CHAPTER- 1
INTRODUCTION

1.1 Background of the Study:

The study of listed commercial banks and returns to investors occupies an important role in the development of capital market are essential for the rapid economics growth of the country. Capital market helps economic development by mobilizing long term capital needed for productive sector. It is vital to long term growth and prosperity of the economy since it provides the channel through which needed funded funds can be raise.

Bank is a financial institution which plays significant role in the development of the country. It helps the growth of agriculture, trade, commerce and industry of the national economy. The banking sector is largely responsible for collecting house hold saving it items of different types of deposits and regulating them in the society by lending them in different sector of the economy. The banking sector has now reached even to the most remote areas of the country and has contributed a good deal to the growth of the economy. By lending their resources in small scale industries under intensive banking programme the banks has contributed to the economic growth of the economy.

"Banking institutions are inevitable for the resource mobilization and the all round development of the country. They have resources for economic development and they maintain economic confidence of various segments and extend credit to people." *(*Ronald Grywinshki, The New Fashioned Banking, 1997 P.87)

Banking concept existed even in the ancient period, when the gold smiths and enc reach people used to issue receipt to the common on people against the promise to safe keeping of their valuable items on the presentation of the promise to safe keeping of their valuable items on the presentation of the receipt the depositors would get back their gold and valuable after paying a small amount for enc safe keeping and saving. This is the main reason for accepting banks since ancient time in some form.

Previously gold smiths performed this task but now various types of banks have taken over this task.

Banks refer to any firms that are basically concerned with the transaction of money, however today's banks are established for specific purpose. Different types of bank are focusing different types of service to their customers. Although the basic principle is the sane today different types of the financial institutions have been established with different purpose. Such as : Merchant Bank, Over sease Bank, The National Saving and Giro Bank, Clearing Bank, The discount house. Trustee Saving Bank, Mobile Serving Bank etc.

These banks give different types of services to people. Basically banks performs various types of services like collection of deposits from the public, granting loans to the investors in different sector, over draft, guarantee against payment, letter of credit discounting bills, promissory, selling of sharers agency function etc.

The organization set up of finance company is new to Nepal. Finance companies are the effective instruments for mobilizing public. Private and external financial resources and challenging then into productive areas as short term loan, long term loan in different commercial business activities.

"There has been mushroom growth of finance companies about registration with wide diversified function of various age groups. Capital sizes, national and international joint venture features, professional expertise, management background and experience determine the nature scope and volume of financial activities and services net networks." (Prof. Manohar K Shrestha, Financial Companies in Nepal, NRB, 1997, P.23)

When the opinion finance company act 1985 and democratic movement 1989, His majesty's government has formally adopted the economic liberalization policy. This police have been more emphasis to the private sector and international investors to invest in Nepal, as encouraging factor of sustainable economic growth. The new policy has already resulted that the establishment of finance companies is to collect deposits and to provide loan and also mobilizing scattered saving through various schemes and deploy than indifferent sector of the economy for the economic development of the country, the aim of the finance company act 1985 is to guide the economic in the right direction as giving services where commercial banks and other financial institution mentioned where are but available. After the short background the study concentrated on the whole energy and effort to finance companies regarding now, they achieve financial performance and its impact on economic development financial performance is the combination of is towards. "Finance and Performance" and it give an integrated meaning.

The financial performance is a qualities analysis of firm's efficiency. The company financial plan and policy preformed and implemented by management should be judged on the basis of its financial performance.

Conceptually, vocabulary financial performance concerns with the measurement and analysis of financial operation of a firm. Through ratio analysis, correlation and regression analysis, trend analysis and test of hypothesis approaches.

"The basis financial statements are the balance sheet and profit and loss account. The information contained in these statements is used by management, creditor, investors, and other to judge abut the operation performance of the firm." (I.M. Pandey, Financial Management, Vikas Pub. India 1978 P.500)

"The analysis of the performance is deigned to make a careful study of recent financial record of financial companies. In other to evaluate its performance financial statement are analyzed, Performance evaluate must not be focus exclusively up to the criterion of short term profit ability or any other single slandered which many causes managers to act contrary to the long range interest of the company as a whole." (Kenneth R. Andrews, The concept of corporate strategy, Tareporevale pub. Bombay, 1972)

"The balance sheet reflecting the assets liabilities and capital as of a certain rate and the income statement showing the result of the operation during certain period." (N. Myergohn Financial Statement Analysis, Prentice hall, India 1974 P.3)

Thus it is evident that financial statement can not profit and loss account and balance sheet. Similarly,

"The analysis of financial statements consists of a study of relationship and trends to determine whether or not the financial position and results operations and financial progress, of the company are satisfactory or unsatisfactory." *(*R.S. Kennedy & S.Y. Mullar, Financial Statement, 1973 P.205)

The first and most important function of financial statements is, of our to serve those who control and direct the business, to the end of securing the profit and maintaining a sound financial condition. Questions as low efficiently the capital of the business is being utilized, now well credit standards are being observed and whether the financial conditions is being improved may be answered from the financial statement therefore the analysis of statement will help the management at self appraisal and the very statement help the shareholders to judge the performance of the management.

The proper analysis and interpretation of financial statements is a felt necessary in our corporations banks, private enterprises, and similar ether organization to find out what information's are indicated from this balance sheet income statements and other accounting information. On the basis of these information's, it becomes easy to chalks out the problems faced by corporations of Nepal. A capable financial manager if he wants to prove this competence must select the best analytical tools to determine the liquidity, profitability, turnover and capital structure of the corporations or enterprises.

"The main objective of financial analysis and interoperation is high lighting the strength and weakness of the business undertaking by regrouping and analyzing the figure contained in financial statement and by making comparison of various components and by examining their contents." (S.S. & M.M. Goyal, Management Accounting, 2nd edition 1972 P.266)

Comparative financial statements is returned as horizontal analysis as it involves comparison showing how individual items charge from year to year. Regarding the origin of modern banking' "bank" DE RIALTO' is considered to be the first bank of the world which was established is 1587 A.D. Venice, Italy.

The history of the development of financial institutions in Nepal was very long. Thefirst commercial bank is Nepal bank Ltd. established in 1994 B.S. is none government sector.

Then the Nepal Rastra Bank (Central bank of Nepal) in 2013 B.S. was a significant dimension in the development of banking sector. The second commercial bank is Rastriya Banijya Bank Ltd., which established in 2021 B.S. a fully wondered of government bank. Then after other banks were established gradually.

According to Nepal commerce Bank Ltd. 2031 B.S. "A commercial bank is the one which exchanges money, deposits money, accepts deposits grants loan and performs commercial banking function and which is not a bank meant for co-operative agriculture, industries as for such specific purpose."

When the government adopted liberal and market oriented economic policy since mid-1995s, Nepal allowed foreign banks on join venture basis to operate in the country after getting the approval from Nepal Rastra Bank. These foreign joint venture banks are allowed 50% for equity participation. As result first only three JV bank's namely Nepal Arab bank Ltd., Nepal indo- suez bank Ltd., and Nepal griendlays Bank Ltd. were established in 2041, 2042, and 2043 Bd. respectively.

Now, there are 31 commercial banks operation in Nepal. Among them three are under government control, twenty eight are non government and joint venture bank, one the most important achievements of the growth of commercial banks is domestic saving gave a new horizon to the financial sector of the country they were expected to bring the foreign capital, technology, experience, healthy competition, expertise and skills in Nepal. The least of licensed commercial banks in Nepal by 2010 has been tabulated here.

Table 1: List of commercial banks.

S.N.	Name of Banks	Establishment	Head Office
1.	Nepal Bank Ltd.	1994/07/30	Kathmandu
2.	Rastriya Banijya Bank	2022/10/10	Kathmandu
3.	Nabil Bank Ltd.	2041/03/29	Kathmandu
4.	Nepal Investment Bank Ltd.	2042/11/26	Kathmandu
5.	Standard Chartered Bank Nepal Ltd.	2043/10/16	Kathmandu
6.	Himalayan Bank Ltd.	2049/10/05	Kathmandu
7.	Nepal Bangladesh Bank Ltd.	2051/02/23	Kathmandu
8.	Nepal SBI Bank Ltd.	2050/03/23	Kathmandu
9.	Nepal Credit and Commerce Bank Ltd.	2053/06/28	Siddhartha Nagar
10.	Lumbani Bank Ltd.	2055/04/01	Narayangadh
11.	NIC Bank Ltd.	2055/04/05	Biratnagar
12.	Machapuchara Bank Ltd.	2057/06/17	Pokhara
13.	Everest Bank Ltd.	2051/07/01	Kathmandu
14.	Bank of Kathmandu Ltd.	2051/11/28	Kathmandu
15.	Kumari Bank Ltd.	2057/12/21	Kathmandu
16.	Laxmi Bank Ltd.	2058/12/21	Birgunj
17.	Siddhartha Bank Ltd.	2059/09/09	Kathmandu
18.	Global Bank Ltd.	2063/09/18	Birgung
19.	Citizens Bank International Ltd.	2064/01/07	Kathmandu
20.	Prime commercial Bank Ltd.	2064/06/07	Kathmandu
21.	Sunrise Bank Ltd.	2064/06/25	Kathmandu
22.	Bank Of Asia Nepal Ltd.	2064/06/25	Kathmandu
23.	DCBL Bank Ltd.	2065/02/12	Kathmandu
24.	NMB Bank Ltd.	2065/02/20	Kathmandu
25.	Kist Bank Ltd.	2066/01/24	Kathmandu
26.	Janta Bank Ltd.	2066/12/23	Kathmandu
27.	Agriculture Development Bank	2024/10/07	Kathmandu
28.	Mega Bank Ltd.	2066/10/01	Kathmandu
29.	Civil Bank Ltd.	2067/08/14	Kathmandu
30.	Century Bank Ltd.	2067/10/24	Kathmandu
31.	Commerz and trust Bank Ltd.	2067/11/25	Kathmandu

Source: Nepal Rastra Bank

1.2 Focus of the study:

Joint venture commercial banks plays a tremendous role in a development of developing nations, also helps in the economic sector of the country. Typically, commercial bank's main motive is to make profit providing quality services to the customers in Nepal, there exists thirty one commercial banks releasing their services. Although joint venture banks have managed to perform better then other commercial banks within short span of time, they have been facing a neck-to-neck competition against one another. Among there are 31 commercial banks, this research is based on mainly three joint venture banks Namely Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd., and Everest Bank Ltd.

The main objectives of this research is to analyze the financial performance through the use of appropriate financial tools, so this research focused mainly to high-light and examine the profit ability position of the selected banks ignoring other aspects of banks transactions.

To high-light the financial portion of the banks, the research is based on the certain financial tools i.e. ratio analysis.

1.3 Statement of the Problem:

Since the joint venture banks have been established gradually because of the liberal and market-oriented economic policy of the HMG. they have been facing though competition from other commercial banks and of course, each other. Although joint venture banks have managed to performed better then other local commercial banks within short span of time. They have been facing a neck to neck competition against one another. Therefore it is necessary to examine the profitability position of Nepal Bangladesh Bank, Himalayan Bank and Everest Bank Ltd. as compared and also other aspects related with finance.

In Nepal, the profitability rate, operating expenses and divided distribution rate among the shareholder has been found different in the financial performance of the three joint venture banks in different periods of time. The problem of the study will ultimately find out the reasons about difference in financial performance. A comparative analysis of financial performances of the banks would be highly beneficial for pointing out their strength and weakness.

The followings specific problems have been identified in this research:

To what extent:

1. The sample banks i.e. Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd. and Everest Bank Ltd. have been able to mobilize the resources into investment property?
2. These are banks seem to have been able to maintain and manage their liquidity, assets and capital structure efficiency?
3. Are these banks able to raise their productivity to the satisfactory limit?
4. Is it evident that these Bank have been exposed to more financial risk?

1.4 Objective of the Study:

The basic objective of the study is to examine the financial performance of Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd. and Everest Bank Ltd.

More specifically, the study has been under taken.

i. To high light the financial performance of NBB Ltd., HB Ltd and EB Ltd.
ii. To analyze financial performance through the use of financial tools.
iii. To evaluate the trends and growth of loan, investment and total deposit patterns of these banks.
iv. In order to evaluate the financial statement of these banks.
v. To recommend suggestion for the improvement of the financial performance of these banks.

1.5 Importance of the Study:

The present study is expected to be beneficial to the concerned three banks as well as other interested parties. Specially, it is beneficial to:

Lenders and borrower of these banks
Management of these banks
Policymakers of these banks
Shareholders customers and other stockholders of these bank.

1.6 Limitation of the Study:

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

i. The study has covered only the latest five fiscal year from 2005/06 to 2009/10.
ii. The study has mainly been conducted on the basic of secondary data, such as annual reports of these banks and other related journals, books, magazines etc.
iii. The study covers the analysis of financial performance of only three banks i.e. NBB Ltd., HB Ltd. and EB Ltd.
iv. The standard normal financial ratios are not available especially in the Nepalese context so researcher has to depend upon his judgment and commonsense in interpreting the data. In this context, concerned experts were consulted.

1.7 Chapter Plan of the Study:

The present researcher has been organized into the following chapters.

Chapter 1: Introduction:

This chapter introduced the subject matter of the research and includes background, statement of the problem, objective of the study, focus of the study, importance of the study and limitation of the study.

Chapter 2: Review of Literature:

This chapter reviews the existing literature on the concept of banking, concept of commercial bank, concept of joint venture banks. Development of banking system in Nepal a brief profile in NBB Ltd., HB Ltd., and EB Ltd., and reviews of earlier studies and opinion on the financial performance of these banks.

Chapter 3: Research Methodology:

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

Chapter 4: Presentation and Analysis of Data:

This is the main part of the research and in this part data have been systematically presented, analyzed and interpreted. Various financial and statistical techniques have been used to analyze and interpret the data.

Chapter 5: Summary, Conclusion and Recommendation:

This is the final chapter of the present study that summarizes and conclusion. The research and offer necessary recommendations for future improvement of the financial performance of NBB Ltd., HB Ltd. and EB Ltd.

CHAPTER-II

REVIEW OF LITERATURE

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

More specifically, in this section the following areas have been reviewed, concept of banking, concept of commercial banks and joint venture banks development of banking system in Nepal a brief profile of NBB Ltd., HB Ltd. and EB Ltd. financial performance of these three banks review of related literature reviewed during the course of conducting research.

2.1 Concept of Banking:

Bank is a financial institution, which plays a significant role in the development of a country. The history of banking transaction is as old as our civilization. People used to save and keep their money with the persons having some credibility for security and for use in their old age. In ancient time Gold smith use to keep peoples valuable goods for nominal charges against the deposit. Then people deposited their gold and valuable goods for sake of security rather then earning interest. Mostly at that time, gold smith performed this task, but now various types of banks have been acting in this field.

“In England, gold smiths were the bankers in an ancient period. They used to lend money to the government and also at the time of emergency to keep deposits for softly purpose people used to keep their ornaments with gold smiths for safety. In ancient time, the function of foreign exchange above used to be done by gold smiths, merchant and moneylenders.” (M.C. Regmi, Groeth of banking in development economy, 1969)

"The terms "bank" was originated from the Italian word 'Banco'. A bank is a business origination that receives and holds deposits from others, lends loans or external credit and transfers funds by written of depositors." (Encyclopedia, vol 3 1984)

"The business is banking is one of the collecting funds from the community and extending credit (making loans) to people for useful purpose. Banks have played a pivotal role in moving money from lenders to borrowers. Banking is profit seeking business not a community charity, as a profit seeker it is expected to pay dividends and other wise add to the wealth of its shareholders." (Ph.D. Edimister O. Report, Financial Institution, 1980 P.73/74)

In the present Nepalese context three types of banks have been separately performing their activities in different sector, such as central bank, commercial bank and developments banks. Three types of commercial bank have been operating in Nepal bank Ltd., The joint venture with foreign banks like Himalayan bank Ltd., by private participation like Lumbani bank limited etc.

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

2.2 Concept of Commercial Bank:

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

"A bank of England" is the first commercial banks in the world established in 1794 A.D. as a central bank of Britain.

Commercial Banks are the heart of the financial system. They hold the deposit of many persons government establishment and business units. They make fund available throw their lending and investing activities to borrowers, individual business firms and services, from the produce to customer and for the government too. These facts show that the commercial banking system of nation is an important to the functioning of the economy.

"The commercial banks have its own role and contribution in the economic development. It is the source for economic confidence to various segments and extends credit to people." (Ronald Grywinshki, The New Fashioned Banking, 1993 P.87)

Nepal commercial bank act 2031 B.S. defines "A commercial bank is one which exchanges money, deposits money, accepts deposit, grants loans and performs commercial banking function and which is not a bank meant for co-operation, agriculture, industries for such specific purpose. "

Commercial Banks obtain deposit from customers under different account such as saving, fixed and current. Commercial Banks also provide short-term drawing as necessary for trade and commerce e.g. hypothecation, against stock guarantee against any deviation in performing tasks, purchasing and selling of securities, discounting Bills, exchanging promissory notes, overall rafts facilities, treasury bills, foreign currencies. Performing such task on the behalf of requited as persons.

Central Banks main task is to monitor, direct and control the lending activities in the country. In Nepal commercial banks perform their function under the rules and regulation of the Nepal Rastra Bank as the central bank of Nepal. To sum up a bank is defined as financial institutions which perform widest range of economic and financial functions of only business firm in economy. The commercial banks is that financial institution which collects scattered saving of the people and provides loans against proper securities for their productive purpose.

Moreover they also provide technical help and suggestion, administrative suggestion, safe-keeping of valuable, collection of bills, cheques and overdraft facilities to industries and commerce.

2.2.1 Function of Commercial Banks:

Commercial Banks are the important financial institution. The Banking business is very broad in modern business. The number and variety of banking services provides by commercial banks will probably expand. Recent innovation in banking includes the introduction of credit exchange cards, accounting services for business firms, factory leasing participation in the Euro dollar market and lock box banking.

The American institute of banking (Principle of book operatio, USA 1972, P345) has laid down the four major functions of the commercial bank such as receiving and holding deposit, handling payment for its client making loan and investment and creation by extension of credit.

The major function of commercial banks in explained in brief:

a) Pooling and saving:

The commercial banks render very important service to all sector of the money by providing facilities of the pooling and saving to be used for socially desirable purpose. The save is rewarded by interest by his deposit. These pooled funds are made available to business man who may use them for the expansion of their productivity capacity and to consume for such item as housing and consumers goods.

b) Safe keeping of valuable:

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

c) Creating money:

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

d) Payment Mechanism:

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

e) Extension of credit:

The major function commercial bank is to extend credit to worthily borrowers. Bank lending very important to the economy for financial agriculture, commercial and industrial activities of the country. Moreover, the issues of commercial letter of credit have facilities foreign trade transaction.

f) Facilities foreign trade:

The other function of commercial banks is to create arrangement for the amount of foreign exchange needed by business origination to pay to the foreign country. Bank provides more satisfactory guarantee to an individual or firm including a commercial latter of credit, technology transfer (TT) and accepting travels letter of credit or traveler's cheque.

Thus, commercial banks play an important role to the development of the economy. Their diversified service has increased their weight in stabilization, the economic pulse of the economy. Even though idle money mobilization or capital formation is the most important function of commercial banks.

2.3 Concept of joint venture banks:

A joint venture bank is the joint entrepreneurship of two or more then two enterprises for the purpose of carrying out aspecific operation i.e. industrial and commercial investment production or trade.

"When two or more independent firms mutually decide to participate in a business venture contributing to the total equity of more or less capital and establish a new organization it is knows as joint venture." (Jajuch and cluck, Business policy & Strategic management, 5^{th} edition)

Nepalese commercial banks are classified as state owned commercial banks and private owned commercial banks state owned or semi state owned commercial banks are Nepal bank Ltd. and Rastriya Banijya bank who are suffering from huge loss so they are struggling to their existence with foreign management.

The foreign joint venture banks with full fledged banking function in Nepal are formed under the Act 2021 B.S. and operated under the Banijya bank Act 2031 B.S. joint venture banks have been established for trading to achieve mutual exchange of goods and services for sharing comparative advantage by performing joint investment schemes between Nepalese investors, financial and non financial institution as well as private investor and their parent banks. The parent bank that have experience in highly mechanized and efficient modern banking services in the many parts of the world have come to Nepal. With superior technology, advanced management skills and international network of banking institution.

"The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The increased competition has laid to improve their quality and has caused and extension of serving by simplifying procedures and training." (Chopra Sunil, Roal of Foreign Bank in Nepal, NRB Samachar April 1990)

The concept of joint venture bank is a new innovation in finance and it is at a growing stage mostly in developing countries. Joint venture banks in Nepal are expected to be the medium of economic development and uplift the community underguidance operate under the supervisions controlling and directions of Nepal Rastra Bank. Nepal

Arab Bank limited is the first Joint Venture bank of Nepal, established in 2041 Ashar 29^{th} B.S. JVBs are expected to mobilize the passive fund toward trade and commerce,to provide economic assistance to Entrepreneurs and to create habits to Public.

2.3.1 Role of Joint Venture Banks:

"Joint venture banks pose serious challenges to the existence of the inexistent native banks. But some challenges can be taken by the domestic banks as an opportunity to modernize themselves and sharpen their competitive positions." (Murari R. Sharma, A JVBs in Nepal, Coexisting or crowding out, The Nepalese Journal of Public Administration, July 2003 p.37)

Realizing the needs of imported Capital in banking sector, Nepalese government has allowed JVBs in Nepal. Now JVBs have posed serious challenges to the existence of the inefficient domestic bank but same challenges can be taken by the domestic bank as an opportunity to modernize themselves and sharpen there competitive zealous. JVBs are playing dynamic and vital role in the economic development for the country, which are summarizing below.

i. **Provide more resources for investment:**

The JVBs have played a significant role channeling additional resources for investment for the development of the country. They act as mediators between foreign investors and native promotion of the trade and commerce in the prevailing market those resources would have been mobilized by any other domestic institutions and they are concentrated only in profitable and they are concentrated only in profitable region (i.e. urban areas and profitable sectors), nevertheless, they have mobilized net additional resources, if they tap so untapped resources in the local market.

ii. Introduce new method, service and technology in Banking services:

The JVBs have invited a new era of banking in the nation. They are expert and efficient for practicing new methods of doing banking business (i.e. computerization, Tele- banking, automatic teller machine, 24 hours banking service, any branch banking facilities, premium saving account (PSA), free life of account holders and other many attractive facilities).

iii. Create a competitive Environment:

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

iv. Offering better links with international Market:

The JVBs are usually bettered placed to raise resources internationally for viable projects in a developing market. It means our potential projects are globally recognized so that opportunity of financial and technical assistant will be high.

v. National Economy:

Joint venture banks comparatively have been adopting new system. They have already been established and have been contributed to financial garments agriculture and housing needs and playing a significant role to contribute to the national economy.

2.4 Historical development of banking system in Nepal:

In the context of Nepal formally depositing and lending is new phenomenon where as informally. It was existed from the very beginning. The historical records shows that Gunakam Dev. The king of Kathmandu borrowed money to rebuild his kingdom in 732 A.D. After 57 years a merchant 'Sankhadhar' introduced 'Nepal Sambat' by clearing all the indebt ness of the people in 880 A.D. This is proof for the practice of money lending prevalent at that time.

After Jayasthiti Malla's classification and declaration 'Tanakharu' as the people engaged in money lending business. Money lending business become quite popular.

Thus the role of Tanakdhari was similar to that of banking agent. Even thought, the practice of Tankdhari activities was not free of problem. The history of banking Nepal may be described as a component of the gradual and orderly evaluation in the financial and economic sphere of Nepalese line. The existence of an organized money market consisting landlords, Shanukars, shopkeepers and other indigenous individual money lenders has acted as barrier to institutionalized credit.

During the prime minister of 'Ranodip Sing' around 1877 A.D. 'Tejarath Adda'. Fully subscribed by the government was established in Kathmandu. This is the first financial institution of the country. The primary tasks of the 'Tejarath Adda' was granting of loans and safeguarding of total national deposits. At that time Indian currency was commonly used in most part of the Terai. The primary task of 'Tajerath Adda' was to attract deposit in government exchequer at the beginning but letter on general public were also allowed to take the loan at same rate of interest with gold and silver ornaments as securities or collateral. Although this institution did not accept any deposit and had played an important role in development process of banking system in Nepal.

However, the institution of 'Kausi Toshi Khana' as a banking agency during the regime of king Prithavinarayan Shah could also claim to be regarded as the first step toward initiating banking development in Nepal.

So, to eliminate these drawbacks in 1937 A.D. Tajerath Adda was replaced by commercial banks. Nepal Bank Limited, which marked the beginning of a new era in the history of modern banking of Nepal. At the time of Rana Prime minister 'Juddha Shamser', He was established as a semi government bank with the authorized capital of Rs.10 million and the paid of capital 8.42 lakhs, Nepal bank limited, however was controlled by the private shareholders till 1951 A.D. in 1952, HMG/N increased its share ownership in NBL up to 51 percent in the total share capital of bank in order to hold to control over its management.

'Sadar Mulukikhana' started to issue currency notes since 1945 A.D. After that Nepal Rastra Bank as the central bank is established in 14 Baisakh 2013 under Nepal Rastra Bank act 2012. The main objective of NRB is to ensure to facilities and to maintain economic interest of general public for safeguarding the issue of paper money to secure country wise circulation of the Nepalese currency to achieve stable system in its exchange rate and to develop banking system in its exchange rate and to development banking system in the country. Hence, NRB a regulatory body is the banks of the loans, which provides necessary directives to the other bank.

After a long gap, the second commercial bank was established in 1964 A.D. as Rastriya Banijya Bank. With fully government ownership. Its authorized capital of Rs.10 million and paid of capital of Rs.3 million. Of course, the purpose of bank is to provide facilities and help economic welfare of the general public likewise, for the purpose of developing agriculture sector, government established agriculture development bank in 2024 B.S.

When the government adopted liberal and market oriented economic policy in 2041 B.S. Since joint venture commercial banks are welcomed in Nepal in early three joint Venture bank like Nepal Arab Bank Ltd., Nepal Indo-suez Bank (renamed Nepal investment bank), Nepal Grind-lays bnak (renamed Standard chartered bank) limited was established. At present there are seventeen commercial banks in Nepal.

2.5 Regulation of Commercial Banks:

Commercial bank is a profit-making business corporation. "Banking has a strong flavor of Public service about it, hedged about by restrictions imposed by law and supervisory authorities."(*Hand & Kener*, Money, Debt & Economic, 1961)

So they are under the obligation to conduct their affair with an eye to the public interest as well as to their affair with an eye to the public interest as well as to their own Profit. The highly signification difference in the case of the banking industry is of course, that here the pubic interest industry is of course, that here the pubic interest in directly and pervasively involved in a unique way. The behavior of the commercial banks directly impact on the interest of the civil society (i.e. depositors, shareholders, creditors, lenders and other business institution) so to make the favorable impact in whole economy, government agencies should regulate and promote the commercial banks in proper way. the basic objectives of banks are to maintain a safe, efficient, stable and competitive commercial bank system. In the context of Nepal, the formation establishment and operation of commercial banks, rules of game, are mainly governed by company act 1977, commercial bank.

Act 1974, Bonus act 1974 and foreign investment and technology transfer act 1992 as well as other regulatory bodies are NRB, Inland Revenue Department (IRD), Department of commerce.

The Company act is enacted in 1997 to make necessary arrangements for the registration and regulation of Join Stock Companies. It covers procedure of company formation, share and debenture issues, meeting and business managing agent, accounts and records system, audit, winding-up of company etc.

The commercial blank was first promulgated in 1974 to ensure the economic interest and convenience of the pubic to facilitate the supply of credit to agriculture industry and commerce and to make available banking service in the country. There are 54 sections, in which the establishments, board of directors, Share capital, Voting procedures, meeting, functions, prohibitions and restriction, Provision of audit, the power of the Nepal Rastra Banks and the procedure for liquidations are explained.
The bonus act is also enacted in the same year 1974 in relation to the distribution of bonus, to the worker and the employees working in the organization. There are all together 23 sections, 5 of this act stipulate that all profit earning organization have to set a side 10 percent of total profit for employee's bonus.

It is stated in the foreign investment and technology transfer act 1992 that it has expedient to promote foreign investment and technology transfer making the economy viable, dynamic and competitive thought the maximum mobilization of the limited capital, human and the other natural resources. There are 10 sections in the act.

NBR regulation supervisor and monitor the commercial banking activities to get better agree of over all financial stability and to manage more emerged intensive degree of competition. NRB regulate the commercial banks of following main point.

a) Establishment of commercial bank
b) Capital fund.
c) Capital adequacy ratio.
d) Cash reserve ratio.
e) Reserve
f) Directive credit.
g) Branch and counter expansion
h) Single borrower's limit.
i) Interest spread.
j) Loan classification and loan less provisioning

2.6 Profile of concern banks:

2.6.1 Nepal Bangladesh Bank Ltd.:

Introduction:

Nepal Bangladesh Bank Ltd. was established in June 1974 under the company act 1974. NBB Ltd is a Joint Venture banks with IFIC bank Ltd. of Bangladesh. Its head office is situated at New Baneshwore, Bijuli Bazar, Kathamandu.

The Prime objective of the bank is to render banking services to the different sector like industrial, traders, businessman, priority sector, small entrepreneurs and weaker section of the society and every other people who need banking services. During the period of 36 years of its operation, it has accommodated a large number of client and has been able to provide excellent service to its client. With a network of branches and a corporate office, the bank commands the largest network among the Joint Venture commercial banks in Nepal. Now the bank has facilities ATM card, Debit card, Credit card, SMS Banking, And E-Banking.

The promoters and their share holding pattern of Nepal Banglasdesh Bank Ltd are as follow.

IFIC Bank, Bangladesh	50%
General Public	30%
Promoters	20%

Share capital of NB Bank Ltd.:

a) Authorized capital

150,00,000 ordinary share @ Rs. 100 per share Rs 1,500,000,000.

b) Issued capital

100,00,000 ordinary share @ Rs. 100 per share Rs 1,000,000,000

c) Paid-up capital

35,99,245 ordinary share @ Rs. 100 per share Rs 359,924, 500.

Source: Anual Report of Respective Banks

Function of NB Bank:

a) Accepting deposit i.e. current, saving & fixed and call deposit account.
b) Bills discount and purchase.
c) Letter of credit and bank guarantee.
d) Exchange of foreign currency be the way to long term and short term loan.
e) Exchange of foreign currency supported by NRB
f) Transferring fund.

2.6.2 Himalayan Bank Ltd.:

Introduction:

Himalayan bank Ltd. was incorporated in 1992 A.D. by new distinguished business personalities of Nepal is partnership with employee's provident fund and Hibib bank limited one of the largest commercial banks of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal. Whose maximum shares are hold by the Nepalese private sector? Besides commercial banking services.

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

Promoters	51%
Hibib Bank of Pakistan	20%
Karmachari Sanchayokosh	15%
General Public	14%

Share capital of Himalayan Bank Ltd.:

a) Authorized capital

10,000,000 ordinary share @ Rs. 100 per share   Rs. 1,000,000,000.

b) Issued capital

6,500,000 ordinary share @ Rs. 100 per share   Rs 650,000,000

c) Paid up capital

53,62,500 ordinary share @ Rs. 100 per sharers. Rs. 536,250,000.

Source: Annual Report of Respective Banks

Service & function of Himalayan bank Ltd.:

Himalayan bank has always been committed to provide a quality service to its valued customers, with a personal touch. All customers are treated with almost courtesy as valued clients. The bank, where ever possible offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan bank has adopted the latest banking technology. The bank already offers unique services such as SMS banking and internet banking system.

a) Accepting deposit i.e. current, saving fixed and call deposit amount.
b) Bills discount and purchase.
c) Letter of credit and bank guarantee.
d) Exchange of foreign currency supported by NRB.
e) Transferring of fund.
f) Extends of credit facilities by the way of long term and short term loan.

2.6.3 Everest Bank Ltd.

Introduction:

Everest Bank Ltd. is a joint venture commercial bank with Punjab National Bank of India which was establishment is 1993 A.D. Under the company act 1964 and the bank is listed in Nepal stock Exchange Board in 1995 A.D. Its head office is located in New Baneshwore, now Lajimpat Kathmandu. Now the bank has operate it branches in Nepal.

The promotes and their holding pattern of Everst Bank limited are as follows

Promoters	50%
General public	30%
Punjab National Bank	20%

Share capital of Everest Bank Ltd.:

a) Authorized capital Rs. 750,000,000

6,000,000 ordinary share @ Rs. 100 per share

1,500,000 non red. preference share @ Rs. 100 per share

b) Issued capital Rs. 466,800,000

3,168,000 ordinary share @ Rs. 100 per share.

1,500,000 non redeemable per share @ Rs.100 per share

a) Paid up capital Rs181,500,000

315,000 ordinary share @ Rs. 100 per share.

1,500,000 non redeemable per share @ Rs. 100 per share.

Source: Annual Report of Respective Banks

Function Everest Bank Ltd.:

a) Accepting deposit i.e. current deposit saving deposit, fixed and other call deposit amount
b) Exchange of foreign currency supported by NRB.
c) Helps the banking services to import and export business.
d) Bills discount and purchase.

e) Traveler cheque issued and discount.
f) Extend credit facilities by the way of term loan working capital.
g) Letter of credit and bank guarantee.
h) Transferring of fund by other countries.
i) It provides lockers facilities.

2.7 Financial Analysis and appraisal:

The study of financial statement is called financial statement analysis. It helps in evaluating the relationship between different items constituting the financial statement and obtains a better understanding about the financial position and the performance of the firm. Financial analysis is the process of identifying the financial strength and weakness, judging profitability and overall efficiency of a firm. The analysis of financial statement is done to obtain a better insight into a firm's position and performance. The analysis of financial statement is a attempt to determine the significance and meaning full of a financial statement data. So a forecast may be made up the prospects for future earning ability to pay interest and debt maturities (both current and long-term) and probability is a sound dividend policy. Financial analysis is a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of affirms position and performs once. Financial data in the firm of profit and loss account and balance sheet ends and financial appraisal being where financial analysis ends.

Financial analysis is preliminary steps towards the final evaluation of the result drown by the analysis or management account. A complete financial analysis and interpretation of Financial involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired result. Mush can be learnt about business performance and financial performance through and appraisal of financial statement. The appraisal or analysis of financial statement spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in maze of detail. Financial appraisal is process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of business enterprises. It is a technique of x-raying the financial performance as well as process of a concern.

Financial evaluation or appraisal is the end of a continuous accounting cycle, which starts with the classification, recording summarizing presentation and analysis of data ends with the interpretation of result obtained from critical analysis there of by highlighting strength and weakness of the firms.

Hence, financial appraisal or evaluation is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial performance (position) of a given concern through the application of the techniques of financial statement analysis.

2.8 Review of Related studies:

2.8.1 Review of Journals/Articles and Previous Studies:

In this section, Different views expressed by eminent scholar's authors, executives in their publication regarding the operation, function, financial performance, legal provision etc. Nepalese commercial banks have been reviewed.

Murari Raj Sharma (The Nepaliese journal of public Administration july 2003) explains in his article, joint venture banks in Nepal co-existing or crowding out that would be definitely unwishful for Nepal not to let JVBs to operate in the country and not to be take advantage of additional means of resources mobilization as well as harbinger of new era in banking. But it will certain be unfortunate for the country to let the development of the JVBs at the cost of domestic banks. So far, one should admit frankly, no differential treatment has been made to the domestic and joint venture banks, at least from the letters bargaining.

If the JVBs show strength and briskness to come to come forward to share the trails and tribulation of this poor country, both types of banks will collapse and co-exist complementing each other contributing to the nations accelerated development.

M.R. Sharma, On the contrary if the joint venture banks use their strength against treading to the cumbersome path of development along with the domestic banks and government, they will eventually through out the domestic banks from the more profitable and lucrative urban sectors unless reincarnated rein car lasted by the determination of the government.

M.R. Sharma has made a comparative study of two different natures of banks, especially on nature of transaction and expertise in banking network. JVBs basically were orientated in urban areas whereas the local banks are set up and conducted their transaction both in urban and rural areas. More over a number of commercial banks are situated in rural rather than in urban areas.

Rameshwar Yaday, (*2004*), In the business age "The growing trend of consumer banking". Summarizes some newly adopted policy by the commercial banks in favors of consumer while long term investment opportunities remain uncertain in the country, The Nepalese banks are starting to diversity the loans in order to reduce excess liquidity and other financial risks. Nepalese banks are moving towards a new era of banking so that the relatively recent concept of consumer banking is swiftly becoming popular and flourishing among the middle to high level jobholders private companies to corporate houses and national to multi-national companies. The banks are offering all kind of personal as well as commercial facilities. These days, Nepalese banks are coming up with new products and consumer package on a regular basis. They are increasing collaborating with the international banks too, embracing their banking models, learning lesson from their traditional and latest concept and keeping up to the consumers too, Nepalese bank, rapidly expanding their reach through the country are expanding their service hours keeping the customer's convenience in mind.

Govinda Bahadur Thapa (KTM Post 2006) in his articles "Nepal banking system: can on the mess be menaged"?

Stated that the joint venture banks have been earning a huge profit not from fund based lending but from investing outsides. That is why, there banks have been less interested to lending aggressively in the domestic market. Economics activities have slowed down in Nepal for several year years, however, commercial banks have not lowered their lending rate to revitalize the economy.
On the contrary, the commercial banks have been discouraging the deposit to get rid of excess liquidity. And new avenue that is investing aboard has been opened for the commercial banks to earn profit rather then motivating then to invest locally.

This is a big irony that a country, with such a low saving rate and need of unlimited investment in investing huge amount of resources in developed countries and is pilling up international reserves. Therefore, it can be inferred that Nepalese banking system has not been made and motivated to contribute to the promotion of the economic activities in the countries, as it should do.

R.R Bajaracharya (RRB smarika 2007) expressed his view in his article entitled RBB, a comparative performance study, as deposit growth in commercial banks in not consistent. There is slow growth of deposit in local banks as compared to JVBs whereas local banks are better in terms of mobilization of rural saving. In term of credit expansion, joint venture banks are more efficient than the local banks. Credit deposit ratio is better in joint venture bank. The ratio of non-performing local is greater in JVBs. The competition between the local and joint venture banks is not healthier.

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

Sunity Sharetha (2007), "Portfolio behavior of commercial banks in Nepal"

Is readable books to all the students researcher's, bankers, general public etc. this book cover all the aspect of the commercial banks in Nepal, such as introduction of banking system, financial performance of the commercial bank in Nepal, investment operation of commercial bank, portfolio behavior of commercial banks etc.

The authors have concluded about the financial performance of the commercial banks in Nepal as below. Capital adequacy ration reveals that Nepalese banks are below the standard set by NRB. Foreign banks have higher capital adequacy ration but has been declining every year. Debit equity ratios of commercial bank are more then standard. It leads to concluded that the commercial blanks are highly leverage & highly risky. Return on assets of all the banks s how that, most of the time foreign banks have higher return then Nepalese banks. The performances evaluations of different commercial banks show that the local banks have every poor performance and both banks (NBL & NRB) have low capital base and heavy amount of non performing assets. But on the other hand, newly opened foreign based commercial banks have better financial performances then the domestic banks operating under same environment. The reasons behind it lay not only in their financial decision making system, but many other internal factor namely the organization, staffing, work technology, work culture and the attitude of staffs. It has been found that human resources management (HRM) has been the main problem of Nepalese banks and these deficiencies are obviously reflected in their financial performance.

Dr. Manohoar Krishna Shrestha (Karmachari Sanchaya Kosh 2061) has concluded in his article. "Commercial banks comparative performance evolution"

That the JVBs are operationally more efficient then the local commercial banks. The JVBs have achieved better performance by using sophisticated technology and skilled manpower, and providing modern banking facilities whereas local commercial banks have been burdened by the government policy of rural branching and financing public enterprise having no reimbursement capacity. However local commercial banks have competitively out performed the JVBs in term of granting loans to cottage and small industries, local banks have number of loopholes like absence of modern global balance sheets, absence of precise classification of loans and absence of proper development of computer networks. Moreover, local commercial banks have to face various problems from socio-economic, political system on one hand spectrum and that of issue and challenges from JVBs commanding significant banking business on other spectrum.

2.8.2 Review Of Thesis:

As the purpose of this study, the relevant thesis works were completed by the thesis workers regarding the financial aspects of commercial banking sector, especially HBL, NBBL and EBL are captured under the following paragraphs.

Prakash Chandra Parajuli (2005), "A comparative study of the financial performance of joint venture banks in Nepal".

Had set the main objective to evaluate effectiveness of monitoring and collecting policies of banks. The researcher had specialized study on Standard chartar Banks Ltd. and NABIL Ltd. the analysis of liquidity ration reveals that the liquidity position is relatively higher in case of NABIL. As indicated by the activity ratio. NABIL has better performance than SCBL, while might be the consequence of better lending policy of NABIL. Regarding the profitability ratio. Almost of the profitability ratio of SCBL is higher them those of NABIL in percentage, which reveals that SCBL is relatively greater efficiency in mobilizing it's resources. Profitability ratio, which measures the bank's capacity to earn the means of substance, is different in those two banks. During the study time frame, NABIL has better result in respect of Net profit to total assets ration, Net profit to total deposit, return on network, return on assets and Race than NABIL, EPs of SCBL is better then NABIL but DPS, tax per share and divedent payout ratio of NABIL is better then SCBL. Thus it may be conducted that SCBL may have bright future than that of NABIL because it is quite efficient in generating the means of subsistence.

Ganesh Prasad Awasti, (2006) in this thesis paper. "A comparative study on financial performance between HBL and BOKL"

Having the objective to analysis and examine the financial performance, identify the financial position and recommend the suggestion conduct a research. He used the descriptive cum-analytical research design using the financial as well as statistical tools, dated from F/Y 2000/01 to 2004/05. He concluded that liquidity position of both banks were not satisfactory where as liquidity position and efficiency of utilization resources in HBL was relatively better and HBL was more successful to general more return on its shareholders found then and payment of BOKL then HBL and commission and staff expenses constitute higher portion in income and expenses of HBL then BOKL. This HBL has comparatively superior financial performances. He recommended improving current ratio and increasing the investment by total deposit ratio for both banks. to enhance the profitability, idle money should be invested and to reduce finally, for banking development, they have to obey to directive of NRB by establishing its branches in rural region and invest in priority sector.

Bhoj Raj Bohara (2007) "A comparative study of the financial performance of NABIL Bank Ltd. and Nepal Investment Bank Ltd."

The researcher's main objective was to highlight of the function and policies of joint venture banks. The researcher had found the average current ratio, loans and advances to current assets ratio, are higher then NABIL. Although the current assets of there banks are adequate to discharge current liabilities. Almost all profitability ratios of NABIL are better than NIBL, Thus NIBL is adopting more aggressive lending, investment and borrowing policy to generate profit than NABIL. Higher EPS of NABIL than NIBL shows the effective use of NABIL. where equity then NIBL. However, the faster increasing EPS of NIBL indicates the banks' settler performance in the following years. Dividend creates positive attitude of the shareholders towards the enterprises, which consequently helps of increase the market value of the shares and in this thesis, cash dividend per share of NIBL is higher than NABIL.

Surendra Deoja (2007), "A comparative study of the financial performance between Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited"

Analyzed different ratios of NSBL and NBBL for the period of 5 years till fiscal year 2005/06 concludes that liquidity position of these two banks is sound. NBBL has better utilization of resources in income generating activity then NSBL. They are on decreasing trend while interest earn to total assets and return on net worth ratio of NBB is better than NSBL. It seems overall profitability position of NBBL is better then NSBL and both bank highly leveraged.

Genesh Regmi, (2008). "A comparative study of the financial performance of Himalayan Bank Ltd. and Nepal Bangladesh Bank Ltd."

Concludes that HBL is more levered both of there two banks are utilizing their deposit fund through loan and advance to generate efficiency but comparatively NBBL has more non-earning idle assets as cash and bank balance. Profitability position of NBBL is not unsatisfactory one. The bank has shown improvement trend on this regard. NBBL has better financial performance the HBL.

Gopal Prasad Ghimire (2008), "A comparative case study of the financial performance of commercial banks between NBBL, HBL an EBL"

To observe ability to mobilize the resource into investment ability to maintain and manage liquidity, assets, capital structure, efficiency, productive and financial risk. The research objectives were to highlight financial performance to analyze and evaluate liquidity profitability, leverage, activity, trend and growth of loans, investment and total deposit pattern of these banks and finally recommend suggestion for improvement. The research design was descriptive and analytical where both financial and statistical tools we used to analyzed the data. The study was form 2002/03 to 2006/07. He concludes that current ratio of all the banks was below the normal standard even comparatively better in EBL.

*Dharma Rata Maharjan (2009)"*A comparative analysis of financial performance between Nepal Bangladesh Bank Limited and Standard charter Bank Ltd."

Analyzed different ratios of NBBL and SCBL for the period of five years till fiscal year 2009, concludes that liquidity position of two banks are sound. SCBL is unable to meet the normal standard mean. Better utilization of collected fund is significantly high in case of NBBL, investment of NBBL seems highly risky than SCBL. Profitability position of NBBL has endearing trend up to fiscal year 2005 and the stability trend after than whereas SCBL shows fluctuation trend. The overall capital position is better in SBL than that of NBBL, SCBL seems to be in safe side aware form future threat.

Activities ratio revealed that all the banks have been able to utilize the resources satisfactorily. The capital structure of all the banks indicates highly leveraged capital structure return on network was higher in HBL whereas return on total deposit was higher in NBBL. Interest paid to interest income ration of HBL and EBL was in decreasing trends in term of EPS and DPS. HBL was superior to that of two banks. He suggested that improvement of liquidity and leverage position was the must to solvency and financial stability. NRB directives regarding capital adequacy ratio (CAR) should be maintained improvement of efficiency (i.e. deposit mobilization) was required for NBBL and EBL, EBL should pay the dividend to common shareholder. Likewise installed modern banking facilities and fulfillment of social responsibility were recommended.

Although, a number of articles and research works have been published and concluded about commercial banks and JVBs but that are either insufficient or out-dated to broad study on the topic of comparative financial appraise of JVBs. This is the reasons that necessitate the present study.

Chapter-III
Research Methodology

3.1 Introduction

The main objectives of this study are to comparatively evaluate the financial performance of the HBI, NBBL and EBL for comparative evaluation of service activities and tools should be followed. Research methodology describes the methods and process applied in the entire aspects of the study. The research methodologies adopted in this study are mentioned below. The main heading of methodology is research design, population and sample nature and sources of data and tools and techniques of analysis in the study.

3.2 Research Design

Research design refers to the conceptual structure with in which the research is conducted. The study is both descriptive and analysis this study is based on secondary data. Secondary data are collected from their respective annual report, other publication and journals of the related banks published by Nepal Rastra Bank, Nepal stock exchange and other related magazines.

3.3 Sample and Population

At present, 17 commercial banks are in operation in Nepal, out of them three commercial banks (i.e. HBL, NBBL and EBL) are taken from the purpose of the study. Financial statement from 2000 to 2004 has been taken for the purpose of the study.

The samples selected are:

Himalayan Bank Limited.

Nepal Bangladesh Bank Limited.

Everest Bank Limited.

3.4 Nature and Source of Data

The present study is mainly conducted on the basis of secondary data but primary data is also forwarded for attaining the goal of the study when-ever needed. The secondary data are collected from the head office of the respective bank, Nepal Rastra Bank's, website, Nepal stock exchange, specially comparative balance sheet, profit and loss account, income statement, and other publication like books, booklets, journals, periodicals, magazines, banking and financial statistics mid-Jan-2006, and newspaper etc. Similarly, primary data are obtained by performing discussion with the executive of commercial banks, management experts of respective banks.

3.5 Method of Data Analysis

The data were first collected and tabulated into separate tables systematically. The data were tabulated for simple statistical analysis, such as average and percentages and these have been presented and analyzed into descriptive way. Necessary graphs and charts have also been presented to interpret the data. Appropriate tools of financial analysis and statistical tools have been used.

3.6 Financial Analysis

Analysis of financial statement helps to take managerial and financial decision. To make rational decision in line with the objective of the firm, the financial manager must have certain analytical tools to analyze the financial health. The analysis of financial statement is done to obtain a better insight into a firm's position and performance. Analysis of financial statement is a process of evaluating the relation ship between the component parts of the financial statements to obtain better understanding of a firm's position and performance.

According to I.M. Pandey, "Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the item of the balance sheet and the profit and loss account. In the

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

Ratio Analysis

Ratio analysis is very powerful tools of financial analysis, financial ratio help us to find the location of problem. The case of any problems may be determined only after the location of symptoms. A financial ratio is the relationship between accounting figures, expressed mathematically. The term "ratio" refers to the numerical or quantitative relationship between two variables.

There are more then two hundred ratio but all are not applicable in one situation. Western and Brigham have classified ratio into six fundamental types. There are:

Liquidity ratio
Leverage ratio
Activity ratio
Profitability ratio
Growth ratio
Valuation ratio

In the book "Financial Management and Policy" James C. Vanhorn writes about ratio can be grouped into five types:

Liquidity ratio
Debt ratio
Profitability ratio
Coverage ratio
Value ratio

No one ratio given complete information by which the financial condition and performance of a firm can be judge. By analysis a group of ratio, reasonable judgment in this regard can be made. We must be sure to take into account any seasonal character of a business, understanding trend may be assessed only throw a comparison of raw figures and ratio at the same of the year. The technique of

The ratio analysis is a part of the whole process of the analysis of financial statement of any business or industrial concern, especially to take output and credit decisions.

This type of relationship can be expressed by a number of relations that help to about the firm's financial performance.

3.6.1 Liquidity Ratios

Liquidity ratio measurers the firm's ability to meet short-term obligation when due satisfactory liquidity position is one of the distinguishing characteristics of a sound banking system. Poor liquidity position reduces the credit worthiness, customer confidence and finality collapse the bank. Following ratios will be used to measure liquidity position of the bank.

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

3.6.2 Activity Ratios

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

a. Loan and advance to total deposit ratio.
b. Loan and advance to fixed deposit ratio.
c. Loan and advance to total Assets ratio.
d. Short-term investment to total deposit ratio.

3.6.3 Leverage/Capital Structure Ratios

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

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

3.6.4 Profitability Ratios

Profitability ratio is employed to assets the earning performance and operational efficiency of the firm. It indicates the effectiveness of bank management; higher profitability ratio shows the better profit generation capacity ad management excellence and vice-versa. Following ratio are used to identify the profitability position.

a. Return on net worth ratio
b. Return on total assets ratio
c. Return on total ratio
d. Interest earned to total assets ratio

3.6.5 Miscellaneous Ratio

Analysis of bank performance and position from the different angle (i.e. market based, shareholders confidence, divided distribution) are concluded with the help of following ratio.

a. Interest paid to interest income ratio
b. Earning per share
c. Price-earning ratio (P/E) ratio

d. Dividend per share

e. Dividend yield ratio

f. Operating income Analysis

3.7 Statistical Tools

Karl Pearson's co-efficient of correlation measures the intensity of degree o linear relationship between two variables; this has also been used to analyze the data.

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

3.7.1 Probable Error

Probable error of r is very useful tools that interprets the value of r and is worked out as under Karl Pearson's coefficient of correlation.
The above mentioned financial and statistical tools and techniques have been used for this study's.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

The present study has been undertaken with the objectives of making comparative evaluation of the financial performance of the listed commercial banks in Nepal with special reference to HBL, NBBL and EBL, keeping in mind the objectives of the study, relevant data have been tabulated. First and financial performance, Ratio analysis, capital structure and profitability ratio and other have been used.

4.1 Liquidity Ratio

It is an expression of relationship of financial elements expressed by dividing one figure with other. It builds up an objectifying relationship between financial statements. A firm should ensure that it does not suffer from liquidity problem and should ensure that it does not have excess liquidity as will. The failure of company to meet its short term obligation due to insufficient liquidity will result in poor credit worthiness, loss of creditors, confidence or even in legal suits resulting in the closure of the company at the extreme.

A very high degree of Liquidity is also not desirable, as idle assets earn nothing. The firms' funds will be unnecessary tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and insufficient liquidity, liquidity position of HBL, NBBL and EBL are analyzed using following relevant liquidity ratio.

4.1.1 Current Ratio

Current ratio relationship between current assets and current liabilities. The main objectives if computing the ratio is to measure the ability of the firm to meet its short-tern obligations and to provide information about financial strength/solvency of a firm. Current ratio measures by following:

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

All obligations maturing with a year or payable with in the financial year are include in current liabilities. Current liabilities include creditors, Bills payable. Provision for taxation, outstanding accrued expenses short term bank loan, income tax liability and debt maturing in the current year. Current ratio of 2:1 is generally considered satisfactory. This conventional rule is based on the assumption that even if the current assets is decreased by half the firm can easily meet its current obligations.

Table N. 4.1

Current Ratio of Selected Banks

Fig. Rs. in Million

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	CA	CL	times	CA	CL	times	CA	CL	Times
2006	15605.42	15311.04	1.02	7034.51	6945.64	1.01	3334.85	3204.27	1.04
2007	17359.42	18747.46	0.93	9636.94	9358.28	1.03	549.85	4874.79	1.04
2008	14165.33	19433.25	0.73	10727.83	10441.04	1.03	6359.66	6063.87	1.05
2009	16881.45	21899.93	0.77	11345.52	11233.70	1.00	7836.89	7420.73	1.06
20010	18495.86	23030.89	0.88	13758.05	13586.40	1.01	9399.95	8928.24	1.05
Average			0.87			1.02			1.05

Source: Comparative Balance Sheet of Annual Report.

Fig 4.1

Trend Line of Current Ratio

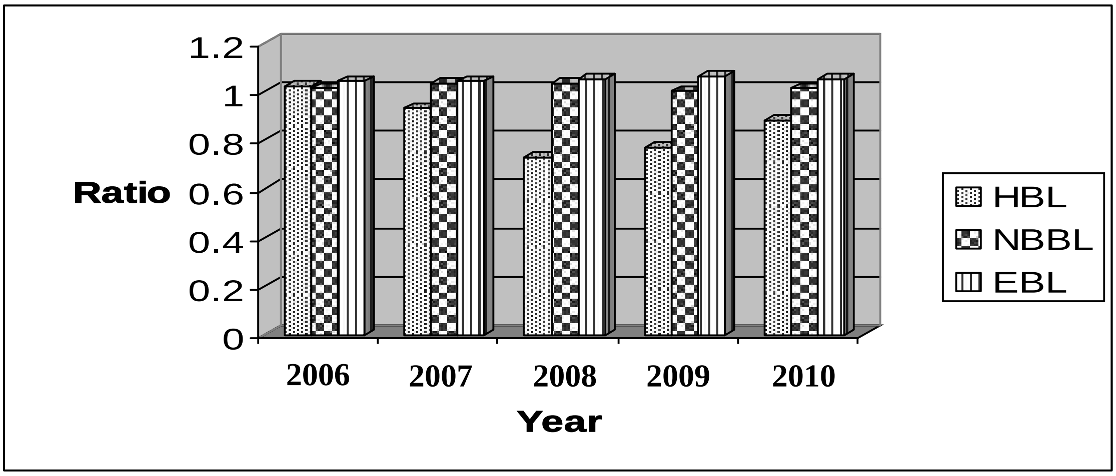


Table 4.1 clearly shows that the current ratios of all the banks are always less then standard ratio (i.e. 2:1) but HBL current ratio is less then one and NBBL and EBL

almost equal to one or some times these current ratios are more than 1, these clearly indicates unsatisfactory liquidity position of all the banks.

More specially, the current ratio of Himalayan Bank limited (HBL) and had ranged between 0.73 to 1.02 times over the study period and average ratio is less than 1 times which indicates low function. Where as in case of NBBL, the ratio is between 1 to 1.03 times over the study period and average ratio is greater then 1. Which indicates normal fluctuation and in case of Everest Bank limited the ratio has ranged between 1.04 to 1.06 times. It is also normal fluctuation but more then NBBL. Comparatively the average ratio of EBL is better than HBL and NBBL.

Thought the current ratio of these banks is below the normal standard (2:1). It can not be concluded that the liquidity position is poor because this ratio is only the ratio of quality but not a test of quantity. A company could be getting into cash problem and still have a strong current ratio, quick ratio is generally used in the banking sector this ratio is called cash and bank balance to total deposit ratio.

4.2.1 Cash and bank balance to total deposits ratio

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

$$\textit{Cash and hand balance to total deposit ratio} = \frac{\textit{Total Cash and Bank Balance}}{\textit{Total Deposit}} \times 100$$

Cash and bank balance including cash in hand foreign currency in hand/cheques and other cash items, balance with domestic bank and balance held aboard the total deposits include current deposit, saving deposits, fixed deposits, money at call short notice and other deposits.

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

The following table and trend line shows the comparative ratio of cash and bank balance to total deposits.

Table N. 4.2

Cash and bank balance to total deposit ratio

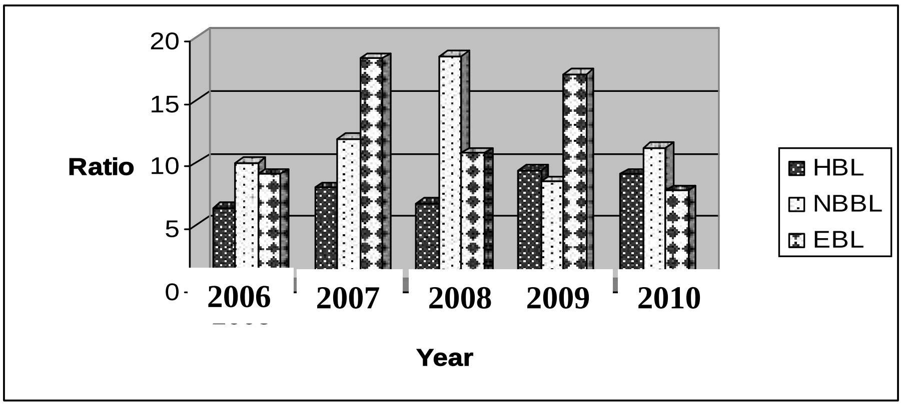
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Bank balance	Total Deposit	%	Bank balance	Total Deposit	%	Bank balance	Total Deposit	%
2006	901.91	14043.10	6.42	645.75	6467.19	9.98	278.6	3057.43	9.10
2007	1435.18	17532.40	8.02	1025.42	8600.81	11.90	834.99	4574.51	18.30
2008	1264.67	18619.37	6.80	1759.31	9514.47	18.50	592.76	5466.61	10.80
2009	1979.21	21007.37	9.42	899.51	10580.65	8.50	1139.57	6694.95	17.03
2010	2001.19	22010.34	9.09	1436.48	121807.3	11.2	631.81	8063.90	7.80
Average			7.95			12.02			12.61

Source: Comparative Balance Sheet of Annual Report.

Fig. 4.2

Trend bar-graph of cash and bank balance to total deposit ratio



The above Table No. 4.2 and trend line shows that cash and bank balance to total deposit of the selected banks. The ratio has fluctuated during the period of study in case of all the banks.
More specially, HBL has the lowest cash and bank balance percentage of all the banks. This ratio of HBL has reached the maximum i.e. 9.42 in fiscal year 2009 and the fiscal year 2010 of the percentage has decrease then fiscal year 2009 but the average ratio is 7.95.

Likewise, the ratio of NBBL has increasing in first two years (i.e. 2006 to 2008). Then the ratio decrease in year 2009 but increase in year 2010, in the fiscal year 2008, it is the highest ratio (i.e. 18.5) it has decrease to the minimum 8.5, but the average ratio is 12.02 percent.

Similarly, the average ratio 12.61 of EBL is higher then HBL and NBBL, the ratio of EBL is highest 18.3% in year 2007 and the lowest ratio is 7.80% in fiscal year 2010.

Thus, it is concluded from the above analysis that cash and bank balance percentage with respect to total deposit in the case of EBL is certainly better than the other two banks i.e. HBL and NBBL. Comparatively in terms of this ratio, NBBL is better than HBL. It clearly shows that cash and bank balance percentage is the lowest in case of HBL.

4.1.3 Fixed Deposit to Total Deposit Ratio

Fixed deposit to total deposits ratio is calculated to major the proportion of fixed deposit in total deposit. High fixed deposit to total deposit ratio indicates high possibility of investment of money in long term investment of money in short term investment.

Fixed deposit is a long term and high interest bearing deposit. More fixed deposit may be an advantage; if it can be invested in long term credit fixed deposit are long-term deposits. So bank can mobilize them on loans and advance this ratio can be computed as follows:

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

Fixed deposit includes only the amount of fixed account, which has fixed time period to mature total deposit included saving, current fixed calla and other deposit.

The Following table and trend bar graph shows the comparative fixed deposit to total deposit ratio.

Table N. 4.3

Fixed Deposit to Total Ratio

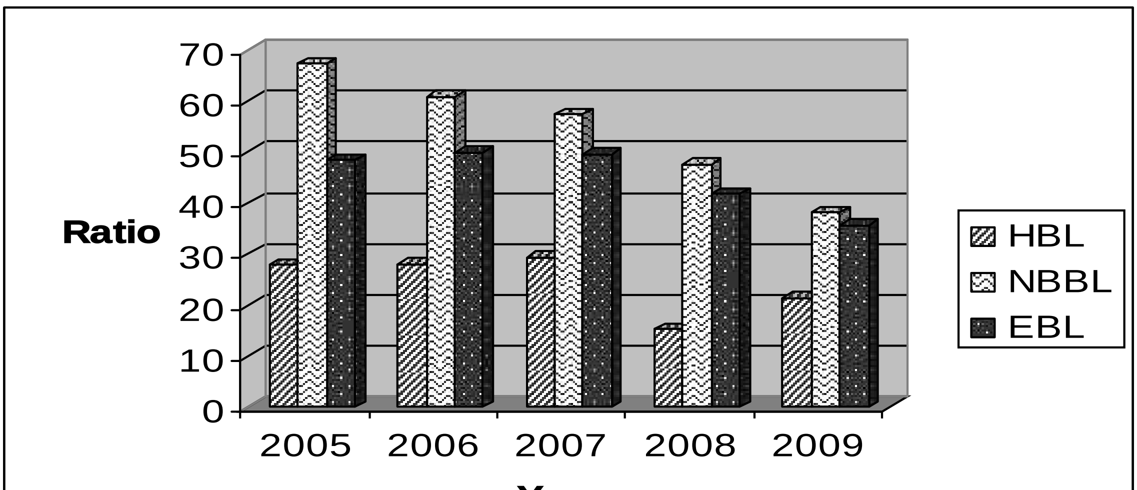
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Fixed deposit	Total Deposit	%	Fixed deposit	Total Deposit	%	Fixed deposit	Total Deposit	%
2006	3917.14	14043.10	27.89	4356.58	6467.19	67.36	1478.89	3057.43	48.37
2007	4927.37	17532.40	28.10	5236.79	8600.81	60.89	2284.64	4574.51	49.94
2008	5480.84	18619.37	29.44	5453.63	9514.47	57.32	2711.58	5466.61	49.60
2009	3205.37	21007.37	15.26	5031.58	10580.65	47.55	2794.74	6694.95	41.74
20010	4710.18	22010.34	21.40	4875.73	12807.3	38.07	2897.96	8063.90	35.71
Average			24.42			54.24			45.07

Source: Comparative Balance Sheet of Respective Banks.

Fig. 4.3

Trend Bar Graph of fixed Deposit to Total Deposit



2006 2007 2008 2009 2010

The above Table No. 4.3 shows that fixed deposit total deposit ratio of the selected three banks. The ratio has fluctuated over the study period.

The ratio of HBL has the lowest fixed deposit ratio out of NBBL and EBL. A first this ratio is increasing in year 2006 to 2008 then decrease. The highest ratio is 29.44 percent in the year 2008 and the lowest ratio is 15.26 percent in the year 2007, average ratio is 24.42 percent.

Similarly, in case of NBBL is the highest fixed deposit percentage of the two banks. The highest ratio is 67.36 percentages in year 2006. Than the fixed deposit ratio is decreasing all the fiscal year till year 2010 and the lowest ratio is 38.07 in fiscal year 2010 and the average ratio is 54.24 percentages.

Likewise the ratio of EBL has been increasing in year 2006 and 2007 then the ratio decrease, in year 2008 to 2010; the average ratio is 45.07 percentages. The EBL is medium (i.e. 45%) the average ratio of NBBL and HBL.

The above analysis shows that NBBL has the highest fixed to total deposit ratio of all. The liquidity position of NBBL is better than that of HBL and EBL.

4.1.4 Saving Deposit to Total Deposit Ratio

Saving deposit to total deposit ratio is calculated to measure the proportion of saving deposit in total deposit. High saving deposit to total deposit ratio indicates low possibility of investment in long-term basis. Generally, short term deposit is now beneficial to the banks. This ratio is calculated as follows:

$$Saving\ deposit\ to\ total\ deposit\ ratio = \frac{Saving\ Deposit}{Total\ Deposit} \times 100$$

Saving deposit is short-term interest bearing deposit, which has medium rate of interest, saving deposit is generally regarded as short-term obligation as it can be with draw, with out prior notice or with short- notice. Therefore lower ratio shows higher short-term liquidity position of the bank. It includes only the amount of saving account. Total deposit includes saving, fixes, current, calls and other deposit.

The following table and trend Pie-Chart show the comparative saving deposit to total deposit ratio of the selected banks.

Table N. 4.4

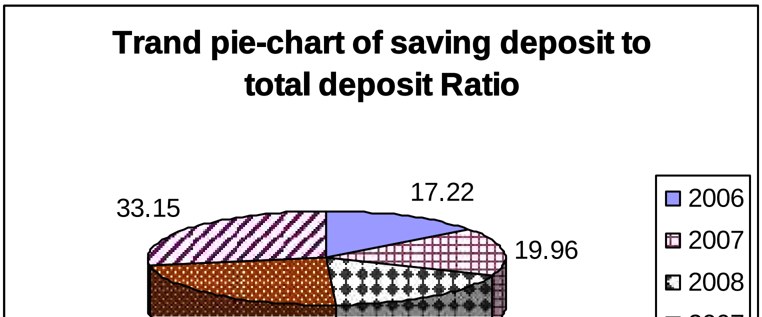
Saving Deposit to Total Deposit Ratio

(Fig. Rs. in Million)

Financial Year	**HBL**		**Ratio**	**NBBL**		**Ratio**	**EBL**		**Ratio**
	Saving deposit	**Total Deposit**	**%**	**Saving deposit**	**Total Deposit**	**%**	**Saving deposit**	**Saving Deposit**	**%**
2006	1113.44	6467.19	17.22	6833.16	14043.10	48.66	891.75	3057.43	29.17
2007	1716.84	8600.81	19.96	2144.47	17532.4	52.16	1384.06	4574.51	30.26
2008	2086.89	9514.47	21.93	9163.95	18619.37	49.22	1735.37	5466.61	31.74
2007	2933.35	10580.65	27.72	10870.54	21007.37	51.75	2757.95	6694.95	41.19
2010	4245.34	12807.3	33.15	11759.60	22010.34	53.43	3730.61	8063.90	46.26
Average			24.00			51.04			35.72

Source: Comparative Balance Sheet of Respective Banks.

Fig. 4.4



The table 4.4 and trend Pie-Chart show that the ratio of saving deposit to total deposit of NBBL is greater then HBL and EBL. NBBL has the highest ratio is 53.43% in the financial year 2010 and lowest ratio is 48.66% in the year 2006. Its average ratio is 51.04%.
Like wise, the ratio of HBL has been continuously rising in the year 2006 to 2010. It has reached the maximum ratio 33.15% in the year 2010. And dropped down to minimum 17.22% in the year 2006. Average saving deposit to total deposit ratio is 24% which is less than of other banks.

Similarly, the ratio of EBL has down continuously rising trend over the study period. It has reached the highest point (i.e. 46.26%) in year 2010 and lowest point (i.e. 29.17%) in year 2006 and the average saving deposit to total deposit ratio is 35.72%.

The average ratio of NBBL has been higher than that of the other two banks. Since the saving deposit is the short-term obligation. It means the liquidity position of NBBL has been better than EBL and HBL respectively.

4.2 Activity/Turnover Ratio

Activity ratio is employed to evaluate the efficiency with which the corporation managers and utilize its assets. In other words this ratio measures the extent to which the banks are successful in mobilizing them for the purpose of profit generation. It reflects the firm's efficiency in utilizing its assets. Thus, it is called utilization ratio too. It is also called Turnover ratio because it indicates the speed of collection of fund and utilization of resource and vice-versa.

So, it measure how properly the firm has employed and managed its resources for realizing its economic goals under this category, the following ratios are computed.

4.2.1 Loan and advanced to total deposit ratio

It measures the extend to which the bank is successful is utilizing the outsider's fund for income generation purpose through loans and advanced it indicates how quickly the total collected deposit it converted into loan and advance. High ratio is the symptom of higher/proper utilization of funds and low ratio is the signal of idle balance of fund it is calculated as follows:

$$\textit{Loan and advance to total deposit ratio} = \frac{\textit{Loan and Advance}}{\textit{Total Deposit}} \times 100$$

Loan and advance, high earning assets includes total sum of loans, advance credit, overdraft, local and foreign bill purchased and discounted, total deposit includes total outsiders funds as deposit or sum of all kind of deposit comparative efficiency evaluation can be shows the based on industrial harms. The table clearly shows the loan and advance to total deposit ratio.

Table N. 4.5

Loan and Advance to Total Deposit Ratio

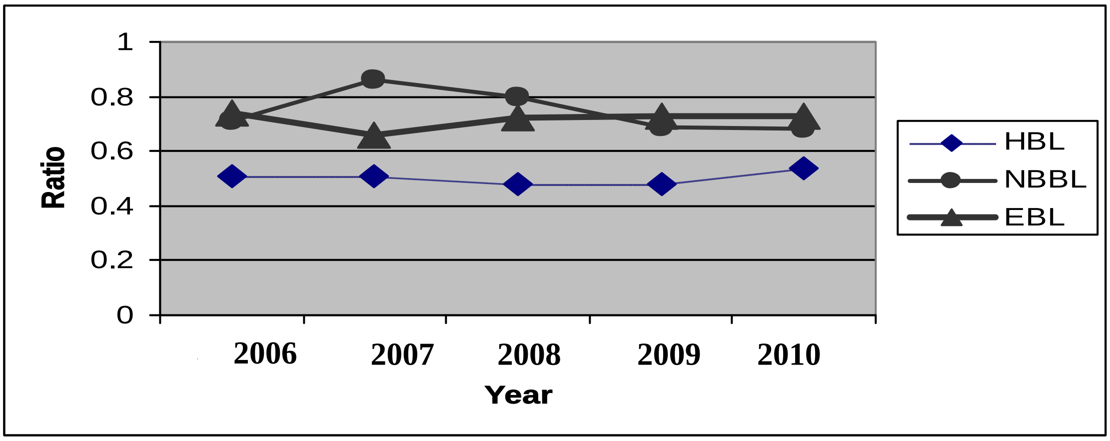
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Loan & advance	Total Deposit	%	Loan & advance	Total Deposit	%	Loan & advance	Total Deposit	%
2006	7224.73	14043.10	51.45	4617.10	6467.19	71.39	2270.18	3057.43	74.25
2007	9015.35	17532.40	51.42	7358.84	8600.81	85.69	3005.76	4574.51	65.70
2008	8913.73	18619.37	47.87	7247.98	9514.47	76.18	3948.48	5466.61	72.22
2007	10001.85	21007.37	47.61	7247.98	10580.65	68.50	4908.46	6694.96	73.31
2010	11951.87	22010.34	54.30	8648.74	12807.3	67.53	5884.12	8063.90	72.97
Average			50.53			73.86			71.69

Source: Comparative balance sheet of respective banks.

Fig.4.5

Trend line of loan and advance to total deposit ratio



The above table and trend line reveals HBL had lower investment in loan and advance & NBBL had higher investment in loan and advance ranged between 0.4761 to 0.5430 percent, (it means the lower ratio is 47.61% and higher ratio 54.30%), which indicates very low ratio. Like wise NBBL had ranged between 67.53 to 85.69 percent.

It means the lower ratio is 67.53% and higher ratio is 86%. This ratio is larger ratio of the other two banks. Similarly, ratio of EBL has ranged between 66% & higher ratio is 74%.

Above analysis help to conclude that NBBL and EBL were more efficiency then HBL in mobilization its total deposit in high return yielding assets but there were a bit more fluctuation than of HBL as depicted by the trend line.

4.2.2 Loan and advance to fixed deposit ratio

This ratio indicates, how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable only after certain date. Hence, the bank must utilize the fixed deposit properly loan and advance to fixed deposit property loan and advance to fixed deposit ratio indicates how property the fixed deposit has been utilized. The ratio is calculated by dividing loan and advance by fixed deposit.

$$\text{Loan and advance to fixed deposit ratio} = \frac{\text{Loan and advance}}{\text{Fixed Deposit}} \times 100$$

Loan and advance indicates total loans, advance, cash credit, overdraft etc. Fixed deposit is that kind of deposit, which has fixed time period to maturity. A high ratio indicates more efficiency in utilized their fixed deposit vice-versa.

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

Table N. 4.6

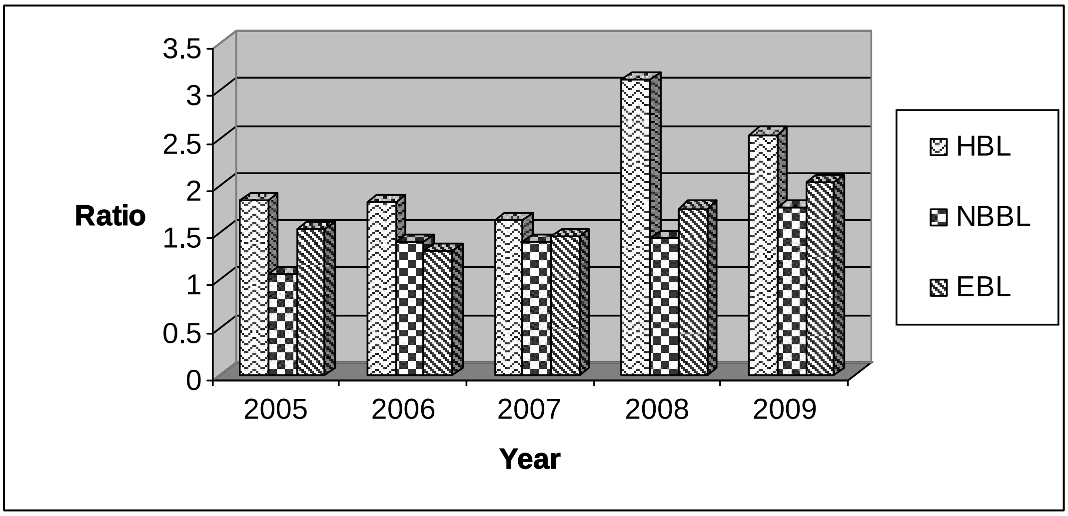
Loan and advance to fixed deposit ratio

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Loan & advance	Fixed deposit	%	Loan & advance	Fixed deposit	%	Loan & advance	Total Deposit	%
2006	7224.73	3914.14	1.84	4617.10	4356.58	1.06	2270.18	1478.89	1.54
2007	9015.00	4927.37	1.83	7358.84	5236.79	1.41	3005.76	2284.64	1.32
2008	8913.73	5480.84	1.63	7632.42	5453.63	1.40	3948.48	2711.58	1.46
2009	10001.85	3205.37	3.12	7247.98	5031.58	1.44	4908.46	2794.74	1.76
2010	11951.87	4710.18	2.54	8648.74	4875.73	1.77	5884.12	2879.96	2.03
Average			2.2			1.4			16

Source: Comparative Balance sheet of respective bank.

Fig. 4.6

Trend Bar Graph of loan and advance to fixed deposit ratio



2006 2007 2008 2009 2010

In case of HBL, the ratio lies between 1.63 to 2.54; it means 1.6 is lower ratio and 2.54 higher ratios so the ratio is larger then other two banks (i.e. NBBL and EBL). It is always more then 100% and in an average it is almost double the fixed deposit.

Like wise, in case of NBBL, it has recovered a increasing trend over the study period. The ratio lies between 1.06 to 1.77% (i.e. 2006 to 2009). It means the higher rate is 1.77 percent and average ratio is 1.4%.

Similarly, in case of EBL the ratio lies between 1.32 and the higher ratio is 2.03 percent. It means, the lower ratio is 1.32 & the higher ratio is 2.03%. The ratio has recorded a trend of gradual down or rise over the study period expect in 2009 years.

Thus, it seems from the table that loan and advance to fixed deposit ratio of HBL is better (i.e. 2.7>1.41, 1.6%).

In other words, all the three banks are able to fixed deposit properly. However HBL seems better in this regard. But only loan and advance to fixed deposit ratio can not measure the efficiency of the banks completely. And it is necessary to calculate loan and advance to total assets ratio.

4.2.3 Loan and Advance to total Assets ratio

It reflect the extended on which the banks are successful in mobilizing their total assets on loans advances for the purpose of income generation. It measures firm's efficiency in mobilizing for converting its assets with regard to loan and advance. As earlier mention, loan and advance are higher interest yielding assets. Higher ratio

$$\frac{\textit{Loan \& advance}}{\textit{Total Assets}} \times 100$$

represents higher efficiency in assets mobilization and vice versa, it is calculated as follows:

Loan and advance to total assets ratio=

Loan and advance includes total sum of loans, advances, credit overdraft, local and foreign bill purchase and discounted, total assets includes cash at bank, loan and advance, investment on share, mise. assets, fixed assets and other assets.

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

The following table displays the loans & advance to total assets ratio.

Table N. 4.7

Loan & advance to total assets ratio

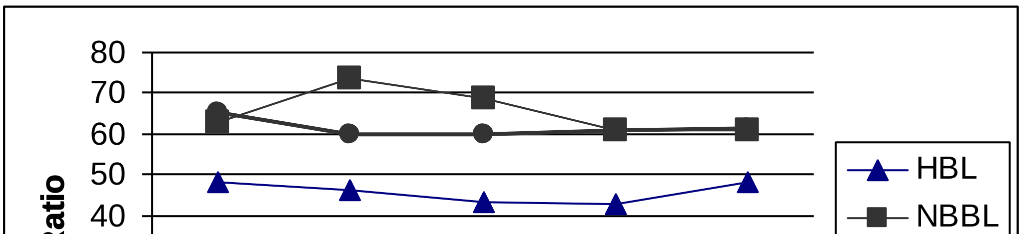
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Loan & advance	Total Assets	%	Loan & advance	Total Assets	%	Loan & advance	Total Assets	%
2006	7224.73	15863.74	48.26	4617.10	7447.23	62.84	2270.18	3471.70	65.39
2007	9015.35	19500.58	46.23	7358.84	9962.69	73.86	3005.76	5202.58	59.76
2008	8913.73	20672.45	43.12	7632.42	11102.24	68.75	3948.48	6607.18	59.76
2009	10001.85	23355.23	42.82	7247.98	11932.60	60.74	4908.46	8052.20	60.96
2010	11951.87	24762.04	48.26	8648.74	14257.0	60.66	5884.12	9608.56	61.13
Average			45.74			65.37			61.002

Source: Comparative Balance Sheet of Respected Bank.

Fig. 4.7

Trend line of loan & advance to total assets



2006 2007 2008 2009 2010

In case of HBL, the ratio had ranged between 42.82 to 48.26 percentages and the average ratio is 45.74 percentages. It is les then NBBL & EBL. Thus, indicates the mobility to this bank is maximally utilizing the assets.

In case of NBBL, the ratio has an increasing in first three year after then decreasing in the study period. The average ratio being 65 percentages, which is the highest ratio among the banks.

Similarly in case if EBL, the ratio has decrease first two year after the ratio has ranged between 58 to 66 percentage and average ratio being 61 percentage.

Thus, it seems that NBBL has comparatively successful then the other two (HBL & EBL) banks in terms of utilization of total assets.

4.2.4 Short-term Investment to Total Deposit Ratio

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

Short-term investment to total deposit ratio has calculated by applying this formula:

$$\textit{Short-term investment to total deposit ratio} = \frac{\textit{Short-term investment}}{\textit{Total deposit}}$$

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

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

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

Table N. 4.8

Short-term investment to total deposit ratio

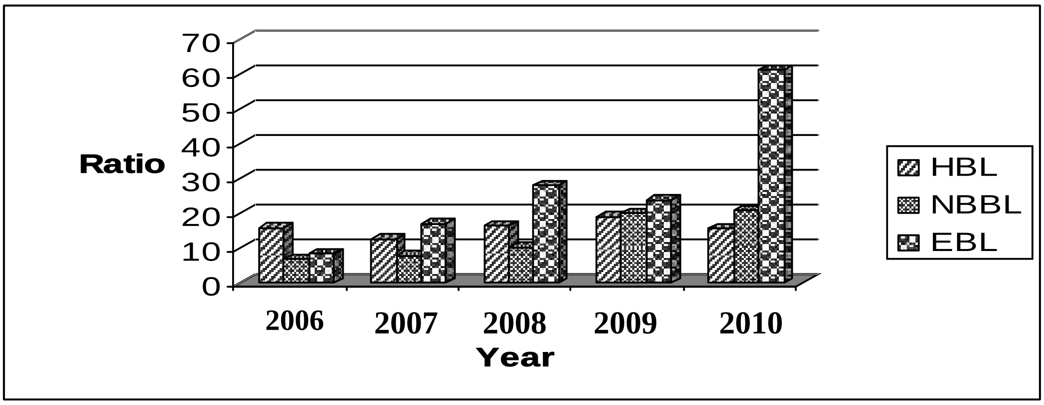
(Fig. Rs. in million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Investment	Total Assets	%	Investment	Total Assets	%	Investment	Total Assets	%
2006	2206.92	14043.10	15.75	443.55	6467.19	6.85	257.61	3057.43	8.40
2007	2224.3	17532.40	12.69	676.06	8600.81	7.86	823.00	4574.51	17.10
2008	3047.75	18619.37	16.37	970.23	9514.47	10.20	1538.90	5466.61	28.0
2009	3998.87	21007.37	19.04	2130.51	10580.65	20.10	1599.35	6694.95	23.9
2010	3431.73	22010.34	15.60	2660.75	12807.30	20.8	2466.43	8063.90	30.58
Average			15.90			13.16			21.60

Source: Comparative Balance Sheet of respective Banks.

Fig. 4.8

Trend Bar graph of short-term investment to total deposit



In case of HBL, the ratio has ranged between 12.69 to 19.04, it means the lower ratio is 12.69% and highest ratio is 19.04. The ratio trend lies constantly high or low in the study period. And the average ratio is 15.9%. The ratio is greater then NBBL and lower then EBL.

In case of NBBL, the ratio has ranged 6.85 to 20.8% in the study period and the average ratio is 13.16%. This ratio is lower other sample banks. This bank invests gradually high in the financial year 2006 to 2009.

Similarly, in case of EBL, the ratio has ranged between 8.4 to 30.58 percent and the average ratio is 21.6 percent. The average ratio is greater then NBL and HBL. The investment trend in increasing pattern accepts in 2008.

From the above analysis, the size of investment with total deposit has increased of all the sample bank. Increased security problem of the ratio may be cause of the incensement of short-term investment of the banks. EBL has ahead in utilizing of its resources (deposits) on investment. But only investment to total deposit ratio can't measures the efficiency of the banks, so loan and advance to total deposit ratio is analyze previously, which indicates the efficiency of banks in investing in high interest yielding assets. Trend line depicts the acceleration of investment to total deposit ratio.

4.3 Leverage Ratio

Leverage ratio is computed to measure the financial risk and the firm's ability of using debt of the benefit of shareholder. Leverage ratio also known as **Capital Structure Ratio,** indicates proportionate relationship between debt and equity. Leverage is concerned with the long term solvency of the banks and shows the proportion of outsiders fund and shareholders fund of the bank. It provides information about the banks ability to cover all the obligation, margin of safety offered to the creditors, extent of control of the shareholder over the banks and potential earning from the loan funds, when the organizations are able to generative for outsiders fund, debt financing will be better from the shareholders prospective and vice-versa.

The firm has a legal obligation to pay interest to debt holder or losses incurred by the firm. Second use of debt is advantageous for shareholders in two ways.

(a) They can retain control over firm with the limited stake.

(b) Their earning will be magnified i.e. when the firm earns a rate of return on total capital employed higher debt financing in result in higher return of equity.

However, leverage can work in opposite direction as will if the cost of debt is higher then the firms over all rate of return the earning of shareholders will be reduced in addition, there is a threat of insolvency too. The financial leverage ratios are used following ratio.

4.3.1 Debt-Equity Ratio

The appropriate ratio of debt to equity varies according to the nature of the business and the volatility of cash flows. This ratio brings out the ratio between total debt and equity funds it is determine to measure the firms obligation to total creditors in relation ship to the funds invested by the owners.

Total debt to total equity can compute by using the following formula:

$$\text{Debt to equity ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Total debt refers to current liabilities, short-term loan, bills payable, tax prevision, staff bonus, divided payable and other current liabilities and total equity includes share capital, reverse (general capital, exchange fluctuation and the like inappropriate profit). This measure tells us the relative importance of debt in the capital structure. The ratio computed here has been based on book value figures, it is some times useful to calculate this ratio using market values us.

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

Similarly a very low debt to equity ratio is also unfavorable from the shareholders points of view as it affects their profitability. They want this ratio to be high, so that they can get more profit with less capital employed of debt in the business is considered beneficial when the interest are less then the overall return and vice-versa. The following table displays the debt to equity ratio of the selected banks.

Table N. 4.9

Debt to equity ratio

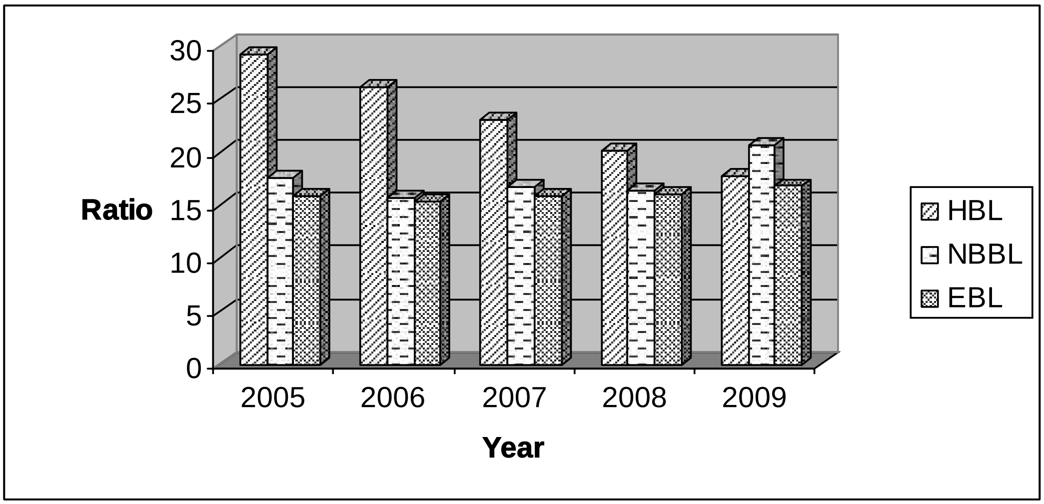
(Fig. Rs. in million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	T. Debt	T.Equity	Times	T. Debt	T.Equity	Times	T. Debt	T.Equity	Times
2006	15337.69	526.05	29.16	6950.62	396.59	17.5	320.86	202.85	15.82
2007	18779.98	720.59	26.06	9367.57	595.12	15.74	4883.18	319.40	15.29
2008	13814.32	858.11	23.09	10475.74	626.49	16.7	6216.27	390.91	15.9
2009	22292.09	1063.13	20.10	11248.69	683.92	16.4	7579.37	472.83	16.03
2010	23437.87	1324.17	17.7	13601.39	656.57	20.7	9068.24	540.33	16.78
Average			23.22			17.4			15.96

Source: Comparative Balance Sheet of respective Banks.

Fig. 4.9

Trend Bar graph of Debt-equity ratio



2006 2007 2008 2009 2010

Comparatively the debt to equity ratio of HBL is the higher then of all and in an average 23.22 times equity funds has been the amount of debt financing which is very high in normal cases but being the banks business. This ratio cannot be considered to dangerous.

In general debt to equity ratio of three sample banks have not fluctuated widely as long as these banks are able to pay their current liabilities and long range debts well in time, such high capital structure is not a problem and can be accepted as normal. The interview with the concerned authority rebels that these banks have not faced problem of debts payment so high leveraged of these banks can be considered they strength rather than their weakness.

4.3.2 Total Debt to Total Assets Ratio

It reflects the financial contribution of the outsiders to the assets of the firm. It measures the financial securities to the outsiders. It helps to judge whether the firm has adopted aggressive or conservative financing policy. Higher ratio (aggressive financing policy) implies a bank is success in exploiting debt to be more profitably but it is also implies riskier capital structure and vice versa. The ratio is calculated by dividing total debt by total assets.

$$\textit{Total debt to total assets ratio} = \frac{\textit{Total Debt}}{\textit{Total Assets}} \times 100$$

Total debt includes short-term loan all kinds of deposits, bill payables, tax provision, staff bonus and other liabilities. Similarly total assets includes cash and bank balance, fix assets investment, loan and advance, bill purchased and discounted likely other misc. assets etc.

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

The ratio of 1.2 is considered to be satisfactory. The table 4.10 shows the total debt to total assets ratio.

Table N. 4.10

Total Deposit Assets Ratio

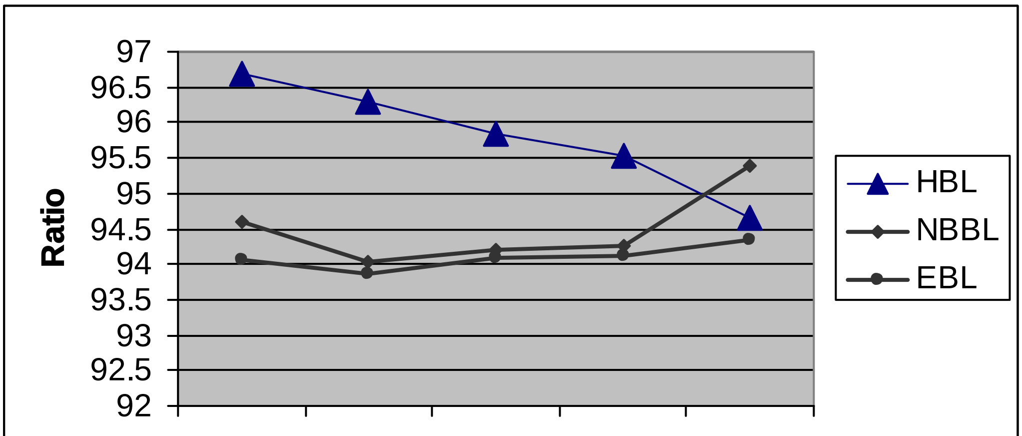
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	T. Debt	T.Equity	Times	T. Debt	T.Equity	Times	T. Debt	T.Equity	Times
2006	15337.69	15863.74	96.68	6950.62	7347.23	94.6	3208.86	3411.70	94.05
2007	18779.98	19500.58	96.30	9367.57	9962.69	94.03	4883.18	5202.58	93.87
2008	13814.32	20672.45	95.85	10475.74	11102.24	94.20	6216.27	6607.18	94.08
2009	22292.09	23355.23	95.54	11248.69	11932.60	94.27	7579.37	8052.20	94.13
2010	23437.87	24762.04	94.65	13601.39	14257.00	95.40	9068.24	9608.56	94.34
Average			95.80			94.50			94.1

Source: Comparative Balance Sheet of Respective Banks.

Fig. 4.10

Trend Line of Total Debt to Total Assets



2006 2007 2008 2009 2010

From table 4.10 and figure 4.10, it shows its such debt financing constitute major portion in total assets of all banks and similar pattern in trend line.

More specially, the ratio of HBL has ranged between 94.65 to 96.68 and average ratio is 95.8. The ratio of HBL is decreasing trend over the study period and the rate is approximate 1:1 times.

In case of NBBL it had ranged from 94.03 to 95.40 and average ratio is 94.50. The ratio is approximate 1:1 times.
Similarly, in case of HBL it had ranged from 93.37 to 94.37 and the average ratio is 94.10 but the ratio has constant over the study period and the average rate is 1:1 times.

From the above analysis, the table and trend line clearly indicates that these rates in all the three banks are almost constant i.e. 1:1 times through out the study period of course there are some in significant variations compared do the standard of 1:2, this ratio indicates high leverage ness in case of all the three banks i.e. more debt capital has been used then it is reasonable. It may be concluded from the above analysis that debts to assets ratio of these banks aren't much satisfactory because the ratio 1:2 times where is considered satisfactory has not been maintained like either of the banks.

4.3.3 Long Term Debt to Total Assets Ratio

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

The ratio of 1:1 is considered to be satisfactory in term of modern banking customary, total long-term debt to total assets ratio computed by using the following formula.

$$\textit{Long term debt to total assets ratio} = \frac{\textit{Long term debt}}{\textit{Total Assets}}$$

Long term debit includes fixed deposit and loan from banks and total assets (working funds) include all the amounts of right side of balance sheet.

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

Table N. 4.11

Long -Term Debt to Total Assets Ratio

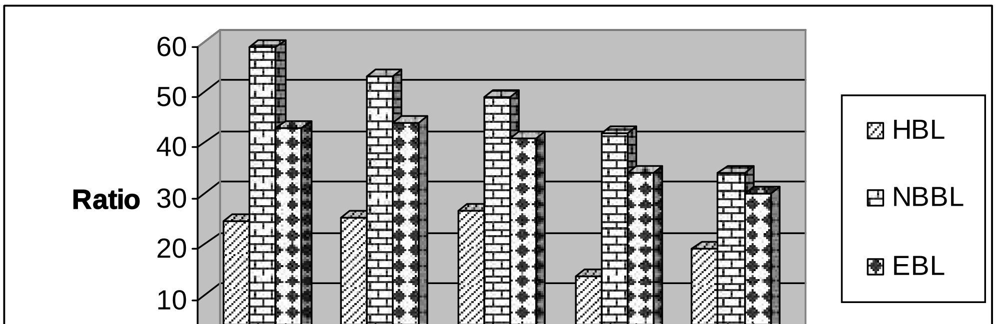
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Long term debt	Total Assets	%	Long term debt	Total Assets	%	Long term debt	Total Assets	%
2006	3917.14	15863.74	24.69	4356.58	7347.23	59.00	147889	3411.70	43.00
2007	4927.37	195.58	25.27	5236.79	9962.69	53.00	2284.64	5202.58	44.00
2008	5480.84	20672.45	26.5	5453.63	11102.24	49.00	2711.58	6607.18	41.00
2009	3205.37	23355.23	13.7	5031.58	11932.60	42.00	2794.74	8052.20	34.00
2010	4710.18	24762.4	19.00	4875.73	14257.0	34.00	2897.96	9608.56	30.00
Average			22.00			47.00			38.00

Source: Comparative Balance Sheet of Selected Bank.

Fig. No. 4.11

Trend Bar Graph of long-term to total assets ratio



2006 2007 2008 2009 2010

More especially the ratio of HBL has ranged between 13.7 to 26.5 percent and average ratio has 22 percent. But the ratio trend has decreasing over the study period.

In case of NBBL, the ratio has ranged between 34 to 59 percentages and the average ratio has 47 percent. The ratio too has been also decreasing over the study period.

Similarly, in case of EBL, the ratio ranged between 30 to 43 percentages & the average ratio has 38 percent. The ratio and trend line has been also decreasing over the study period.

From the above analysis, the table and bar graph clearly indicates that all the selected banks ratios has slightly fluctuated on the study period and the average ratio highest ratio is lies the NBBL (i.e. 47%) but the NBBL ratio does not satisfactory (i.e. 1.5%) on the standard major of 1:1 times.

At last, the selected banks are not satisfied in over the study period.

4.3.4 Capital Adequacy Ratio

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

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

Bank has been directed to meet any short fail in capital adequacy ratio by transferring part of profit to general reserve and there by increasing equity fund. Capital adequacy ratio computed by using the following formula.

$$\textit{Capital adequacy ratio} = \frac{\textit{Capital Fund}}{\textit{Total Deposit}}$$

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

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

Table N. 4.12

Capital Adequacy Ratio

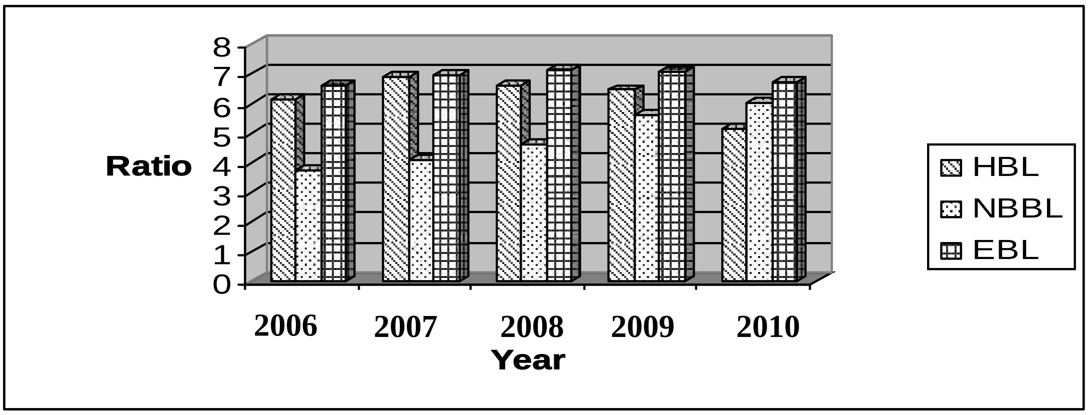
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Capital Fund	Total Deposit	%	Capital Fund	Total Deposit	%	Capital Fund	Total Deposit	%
2006	396.59	6467.19	6.13	526.05	14043.10	3.75	202.85	3057.43	6.63
2007	595.12	8600.81	6.92	720.59	17532.40	4.11	319.40	4574.51	6.98
2008	626.49	9514.47	6.58	858.11	18619.37	4.6	390.91	5466.61	7.15
2009	683.92	10580.65	6.46	1063.13	21007.37	5.6	472.83	6694.94	7.06
2010	656.57	12807.3	5.13	1324.17	22010.34	6.02	540.33	8063.90	6.7
Average			6.2			4.80			6.90

Source: Comparative Balance Sheet of Selected Bank.

Table No. 4.12

Bar-Graph of Capital Adequacy



In case of HBL, the ratio has been increasing trend over the study period. The average ratio rate is 4.80.The average ratio less then EBL and NBBL Banks. This bank has been unable to balance the capital adequacy ratio i.e. 8 present as prescribed by Nepal Rastra bank as the maximum adequacy ratio of this banks is 6.02 percent.

Incase of NBBL, it has not been able to maintain the prescribed capital adequacy ratio, as the highest ratio is 6.92 percent and this ratio has not adopted any particular trend over the study period.

Regarding to EBL, it has also not been able to maintain the prescribed capital adequacy ratio as the highest ratio is 7.15 percent and this ratio also has not adopted any particular trend over the period.

It can be concluded from the above analysis that capital adequacy ratio is 7.15 percent. It is approximate 18 percent but the ratio is high other sample selected banks.

4.3.5 Net worth to total assets ratio

It measures the proportion of shareholders fund in total assets. The higher ratio indicates higher contribution of shareholders contribution assure the depositors & creditor for the repayment of their due. This ratio is calculated as following:

$$\textit{Net worth to total assets ratio} = \frac{\textit{Net Worth}}{\textit{Total}} \times 100$$

Net worth refers to paid-up capital, share premium, non- redeem able performance share general reserve surplus and other reserves. Total assets include case at vault, cash at bank money at call and short notice investment loan & advance bill purchased & discounted fixed and other assets. Standard ratio between net worth to total assets is varies according to the nature of industries. In banking business it can be judged in industrial norms. The following table & trend line displays the ratio of all.

Table N. 4.13

Net worth to Total Assets Ratio

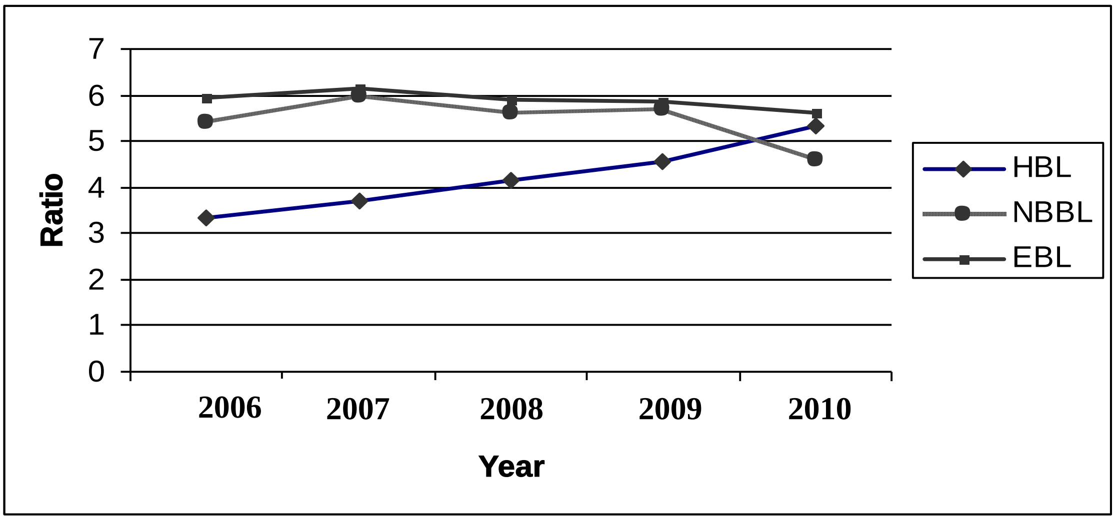
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	Net worth	Total Assets	%	Net worth	Total Assets	%	Net worth	Total Assets	%
2006	526.05	15863.74	3.32	396.89	7347.23	5.4	202.85	3411.70	5.95
2007	720.59	19500.58	3.7	595.12	9962.69	5.97	319.40	5202.58	6.14
2008	858.11	20672.45	4.15	626.49	11102.24	5.6	390.91	6607.18	5.92
2009	1063.13	23355.23	4.55	683.92	11932.6	5.7	472.83	8052.2	5.87
2010	1324.27	24762.04	5.35	656.57	14257.0	4.6	540.33	9608.56	5.6
Average			4.20			5.45			5.90

Source: Comparative Balance Sheet of Selected Bank.

Fig. No. 4.13

Trend Line of net worth to total assets ratio



In case of HBL, the ratio has been slightly increasing over the study period and the average ratio is 4.05 percent. But the NBBL ratio has been more or less constant over the study period. It has reached maximum percentage 5.97 in year 2006 then the ratio has been decreasing in year 2009. The average ratio is 5.45 percent.

Similarly in case of EBL, it is maintained maximum ratio over the study period then HBL and NBBL and the average ratio is 5.90 percent and the ratio has maximum (i.e. 5.97 percent) in 2006.
Thus, it has been concluded from the above analysis that EBL has less uniform than other and they have been also able to perform well ever with a low capital base as compared to EBL.

4.4 Profitability Ratio

Profitability ratio is calculated to measure the earning performance and operational efficiency of the banks a service business institution so that primary objective of the banks are to earn maximum profit. Moreover the private commercial banks, JVBs in particular are specially concentrating in profit so they serve in profit generating sector. A desired level of profit is essential for the banks growth and survival in the competitive environment. The profitability ratio, main financial indicator, gives answer to now efficiency the bank is being managed. The aim of the study is to comparatively evaluate the financial position so better profitability position. Besides the management of the firm, Creditors want to get reasonable rate of staff bonus. This is possibly only when the company earns enough profits.

Generally, two major types of profitability ratio are calculated.
a) Profitability in relation to sales.
b) Profitability in relation to investment.

Together there rations indicate the firms efficiency of operation.

4.4.1 Return on net worth

Return on net worth reflect show wall the firm has used there sources of the owners in fact this ratio is one of the most important relationship in financial analysis. The earning of satisfactory return is the most desirable objectives of business as common or ordinary shareholders are entitled to the residual profits. Though the rate of dividend is not fixed, the earning may be distributed to shareholders or retained in the business. Nevertheless, the net profit after taxes represents the return.

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

$$\text{Return on Equity} = \frac{NPAT}{NET\ Worth}$$

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

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

The following table and bar graph exhibit the total equity ratio of the banks.

Table N. 4.14

Return on net worth

(Fig. Rs. in Million)

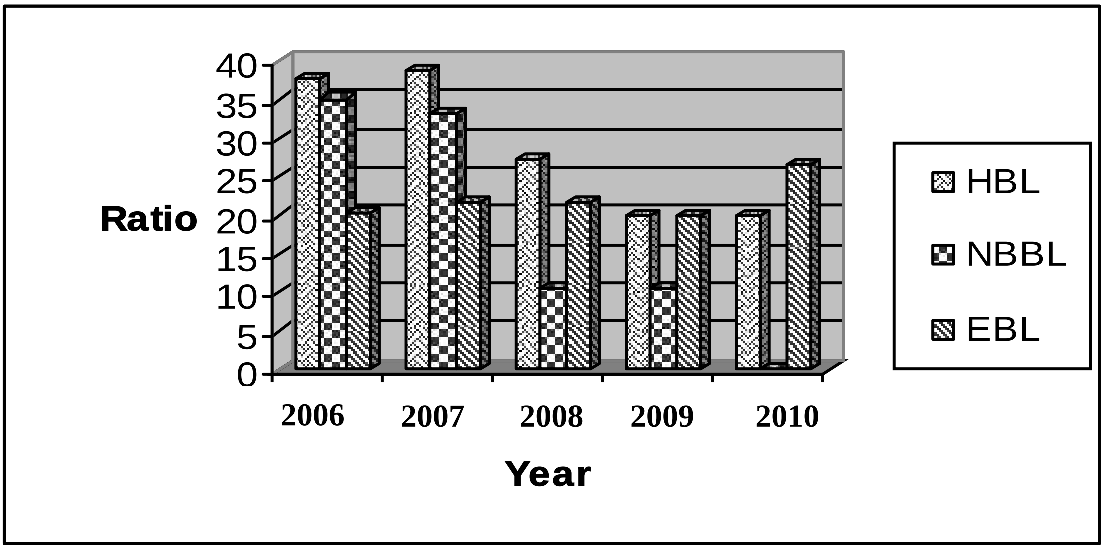
Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	NPAT	Net worth	%	NPAT	Net worth	%	NPAT	Net worth	%

2006	199.38	526.05	37.9	139.53	396.59	35.18	41.27	202.85	20.35
2007	280.69	720.59	38.98	198.75	595.12	33.40	69.70	319.40	21.82
2008	235.02	858.11	27.39	65.78	626.49	10.5	85.33	390.91	21.83
2009	212.12	1063.13	19.95	71.51	683.92	10.47	94.17	472.83	19.91
2010	263.05	1324.17	19.87	2.65	656.57	0.004	143.57	540.33	26.57
Average			28.8			17.90			22.00

Source: Comparative Balance Sheet & Profit &Loss account of respected bank.

Table No. 4.14

Bar Graph of Return on net worth



Incase of HBL, the ratio has ranged between 19.87 to 38.95 percent. It has been decreasing over the study period out of fiscal year 2006 and average ratio is 28.81% the bar graph also decrease.

But in case of NBBL, the ratio has range between 0.4 to 35.18%. But the average ratio has 17.90%. The ratio and bar graph has been decreasing gradually over the study period.

And in case of EBL, the ratio has ranged between 19.91 to 26.57% and an average ratio is 22%. The bar graph is show that the ratio is some what improving over the study period out of year 2008. Thus if may be concluded from the above analysis that net return on net worth ratio HBL is better then NBBL & EBL.

4.4.2 Return on total assets ratio (ROA)

Return on total assets explains the contribution of assets to generation net profit. This ratio indicates efficiency to word of assets mobilization. In others words return o total assets ratio is an overall profitability ratio, which measures earning power and over all operation efficiency of a firm. This ratio is a good measure of earning power as much as it is an extension of the input output analysis. There ratio also help the management in identifying the factor that have a bearing an overall performance of the firm.

Ratio a total amounts is calculated by calculated by dividing net profit after tax (NPAT) by total assets of the company.

$$Return\ on\ total\ assets\ ratio = \frac{NPAT}{Total\ Assets} \times 100$$

NPAT refer to net after tax and interest as per profit and loss account and total assets refer to the total assets as per balance sheet. High return a total assets indicate the higher efficiency in the affiliation total assets and vice-versa.

Table N. 4.15

Return a total assets ratio

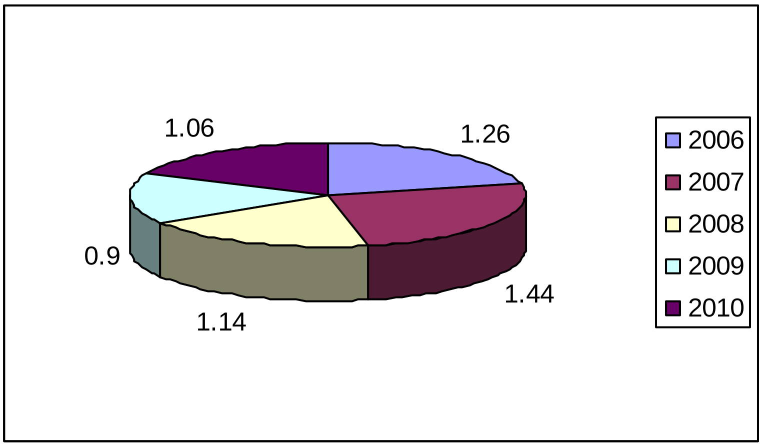
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	NPAT	Total Assets	%	NPAT	Total Assets	%	NPAT	Total Assets	%
2006	199.38	15863.74	1.26	139.53	7347.23	1.90	41.27	3411.70	1.21
2007	280.69	19500.58	1.44	198.75	9962.69	2.0	69.70	5202.85	1.35
2008	235.02	20672.45	1.14	65.78	11102.24	0.5	85.33	6607.18	1.29
2009	212.12	23355.23	0.9	71.51	11932.60	0.6	94.17	8052.20	1.17
2010	263.05	24762.04	1.06	2.63	14257.0	0.01	143.57	9608.56	1.50
Average			1.16			1.02			1.30

Source: Comparative Balance Sheet & Profit & Loss account of respective banks.

Fig. 4.15

Pie-Chart of Return on Total Assets



More specially, in case of HBL, the ratio has ranged between 0.9 to 1.44% and the average ratio is 1.16%. The ratio has been continuously decreasing expect in financial year 2006.

In case of NBBL, the ratio has ranged between 1.01 to 2.00 percent and the average ratio is 1.00 t0 2.00 percent. The ratio has been continuously decreasing expect in financial year 2006.

Similarly, in case of EBL it has been continuously increasing over the stud period, it has ranged between 1.17 to 1.50% and average ratio is 1.30. It is a highly ratio then HBL & NBBL.

In above analysis, the ratio has been about 1 percentage so. However the performances of the assets also determine the ability to generate profit. Moreover EBL seems to have invested found in more productive sector. But this measure does not fully explain the efficiency by which resources has been utilized. Some time this ratio may be low but shareholders are enjoying lost of profit. So another ratio neds to be analyzed i.e. return on total deposit ration.

4.4.3 Return on Total Deposit ratio

Return in total deposit ratio measure how efficiency the deposit has been mobilized. It reveals the relationship between net profit after tax and total deposit, an explanation of the ability of management in efficiency utilization of deposit. The ratio is calculated as:

$$\text{Return a total deposit ratio} = \frac{NPAT}{\text{Total deposit}} \times 100$$

NPAT refers net profit after tax and interest. A deposit refers to fixed deposit. Saving deposit and current deposit as exhibited in balance sheet of the banks. The ratio is a mirror of banks overall financing performance, deposit are outsiders. A capital fund that entails paying fixed interest, this affects NPAT ultimately.

Shareholders, depositors and management are concerned with this ratio. This ratio and bar graph is tabulated below.

Table N. 4.16

Return on total deposit ratio

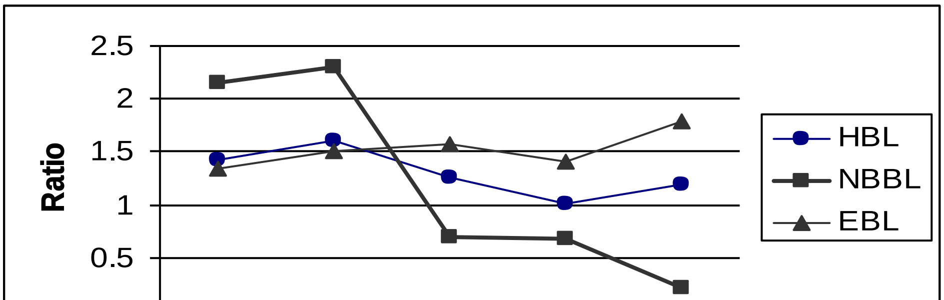
(Fig. Rs. in Million)

Financial Year	HBL		Ratio	NBBL		Ratio	EBL		Ratio
	NPAT	Total Deposit	%	NPAT	Total Deposit	%	NPAT	Total Deposit	%
2006	199.38	14043.10	1.42	139.53	6467.19	2.16	41.27	3057.43	1.34
2007	280.69	17532.40	1.60	198.75	8600.81	2.3	69.70	4574.51	1.5
2008	235.02	18619.37	1.26	65.78	9514.47	0.69	85.33	5466.61	1.57
2009	212.12	21007.37	1.009	71.51	10580.65	0.675	94.17	6694.90	1.4
2010	263.05	22010.34	1.2	2.65	12807.3	0.21	143.57	806.94	1.78
Average			1.3			1.21			1.5

Source: Balance Sheet & Profit & Loss account of related banks.

Fig. 4.16

Trend line of return on total deposit ratio



2006 2007 2008 2009 2010

In case of HBL, the ratio has ranged between 1.009 to 1.6 percent and average ratio is 1.30%. The trend line also shows that ratio is high and falls over the study period.

But in case of NBBL, the ratio has ranged between 0.21 to 2.30 percentage and average ratio is 1.21 percent over the study period. It is the lowest ratio of the HBL & EBL. The ratio and trend line has been decreasing trend.

Similarly, in case of EBL, the ratio has ranged between 1.34 to 1.78 percent and the average ratio is 1.50 percent. It is the highest ratio of the HBL and NBBL. The ratio and trend line also shows the increasing trend accepts in year 2009.

It may be concluded from the above analysis that it term of return on total deposit ratio. EBL is doing better comparatively.

4.4.4 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilization the assets in the bank. Interest occupies significant place of income for the banks. Generally banks earn interest through the provision of loans and advance over drafts and investment in securities.

Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice versa. The ratio is calculated as:

$$\frac{\textit{Interest Earned}}{\textit{Total Assets}}$$

Interest earned total assets ration =

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

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

Table N. 4.17

Interest Earned to Total

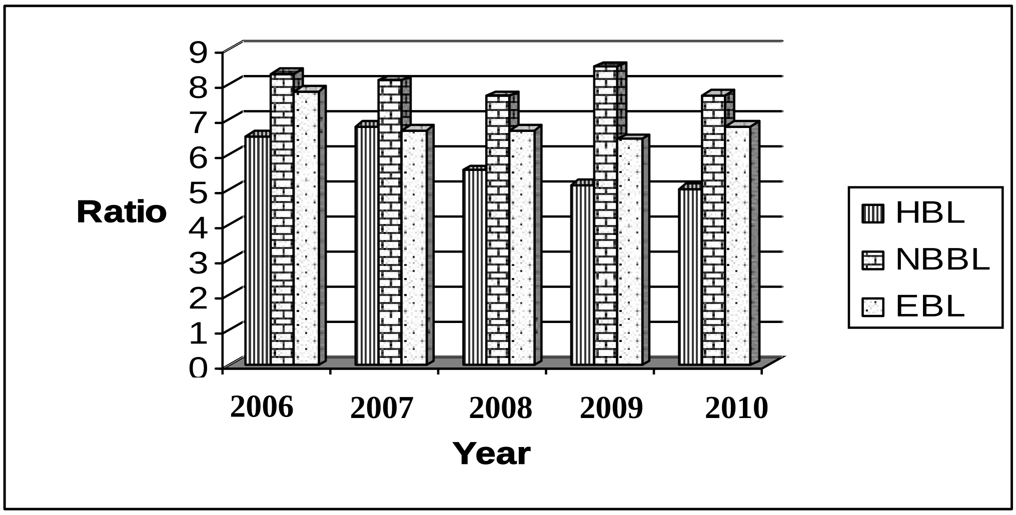
(Fig. Rs. in Million)

Financial Year	HBL			NBBL			EBL		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2006	1033.66	15863.74	6.52	609.27	7347.23	8.3	267.44	3411.70	7.8
2007	1327.38	19500.58	6.8	810.05	9962.69	8.1	385.02	5202.58	6.7
2008	1149.00	20672.45	5.56	850.53	11102.24	7.66	443.82	6607.18	6.7
2000	1201.29	23355.23	5.14	1013.71	8.5	8.5	520.17	8052.20	6.44
2010	1245.89	24762.04	5.02	1.95.50	14257.00	7.68	657.25	9708.56	6.8
Average			5.8			8.048			7.028

Source: Balance Sheet & profit and Loss Account of Related Banks.

Fig. No.4.17

Bar Graph of Interest Earned to Total Assets Ratio



The table shows that interest earned to total assets ratio has ranged between 5.03 to 6.80% over the study period and the average ratio is 5.8%. The bar graph also shows that ratio is high and falls over the study period.

Likewise, in case of NBBL, the ratio has been continuously decreasing accept the year 2008. The ratio has ranged between 7.68 to 8.50% over the study period and average ratio is 8.08 percentages.

Similarly, the ratio of EBL has been continuously over the study period accept in year 2009. The ratio has ranged between 6.44 Pandey to 6.8 percentages and the average ratio is 7.028 percentages.

To conclude above analysis, the ratio of NBBL has always been highest then all the banks through out to study period and it indicate that NBBL has been able to earn more interest in relation to total assets, i.e. efficient utilization of total assets for earning purpose one of worth nothing aspects is in case of all the three banks the amount of interest and total assets have been increasing and total assets increasing are different.

4.5 Other Ratios

In additional to the above ration, there are other widely used ratios related to the financial aspect of the company some of which have been discussed here in the section to supplement the analysis.

4.5.1 Interest paid to interest income ratio

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

Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa. This ratio can be calculated by using the following formula.

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

In this present study, total interest expenses includes interest paid on deposit and borrowing sand "interest income" includes the interest from loan and advance, cash credit and over draft government securities, inter bank and other investments.

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

Table N. 4.18

Interest paid to income ratio

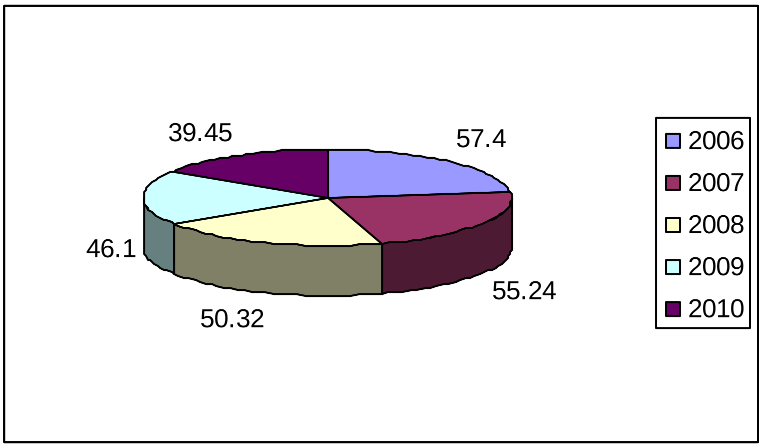
(Fig. Rs. in Million)

Financial Year	HBL			NBBL			EBL		
	Interest Paid	Total Income	Ratio	Interest paid	Total Income	Ratio	Interest Paid	Total Income	Ratio
2006	593.44	1033.66	57.4	414.99	609.27	68.1	177.89	267.44	66.52
2007	732.69	1326.38	55.24	515.84	810.05	63.68	236.14	385.02	61.33
2008	578.13	1149.00	50.32	550.06	850.53	64.67	257.05	443.82	57.92
2009	554.13	1201.23	46.10	594.58	1013.71	58.65	306.41	520.17	58.9
2010	491.54	12458.89	39.45	620.94	1095.50	56.68	314.44	657.25	47.84
Average			49.7			62.35			58.50

Source: Balance Sheet and Profit and Loss Account of Selected Bank

Fig No. 4.18

Pie-Chart of interest paid to interest income.



In case of HBL, the ratio of has ranged between 39.45 to 57.4 percent over the study period and the average ratio is 49.7 percent. The ratio has been decreasing pie-chart over the study period and also pie-chart. The ratio is lowest ratio then NBBL & EBL.

Incase of NBBL, the ratio has between 56.68 to 68.1 percent over the study period and the average ratio is 62.50 percent. The ratio and Pie-chart also decreasing pattern. It is highest ratio of the other sample banks.

Similarly, incase of EBL, the ratio ranged between 47.84 to 66.58 percent over the study period and the average ratio is 58.5 percent. The ratio shows the Pie-chart also has been decreasing pie-chart.

In above analysis, in indicates the ability of HBL to reduce the interest expenses visa versa interest income.

4.5.2 Dividend per share.

The net profits after taxes belong to shareholders. But the income, which they really receive, is the amount of earning distributed as cash dividends. Therefore, a large number of present and potential investors may be interested in dividend per share rather then earning per share. EPS is the earning distributed to ordinary share out standing. The ratio is calculated as:

$$\text{Dividend per share} = \frac{\text{Earning paid to shareholders ratio}}{\text{No. of ordinary share out standing}}$$

Since there is no standard recommended DPS so if has to be compared with previous year of with that of other banks. Higher ratio shows good performance in terms of payment of more dividends and there by attracting more ordinary shareholders but if also indicate fewer funds available for the further expansion of business.

Table N. 4.19

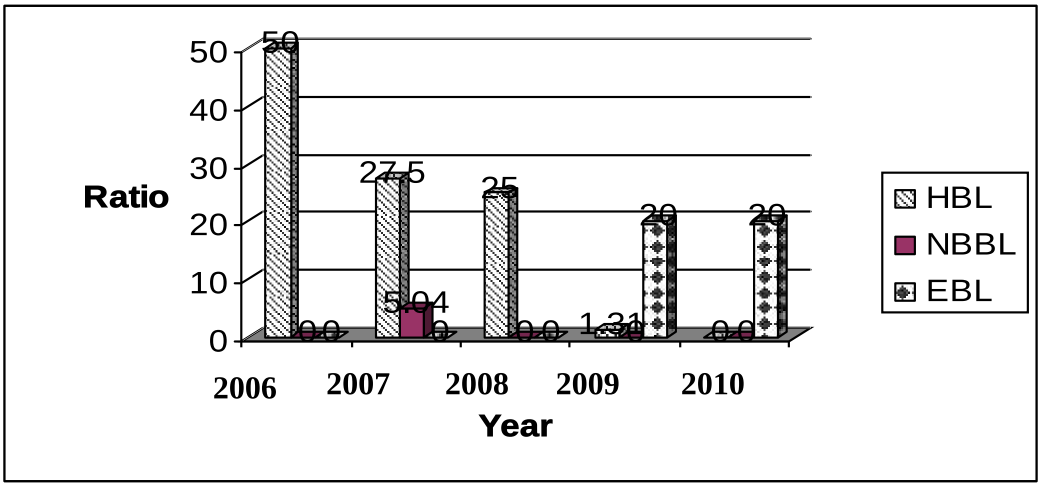
Dividend per share

Financial Year	HBL	NBBL	EBL
	Ratio per share Rs.	Ratio per share Rs.	No. of Share
2006	50.0	0.00	0.00
2007	27.50	5.04	0.00
2008	25.0	0.00	0.00
2009	1.31	0.00	20.00
2010	00	0.00	20.00
Average	20.76	1.008	3.00

Source: Balance Sheet and Profit and Loss Account of Selected Bank

Fig. N. 4.19

Bar Graph of Dividend per share



The table 4.19 shows that dividend per share ratio of HBL has been decreasing over the study period but no (0.00) in year 2009. It means the DPS in healthy position and it average DPS is Rs. 20.76 it is the highest DPS on the sample banks.

Increase of NBBL, the DPS lies only financial year 2006 but other study period, the DPS in Nil or No dividend at all. However the bar graph only shows the year 2006. The year 2006 DPS is Rs. 5.04. Likewise EBL has paid no dividend in first their years (i.e. 2006-2007) but the DPS paid in year 2008 to 2009 and average DPS is Rs. 8.00.

Thus, if may be concluded from the above analysis that the ratio of HBL is more then HBBL and EBL. Thus the ratio is promising & attracts most of the potential Nepalese shareholders. However we can not taken dividend must of they year. But this argument is falsified by the fact that these two banks stand inferior to HBL even in terms of EPS.

4.5.3 Earning Per Share

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

$$Earning\ per\ share = \frac{Profit\ after\ tax}{Number\ of\ common\ share\ outstanding}$$

Earning per share calculated over the years indicated whether the firm's earning power on per share basis changed over that period or not the EPS of the company should be compared with the industry average or the earning per share of other firm to be of some relevance. EPS simply shows the profitability of the firm on a per share basis, it does not reflect how much is paid as dividend and how much is related in the business. But as a profitability, index, it is a valuable and widely used ratio.

Earning per share & three banks has been tabulated below.

Table N. 4.20

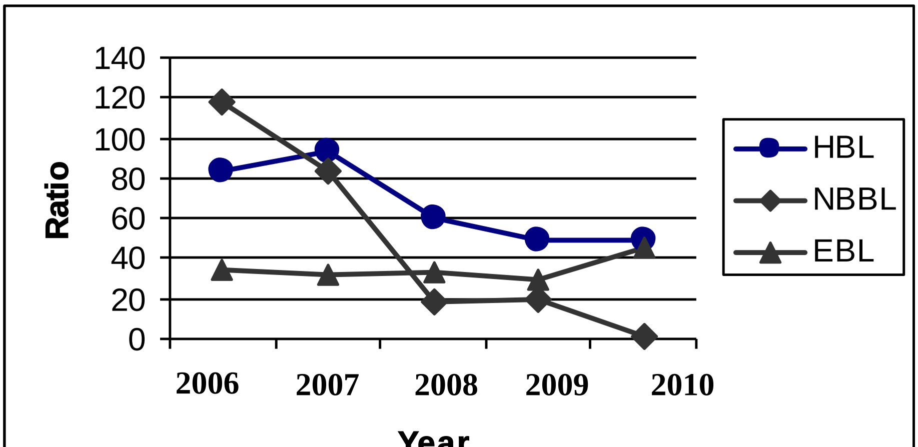
Earning per share

Financial Year	HBL	NBBL	EBL
	Ratio per share Rs.	Ratio per share Rs.	No. of Share
2006	83.08	118.48	34.85
2007	93.56	83.45	31.57
2008	60.26	18.41	32.91
2009	49.45	19.87	29.90
2010	49.05	0.74	45.58
Average	67.08	48.19	34.96

Source: Balance Sheet and Profit and Loss Account of Selected Bank

Fig. N. 4.20

Trend line of dividend per share



The table 4.20 shows that earning per share ratio of HBL has been rapidly falling over the study period expect in the year 2006. The ratio of HBL has ranged between 49.05 to 93.56 percent and average ratio being Rs. 67.08 percent, which has been recorded as the highest of all. This is some what contradictory.

The case of NBBL, the earning per share also has been decreasing over the study period. This ratio has been ranged between Rs. 0.74 to 118.58 and average ratio has Rs. 48.19.

Similarly case of EBL, too has been decreasing trend accept in year 2009 over the study period. The ratio ranged between Rs. 9.90 to 45.58 and average ratio being Rs. 4.97 which is the lowest of all.

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

4.5.4 Operating Income Analysis:

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

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

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

1. **Income from Interest:**

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

Since interest reflects the operational efficiency of banks higher ration indicators higher efficiency. Interest income ratio is obtained by using the following formula.

$$Interest\ Income\ Ratio = \frac{Interest\ Income}{Total\ Income\ on\ operational\ income}$$

2. **Commission and Discount:**

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

It is calculated by dividing commission discount by total income.

$$Commission\ and\ Discount\ Income = \frac{Commission\ \&\ Discount\ income}{Total\ Income}$$

3. **Foreign Exchange Income:**

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

4. **Other Income:**

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

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

Table N. 4.21

Operating Income

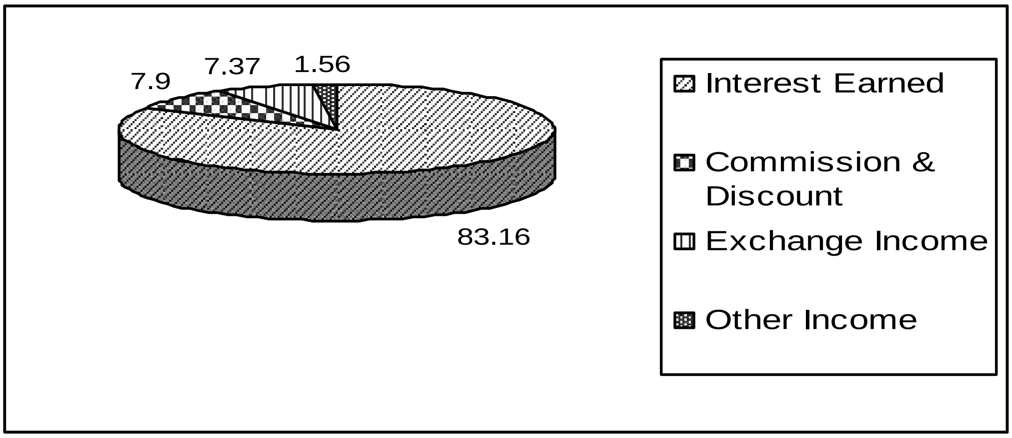
Fiscal Year	2006	2007	2008	2009	2010	Average
Interest earned						
HBL	83.29	84.33	82.82	83.21	82.16	83.16
NBBL	75.86	75.41	78.99	81.50	83.00	78..95
EBL	82.09	82.96	82.22	82.035	83.92	82.65
Commission Discount Earned						
HBL	8.9	8.0	7.33	7.1	8.17	7.9
NBBL	15.10	13.38	11.55	8.76	7.96	11.35
EBL	7.95	6.58	6.81	2.70	9.49	8.1
Exchange Income						
HBL	7.04	7.26	7.53	7.6	7.4	7.37
NBBL	7.71	9.5	6.47	4.5	4.25	6.486
EBL	1.07	3.56	8.4	5.1	3.56	4.33
Other Income						
NBL	0.78	0.41	2.30	2.08	2.24	1.56
NBBL	1.30	1.71	2.98	5.21	4.78	3.196
EBL	8.88	6.9	2.55	3.2	3.04	4.91
Total						
HBL	100	100	100	100	100	100
NBBL	100	100	100	100	100	100
EBL	100	100	100	100	100	100

Source: Financial Statement & Selected Banks.

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

Fig. N. 4.21

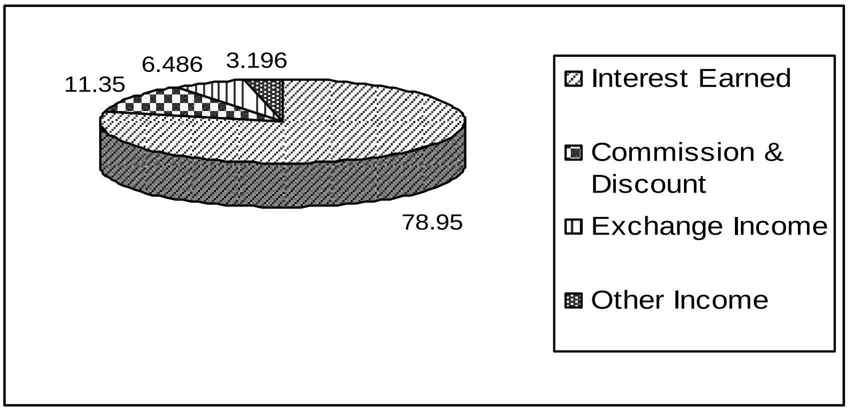
Average Income of Himalayan Banks Ltd.



The pie chart clearly explains the significantly high proportion of interest earned (around 84 percent) Vis-a-vis other sources & commission & discount earned 7.9 percent then exchange income 7.37 percent similarly other income is 1.56 percent.

Fig. 4.22

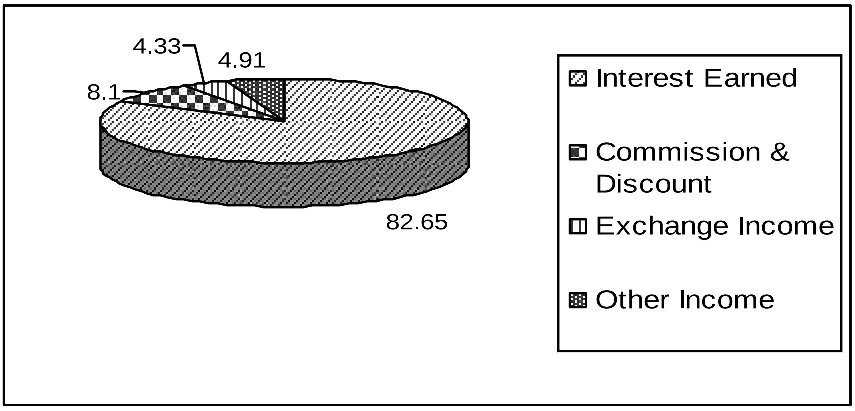
Income Percent at average income statement of NBBL



The above pie-chart clearly explain the significantly high proportion of interest income (around 80%) then other sources and commission & discount is 11.35 percent then other & sample banks.

Fig. N. 4.23

Average Income of Everest Bank Ltd.



The pie-chart clearly explain the significantly high proportion of interest income (around 83%) Vis-a-vis other sources. Exchange income constitute the lowest i.e. below percent.

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

The above table shows that "commission and discount income" has been the second main component of operating income in each f the banks in average NBBL has the highest ration of all.

In an average NBBL has out performed the other two banks in this regard. The above chart shows that other income earned by EBL has been the highest of all.

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

4.6 Statistical Tools

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

4.6.1 Coefficient of Correlation:

Karl's Pearson's coefficient of correlation measure the intensity or degree of linear relationship between two variable Karl's Pearson (1861-1936) a British Biometrician develop formula called correlation coefficient.

Coefficient of correlation between random variables X and Y. Usually denoted by r(x, y) or simply r x y, is a numerical measure of Liner relationship.

Probable Error:

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

The probable error of the coefficient is obtained as follow:

$$\text{PEr} = 0.6745\frac{1-r^2}{\sqrt{N}}$$

Where,

r = Coefficient of correlation

N = Number of observation

(I) If the value of r is less then the probable error, there is no evidence of correlation i.e. the value of r is not at all significant.

(II) If the value of r is practically certain, i.e. the value of r is significant.

(III) Coefficient of correlation is expected to Lie with in the range of ± per.

By using the above formula coefficient of correlation between "Return and Net worth" and probable error of Himalayan Bank Limited, Nepal Bangladesh Bank Ltd. and Everest Bank Limited are calculated below:

Table N. 4.22

Net worth and Return of Himalayan Bank Limited

Year	Net Worth (x)	Return (y)
2006	526.05	199.38
2007	720.59	280.69
2008	858.11	235.02
2009	1063.13	212.12
2010	1324.17	263.05

Source: Financial Statement of Himalayan Bank.

We have attempted to calculate the linear relationship between return and net worth of HBL, NBBL and EBL. IT is calculated to Justify whether net worth is significant in generating more return or not.

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

$$\frac{\sum xy - \frac{\sum x.\sum y}{n}}{\sqrt{\sum x^2 - \frac{\left(\sum x\right)^2}{n}}\sqrt{\sum y^2 - \frac{\left(\sum y\right)^2}{n}}}$$

Where,

r = Coefficient of correlation between variable x & y.

N = Number of Pairs

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

x = Values of first variable (Net worth)

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

$\sum y$ = Sum of the deviation of y series.

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

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

Calculation of Coefficient of Correlation of HBL

Analysis of Net worth and return

X-av	X	X^2	Y	Y^2	XY
2006	526.05	276728.60	199.38	39752.38	104883.85
2007	720.59	519249.95	280.69	78786.88	202262.41
2008	858.11	736352.77	235.02	55234.40	201673.01
2009	1063.13	1130245.40	212.12	44994.90	225511.14
2010	1324.17	1324.17	263.05	69195.30	348322.92
N=5	4492.05	2663900.89	1190.26	287963.86	1082653.33

$\sum x^2$ = 2663900.89

$\sum y^2$ = 287963.86

$\sum xy$ = 1082653.33

$\left(\sum x\right)^2 = (4492.05)^2 \longrightarrow$ 20178513.20

$\left(\sum y\right)^2 = (1190.26)^2 \longrightarrow$ 1416718.87

Substituting the value in the formula,

$$\mathbf{r}_{xy} = \frac{\sum xy - \frac{\sum x . \sum y}{n}}{\sqrt{\sum x^2 - \frac{\left(\sum x\right)^2}{n}}\sqrt{\sum y^2 - \frac{\left(\sum y\right)^2}{n}}}$$

$$= \frac{1082653.33 - \frac{4492.05 \times 190.26}{5}}{\sqrt{1082653.33 - \frac{20178513.20}{5}}\sqrt{287963.86 - \frac{1416718.87}{5}}}$$

$$= \frac{13311.843}{79609.11483}$$

$= 0.167$

The calculation shows that the coefficient of correlation between return and net worth of HBL is 0.167, which is less then +1. It means there is a medium positive correlation between two variables.

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

Computing of probably error or HBL

$$P.Er \quad = \quad 0.6745 \frac{1-(0.167)^2}{\sqrt{5}}$$

$$= \quad 0.6745 \frac{0.027889}{\sqrt{5}}$$

$$= \quad 0.6745 \times 0.4347$$

$$= \quad 0.29$$

Since the value of r is with the limit of r $\pm$ P.Er or the value or r is more then six times the probable error (i.e. 6×0.04167) the value of r is significant in further warrants that deploying more net worth in the capital structure seems to be beneficial in terms of profitability for HBL.

Table N. 4.23

Net worth and return of Bangladesh Bank Ltd.

Year	Net worth (x)	Return
2006	396.59	139.53

2007	595.12	198.75
2008	626.49	65.78
2009	683.92	71.51
2010	656.57	2.65

Source: Financial Statement of Nepal Bangladesh Bank Ltd.

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

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

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

Where,

R= Coefficient of correlation between variable x & y.

N= Number of pairs in observation

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

x= Values of first variable (Share holders net worth)

y= Values of second variable (Return of Company)

$\sum x$ = Sum of the deviation of x series

$\sum y$ = Sum of the deviation of y series

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

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

Calculation of coefficient of correlation of Nepal Bangladesh Bank Ltd.

Analysis of Net Worth & Return

Year	X	X^2	Y	Y^2	XY
2006	396.59	157283.63	139.53	19468.62	55336.20
2007	595.12	354167.81	198.75	39501.56	118280.10
2008	626.49	392489.72	65.78	4327.00	41210.51
2009	683.92	467746.57	71.51	5113.68	48907.119
2010	656.57	431084.16	2.65	7.0225	1739.91
N=5	2958.69	1802771.90	478.22	68417.88	265473.84

Substituting the value in formula,

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

$$= \frac{265473.84 - \frac{2958.69 \times 478.22}{5}}{\sqrt{1802771.90 - \frac{8753846.516}{5}}\sqrt{68417.88 - \frac{228694.37}{5}}}$$

$$= \frac{17501.11}{228.04 \times 150.60}$$

$$= 0.5096$$

This calculation of correlation coefficient (i.e. 0.5096) There is positive correlation of NBBL Bank Ltd. because r > 0 and the "Return and Net Worth" is positive correlated.

Computation of probable error of Nepal Bangladesh Bank Ltd.

P.Er. = $0.6795 \frac{1-(0.5096)^2}{\sqrt{5}} = 0.078$

Table N. 4.24

Net worth and return of Everest Bank Ltd.

Year	Net worth (x)	Return
2006	202.85	41.27
2007	319.40	69.70
2008	390.91	85.33
2009	472.83	94.17
2010	540.33	143.57

Source: Financial Statement of Everest Bank Ltd.

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

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

Where,

R= Coefficient of correlation between variable x & y.

N= Number of pairs in observation

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

x= Values of first variable (Share holders net worth)

y= Values of second variable (Return of Company)

$\sum x$ = Sum of the deviation of x series

$\sum y$ = Sum of the deviation of y series

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

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

Calculation of coefficient of correlation of Everest Bank Ltd.

Analysis of Net Worth & Return

Year	X	X^2	Y	Y^2	XY
2006	202.85	41148.12	41.27	1702.21	8371.62
2007	319.40	102336.00	69.70	4858.09	22262.18
2008	390.91	152810.63	85.33	7281.21	33356.35
2009	472.83	223568.21	94.17	8867.99	44526.40
2010	540.33	291956.51	143.57	20612.34	77575.178
N=5	1926.32	811819.47	434.04	43321.84	186091.728

$\left(\sum x\right)^2 = (1926.32)^2 = 3710708.74$

$\left(\sum y\right)^2 = (434.04)^2 = 188390.72$

Substituting the value in the formula,

$$\mathbf{r}\,\text{xy} = \frac{\sum xy - \frac{\sum x.\sum y}{n}}{\sqrt{\sum x^2 - \frac{\left(\sum x\right)^2}{n}}\sqrt{\sum y^2 - \frac{\left(\sum y\right)^2}{n}}}$$

$$= \frac{186091.73 - \frac{1926.32 \times 434.04}{5}}{\sqrt{811819.47 - \frac{3710708.74}{5}}\sqrt{43321.84 - \frac{188390.72}{5}}}$$

$$= \frac{18871.74}{263.965 \times 75.1245}$$

$$= \frac{18871.74}{19830.24}$$

$= 0.95$

The calculation shows that the coefficient of correlation between net worth and return of EBL is 0.95. It means there is prefect positive correlation. The management can exploit this information by taking proper capital structure decisions. Bank is successful to take an appropriate decision for promotion.

Computation of Probable Error of EBL

$$\text{P.Er.} = 0.6745\frac{1-(0.95)^2}{\sqrt{5}}$$

$$= 0.6745\times0.312249$$

$$= 0.21$$

Since, the value of r is with in the limit of r $\pm$ P.Er. or the value of r is less then 6 times the probable error (i.e. 6×0.21 > 0.95) The value of e is not significant or there is no evidence of correlation between the variables.

Thus the coefficient of correlation between return and net worth of each of the JVBs i.e. Himalayan Bank Ltd. Nepal Bangladesh Bank Ltd. and Everest Bank Ltd. are highly positive (Among the EBL is more promissory there is a positive impact on return if each banks.

4.7 Major Finding of the Study

The major finding of the study are as below:

1. Liquidity position: The study reveals that ratio of all the banks was always below the normal standard of 2:1, which generally indicates poor liquidity position. Poor liquidity position was existed in HBL. But it cannot be assumed that the liquidity position of all the banks are poor because current ratio is only a test of quantity not a test of quality of liquidity position and more over banking sector is different than other general sector. In the present study, liquidity position of EBL is comparatively better than HBL and NBBL.

II. To get a clear picture of liquidity standings of all the banks, other ratio were analyzed and interpreted in terms of liquidity position of cash and bank balance with respected to total deposit, Everest bank limited has comparatively better than HBL and NBBL Banks. Cash and bank balance to total deposit ratio is commonly called quick ratio in financial term and 1:1 is considered reasonable for general business. But banks being financial institutions and dealing in cash may not requite to maintain 1:1 proportion. In the present study, no bank has maintained this criterion of 1:1.

III. In term of fixed deposit to total deposit ratio, Nepal Bangladesh Bank Ltd. has performed (i.e. 54.2 percent) than other selected banks. More proportionate fixed assets the opportunity to invest in more productive sector like marketable securities, treasury bills and other loans and advances.

In an average, saving deposit to total deposit ratio Himalayan Bank Ltd. has been recorded the lowest of all. If indicates better liquidity position of all other the bank to meet short-term obligation.

2. Solvency position

Capital structure ratio of all the banks indicates highly leverage of capital structure. Total debt to equity ratio of all the banks reveal that the claims of the outsiders exceed for more than those of the owners equity. Over the banks assets comparatively Himalayan Bank Limited has more levered capital structure. Similarly, total debt to total assets ratio of all the banks is not satisfactory being highly leveraged than normally accepted standard measure very high long-tern debt to total assets ratio reflects the aggressive financial policy of all the banks, which has exposed them to more risky. Highly leveraged capital structure is profitable as long as more risky.

Likewise, the long term debt to total assets ratio of NBBL is not satisfies an aggressive financing policy makes the firm more risky. The ratio is more risky the standard ratio.

As per directives of Nepal Rastra Bank, minimum of 8 percent capital adequacy ratio should be maintained. The capital adequacy ratio of all the bank is unsatisfactory except that of Everest Bank Limited. It is better adequacy ratio (7.15 percent) then

HBL and NBBL but the Everest Bank ratio has not reached the standard position. It is also below the 8 percent. In terms of net worth to total assets ratio, Everest Bank Limited has more fluctuations and Himalayan Bank Limited has more uniform ratio.

3. Operation Efficiency

Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactory. In an average, loan and advance to total deposit ratio of NBBL has recorded highest of other banks. But in case of loan deposit ratio of HBL and advance to fixed assets has also highest of other banks similarly, loan and advance to total assets ratio of NBBL has recorded highest. Like wise short- term investment to total deposit ratio of EBL has outperformed and NBBL their resource must satisfactory.

4. Earning Capacity and Utilization of Profit

Profitability ratio indicates the degree of success in achieving desired profit level. In terms of absolute net profit after interest and taxes. Himalayan Bank Limited has performed better during the study period, return on Himalayan bank limited is higher (38.78%), how ever the trend line is decreasing pattern over the study period indicting not good position but better than EBL and NBBL. The ratio of EBL and NBBL are also decreasing. However, the trend line shows sign of improvement immediately.

In case of return on total assets ratio the bank have earned about I percent or assets. However the performance of Everest Bank Ltd. is relatively higher over the study period (1.29%).

In term of return on total deposit, Everest Bank Ltd. is doing better (1.57%). But other banks have not adopted any particular trend during the study period.

NBBL has always highest than EBL and HBL over the study period and EBL and HBL slowly decreeing and horizontal trend.

In terms of interest paid to interest income, the ratio of all the banks has recorded a decreasing trend over the study period in all the three banks, this radio stands as on average range between 7 to 64 percent. Comparatively average ratio of NBBL is highest of all (118.84%)
Dividend per share: Himalayan bank Ltd. has been the highest dividend paying banks, i.e. Rs. 20.76 during the study period but these banks has paid no dividend in year 2010. While Nepal Bangladesh Bank Ltd. has paid dividend through out the study period expect in the year 2007. Similarly, EBL has not paid dividend in the year 2006 to 2008.

Regarding earning per share, Himalayan bank Ltd. has been rapidly decreeing over the study period, despite this the average EPS ration of HBL is the highest of NBBL and EBL. However HBL has been able to earn more profit then NBBL and EBL (50%>5.04, 20%). In case of EBL and NBBL banks the trend line shows also decreasing pattern over the study period.

Operating income of three banks has been increasing rapidly however Himalayan banks Ltd. have generate more operation income and Nepal Bangladesh Bank Ltd. has generated the lowest operating income (83.06<82.16)%

Analysis of coefficient of correlation between return and net worth of each of the banks indicates positive correlation. This means that the management can increase the owner's capital base to increase the return and value of firm.

Chapter-V

Summary, Conclusion and Recommendations

As the final chapter of the study, this chapter briefly explains the summary of the study, tries to fetch out findings and conclusions and attempts to offer suggestions and recommendations for strengthen the financial position of HBL, NBBL and EBL.

5.1 Summary

At present, 31 commercial banks have been operating in Nepal. After government adopted liberal financial policy, commercial banks and financial companies have increased in number. They have rendering high quality banking services to their clients.

The present comparative study have been undertaken to evaluate the financial performance of three joint venture banks in Nepal. Himalayan banks Ltd, Nepal Bangladesh bank Ltd. and Everest bank Ltd. Financial statement of previous five years (i.e. F/Y 2006 to 2010) have been used in the study. This study is mainly based on secondary data with include published annual report especially profit and loss account, balance sheet and other publications of the banks. Related information were gathered from the concerned banks and auditors report, Nepal stock exchange, Nepal Rastra Bank, economic general, website of related banks etc. The data have analyzed by using financial and statistical tools like ratio analysis, correlation coefficient, pie-chart, trend line analysis etc.

The study has been divided into five chapters which include introduction, review of literature researched methodology, data presentation and analysis and summary, conclusion and recommendation.

In first chapter, general background, commercial banks scenario in Nepal focus of the study, statement of the problems, limitations of the study objectives of the study organization of the study have been discussed.

The second chapter has reviewed the existing of commercial banks, concept of joint venture banks, role of joint venture banks, regulation of commercial banks, profile of sample commercial banks, financial analysis and appraisal, review of previous studies and general view opinion has been reviewed. This chapter has also reviewed the existing studies under taken earlier.

The third chapter has briefly explained about the research methodology, which is used to evaluate the financial performance of the commercial banks under consideration. This chapter has dealt about research design, sample and population, Nature and sources of data, method of data analysis and tools and techniques of analysis etc.

In the fourth chapter the data related to financial statements have been presented and analyzed by utilizing various financial tools statistical tools in order to comparatively evaluate the financial position of the banks. The major findings of the study are presented below:

5.2 Conclusion :

The above research is general and oversimplified. It does not fully reflect the complexity of the process of Bank appraisal, nor it deals with the various sophisticated and refined techniques which have been developed to deal with it. These can best be understood by study of a number of cases and by appraising HBL,NBBL & EBL. It should, however, be added that none of appraisal techniques is perfect and despite all the studies, the actual can substantially very than the appraisal estimates mainly on account of a large number of observations which are made in the process of appraisal, and some of which do not turn out to be true, distorting the entire analysis.

It is the true fact that the various aspects of the HBL,NBBL&EBL appraisal are equally important, in as much as they are closely related. It is, therefore necessary that while making an investment decision an aggregate view is taken. No single index on consideration could be adequate reason to approve a Bank or otherwise.

5.3 Recommendations

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

a) The commercial banks should consider seriously about the unsatisfactory liquidity position and should ascertain whether this situation is a threat or normal in banking sector.
b) Everest Bank Limited and Nepal Bangladesh Bank Ltd. should be more concerned for efficiency utilizing the deposits in loan and advances or other more profit generating sectors.
c) The capital adequacy ratios should be maintained as per the Nepal Rastra Bank directives. For this all the banks should raise the amount of deposit in Nepal Rastra Bank to 8 percent of total deposit.
d) The banks should do lot of exercise in more credit creation and reducing the interest rate for loan and advances. This helps them to remain more competitive.
e) Banks should adopt appropriate personnel policies according to the provision of labour act 2048.
f) These banks could do better by offering modern banking facilities like credit card system, global banking, internal banking and branch banking concept facilities.
g) All the banks can do better by discharging some social responsibilities by allocating a part of their resources to the promotion of banking facilities to the ruler areas. This will indirectly contribute to the development of poor and disadvantaged groups on the hand and opening branches in remote areas on the other hand is in compliance with the directives of Nepal Rastra Bank.
h) These banks have mainly focused their investment especially on big cities and for big companies like multi national companies, large scale industries, manufactures of garments and carpets exporters. Small enterprises have not been benefited

significantly by their investment. So as a part of discharging their investment. So as a part of discharging their social responsibilities. These banks should sanction loans to small entrepreneurs also.

i) These banks can do better if they do exercise to extend their loans to more and more foreign investors who want to do business here in Nepal. The foreign investors and industrialists are unfamiliar with the indigenous rules and regulations, customers and other country specific situations. So the bans can help foreign investors and industrialists in this regard who in turn create more productive assets, more employment opportunities and contribute to national development process.

j) Although those banks have played significant roles in terms of modern banking system that certainly leads to economical development of the nations, they are not playing the role of merchant banks properly. So these banks are suggested to pay the role of financial intermediary and of merchant banks i.e. underwriting securities, acting as brokers, development of capital market and other supportive role in the security exchange which will consequently be helpful for the enlistment of the country.

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Summary of Financial Ratio

Ratio	2005/06			2006/07			2007/08			2008/09			2009/10		
	HBL	NBBL	EBL	HBL	NBBL	EBL	HBL	NBBL	EBL	HBL	NBBL	EBL	HBL	NBBL	EBL
Current Ratio	1.02	1.01	1.04	0.93	1.03	1.04	0.73	1.03	1.05	0.77	1.00	1.06	0.88	1.01	1.05
Cash & Bank balance to total deposit ratio	6.42	9.98	9.10	8.02	11.90	18.3	6.80	18.50	10.8	9.42	8.50	17.03	9.09	11.20	7.80
Fixed deposit to total deposit ratio	27.89	67.36	48.37	28.10	60.89	49.94	29.44	57.32	49.6	15.26	47.55	41.74	21.4	38.07	35.71
Saving & advance to total deposit ratio	48.66	17.22	29.17	52.16	19.96	30.26	49.22	21.93	31.74	51.75	27.72	41.19	53.43	33.15	46.3
Loan & advance to total deposit ratio	51.45	71.39	74.25	51.42	85.69	65.70	47.87	76.18	72.22	47.61	68.50	73.31	54.30	67.53	72.97
Loan & advance to fixed deposit ratio	1.84	1.06	1.54	1.83	1.41	1.32	1.63	1.40	1.46	3.12	1.44	1.76	2.54	1.77	2.03
Loan & advance to total	48.26	62.84	65.39	46.23	73.86	57.77	43.12	68.75	59.76	42.82	60.74	60.96	48.26	60.66	61.13

assets ratio															
Short term investment to total deposit ratio	15.75	6.85	8.40	12.69	7.86	17.10	16.37	10.20	28.00	19.04	20.10	23.90	15.60	20.80	30.58
Debt equity ratio	29.16	17.50	15.82	26.06	15.74	15.29	23.09	16.70	15.90	20.10	16.40	16.03	17.70	20.70	16.78
Total debt to total assets ratio	96.68	94.60	94.05	96.3	94.03	93.87	95.85	95.20	94.08	95.54	94.27	94.13	94.65	95.40	94.34
Long term debt to total assets ratio	24.69	59.00	43.00	25.27	53.00	44.00	26.50	49.00	41.00	13.70	42.00	34.00	19.00	34.00	30.00
Capital adequacy ratio	6.13	3.75	6.63	6.92	4.11	6.98	6.58	4.60	7.15	6.46	5.60	7.06	5.13	6.02	6.70
Net worth to total assets ratio	3.32	5.40	5.95	3.70	5.97	6.14	4.15	5.60	5.92	4.55	5.70	5.87	5.35	4.60	5.60
Return on net worth	37.90	35.18	20.35	38.98	33.40	21.82	27.39	10.50	21.83	19.95	10.47	19.91	19.87	0.004	26.57
Return on total assets ratio	1.26	1.90	1.21	1.44	2.00	1.35	1.14	0.50	1.29	0.90	0.60	1.17	1.06	0.01	1.50
Return on total	1.42	2.16	1.34	1.60	2.30	1.50	1.26	0.69	1.57	1.009	0.657	1.40	1.20	0.21	1.78

deposit ratio															
Interest earned to total assets ratio	6.52	8.30	7.80	6.80	8.10	7.40	5.56	7.66	6.70	5.14	8.50	6.44	5.02	7.68	6.80
Interest Paid to Interest Income ratio	57.40	68.10	66.52	55.24	63.68	61.33	50.32	64.67	57.92	46.10	58.65	58.90	39.45	56.68	47.84
Dividend Per Share	50.00	0.00	0.00	27.50	5.04	0.00	25.00	0.00	0.00	1.31	0.00	20.00	0.00	0.00	20.00
Earning Per Share	83.08	118.48	34.85	93.56	83.45	31.57	60.26	18.41	32.91	49.45	19.87	29.90	49.05	0.74	45.58