

(Source:Annex 11)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 12.81 \text{ times}$$

Figure 4.11
Total Debts (Liabilities) to Net worth Ratio



The above table and chart ratio has been derived dividing total debts by net worth. The above table shows that commercial banks have highly leveraged based on equity capital. On an average, Nepal SBI has the highest ratio of 14.90 times. Next to it there is EBL with an average of 13.39 times. HBL has the lowest ratio of 10.13 times. It indicates that Nepal SBI has highly leveraged 14.90 times means; debt capital financing is more than 14.90 times of its shareholder's equity.

The grand average of three banks is 12.81%. HBL fall below it and remaining banks covers it slightly. It means EBL and NSBI is maintaining the debt capital to net worth effectively as compare to HBL.

From S.D point of view, Nepal SBI has highest S.D. of 9.72 point. Next to it, there is HBL with 4.39 point. EBL has lowest S.D. of 1.63 point. It implies that Nepal SBI and HBL have high fluctuation (less homogeneity) with respect to total debt to net worth. Similarly, EBL with lowest S.D has low fluctuation (more homogeneity) with respect to total debt to net worth over the study period.

From C.V. point of view, Nepal SBI has the highest C.V. of 65.27%; next to there is HBL with C.V. of 43.36%. EBL has lowest C.V of 12.17%. It means, Nepal SBI and HBL have high degree of variability or is inconsistent in maintaining total debt to total equity over the study period.

B. Total Debts to Total Assets Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. The following table shows that the relationship between total debt and total assets.

Table 4.12
Total Debt (Liabilities) to Total Assets Ratio

(In Percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	78.40	80.66	81.27	81.05	84.48	81.17	1.94	2.40
HBL	86.85	83.24	81.09	82.79	83.96	83.59	1.89	2.26
NepalSBI	73.59	69.00	71.79	71.83	66.26	70.94	2.58	3.66

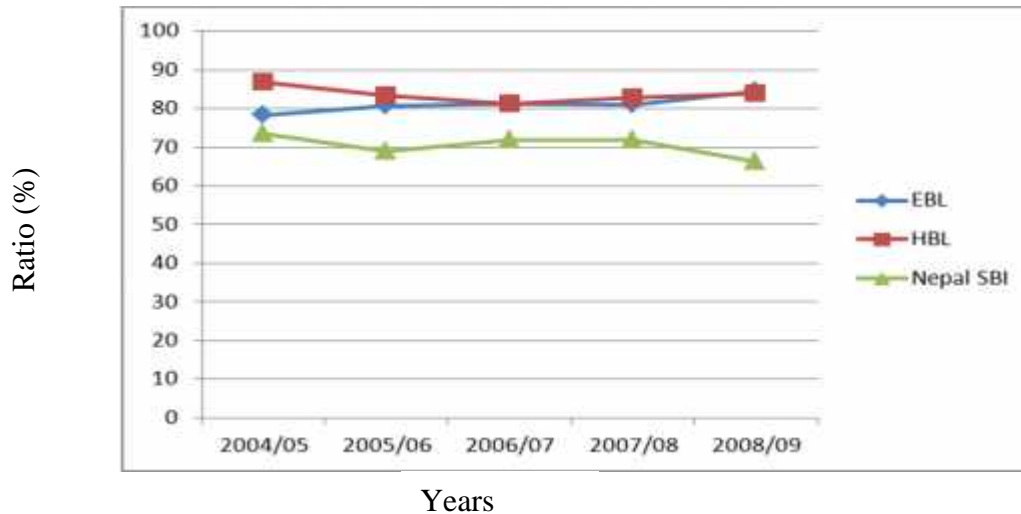
(Source: Annex 12)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{3}$$

$$= 78.57\%$$

Figure 4.12

Total Debt (Liabilities) to Total Assets Ratio



In the above table and figure shows that on an average basis over the study period, HBL and EBL has highly debt financing. It means these two banks borrowed outsider's funds by 83.59% and 81.17% respectively.

The grand average of three banks is 78.57%. NSBI fall below it and remaining banks covers it slightly. It means EBL and HBL is maintaining the total debt to total assets effectively as compare to NSBI.

From S.D. and C.V. point of view, Nepal SBI has highest S.D. of 2.58 point and HBL has lowest S.D. of 1.89 point. It indicates Nepal SBI has high fluctuation and HBL has low fluctuation. Nepal SBI has highest C.V. of 3.66% and HBL has lowest C.V. of 2.26%. It means, Nepal SBI has high degree of variability is inconsistent to utilizing debt to assets ratio whereas HBL has consistent debt financing.

4.1.5 Earning Per Share

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance or share value, it is profit after tax (NPAT) figure that is divided by the number of common share to calculate the value of earning per share. This figure tells what profit

the common shareholder for every share hold has earned. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically after carrying per share.

Table 4.13
Earning Per Share

(In Rs.)

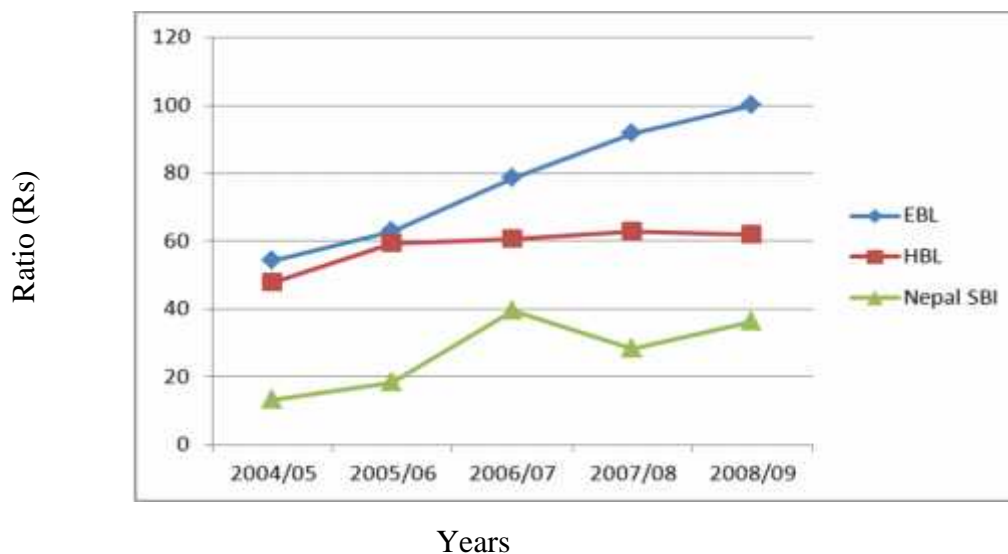
Name of banks	Fiscal Year					Average	Σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	54.22	62.78	78.42	91.82	99.99	77.45	17.15	22.17
HBL	47.91	59.24	60.66	62.74	61.9	58.49	5.42	9.27
NepalSBI	13.29	18.27	39.35	28.33	36.18	27.08	10.03	37.02

(Source: Annex 13)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= \text{RS.54.34}$$

Figure 4.13
Earning Per Share



From the above table and figure we can see that on an average, EBL has the highest amount of EPS Rs. 77.45. Next to it, there is HBL with EPS of Rs 58.49, among three selected JVBs. Nepal SBI has the lowest amount of EPS i.e. Rs. 27.08 over the study period. It means that EBL and HBL have been able to provide maximum profit to equity holder on a per share basis.

The grand average of three banks is RS.54.34. NSBI fall below it and remaining banks covers it slightly. It means EBL and HBL is maintaining the earnings per share effectively as compare to NSBI.

From the S.D. point of view, Nepal SBI has highest S.D. of 10.03 point. Next to it, there is EBL with 17.15 point. HBL has the lowest S.D. of 5.42 point. It implies that Nepal SBI and EBL have high fluctuate (less homogeneity) in EPS over the study period. Whereas, HBL with lowest S.D. of 5.42point, indicates that low fluctuation (more homogeneity) in EPS over the study period.

From C.V. point of view, Nepal SBI has the highest C.V. of 37.02% next to it, there is EBL with C.V. of 22.17% and HBL with C.V. of 9.27%. It implies that Nepal SBI and EBL have high degree of variability or is inconsistent in EPS amount over the study period. HBL has lowest C.V. of 8.55%, which indicates it has low degree of variability, or is consistent in providing EPS amount to the equity holders on a per share basis over the study period.

4.1.6 Dividend Payout Ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table and figure.

Table 4.14
Dividend Payout Ratio

(In percentage)

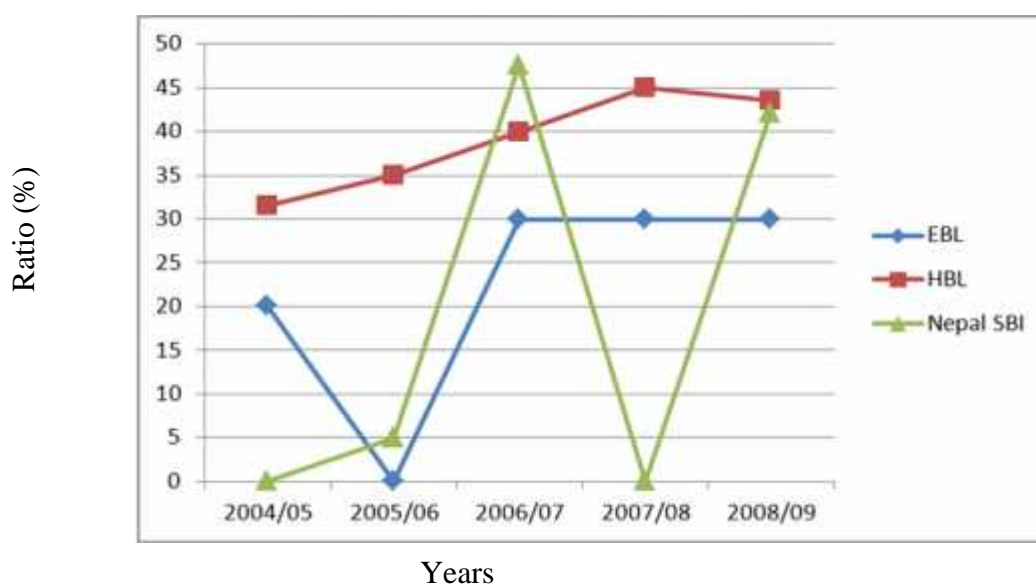
Name of banks	Fiscal Year					Average	σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	20.00	0	30.00	30.00	30.00	22.00	11.66	53.01
HBL	31.58	35.00	40.00	45.00	43.56	39.03	5.08	13.01
NepalSBI	0	5.00	47.59	0	42.11	18.94	21.30	112.48

(Source: Annex 14)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{3}$$

$$= 26.66\%$$

Figure 4.14
Dividend Payout Ratio



From the above table and figure we can see that on an average basis HBL has the highest percentage of payment ratio with 39.03%. Next to it, there is EBL with 22% likewise; Nepal SBI has the lowest ratio with 18.94%.

The grand average of three banks is 26.66%. NSBI and EBL fall below it and HBL has only covers it slightly. It means HBL is maintaining the dividend payout effectively as compared to others.

From S.D. point of view, Nepal SBI has the highest S.D. of 21.30 point and next to it; there is EBL with S.D. of 11.66 point. At last, HBL has the lowest S.D. of 5.08 point. It implies that Nepal SBI and EBL have high fluctuation in providing dividend throughout the study period. HBL with lowest S.D indicates low fluctuation in providing dividend to its shareholders throughout the study period.

From the C.V. point of view, Nepal SBI has the highest C.V. of 112.48%. Next to it; there is EBL with C.V. of 53.01%. HBL has the lowest C.V. of 13.01%. It indicates that Nepal SBI and EBL have high degree of variability and HBL has low degree of variability is consistent in providing a regular amount as dividend.

4.1.7 Price Earning Ratio

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

Table 4.15
Price Earning Ratio

(In Times)

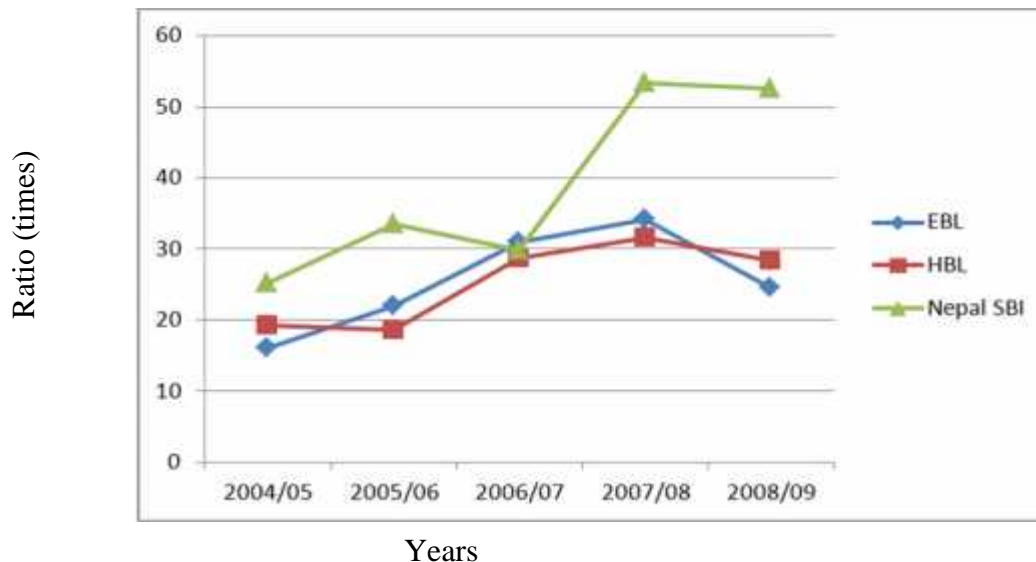
Name of banks	Fiscal Year					Average	Σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	16.04	21.97	30.99	34.11	24.55	6.44	25.21	25.53
HBL	19.20	18.57	28.69	31.56	28.43	5.35	21.14	25.29
NepalSBI	25.21	33.49	29.89	53.35	52.52	11.77	30.25	38.89

(Source: Annex 15)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 7.85 \text{ Times}$$

Figure 4.15
Price Earning Ratio



From the above table and figure shows that, on an average basis Nepal SBI has the highest P/E ratio with 11.77 times. Next to it there is EBL with 6.44 times. Likewise HBL has the lowest P/E ratio with 5.35 times.

The grand average of three banks is 7.85times. EBL and HBL fall below it and NSBI has only covers it slightly. It means NSBI is maintaining the price earning effectively as compared to others.

From S.D. point of view, Nepal SBI has the highest S.D. of 30.25 point and next to it; there is EBL with S.D. of 25.21 point. HBL has the lowest S.D. of 21.14 point. It implies that Nepal SBI and EBL have high fluctuation in market price per share than HBL. From C.V. point of view, Nepal SBI and EBL bank have high P/E ratio of 38.89% and 25.53% respectively. HBL has

lowest C.V. with 25.29%, indicates that low degree of variability is consistent in market price per share as earning per share.

4.1.8 Income Analysis

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

A.Net Interest Income to Total Income

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

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

Table 4.16
Net Interest Income to Total Income

(In percentage)

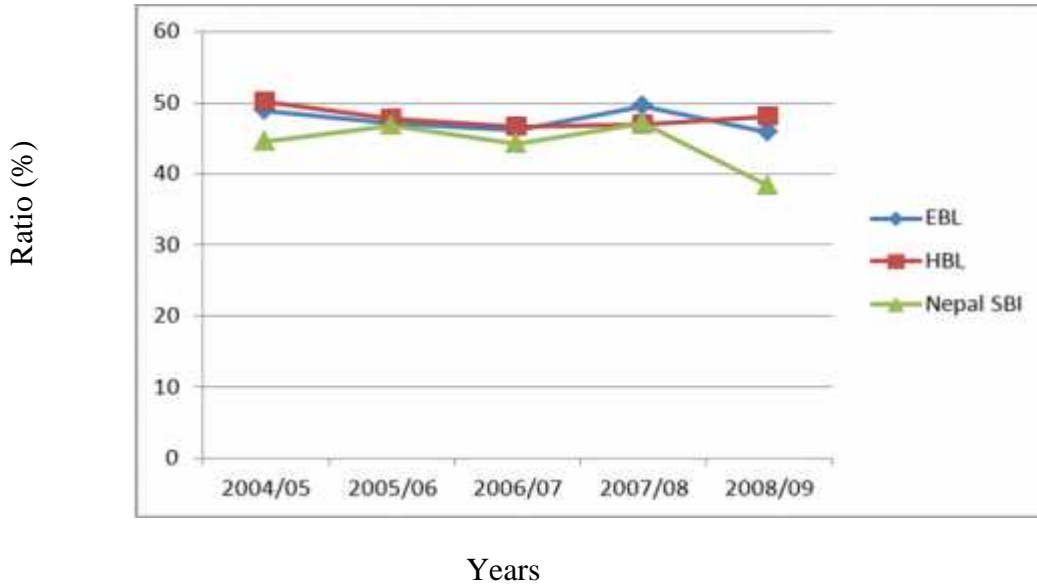
Name of banks	Fiscal Year					Average	σ	C.V.
	2004/05	2005/06	2006/07	2007/07	2008/09			
EBL	48.87	47.07	46.13	49.60	45.81	47.50	1.50	3.15
HBL	50.24	47.82	46.58	46.89	48.09	47.92	1.29	2.68
NepalSBI	44.50	46.76	44.29	47.17	38.39	44.22	3.14	7.10

(Source:Annex 16)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 46.55\%$$

Figure 4.16
Net Interest Income to Total Income



From the above table and figure on an average basis, HBL has the highest percentage of net interest income on total income i.e.47.92%. Next to it, there is EBL with average of 47.50%.Nepal SBI has the lowest ratio of 44.22%. It indicates that, HBL has successful to earn net interest income over the study period.

The grand average of three banks is 46.55%. NSBI fall below it EBL and HBL has covered it slightly. It means EBL and HBL is maintaining the net interest income effectively as compared to others.

From S.D. point of view, Nepal SBI has the highest S.D. of 3.14 point and HBL has the lowest C.V. of 1.29 point. It indicates that Nepal SBI has high fluctuation in net interest income and HBL has low fluctuation in net interest income over the study period.

From C.V. point of view, Nepal SBI has the highest C.V. of 7.10% and HBL has the lowest C.V. of 2.68%.It implies that, Nepal SBI has high degree of variability or is inconsistent to earn net interest income over the study period. HBL has low degree of variability or is consistent to earn net interest income than other sampled bank.

B. Exchange Income to Total Income

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

Table No. 4.17
Exchange Income to Total Income

(In percentage)

Name of banks	Fiscal Year					Average	Σ	C.V.
	2004/05	2005/06	2006/07	2007/07	2008/09			
EBL	3.15	1.35	2.09	3.49	2.44	2.50	0.76	30.40
HBL	7.80	9.69	7.01	8.54	8.54	8.32	0.89	10.70
NepalSBI	4.50	5.38	5.23	4.76	3.71	4.72	0.59	12.60

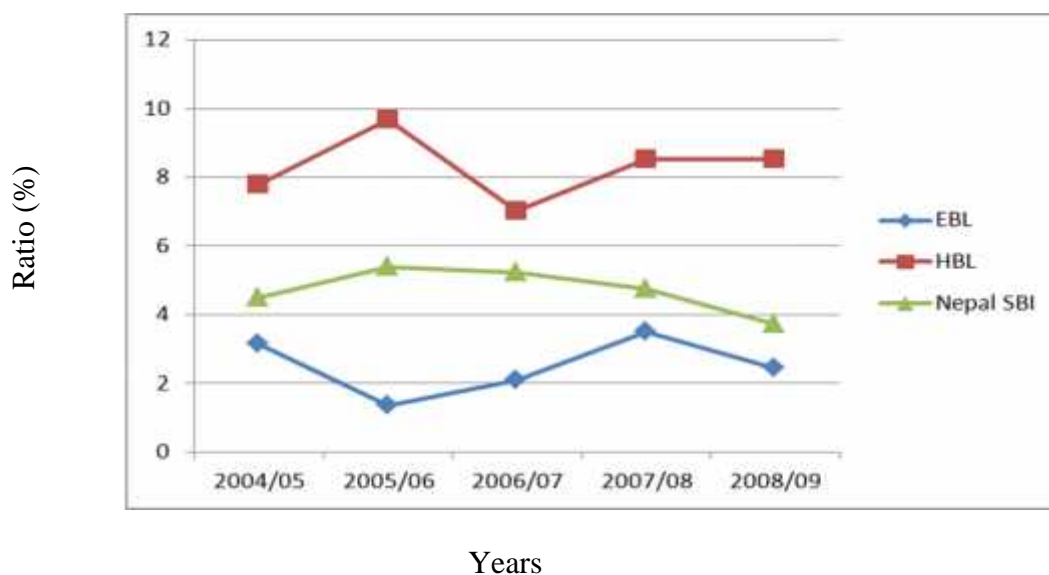
(Source: Annex 17)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 5.18\%$$

Figure 4.17

Exchange Income to Total Income



From the above table and figure on an average basis, HBL has the highest ratio of 8.32%. Next to it, there is Nepal SBI with 4.72%. EBL has the lowest ratio of 2.50%. It implies that HBL has highest exchange income out of total incomes.

The grand average of three banks is 5.18%. EBL and NSBI fall below it and HBL has only covers it slightly. It means HBL is maintaining exchange income effectively as compared to others.

From the S.D. point of view, HBL has the highest S.D. of 0.89 point and Nepal SBI has the lowest S.D. with 0.59 point. It implies that, HBL has high fluctuation (less homogeneity) in generating foreign exchange income over the study period and Nepal SBI has lowest fluctuation in generating foreign exchange income over the study period. From C.V. point of view, EBL has highest C.V. of 30.40% and HBL has lowest C.V. of 10.70%. It indicates that, HBL is consistent in generating its exchange income out total income over the study period.

C. Commission and Discount Received to Total Income

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

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

Table No 4.18
Commission and Discount Received to Total income

(In percentage)

Name of banks	Fiscal Year					Average	Σ	C.V.
	2004/05	2005/06	2006/07	2007/07	2008/09			
EBL	9.10	9.08	8.66	8.14	7.89	8.57	0.49	5.70
HBL	7.54	8.09	8.93	7.73	9.71	8.40	0.81	9.64
NepalSBI	5.92	5.10	5.56	4.66	4.76	5.20	0.48	9.20

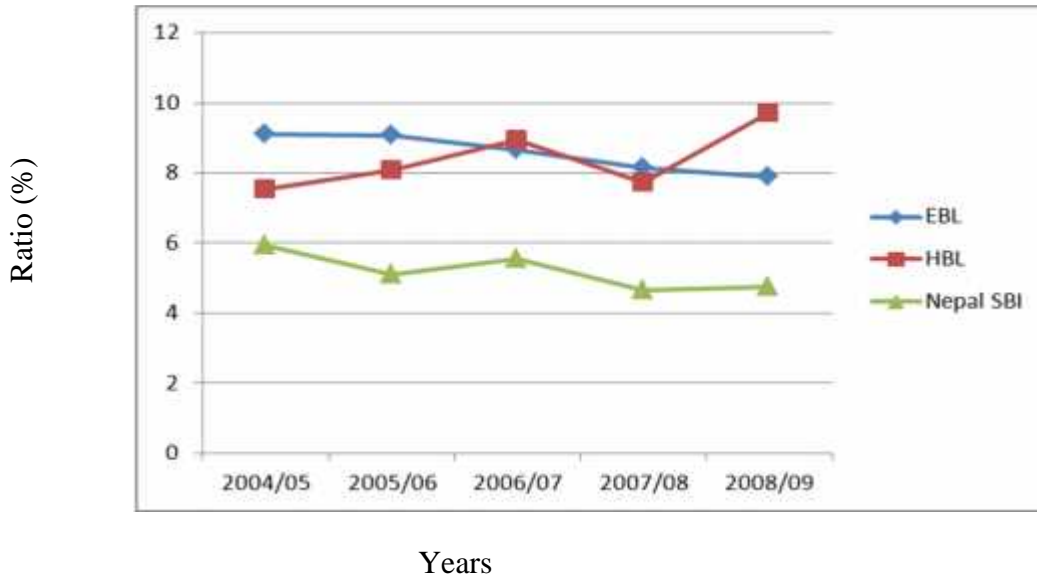
(Source: Annex 18)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= 7.39\%$$

Figure 4.18

Commission and Discount Received to Total income



From the above table and chart on an average basis, EBL has the highest ratio of 8.57%. Next to it; there is HBL with 8.40%. Nepal SBI has lowest ratio of 5.20% it implies that EBL has highest commission and discount income out of total income over the study period.

The grand average of three banks is 7.39%. NSBI fall below it EBL and HBL has covered it slightly. It means EBL and HBL is maintaining the commission and discount income effectively as compared to others.

From the S.D. point of view, HBL has the highest S.D. of 0.81 point and Nepal SBI has the lowest S.D. with 0.48 point. It means, HBL has high fluctuation/ less homogeneity in receiving commission and discount income over the study period, Nepal SBI has lowest fluctuation (more homogeneity) in receiving commission and discount income over the study period. From C.V. point of view, HBL has highest C.V. of 9.64% and EBL has lowest C.V. of 5.70%. It implies that, EBL is consistent to generate its commission and discount income over the study period.

4.1.9 Expenditure Analysis

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

A. Interest Expenses

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

Table No. 4.19
Interest Expenses (Rs.in 10million)

Name of banks	Fiscal Year					Average	Σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	29.96	40.14	51.72	63.26	10.13	39.04	18.26	46.77
HBL	5.62	64.88	76.74	82.37	93.48	64.62	30.91	47.83
NepalSBI	13.29	18.27	39.35	28.33	36.18	45.70	19.57	42.83

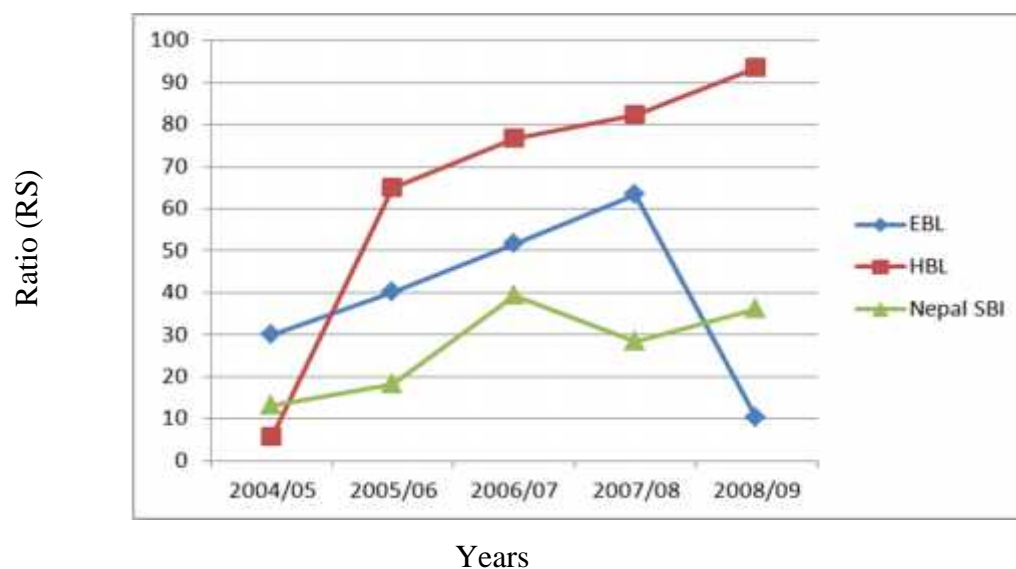
(Source Annex 19)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{n}$$

$$= \text{RS } 49.79(10 \text{ million})$$

Figure 4.19

Interest Expenses (Rs.in 10million)



In this study, interest expenses denote the interest paid on deposits borrowing fees, loan and advances and commission.

From the above table, interest expenses are all in the fluctuating trend. On an average basis, HBL has the highest amount of Rs 64.62(0000000). Next to it; there is Nepal SBI with Rs. 45.70(0000000). EBL has the lowest interest expenses with Rs.39.04 (0000000)

The grand average of three banks is RS49.79 (10 million). EBL and NSBI fall below it and HBL has only covers it slightly. It means HBL is maintaining interest expenses as compared to others.

From the S.D. and C.V. point of view, HBL has highest S.D. and CV i.e. 30.91points and 47.83% respectively. It means HBL has paid or expenses higher amount of interest than other selected banks. EBL has lowest S.D. i.e. 18.26 point and Nepal SBI has lowest C.V. i.e.42.83% which implies that the bank has paid lower amount of interest over the study period.

B. Staff Expenses

Staff expenses refer salary and allowance provided and gratuity fund, staff training expenses and other expenses related with staff.

Staff expenses are presented as following table and chart:

Table 4.20
Staff Expenses

(Rs. in 10million)

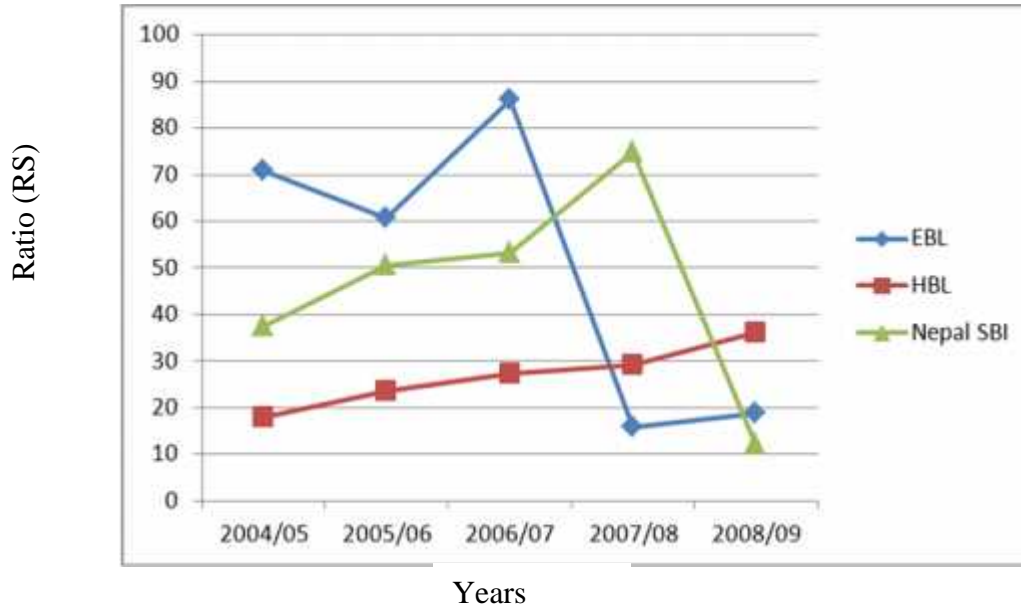
Name of banks	Fiscal Year					Average	Σ	C.V.
	2004/05	2005/06	2006/07	2007/08	2008/09			
EBL	70.92	60.6	86.12	15.8	18.69	50.43	28.30	56.12
HBL	17.86	23.46	27.22	29.22	36.1	26.77	6.06	22.63
NepalSBI	37.58	50.53	53.23	74.89	12.2	45.69	20.59	45.07

(Source: Annex 20)

$$\text{Grand Average} = \frac{\text{EBL Avg.} + \text{HBL Avg.} + \text{NSBI Avg.}}{3}$$

$$= \text{RS}40.96 \text{ (10 million)}$$

Figure 4.20
Staff Expenses



From the above table and figure, staff expenses are all in the fluctuating trend. On an average basis, EBL has the highest amount of Rs. 50.43(0000000). Next to it, there is Nepal SBI with Rs. 45.69(0000000). HBL has the lowest amount of staff expenses with Rs. 26.77(0000000).

The grand average of three banks is RS40.96 (10 million). HBL fall below it EBL and NSBI has covered it slightly. It means EBL and NSBI is maintaining the staff expenses effectively as compared to others.

From S.D. and C.V. point of view, EBL has the highest S.D. and C.V. i.e. 28.30 point 56.12% respectively. It indicates that EBL has the highest flotation and inconsistent to its. Staff expenses over the study period.

4.2 Statistical Tools

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

4.2.1. Karl Person's coefficient of correlation

It is most widely used statistical tools, which measures the significance of the relationship between two variables during the study period. Correlation coefficient is calculates to measure

the relationship between Net profit and total deposit of selected joint venture banks. The value of coefficient of correlation shall always be between ± 1 . Where, $r = 1$ means perfect positive correlation between variables. Where $r = -1$, it means perfect negative correlation between variables. Where $r = 0$, there is no relationship between two variables.

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

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

Here,

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

X= Value of net profit (after tax)

Y= Value of total deposits

r=Karl Pearson's Coefficient of Correlation

XY= Sum of product of variable x and y

Table 4.21

Coefficient of Correlation between Net Profit (Dependent) and Total Deposit (Independent) of EBL

(Rs. In Million)

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	168.21	10097.69	28294.60	101963343.34	1698532.43
2005/06	237.29	13802.44	56306.54	190507349.95	3275180.99
2006/07	296.41	18186.25	87858.89	330739689.06	5390586.36
2007/08	451.22	23976.30	203599.49	574862961.69	10818586.09
2008/09	638.72	33322.95	407963.24	1110418996.70	21284034.62
Total	1791.85	99385.63	784022.76	2308492340.74	42466920.50

N=5 years

We have,

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

∴ r = 0.9966

Above calculation of coefficient of correlation between net profit and total deposit of EBL is 0.9966. This analysis indicates that there is high positive relation between net profit and total deposit. Therefore, it can be concluded that the increment in net profit is achieved if the deposit can be enhanced.

Table 4.22

Coefficient of Correlation between Net profit (Dependent) and Total Deposit (Independent) of HBL

(Rs. In Million)

Fiscal Year	X	Y	X²	Y²	XY
2004/05	308.28	24814.01	95036.56	615735092.28	7649663.00
2005/06	457.46	26490.85	209269.65	701765133.72	12118504.24
2006/07	491.82	30048.42	241886.91	902907544.50	14778413.92
2007/08	635.87	31842.79	404330.66	1013963274.98	20247874.88
2008/09	752.83	34681.35	566753.01	1202796037.82	26109160.72
Total	2646.26	147877.42	1517276.79	4437167083.31	80903616.77

N=5 years

We have

$$r = \frac{N\phi_{xy} Z_{\phi_x} A_{\phi_y} A}{\sqrt{N\phi_{x^2} Z_{\phi_x} A \cdot N\phi_{y^2} Z_{\phi_y} A}}$$

$$\dots r = 0.9684$$

Above calculation of coefficient of correlation between net profit and total deposit of HBL is 0.9684. This analysis indicates that there is high positive relation between net profit and total deposit. Therefore, it can be concluded that the increment in net profit is achieved if the deposit can be enhanced.

Table 4.23

Coefficient of Correlation between Net Profit (Dependent) and Total Deposit (Independent) of SBI

(Rs. In Million)

Fiscal Year	X	Y	X ²	Y ²	XY
2004/05	57.39	8654.77	3293.61	74905043.75	496697.25
2005/06	254.91	11445.29	64979.11	130994663.18	2917518.87
2006/07	117.00	11002.04	13689.00	121044884.16	1287238.68
2007/08	316.37	13715.39	100089.98	188111922.85	4339137.93
2008/09	247.77	27957.22	61389.97	781606150.13	6926960.40
Total	993.44	72774.71	243441.67	1296662664.08	15967553.14

N=5 years

We have,

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

$$\therefore r = 0.4560$$

Above calculation of coefficient of correlation between net profit and total deposit of SBI is 0.4560. This analysis indicates that, there is low positive relation between net profit and total deposit. Therefore, net profit is affected by total deposit (independent variable) to some extent only.

4.2.2 Computation of Probable Error

If the value of 'r' is less than six times of probable error, there is no evidence of correlation i.e. value of r is not significant. Thus, if the value of 'r' is more than six times of probable error, the coefficient of correlation is practically correct, i.e. the value of 'r' is significant.

Formula:

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

Table 4.24
Summary of Probable error

Company	r	r²	PE	6PE	Remarks
EBL	0.9966	0.9932	0.002	0.012	Significant
HBL	0.9684	0.9378	0.0188	0.1128	Significant
NSBI	0.456	0.2079	0.2389	1.4334	Insignificant

4.3 Major Findings of the Study

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

4.3.1 Liquidity Ratio

The liquidity position of selected JVBs reveals that:

-) The average current ratio of all sample banks i.e. EBL, HBL and Nepal SBI is 0.5433, 0.4755 and 0.4296 respectively. It shows that the current ratio of all the sample banks is below the standard ratio 2:1. It is clear that EBL has slightly more liquid than other banks. But it can't be concluded that all the banks are in poor condition with low current ratio. Since all ratio are above the grand average ratio (i.e. 0.3243 times), it indicates that all banks are maintaining the current ratio.
-) The average ratio of cash and bank balance to total deposit of all the sampled banks i.e. EBL, HBL and Nepal SBI is 13.71%, 6.76% and 9.21% respectively. It reveals that on an average basis EBL has more liquid to serve its depositors in time with enough case in hand. Other remaining banks are found to be holding less cash in hand than its deposits. Grand average of three banks is 7.64%, by which only HBL seems to be less liquid to serve its depositors in time with enough case in hand.
-) The average ratio of cash and bank balance to current assets of EBL, HBL and Nepal SBI is 27.7%, 15.47 and 21.67% respectively. It indicates that the ratio of EBL has the highest ratio among the sample banks. HBL has the lowest ratio with 15.47% than other sampled banks. It implies that all the sample banks do not have enough case balance with respect to current assets. However, EBL seems to be in better position than other sample

banks. Grand average of three banks is 16.46%, by which only HBL has poor case balance with respect to current assets.

4.3.2 Profitability Ratio

The profitability ratio of three JVBs reveals that:

-) The average ratio of net profit to total assets of EBL, HBL and Nepal SBI is 1.54%, 1.56% and 1.05% respectively. It implies that, on an average basis, HBL has earned highest percentage (i.e. 1.56%) of net profit by utilizing its total assets among the sampled banks. Similarly, on an average basis, EBL has earned 1.54% of net profit against the use of total assets over the entire study period. Likewise, Nepal SBI has earned 1.05% of net profit against the use of total assets over the entire study period.. The above ratio shows how efficiently the sample banks have utilized their available assets over the study period. Among all the samples banks, Nepal SBI has the lowest ratio i.e. 1.05%. It means that Nepal SBI has not mobilized its assets into profit generating projects than other sampled banks. Grand average of three banks is 1.38%, by which only NSBI seems to be below the level and implies that NSBI is unable to maintain the assets into profit making projects.
-) The average ratio of net profit to total deposit of EBL, HBL and Nepal SBI is 1.89%, 1.76% and 1.26% respectively. It implies that, on an average basis, EBL has earned the highest percentage (i.e. 1.89%) of net profit by utilizing its total deposit than other sampled banks. Likewise, Nepal SBI has earned the lowest percentage (i.e. 1.26%) of net profit by utilizing its total deposit over the entire study period. The above ratio shows low efficiently the sample banks have utilized their available deposit into profit generating project. On the other hand, EBL with highest ratio has been successful in the earning more net profit by the proper use of its available deposits than others. Grand average of three banks is 1.64%, by which only NSBI seems to be below the level and implies that NSBI is unable to manage the deposit into profit making projects.
-) The average ratio of return on shareholders' equity (net worth) of EBL, HBL and Nepal SBI is 25.25%, 23.65 % and 15.63% respectively. It implies that, on an average basis, EBL has provided the highest percentage (i.e. 25.25%) of return to its shareholder by utilizing the shareholders fund among the sample banks. The above ratio shows how

much profitability the sample banks have utilized the available fund of shareholders into profit generation over the study period. Among the samples bank Nepal SBI has the lowest ratio. It means that Nepal SBI has not mobilized the fund of shareholder effectively into profit generating project. Grand average of three banks is 21.51%, by which only NSBI seems to be below the level and implies that NSBI is unable to organize the shareholder's funds into profit earning projects.

-) The average ratio of net interest earned to total assets of EBL, HBL and Nepal SBI is 3.24%, 3.71% and 2.19% respectively. It implies that, on an average basis HBL has earned the highest percentage (i.e. 3.71%) of net interest by utilizing its total assets into interest generating projects. Among all the sample banks, Nepal SBI has the lowest ratio. It means that Nepal SBI has not mobilized its assets into interest generating projects. Grand average of three banks is 3.05%, NSBI only seems to be below the level and implies that NSBI is unable to maintain the assets into interest making projects.

4.3.3 Activity Ratio

The activity ratio of selected JVBs reveals that:

-) The average ratio of loan and advances to total deposit of EBL, HBL and Nepal SBI is 73.95%, 58.93% and 73.24% respectively. It implies that EBL has used highest percentage (i.e. 73.95%) of total deposit into loan and advances than other sampled banks over the study period. Similarly, HBL has used lowest percentage (i.e. 58.93%) of total deposit into loan and advances over the study period. Grand average of three banks is 68.71%, by which only HBL seems to be below the level and implies that HBL is unable to maintain the loan and advance to total deposit.
-) The average ratio of loan and advances to total assets of EBL, HBL and Nepal SBI is 64.47%, 52.40 % and 61.21% respectively. It indicates that EBL has used highest percentage (i.e. 64.47%) of total assets in loan and advances than other sampled banks over the study period. Likewise, HBL has used lowest percentage (i.e. 52.40%) of total assets into loan and advances. Grand average of three banks is 59.36%, by which only HBL seems to be below the level and implies that HBL is unable to maintain the loan and advance to total assets.

) The average ratio of total investment to total deposit of EBL, HBL and Nepal SBI is 23.57%, 38.92% and 31.52% respectively. It implies that on an average EBL has used 23.57% of total deposit into investment in other projects than regular loans. Similarly, on an average Nepal SBI has used 31.52% of total deposit into investment. In term of investment against total deposit, HBL has used highest percentage (i.e.38.92%) of its total deposit into non-risky ventures and is ahead of all the sample banks. Grand average of three banks is 31.34%, by which only EBL seems to be below the level and implies that EBL is unable to maintain the investment to total deposit.

4.3.4 Leverage Ratio

The leverage ratio of sampled JVBs reveals that:

) The average ratio of total debt to net worth of EBL, HBL and Nepal SBI is 13.39, 10.13 and 14.90 times respectively. It implies that Nepal SBI has highly leverage 14.90 times means, debt capital financing is more than 14.90 times of its shareholder equity over the study period where as HBL has lowest ration (i.e. 10.13 times) of total debts of net worth. Grand average of three banks is 12.81times by which only HBL seems to be below the level and implies that HBL is unable to maintain debt to net worth.

) The average ratio of total debt to total assets of EBL, HBL and Nepal SBI is 81.17%, 83.59 and 70.94% respectively. It indicates that HBL has highest ratio (i.e. 83.59%) of total debt into total assets. over the study period, on an average basis HBL and EBL have highly debt financing means, these two banks, borrowed outsider's funds by 83.59% and 81.17% respectively. Grand average of three banks is 78.57%, by which only NSBI seems to be below the level and implies that NSBI is unable to maintain total debt to total assets.

4.3.5 Earning Per Share

) The average earning per share of EBL, HBL and Nepal SBI is Rs. 77.45, Rs. 58.49 and Rs. 27.08 respectively. On an average basis, EBL has the highest earning per share (i.e. Rs. 77.45) than other selected joint venture banks over the study period. Similarly, HBL and Nepal SBI have comparatively lower EPS. Grand average of three banks is RS54.34,

by which only NSBI seems to be below the level and implies that NSBI is unable to maintain the earning per share.

4.3.6 Dividend Payout Ratio

The average dividend payout ratio of EBL, HBL and Nepal SBI is 22%, 39.03% and 18.94% respectively. HBL has highest dividend payout ratio (39.03%) with provides maximum amount of dividend to its shareholder over the entire study period. Grand average of three banks is 26.66%, by which EBL and NSBI seems to be below the level that implies EBL and NSBI is unable to maintain the dividend to its shareholders over the period.

4.3.7 Price Earning Ratio

The average price-earning ratio of EBL, HBL and Nepal SBI is 6.44, 5.35 and 11.77 times respectively. It implies that Nepal SBI has highest price earning ratio (i.e. 11.77 times) than other sampled banks. It also means that Nepal SBI market price per share is 11.77 times greater than it's earning per share. Grand average of three banks is 7.85times, by which EBL and HBL seems to be below the level and implies that EBL and HBL are unable to maintain the market price to its earnings per share.

4.3.8 Income Analysis

The income analysis is selected JVBs reveal that:

-) The average net interest income to total income of EBL, HBL and Nepal SBI is 47.50%, 47.92% and 44.22% respectively. Over the study period, HBL has highest and Nepal SBI has lowest net interest income on total income. Grand average of three banks is 46.55%, by which only NSBI seems to be below the level and implies that NSBI is unable to maintain the interest income to total income.
-) The mean exchange income to total income of EBL, HBL and Nepal SBI is 2.50%, 8.32% and 4.72% respectively. It indicates that HBL is success to generating exchange income than other samples JVBs over the study period. Grand average of three banks is 5.18%, by which EBL and NSBI seems to be below the level and implies that EBL and NSBI are unable to create exchange income.
-) The average ratio of commission and discount received to total income of EBL, HBL and Nepal SBI is 8.57%, 8.40% and 5.20% respectively. It indicates that EBL has highest

commission and discount income out of total income than other banks over the study period. Grand average of three banks is 7.39%, by which only NSBI seems to be below the level and implies that NSBI is unable to maintain the commission and discount income.

4.3.9 Expenditure Analysis

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

-) Higher mean of interest expenses is on HBL (i.e. RS.64.62 in 10million). Similarly, EBL has lower mean (i.e. RS39.04 in 10million). It shows that Nepal SBI has been growing interest expenses (i.e. RS45.70 in 10million) against two JVBs. Grand average of three banks is RS49.79 (10 million), by which EBL and NSBI seems to be below the level and implies that EBL and NSBI is unable to maintain the interest expenses.
-) The average staff expenses of EBL have highest than other samples banks (i.e. RS 50.43 in 10million). It means that EBL has been paying highest amount of staff expenses (i.e. salary, allowance and gratuity funds etc.) than other bank over the entire study period. Grand average of three banks is RS40.96 (10million), by which HBL and NSBI seems to be below the level and implies that HBL and NSBI are unable to maintain the staff expenses.

4.3.10 Correlation Analysis

EBL and HBL have high positive coefficient of correlation i.e. 0.9966 and 0.9684 respectively. It refers that the increment in net profit is achieved if the deposit can be enhanced. .Whereas Nepal SBI bank has low positive coefficient of correlation i.e. 0.4560 indicates that net profit is affected by total deposit to some extent only.

EBL and HBL have high positive relation. These correlations are more than six times than that of probable error. Thus, these banks have significant value of coefficient of correlation. However, Nepal SBI has insignificant value because it has less than six times of probable error.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: summary, conclusions and recommendations. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation is made for improving the presence situation to the concerned parties as well as further research.

5.1 Summary

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

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

Under this study, I have tried to cover the various aspects of selected joint venture banks covering the period of five years from 2004/05 2005/06, 2006/07, 2007/08 and 2008/09. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned banks, general concepts of financial statement and the statement of problem, objectives of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites

are also visited. These works are compiled in the second chapter titled “Review of Literature” of this report.

For this study, I have gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data analyze the financial performance of selected banks (1) Financial ratios to calculate various ratios (2) Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc. are followed for this research work in third chapter titled “Research Methodology”.

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are compiled in the fourth chapter titled “Data Presentation and Analysis” of the study.

Finally, the summary, conclusion and the recommendation are presented in the current chapter titled “Summary, Conclusion and recommendations.”

5.2 Conclusion

This study reveals that the current ratio of all samples banks i.e. EBL, HBL and Nepal SBI is less than 1 but EBL has the highest current ratio. It means EBL solvency position is better than HBL and Nepal SBI. The cash and bank balance of EBL with respect to total deposit is more liquidity than other sample banks. It indicates that EBL is able to make immediate payments to its depositor.

Among all the sample banks, Nepal SBI has the lowest ratio of net profit to total assets. It means Nepal SBI has not mobilized its assets into profit generating projects. HBL and EBL have been successful in earning more net profit by the proper use of its available assets. Nepal SBI has low mobilization of its deposit into profit generating project and EBL with the slightly higher ratio has been successful in the earning more net profit by the proper use of its available deposit than

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

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

Earning per share of EBL has the highest than other selected joint venture banks. Similarly, with the highest dividend payout ratio of HBL refers that the bank provides maximum amount of dividend to its shareholders. Nepal SBI has highest price earning ratio than other sample banks. From income analysis, HBL has highest net interest income than other banks. Similarly, exchange income of HBL is greater than other selected JVBs. Likewise, commission and discount income of EBL is higher than other sample banks. From expenditure analysis, an interest expense is highest on HBL. EBL has been paying highest amount of staff expenses as salary, allowance and gratuity funds to its staff. From correlation analysis, EBL and HBL have highly positive correlation between net profit and total deposit but Nepal SBI has low positive correlation.

5.3 Recommendation

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

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

rather than Nepal SBI. To maintain liquidity in perfect, all commercial banks have to follow the mid-way i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.

2. The profitability ratio in case of Nepal SBI has lowest with the result of lower profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Since by decreasing costs, profit of any bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them. Based on activity ratio analysis it is found that all the selected joint venture banks except HBL have emphasized in issuing loan and advances. However, as we know that the increasing bottleneck competition and worsening economic condition has attributing this area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.
3. In case of EBL and HBL, debt financing has always exceeded 80% and Nepal SBI has more than 70% of the total assets over the review period, which indicates the excessively use of debt finance to total assets. Nevertheless, extensive use of debts capital with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the JBVs to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.
4. Expenses are the vital determinations to increase or decrease the profitability of the banks. Interest expenses on deposits also affect the profitability of the banks. Thus, it is recommended that banks should try to reduce the amount of high interest bearing deposits like fixed deposits, saving deposit and others. Instead they should concentrate of non-interest bearing deposit like current deposit, margin deposit etc. At the same time, bank should try to reduce the operating expenses to increase the profitability.
5. Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. To some extent, EBL has been successful in providing a better return on equity than others. Thus, it is recommended that

the management team should put emphasis on the maximizing the wealth of the shareholders. Low market price of share and less earning per share of commercial banks indicated the poor performance in the market. Similarly low dividend payout ratio also discourages the shareholders. Reviewing the study, EBL and HBL have higher MPS, EPS and dividend payout ratio than Nepal SBI. Therefore, it is suggested to the management team of Nepal SBI to improve their performance.

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ANNEXES

ANNEX – 1

Calculation Mean, S. D. and C. V. of Current Ratio (X)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$fX \sum \bar{X} \hat{A}$	X	$fX \sum \bar{X} \hat{A}$	X	$fX \sum \bar{X} \hat{A}$
2004/05	0.6153	0.005184	0.4709	0.00002116	0.3547	0.00561001
2005/06	0.5816	0.00146689	0.4744	0.00000121	0.7318	0.09132484
2006/07	0.5872	0.00192721	0.5221	0.00217156	0.0606	0.136161
2007/08	0.5473	0.000016	0.4783	0.00217156	0.5779	0.02199289
2008/09	0.385	0.02505889	0.4317	0.00191844	0.4229	0.00004489
Total	2.7164	0.03365299	2.3774	0.00628393	2.1479	0.25513363

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{S.D.} = \sqrt{\frac{1}{n} \sum fX - \bar{X} \hat{A}} \quad \text{C.V.} = \frac{\text{S.D.}}{\bar{X}} \times 100$$

EBL X0.5433 X0.0820 X15.10

HBL X0.4755 X 0.0287 X6.04

NepalSBI X0.4296 X 0.2259 X52.58

ANNEX – 2

Cash & Bank Balance to Total Deposits Ratio (X)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sqrt{\frac{1}{n} \sum \epsilon^2}$	X	$\sqrt{\frac{1}{n} \sum \epsilon^2}$	X	$\sqrt{\frac{1}{n} \sum \epsilon^2}$
2004/05	10.40	10.96934	8.12	1.860496	9.48	0.0729
2005/06	15.38	2.782224	6.48	0.076176	10.16	0.9025
2006/07	13.15	0.315844	5.84	0.839056	9.81	0.36
2007/08	11.13	6.666724	4.55	4.866436	9.79	0.3364
2008/09	18.50	22.92494	8.79	4.137156	6.81	5.76
Total	68.56	43.65908	33.78	11.77932	46.05	7.4318

Where,

N = 5 Years

$$\bar{\epsilon} = \frac{\sum \epsilon}{n} \quad \text{and} \quad \sqrt{\frac{1}{n} \sum \epsilon^2} \quad \text{C.V.} = \frac{\sqrt{\frac{1}{n} \sum \epsilon^2}}{\bar{\epsilon}} \times 100$$

EBL =13.712 = 2.95 =21.51%

HBL =6.756 = 1.53 =22.72%

Nepal SBI X9.21 X1.22 X 13.22%

ANNEX – 3

Cash & Bank Balance to Current Asset Ratio (X)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sum fX / \sum f$	X	$\sum fX / \sum f$	X	$\sum fX / \sum f$
2004/05	19.18	72.5904	17.69	4.9284	31.36	93.8961
2005/06	21.23	41.8609	14.98	0.2401	16.69	24.8004
2006/07	23.79	15.2881	12.57	8.41	18.96	7.3441
2007/08	22.46	27.4576	10.41	25.6036	19.13	6.4516
2008/09	51.84	582.7396	21.72	39.0625	22.19	0.2704
Total	138.5	739.9366	77.37	78.2446	108.33	132.7626

Where,

N = 5 years

\bar{X}	$\sum X / n$	\exists	$\sum \sqrt{\frac{1}{n} (fX - \bar{X})^2}$	$C.V. = \frac{\sum \frac{X}{\bar{X}}}{\bar{X}} \times 100$
EBL	$\sum X 27.7$		$\sum X 12.17$	$\sum X 43.92\%$
HBL	$\sum X 15.47$		$\sum X 3.96$	$\sum X 25.56\%$
Nepal SBI	$\sum X 21.67$		$\sum X 5.15$	$\sum X 23.78\%$

ANNEX – 4

Net Profit to Total Assets Ratio (X)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\frac{\sum X}{n}$	X	$\frac{\sum X}{n}$	X	$\frac{\sum X}{n}$
2004/05	1.43	0.0117	1.11	0.2025	0.06	0.9801
2005/06	1.49	0.0023	1.55	0.0001	0.90	0.0225
2006/07	1.38	0.0250	1.47	0.0081	1.83	0.6084
2007/08	1.66	0.0149	1.76	0.04	1.44	0.1521
2008/09	1.73	0.0369	1.91	0.1225	1.02	0.0009
Total	7.69	0.0908	7.8	0.3732	5.25	1.764

Where,

N = 5 years

\bar{X}	$\frac{\sum X}{n}$	\exists	$\sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$	C.V. $\frac{\sum \frac{X}{\bar{X}}}{\bar{X}} 100$
EBL	X1.538		X0.1347	X8.76%
HBL	X1.56		X0.2732	X17.51%
Nepal SBI	X1.05		X0.5940	X56.57%

ANNEX – 5

Net Profit to Total Deposit Ratio (X)

Fiscal Year	EBL		HBL		NepalSBI	
	X	$\frac{\sum fX}{\sum f} - \bar{X}$	X	$\frac{\sum fX}{\sum f} - \bar{X}$	X	$\frac{\sum fX}{\sum f} - \bar{X}$
2004/05	1.67	0.0484	1.24	0.266256	0.07	1.4161
2005/06	2.35	0.2116	1.73	0.000676	1.06	0.04
2006/07	1.63	0.0676	1.64	0.013456	2.23	0.9409
2007/08	1.88	0.0001	2.00	0.059536	1.81	0.3025
2008/09	1.92	0.0009	2.17	0.171396	1.13	0.0169
Total	9.45	0.3286	8.78	0.51132	6.3	2.7164

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \exists \quad \sqrt{\frac{1}{n} \sum fX - \bar{X}^2} \quad \text{C.V.} = \frac{\sum \frac{X}{\bar{X}}}{\bar{X}} | 100$$

EBL X1.89 X0.2564 X13.57%

HBL X1.76 X0.3198 X18.21%

NepalSBI X1.26 X0.7371 X58.49%

ANNEX – 6

Return on Shareholder's Equity or Net worth Ratio (x)

Fiscal Year	EBL		HBL		NepalSBI	
	X	$fX \sum \bar{X} \bar{A}$	X	$fX \sum \bar{X} \bar{A}$	X	$fX \sum \bar{X} \bar{A}$
2004/05	21.86	11.478544	20.00	13.307904	8.33	53.231616
2005/06	24.65	0.357604	25.90	5.071504	11.91	13.808656
2006/07	27.24	3.968064	22.91	0.544644	21.91	39.488656
2007/08	23.49	3.090564	25.30	2.729104	17.51	3.549456
2008/09	29.00	14.077504	24.13	0.232324	18.47	8.088336
Total	126.24	32.97228	118.24	21.88548	78.13	118.16672

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \dagger \quad \sigma = \sqrt{\frac{1}{n} \sum fX - \bar{X} \bar{A}} \quad \text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

$$\text{EBL} \quad \sum X 25.25 \quad \sigma X 2.57 \quad \text{C.V.} X 10.17\%$$

$$\text{HBL} \quad \sum X 23.65 \quad \sigma X 2.09 \quad \text{C.V.} X 8.85\%$$

$$\text{NepalSBI} \quad \sum X 15.63 \quad \sigma X 4.86 \quad \text{C.V.} X 31.11\%$$

ANNEX -7

Net Interest Earned to Total Assets Ratio (x)

Fiscal Year	EBL		HBL		NepalSBI	
	X	$\sum (X - \bar{X})^2$	X	$\sum (X - \bar{X})^2$	X	$\sum (X - \bar{X})^2$
2004/05	3.58	0.112896	3.18	0.276676	0.03	4.682896
2005/06	3.16	0.007056	3.32	0.148996	3.00	0.649636
2006/07	2.93	0.098596	5.30	2.540836	2.87	0.456976
2007/08	3.37	0.015876	3.15	0.309136	3.01	0.665856
2008/09	3.18	0.004096	3.58	0.015876	2.06	0.017956
Total	16.22	0.23852	18.53	3.29152	10.97	6.47332

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{and} \quad \text{C.V.} = \frac{\sum (X - \bar{X})^2}{\sum X} \times 100$$

EBL $\sum X$ 3.24 $\sum (X - \bar{X})^2$ 0.22 C.V. 6.73%

HBL $\sum X$ 3.71 $\sum (X - \bar{X})^2$ 0.81 C.V. 21.89%

Nepal SBI $\sum X$ 2.19 $\sum (X - \bar{X})^2$ 1.14 C.V. 51.86%

ANNEX – 8

Loan and Advances to Total Deposit Ratio (X)

Fiscal Year	EBL		HBL		NepalSBI	
	X	$\sum fX - Z \bar{X} \hat{A}$	X	$\sum fX - Z \bar{X} \hat{A}$	X	$\sum fX - Z \bar{X} \hat{A}$
2004/05	75.45	2.244004	50.07	78.428736	71.80	2.085136
2005/06	71.01	8.655364	55.27	13.366336	69.32	15.397776
2006/07	75.13	1.387684	56.57	5.550736	82.66	88.661056
2007/08	76.49	6.441444	61.23	5.308416	88.32	227.28578
2008/09	71.68	5.161984	71.49	157.8541	54.12	365.72738
Total	369.76	23.89048	294.63	260.50832	366.22	699.15712

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{and} \quad \sigma = \sqrt{\frac{1}{n} \sum fX - \bar{X} \hat{A}} \quad \text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

EBL X73.95 X2.19 X0.59%

HBL X58.93 X7.22 X2.45%

Nepal SBI X73.24 X11.83 X3.23%

ANNEX – 9

Loan and Advances to Total Assets Ratio (x)

Fiscal Year	EBL		HBL		NepalSBI	
	X	$\sum fX - Z \bar{X} \sum f$	X	$\sum fX - Z \bar{X} \sum f$	X	$\sum fX - Z \bar{X} \sum f$
2004/05	64.94	0.2209	44.62	60.466176	60.06	1.317904
2005/06	61.41	9.3636	49.70	7.268416	58.51	7.279204
2006/07	63.75	0.5184	50.71	2.842596	68.05	46.812964
2007/08	67.55	9.4864	53.90	2.262016	70.48	85.969984
2008/09	64.70	0.0529	63.05	113.50772	48.94	150.50382
Total	322.35	19.6422	261.98	186.34692	306.04	291.88388

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{C.V.} = \frac{\sum \frac{f(X - \bar{X})^2}{n}}{\bar{X}} \times 100$$

EBL X64.47 X1.98 X3.07%

HBL X52.40 X6.10 X11.65%

NepalSBI X61.21 X7.64 X12.48%

ANNEX – 10

Total Investment to Total Deposit Ratio (x)

Fiscal Year	EBL		HBL		NepalSBI	
	X	$\frac{\sum X}{N}$	X	$\frac{\sum X}{N}$	X	$\frac{\sum X}{N}$
2004/05	21.08	6.220036	47.12	67.305616	30.13	1.920996
2005/06	30.43	47.004736	41.10	4.769856	34.17	7.043716
2006/07	27.41	14.714896	39.35	0.188356	23.24	68.492176
2007/08	21.10	6.120676	41.89	8.844676	22.52	80.928016
2008/09	17.85	32.764176	25.12	190.32962	47.52	256.128016
Total	117.87	106.82452	194.58	271.43812	157.58	414.51292

Where,

N = 5 years

$$\frac{\sum X}{N} \quad \exists X \sqrt{\frac{1}{N} (\sum \frac{X}{N})^2} \quad \text{C.V.} = \frac{\frac{\sum X}{N}}{X} \times 100$$

EBL = 23.57 =4.62 =19.61%

HBL = 38.92 = 7.37 =18.93%

Nepal SBI =31.52 = 9.11 =28.89%

ANNEX – 11

Total Debts (Liabilities) to Net worth Ratio (x)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sum X / Z \bar{X} \hat{A}$	X	$\sum X / Z \bar{X} \hat{A}$	X	$\sum X / Z \bar{X} \hat{A}$
2004/05	11.95	2.0736	1.61	72.5904	11.05	14.8225
2005/06	13.37	0.0004	13.88	14.0625	34.17	371.3329
2006/07	16.01	6.8644	12.66	6.4009	8.58	39.9424
2007/08	11.45	3.7636	11.92	3.2041	8.73	38.0689
2008/09	14.15	0.5776	10.58	0.2025	11.96	8.6436
Total	66.93	13.2796	50.65	96.4604	74.49	472.8103

Where,

N = 5 years

\bar{X}	$\sum \frac{X}{n}$	=	$\sum \sqrt{\frac{1}{n} \sum (X - \bar{X})^2}$	C.V.	$\frac{\sum}{\bar{X}} \times 100$
EBL	X13.39		X1.63		X12.17%
HBL	X10.13		X4.39		X43.36%
Nepal SBI	X14.90		X9.72		X65.27%

ANNEX -12

Total Debts (Liabilities) to total Assets Ratio(x)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sum fX / Z \bar{X} \hat{A}$	X	$\sum fX / Z \bar{X} \hat{A}$	X	$\sum fX / Z \bar{X} \hat{A}$
2004/05	78.40	7.683984	86.85	3491.39174	73.59	9.585216
2005/06	80.66	0.262144	83.24	232.318564	69.00	2.232036
2006/07	81.27	0.009604	81.09	171.400464	71.79	1.679616
2007/08	81.05	0.014884	82.79	218.803264	71.83	1.784896
2008/09	84.48	10.94286	83.96	254.785444	66.26	17.926756
Total	405.86	18.91348	339.99	4368.69948	352.47	33.20852

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \sigma = \sqrt{\frac{1}{n} \sum fX^2 - \bar{X}^2} \quad \text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

EBL X81.17 X1.94 X2.40%

HBL X83.59 X1.89 X2.26%

Nepal SBI X70.94 X2.58 X3.66%

ANNEX -13

Earning Per Share (x)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sum fX / Z \bar{X} \hat{A}$	X	$\sum fX / Z \bar{X} \hat{A}$	X	$\sum fX / Z \bar{X} \hat{A}$
2004/05	54.22	539.447076	47.91	111.9364	13.29	190.27444
2005/06	62.78	215.091556	59.24	0.5625	18.27	77.686596
2006/07	78.42	0.948676	60.66	4.7089	39.35	150.45476
2007/08	91.82	206.611876	62.74	18.0625	28.33	1.552516
2008/09	99.99	508.231936	61.9	11.6281	36.18	82.737216
Total	387.23	1470.33112	292.45	146.8984	135.42	502.70552

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{and} \quad \sigma = \sqrt{\frac{1}{n} \sum fX^2 - \bar{X}^2} \quad \text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

EBL X77.45 X17.15 X22.14%

HBL X58.49 X5.42 X9.27%

Nepal SBI X27.08 X10.03 X37.02%

ANNEX -14

Dividend Payout Ratio (x)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$f_X \sum \bar{X} \hat{A}$	X	$f_X \sum \bar{X} \hat{A}$	X	$f_X \sum \bar{X} \hat{A}$
2004/05	20.00	4	31.58	55.4727	-	358.724
2005/06	-	484	35.00	16.22478	5.00	194.324
2006/07	30.00	64	40.00	0.944784	47.59	820.823
2007/08	30.00	64	45.00	35.66478	-	358.724
2008/09	30.00	64	43.56	20.53902	42.11	536.849
Total	110	680	195.14	128.8461	94.7	2269.44

Where,

N= 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{C.V.} = \frac{\sum \sqrt{\frac{1}{n} (f_X - \bar{X} \hat{A})}}{\bar{X}} \times 100$$

EBL X22 X11.66 X53.01%

HBL X39.03 X5.08 X13.01%

NepalSBI X18.94 X21.30 X112.48%

ANNEX – 15

Price Earning Ratio

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sum fX - \bar{X} \sum f$	X	$\sum fX - \bar{X} \sum f$	X	$\sum fX - \bar{X} \sum f$
2004/05	16.04	90.098064	19.20	37.0881	25.21	187.19712
2005/06	21.97	12.687844	18.57	45.1584	33.49	29.181604
2006/07	30.99	29.789764	28.69	11.56	29.89	81.036004
2007/08	34.11	73.582084	31.56	39.3129	53.35	209.03376
2008/09	24.55	0.964324	28.43	9.8596	52.52	185.72238
Total	127.66	207.12208	126.45	142.979	194.46	692.17088

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \exists \quad \sqrt{\frac{1}{n} \sum fX - \bar{X} \sum f} \quad \text{C.V.} = \frac{\sum \frac{X}{\bar{X}}}{\bar{X}} | 100$$

EBL X6.44 X25.21 X25.53%

HBL X5.35 X21.14 X25.29%

Nepal SBI X11.77 X30.25 X38.89%

ANNEX – 16

Net Interest Income to Total Income (x)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sum fX / \sum f$	X	$\sum fX / \sum f$	X	$\sum fX / \sum f$
2004/05	48.87	1.887876	50.24	5.363856	44.50	0.077284
2005/06	47.07	0.181476	47.82	0.010816	46.76	6.441444
2006/07	46.13	1.865956	46.58	1.806336	44.29	0.004624
2007/08	49.60	4.426816	46.89	1.069156	47.17	8.690704
2008/09	45.81	2.842596	48.09	0.027556	38.39	34.012224
Total	237.48	11.20472	239.62	8.27772	221.11	49.22628

Where,

N = 5 years

$$\bar{X} = \frac{\sum X}{n} \quad \text{and} \quad \sigma = \sqrt{\frac{1}{n} \sum fX^2 - \bar{X}^2} \quad \text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

EBL X47.50 X 1.50 X3.15%

HBL X47.92 X 1.29 X2.68%

NepalSBI X44.22 X 3.14 X7.10%

ANNEX – 17

Exchange Income to Total Income (X)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\frac{\sum X}{n}$	X	$\frac{\sum X}{n}$	X	$\frac{\sum X}{n}$
2004/05	3.15	0.417316	7.80	0.266256	4.50	0.046656
2005/06	1.35	1.331716	9.69	1.887876	5.38	0.440896
2006/07	2.09	0.171396	7.01	1.705636	5.23	0.264196
2007/08	3.49	0.972196	8.54	0.050176	4.76	0.001936
2008/09	2.44	0.004096	8.54	0.050176	3.71	1.012036
Total	12.52	100.320256	41.58	3.96012	23.58	1.76572

Where,

N = 5 years.

$$\bar{X} = \frac{\sum X}{n} \quad \text{C.V.} = \frac{\sum \sqrt{\frac{1}{n} (X - \bar{X})^2}}{\bar{X}} \times 100$$

EBL X2.50 X0.76 X30.40%

HBL X8.32 X0.89 X10.70%

NepalSBI X4.72 X0.59 X12.60%

ANNEX – 18

Commission and Discount Received to Total Income (X)

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sum fX - Z \bar{X} \Delta$	X	$\sum fX - Z \bar{X} \Delta$	X	$\sum fX - Z \bar{X} \Delta$
2004/05	9.10	0.27668	7.54	0.7396	5.92	0.5184
2005/06	9.08	0.25604	8.09	0.0961	5.10	0.01
2006/07	8.66	0.0074	8.93	0.2809	5.56	0.1296
2007/08	8.14	0.18836	7.73	0.4489	4.66	0.2916
2008/09	7.89	0.46786	9.71	1.7161	4.76	0.1936
Total	42.87	1.19632	42	3.2816	26	1.1432

Where,

N = 5 years.

$$\bar{X} = \frac{\sum X}{n} \quad \text{and} \quad \sigma = \sqrt{\frac{1}{n} \sum fX - \bar{X} \Delta} \quad \text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

EBL X8.57 X 0.49 X5.70%

HBL X8.40 X0.81 X9.64%

Nepal SBI X5.20 X0.48 X9.20%

ANNEX – 19

Interest Expenses

Fiscal Year	EBL		HBL		Nepal SBI	
	X	$\sum fX / Z \bar{X} \text{ \AA}$	X	$\sum fX / Z \bar{X} \text{ \AA}$	X	$\sum fX / Z \bar{X} \text{ \AA}$
2004/05	29.96	82.482724	5.62	3480.764	25.84	394.499044
2005/06	40.14	1.205604	64.88	0.068644	33.48	149.377284
2006/07	51.72	160.731684	76.74	146.942884	41.23	19.998784
2007/08	63.26	586.511524	82.37	315.133504	82.47	1351.88582
2008/09	10.13	835.903744	93.48	833.015044	45.49	0.044944
Total	195.21	1666.83528	323.09	4775.92408	228.51	1915.80588

Where,

N = 5 years.

$$\bar{X} = \sum \frac{X}{n} \quad \exists \quad X \sqrt{\frac{1}{n} \sum (fX - \bar{X} \text{ \AA})^2} \quad \text{C.V.} = \frac{\sum \frac{\exists}{\bar{X}}}{\bar{X}} | 100$$

EBL X39.04 X18.26 X46.77%

HBL X64.62 X30.91 X47.83%

NepalSBI X45.70 X19.57 X42.83%

ANNEX - 21

EVEREST BANK LIMITED

Five years Financial Summary(Balance Sheet)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Cash in Hand	192590297	259347645	534996791	822989425	944695793
Balance with Nepal Rastra Bank	779669004	1139514873	1178198197	1080914554	4787163541
Balance with Banks/Financial institutions	77729907	154104976	678225606	764067851	432511829
Money at call and Short Notice	570000000	66960000	-	346000000	-
Investments	2128931852	4200515220	4984314586	5059557544	5948480273
Loan, advance and Bills Purchase	7618671476	9801307676	13664081664	18339085562	23884673616
Fixed Assets	134068090	152089805	170097452	360512480	427157451
Non-Banking Assets	24570614	7436642	-	-	-
Other Assets	206285178	178007850	222660004	376215468	492166151
Total Assets	11732516418	15959284687	21432574300	27149342884	36916848654
Share Capital	518000000	518000000	518000000	831400000	838821000
Reserve and Surplus	314617365	444808301	683515266	1089837580	1364804055
Debenture and Bonds	300000000	300000000	300000000	300000000	300000000
Loan and Borrowings	-	-	-	-	312000000
Deposit Liabilities	10097690989	13802444988	18186253541	23976298535	33322946246
Bills Payable	17777860	15805995	26776480	49429700	148655952
Proposed and un paid dividend	23527388	114666758	68146323	140790370	230524766
Income Tax Liabilities	3312244	-	15278110	41143107	20522280
Other Liabilities	457590572	763558645	1634604580	720443592	37857415
Total Capital and Liabilities	11732516418	15959284687	21432574300	27149342884	36916848654

ANNEX - 22

EVEREST BANK LIMITED

Five years Financial Summary (Profit & Loss Account)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Interest Income	719297855	903411137	1144408308	1548657132	2186814992
Interest Expenses	(299565269)	(401397351)	517166241	632609264	1012874353
Net Interest Income	419732586	502013789	627242067	916047868	1173940639
Commission and Discount	78130046	96839264	117718162	150264074	202094446
Other Operating Income	31479208	48902381	67967525	79133767	106403694
Exchange Income	27077784	14397970	28404544	64452378	62526819
Total Operating Income	556419624	662153401	841332298	1209898087	1544965598
Staff Expenses	(60597367)	(70924675)	86118226	157957084	186919870
Other Operating Expenses	(129067225)	(143562167)	177545649	233766645	292010522
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision for possible Loss	366755032	447666559	577668423	818174358	1066035206
Provision for possible losses	(88926593)	(70465665)	89695764	99340505	(93084880)
Operating Profit	277828439	377200894	487972659	718833853	972950326
Non-operating Income/loss	2974088	2959467	1315211	4519287	5005256
Write-back from Loan Loss Provision	5252936	-	11686657	20201067	8044170
Profit from regular activities	286055463	380160361	500974527	743554207	985999752
Profit/loss from transaction of extraordinary nature	(5252936)	-	(795224)	(18998727)	(5549170)
Profit after inclusion of all types of transaction	280802527	380160361	500179303	724555480	980450582
Provision for Staff Bonus	(28080253)	(34560033)	(45470846)	(65868680)	89131871
Provision for Income Tax					
-This year	(81914477)	(106753311)	158299176	(216913302)	(276864301)
-Up to last year	(2592186)	(1556081)		9445115	24278347
Net Profit	168214611	237290936	296409281	451218613	638732757

ANNEX - 23

HIMALAYANBANK LIMITED

Five years Financial Summary (Balance Sheet)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Cash in Hand	286529934	305428144	177242226	278183489	473759695
Balance with Nepal Rastra Bank	1727941023	1096253097	1272543067	935841697	2328405821
Balance with Banks/Financial institutions		315671095	307555959	234117704	246361272
Money at call and Short Notice	441080900	1005280000	1710023859	518529500	1170793650
Investments	11692341559	10889031449	11822984558	13340176785	8710690646
Loan, advance and Bills Purchase	12424520646	14642559555	16997997046	19497520482	24793155269
Fixed Assets	295822023	540824021	574060430	795309700	952196395
Non-Banking Assets		21732523	12766060	10306683	22694688
Other Assets	976458570	643609788	643967906	565545597	622264633
Total Assets	27844694655	29460389672	33519141111	36175531637	39320322069
Share Capital	643500000	772200000	810810000	1013512500	1216215000
Reserve and Surplus	898246461	993975616	1335689655	1499479102	1903665537
Debenture and Bonds		360000000	360000000	860000000	500000000
Loan and Borrowings	506048286	144624897	235967811	83177913	-
Deposit Liabilities	24814011984	26490851640	30048417756	31842789356	34681345179
Bills Payable	68399189	73577730	91303206	102669796	113509140
Proposed and un paid dividend		238409026	130939748	263076319	162096954
Income Tax Liabilities		-	11913476	19131036	10163115
Other Liabilities	914488735	386750763	494099459	491695555	733327144
Total Capital and Liabilities	27844694655	29460389672	33519141111	36175531637	39320322069

ANNEX - 24

HIMALAYAN BANK LIMITED

Five years Financial Summary (Profit & Loss Account)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Interest Income	1446468083	1626473819	1775582617	1963647472	2342198179
Interest Expenses	561963770	648841818	767411247	823744838	934778015
Net Interest Income	884504313	977632001	1008171370	1139902634	1407420164
Commission and Discount	132815882	165447872	193224228	187819983	284302277
Other Operating Income	41300617	52324749	40328872	62103241	46342872
Exchange Income	137300987	198130134	151637322	207669178	2499826060
Total Operating Income	1195921799	1393534756	1393361792	1597495036	1988047919
Staff Expenses	178589357	234588969	272225308	292213138	360980641
Other Operating Expenses	277375035	329699087	341561021	344320784	398316566
Exchange Loss	-	-	-	-	1228750712
Operating Profit Before Provision for possible Loss	739957407	829246700	779575463	960961114	68805514
Provision for possible losses	58885977	145154520	90688827	6007608	1159945198
Operating Profit	681071430	684092180	688886636	954953506	3810145
Non-operating Income/loss	2794642	1887070	3493278	9700477	19484655
Write-back from Loan Loss Provision	88253189	56561901	412654152	(131682971)	1183239998
Profit from regular activities	595612883	742541151	1105034066	1096336954	(9973406)
Profit/loss from transaction of extraordinary nature	15012253	(2902317)	(315890702)	(52614217)	1173266592
Profit after inclusion of all types of transaction	580600630	739638834	789143364	1043722737	106660599
Provision for Staff Bonus	58060063	67239895	71740305	94883886	313771258
Provision for Income Tax	214265396			312970332	340776052
-This year		214941243	225580154	309154392	340776052
-Up to last year				-	568826
Deffered Tax				3815640	(27573620)
Net Profit	308275171	457457696	491822905		752834735

ANNEX - 25

NEPAL SBI BANK LIMITED

Five years Financial Summary

(Balance Sheet)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Cash in Hand	143749918	244187671	287530644	308101599	652027266
Balance with Nepal Rastra Bank	579995382	626123385	556678464	403810203	444138596
Balance with Banks/Financial institutions	-	247847352	278481119	631048524	807740259
Money at call and Short Notice	123112500	215000000	350000000	304012877	-
Investments	2607680003	3758975484	2659452919	3088886918	13286181660
Loan, advance and Bills Purchase	6213878776	7626736137	9460450701	12113698428	15131747944
Fixed Assets	66451924	66711798	97218804	120222259	253580695
Non-Banking Assets	-	24555992	3847024	-	-
Other Assets	610504867	225701305	207540884	217665366	341265376
Total Assets	10345373370	13035839124	13901200559	17187446174	30916681796
Share Capital	431865600	640236100	647798400	874527840	87457840
Reserve and Surplus	257147460	342137628	515492451	540116972	838079355
Debenture and Bonds	-	200000000	200000000	200000000	200000000
Loan and Borrowings	469628863	612428650	815365219	1627480190	727466283
Deposit Liabilities	8654774214	11002040633	11445286030	13715394960	27957220794
Bills Payable	31123670	46238743	48855749	75115471	62947325
Proposed and un paid dividend	-	35469706	91024235	12228852	24904649
Income Tax Liabilities	-	-	-	-	-
Other Liabilities	500833563	157287664	137378475	142581889	231535550
Total Capital and Liabilities	10345373370	13035839124	13901200559	17187446174	30916681796

ANNEX - 26

NEPAL SBI BANK LIMITED

Five years Financial Summary (Profit & Loss Account)

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09
Interest Income	578372070	708,718,614	831116781	970512681	1460445686
Interest Expenses	258430003	334,770,096	412261744	454917713	824700275
Net Interest Income	319942067	373,948,518	418855037	515594968	635745411
Commission and Discount	42568260	40,753,985	52591560	50917830	78836624
Other Operating Income	64247842	7136575	12601352	19557259	52790137
Exchange Income	32357149	43060315	49463539	51989275	61294299
Total Operating Income	459115318	464899393	533511488	638059332	828666471
Staff Expenses	37582219	50539528	53232464	74890268	121989160
Other Operating Expenses	90628615	99214082	120111581	152379842	223965592
Exchange Loss	-	-	-	-	-
Operating Profit Before Provision for possible Loss	330904484	315145783	360167443	410789221	483711719
Provision for possible losses	190269412	146656796	59376948	57463909	40345336
Operating Profit	140635072	168488987	300790495	353325312	442366383
Non-operating Income/loss	1442831	(2926272)	(256759)	(271006)	2516407
Write-back from Loan Loss Provision	-	54177763	78515105	29782580	198672788
Profit from regular activities	142077903	219740478	379048841	382836886	643555578
Profit/loss from transaction of extraordinary nature	2974225	-	-	-	(156220828)
Profit after inclusion of all types of transaction	139103678	219740478	379048841	382836886	487334750
Provision for Staff Bonus	13910368	19976407	34458986	340803353	44303159
Provision for Income Tax	67806676	82762098	89681011	100262775	126658096
-This year		66120456	86704011	105745947	133123502
-Up to last year		16641642	2977000	870463	2582900
Deffered Tax				(6353635)	(9048306)
Net Profit	57386634	117001973	254908844	247770758	316373495

