

CHAPTER – I

INTRODUCTION

1.1 Background

In general terms, "Bank" is a financial institution that performs various monetary transactions. In other words, the bank purchases and sells the money. It collects deposits and pays a certain percentage of interest for them. The collected deposit is then transferred to the other people in the form of credits, where the bank charges interest. The interest for the credit will be higher than the interest for the deposit. The difference between these interests is called the spread rate which is the profit of the bank. "Banking system is a volatile and sensitive sector of national economy, which requires effective monitoring and effective supervision. Smooth and effective regulation of banking activities is a must for sustainable economic growth of a country. The regulatory agency should always be watchful of banking activities carried out by governmental and non-governmental and financial institutions".

National development of any country depends upon the economic development of that country and economic development is supported by financial infrastructure of that country. Bank constitutes an important segment of financial infrastructure of any country. Bank came into existence mainly with the objective of collecting the idle funds and mobilizing them to productive sectors causing overall economic development, which finally leads to national development of country. "A Bank can be defined as a 'financial department store' which renders a host of financial services besides taking deposits and taking loans."(Dahal and Dahal, 2002:7)

Commercial banks collect deposits from the public and the largest portion of deposited money is utilized in disbursing loans and advances. Loans and advances constitute a major portion of the assets and deposit constitutes a major portion of the liabilities of commercial banks. Similarly, earnings of the banks depend upon the spread that it enjoys between the interest it receives from the borrowers and that to be paid to the borrowers. An average bank generates sixty to seventy percent of its revenue through its lending activities. The return the bank enjoys of deposit mobilization through loans and advances is very attractive but they do not come free of cost and free of risks. There is risk inherent in lending portfolio. Banking sector is

exposed to a number of risks like, interest rate risk, liquidity risk, credit risk or default risk, borrowers risk etc. Such risk are excessive risks have led many banks to go bankrupt in a number of countries.

According to the Nepal company act 2031, “A commercial bank refer to such type of bank which deals in money exchange accepting deposit, advancing loan and commercial transactions expect specific banking related to co-operative, agriculture industry and other objectives.” List of class A Lincensed Financial Institution (Commercial Bank)

1.2 Meaning of Commercial Bank

Commercial Bank on a financial institution transfers monetary sources from savers to users. In the process of such intermediation, commercial bank deploy funds raised from different sources into different assets with a prime objective of profit generation. They also provide technical and administrative assistance to industries, trade and business.

Commercial Banks are one of the most important institutions in the economy. The main function of commercial bank is to lend money to merchants, home owners, farmers and industrialists and to hold Government bond. Commercial Bank is also working as intermediates between surplus-spending units to deficit – spending units.

According to commercial bank act 2031 “ Commercial Banks are those banks which are established under this act to perform commercial function except those which are established for specific purpose like Development Banks, Co-operatives etc.”

1.3 Introduction of the Selected Commercial Banks Everest Bank Ltd. and Nepal Investment Bank Ltd.

1.3.1 Introduction of Everest Bank Limited

Everest Bank Limited (EBL) has been established with the objective of extending professionalized banking services to various sector of society in the kingdom of Nepal and thereby contributes in the economic development of the country. The bank had come into operations from 18th oct. 1994 (1st Kartik 2051 B.S.). EBL is a joint venture with Punjab National Bank (PNB), one of the largest commercial banks in India having more than 4400 branches then 200 foreign correspondents around the globe. PNB has a century old tradition of successful

banking and is known for its financial strength and well laid down modern banking system and procedures PNB is providing the top management services to EBL thus has the advantage of the banking expertise and financial strength of its partners.

The shareholding of the Bank follows 50 % of the promoter shareholder 20 % of the Punjab National Bank, India and 30 % of the general public shareholder. The head office of the bank is located at Lazimpat and it has 29 branches all over the Nepal.

1.3.2 Introduction of Nepal Investment Bank Limited

Nepal Investment Bank Ltd (Nepal Indosuez Bank Ltd) was established on 21st Jan 1986 as a third joint venture bank under the company act 1964. Nepal Investment Bank Limited is the changed name of Nepal Indo – Suez Bank Ltd. on March 26,2002 is a joint venture commercial bank with indo Suez bank of paris. NIBL with 50 % equity participation by indo – Suez bank, France, 30% by Nepalese financial institutions and the rest 20 % by general public, Baque Indo – Suez, paris in accordance, manages the bank with joint venture and Technical Services Agreement signed between it and Nepali promoters.

The main object of this bank is to provide loans and advances to the agriculture industries and commerce and to provide modern banking services to the people. The head office of the bank is located at Kathmandu and it has 27 branches all over the Nepal.

1.4 Statement of the Problem

Establishment of private joint venture banks have continued in response to the economic liberalization policies of the government. The tendency to concentrate these banks only in urban areas like Kathmandu, Biratnagar etc. has raised certain questions. This state of affairs cannot contribute much to the socio – economic development of the country where 90% of the population lives in the rural area and 79 % of population depend upon agriculture. These joint venture banks are reluctant to extend their operation in rural areas. Despite the circular of NRB, the central Bank of the country, regarding compulsory investment of 10 % of their total investment in their rural areas, these banks all inclined to pay fines rather than complying with the rule. This problem remains to be solved so that even the small investors in the rural

areas are deprived of benefits from the services of such banks. Moreover, even the existing branches of the commercial bank in the rural areas are not able to mobilize the local resources effectively.

Thus, the present study seeks to explore the efficiency and weaknesses of EBL and NIBL. Attempts have also been made to explore the answers to the following questions.

-) How far have EBL and NIBL been able to convert the mobilized resources into investment?
-) To what extent these banks have been able to raise their profitability?
-) How efficiently these banks have been able to raise their liquidity assets, capital structure etc?
-) Based on the above question which bank has been exposed to more financial risk?

1.5 Objectives of the Study

The main objective of this study is to examine and evaluate the financial performance of two joint venture banks, i.e. EBL and NIBL, accomplish following objectives.

-) To evaluate the financial position (liquidity, Leverage, capital adequacy, turnover and profitability position) of the two commercial banks.
-) To find out how efficiently the resources of two commercial banks have been utilized.
-) To identify the strengths and weakness of the two banks.
-) To recommend appropriate suggestion on based on the analysis.

1.6 Importance of the Study

A Commercial bank is the bank, which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions. Therefore, the commercial bank acts as a pool between savers and users of money. It means the commercial bank collects fund in term of deposit capital etc. from savers and gives loan to the users of money. The bank either gives loans to the users or invest in different investment alternatives, such as corporate share debentures, government bond etc. out of its collected fund and makes profit.

The study plays vital role in the managerial decisions. Every organization has to analyze its financial performance in every step of its operation, promotion and expansion.

This study helps to enhance the financial performance of the concerned organizations. This study will be useful and valuable for academicians, students, teachers and practitioners in the field of accounting and finance.

1.7 Limitation of the Study

This study is fully depend on the annual report of concerned banks, so it may posses some of the limitations, which are:

-) Only 7 (seven) year's data has been taken for the study.
-) The study is fully based on secondary data (annual report).
-) The study focuses only on financial performance, other performance of the organizations are fully neglected while providing suggestions.

1.8 Organization of the Study

This research work has been divided into five chapters, i.e. Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis and finally Summary, Conclusion and Recommendation.

Chapter I: Introduction

The first chapter includes background of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

The second chapter incorporates review of theoretical and related literature regarding the subject matter publications of writers and researchers have been related to the topic.

Chapter III: Research Methodology

This chapter explains about the research methodology used to evaluate and analyze. This includes research design, population and sample, nature and types of

data, sources of data, data collection techniques, data analysis techniques, research variables, different statistical and financial tools used in the study.

Chapter IV: Presentation and Analysis of Data

This chapter deals with the major part of the study. This chapter includes presentation and analysis of data using different statistical tool, and major findings.

Chapter V: Summary, Conclusion and Recommendation

This chapter deals with summary and conclusion of the study and recommendations regarding the subject matter.

Beside these bibliography and appendices have also been annex at the end of the thesis. Similarly, acknowledgment, table of contents, list of tables, list of figures abbreviation have been included in the beginning of this thesis report.

CHAPTER – II

LITERATURE REVIEW

The previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. The continuity in research is ensured by linking the present study.

The purpose of the present chapter is to find out what research studies have been conducted in one's chooser field of study and what remains to be done. It provides the foundation for developing comprehensive theoretical framework from which hypothesis can be developed for testing. The literature survey also minimizing the risk of pursuing the tend ends in research.

Since this study has been conducted to analysis the financial performance.

2.1 Review of Books

2.1.1 Concept of Banking

Bank is a financial institution, which plays a significant role in the development of the country. It facilitates the growth of trade and industry and other sector of the national economy. It is a resource for economic development, which maintains the self – confidence of segments of society and extends to the people.

A bank is a business organization that services and holds deposits of funds and extends loans and credits. (Encyclopedia the world book America, col. 3, 1984)

The business in banking is one of collecting funds from the community and extending credit (Making Loans) to the people for useful purpose. Bank have played a pivotal role in mobilizing money from lenders to borrowers. Banking is a profit seeking business not a community charity. As a profit seeker, it is expected to pay dividends and add to the wealth of its shareholders. (Rebort O Edmister Phd, 1980)

A commercial bank is a bank, which deals in exchanging currency accepting deposits giving loan and doing commercial transaction. (The commercial Bank Act of Nepal 2031)

2.1.2 Evolutions of Banking

The evolution of banking industry had started a long time back, during ancient times. There is reference to the activities of money changes in temple of Jerusalem in

the New Testament. In ancient Greece, the famous temple of Delphi and Olympia served as the great depositories for people's surplus funds and these were the centers of money lending transactions. However, as a public enterprise, banking made its first beginning, around the middle of the twelfth (12th) century in Italy. The bank of Venice, founded in 1157 was supposed to be the most ancient bank. Following it were established the Bank of Barcelona and the Bank of Geneva in 1401 and 1407 respectively. Subsequently, Bank of Amsterdam was set up in 1609, which was very popular then. The Bank of Venice and the Bank of Geneva continued to operate until the end of eighteenth century with the expansion of commercial banking activities in Northern Europe, there sprang up a numbers of private banking houses in Europe and slowly it spread throughout the world.

In the context of Nepal, the development of banking is relatively recent. Like other countries, landlords, moneylenders, merchant, goldsmith etc. are the ancient bankers of Nepal. Though establishment of banking industry was very recent, some crude banking operations were in practice even in the ancient times. In the Nepalese Chronicle, it was recorded that the new era known as Nepal sambat was introduced by Shankhadhar, a Sudra Merchant of Kantipur in 880 A.D. after having paid all the outstanding debts in the country. This is the basis of money lending practice in ancient Nepal. The establishment of "Tejarath add did not collect deposit from public but granted loans to public against the collateral of bullions. Consequently, the major part of the country remained untouched from this limited banking activities. The "Udyog Parishad" was constituted in 1936 A.D. to facilitated trade with India and other countries. One year after its formulation, it was established under the company Act and 'Nepal Bank Act' in 1937 AD.

In Nepal, modern banking practices emerged with the establishment of Nepal Bank Limited in 1937 AD. However, the stand of Nepal Bank Limited alone in total monetary and financial sector was not sufficient and satisfactory. Thus, Nepal Rastra Bank was set upon 2013/01/14 B.S. as a Central Bank under Nepal Rastra Bank Act 2012 B.S. Similarly on 2022/10/10 Rastriya Banijya Bank was established as a fully government owned Commercial Bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customer failed to have taste of quality/competitive service because of excessive political and bureaucratic interference. For industrial development. Industrial Development Center was set up in 2013 B.S. which was converted into Nepal Industrial Development Corporation

(NIDS) in 2016 B.S. Similarly, Agricultural Development Bank (ADB/N) was established in 2024/11/07 B.S. with an objective to promote agricultural product so that agricultural productivity could be enhanced through introduction of modern agricultural techniques.

As a first joint venture bank NABIL Bank Limited was established on 2041/03/29 B.S. Having observed the success on NABIL based on marketing concept and also because of liberal economic policy adopted by the successive government, many commercial banks have been established.

2.1.3 Functions of Commercial Bank

2.1.3.1 Accepting Deposits

Oldest or main function of commercial bank is accepting deposits. A bank accepts deposit in three forms namely. Saving, current and fixed deposits.

Current Account: The account in which any amount can be deposited and withdrawn at any time is known as current account. The bank gives no interest to the account holders under this account. Nowadays, the bank under this account as per their own rule has determined minimum limit of deposit.

Saving Account: The account which is managed to collect the small saving of people is known as saving account. This account can be opened with nominal amount. The main objective of this a/c is to promote the saving of the people. Limited amount can be deposited and withdrawn from the bank in the specified time. If a person needs the amount more than limit then the prior information should be given to the bank as per their rule. Bank provides nominal rate of interest in this account.

Fixed Deposit Account: The account which is managed to accept the deposit for fixed period of time providing higher rate of interest, is known as Fixed Deposit Account. Amount cannot be withdrawn from bank before the expiry of time. If it is necessary account holder can take loan against the security deposit after paying 2 percent extra interests.

2.1.3.2 Advancing Loan

The second major function of a commercial bank is to provide loans and advances from the money, which receives by way of deposit loans, are granted by bank in form of overdrafts, cash credit, direct loans and discounting bills of exchange.

2.1.3.3 Transfer Money

Commercial Banks transfer the amount of public and organizations from one place to another place or one account to another account with the help of T.T., draft etc.

2.1.3.4 Agency Functions

A bank also performs number of services on behalf of its customer. A commercial bank undertakes the payment of subscriptions, insurance premium, rent and collection of cheques, bills, salaries, pensions and dividends. The commercial banks arrange to remit money from one place to another place by means of cheque, draft, wire transfers and also acts as representative of correspondent for his customers.

2.1.3.5 Exchange Foreign Currency

Commercial Bank exchanges foreign currency on the permission of Central Bank and considering to the directions provided by Central Bank time and again. Now days Commercial Bank fixed the rate of foreign currency as per market demand and competition.

2.1.3.6 Helps in Issue of Capital

On the request of company, corporation and other organization, it sells shares and debentures, gives guarantee and performs agency function for which it take commission from those organizations against the issue of capital made on behalf of those organizations.

2.1.3.7 Opens Letter of Credit (L.C.)

It opens L.C. for the import and export (foreign trade) of goods. It has got right to issue and accept traveller's cheque. This provision is specially made by the bank to facilitate to the foreign trade. L.C. is the act of providing guarantee to the foreign businessman on behalf of local businessman.

2.1.3.8 Other Functions

It manages locker to keep gold, silver and valuable items safely, collects and publishes the financial information, purchase and sells Bill of Exchange, provides overdraft facility on the agreement etc.

2.2 Role of Joint Venture Bank in Nepal

In Nepal, the history of the development of financial institution as compared to the other development and developing countries have been new experiment. Before the introduction of modern banking in Nepal in 1937, industry business and commerce were in a pity condition. In order to initiate industrialization, Government of Nepal has given due emphasis for development of the industrial sections. The government continues to maintain its efforts to follow liberal and market oriented economic policies encouragement to private participation in infrastructure activities such as power, telecommunication and gradual privatization of public sector companies. Among various factor of industrialization, shortage of capital is an important factor, which hinders the process of industrialization in less development countries. In order to set up and develop industries, huge financial investment is required.

All the Nepalese joint venture banks have been established and operated under rules, regulation and guidance of central bank i.e (NRB). These banks are formed under the company act 2021 B.S. and operated under Baniija bank act 2031 BS.

At present, the financial institutions of the country have never been effortful to mobilize resource. On the one hand, the major part of their commercial loans is concentrated among the few individual, where as the small traders and entrepreneurs are facing difficulties to receive loans on the other. The only solution to this problem is to encourage competition in the banking sector. Therefore, a policy of allowing new commercial bank under joint venture with foreign collaboration has been adopted; this will promote competition among bank whereby the clients will get improved facility. In addition, the share of these new banks will also be sold to general public and while distributing the shares, it will be ensured that the ownership is spread out to the maximum extent possible.

To prompt people's participation in the financial institution as well as to encourage competition, a sound capital market needs to be developed. In this connection, the establishment of securities exchange central limited in 1976 was a significant development. Before conversion of this center into Nepal Stock Exchange Ltd. in 1993, it was only the capital market institution undertaking the job of brokering, underwriting managing public issue, Market Making for government bonds and other financial services. At present, Nepal Stock Exchange Act is importing free

Marketability and Liquidity to the government and corporate securities by facilitation transactions in its trading floor through market intermediaries, such as broker market etc.

The above discussion shows that, on a part of financial liberalization, the introduction of the joint venture bank with foreign collaboration in Nepal is associated with the development of securities exchange, emergence of finance companies and the interest rate liberalization. These are indeed significant milestone in the financial development process of the country. With the opening up of new banks, managerial skill, Technical knows how and foreign capitals also come to the country creating atmosphere of healthy competition.

Hence, the various roles of the joint venture banks in Nepal. It can be classified in to three categories.

-) Introducing advance banking techniques.
-) Introducing foreign investment in Nepal, and
-) Bringing in healthy competition.

2.3 Banking Techniques

The joint venture banks in Nepal have been largely responsible for the introduction of new banking techniques such as computerization, hypothecation, consortium finance, fee-based activities and syndicating under the foreign exchange transactions by importers and exporters, merchant banking, inter-bank market for the money and securities arranging foreign currency loans etc. these modern banking services are being provided to Nepalese financial system through the window of the new joint venture banks.

2.4 Foreign Investment

When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local rules, regulation and practices. Though there are many system actually operates during the period of implementation. In this context, the joint venture banks help the multinational companies to build up their confidence for investment by providing necessary information and financial support. This again will be an unquantityfiable but definite and tangible benefit to Nepalese economy.

Healthy Competition

The induction of joint venture bank also brings the benefit of healthy competition of which the main beneficiaries are the bank customers and the economy. Customers earn a higher rate of interest on their deposits on one hand and pay a lower interest rate on their loans on the other, as bank introduce various innovative means of attracting customers. The increase in competition also force the existing banks to improve their qualities of services by simplifying procedures providing training and motivation to their own staff to respond to the new challenge. A positive by product of the increased competition is that it could also encourage local banks to respond by opening branches abroad.

Hence, the entrepreneurial dynamic and pivotal role of the joint venture banks contribute the economic development of the country by providing various new financial services to modernize traditional Nepalese banking system.

2.5 Conceptual Review of Commercial/ Joint Venture Banks

“A bank is a business organization that receives and holds deposits of fund from others, makes loans, extends credit and transfers funds by written under order of depositors.” Commercial Bank Act 1974 of Nepal has define as “ a commercial bank is one which exchanges money, deposits money, accepts deposits, grants loans and performs commercial banking functions and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose.”

A joint venture is the joining of forces between two or more enterprises for the purpose of carrying out specific operations (industrial or commercial investment, production and trade). (Gupta D.P., 1984, P. 94)

2.6 Review of Journals Related to Joint Venture Banks

When government decided to establish banks with joint ventures, two benefits were expected. First that competition would force domestic banks, such as Nepal bank limited and Rastriya Baniija Bank to improve their services and efficiency, and second is that introduction of new banking procedures methods and technology would occur (Madlin, C and Snock, H, 1998, p – 4).

There has been substantial growth in the number of joint venture banks in Nepal since 1990s. The basic reason behind this is the government’s deliberate policy

of allowing foreign joint venture banks to operate in Nepal Government's liberalization policy also encourages the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, and computerization and prompt customers services by setting them to the exposure of the joint venture banks. (Shrestha M.K., 1990.)

The existence of foreign joint venture bank has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the bank client. The increased competition forces the existing bank to improve their quality and extend services by simplifying procedures and training, motivation own staff to respond to the new challenges. (Chopra s., April, 1990)

The joint venture banks are in a better position than local commercial banks in profit making. In an average, no freight has suffered loss till now, but local banks owned negative profits. (Pradhan, k, 1991, p – 13)

Despite the increase in number, the joint venture banks are concentrated, except in urban centers, especially in major cities. This trend has resulted in two way effects on the operation of the government owned commercial bank in Nepal. First the comparatively attractive interest rate and devices promptness of these private banks have drawn the public deposit to their side there by reducing financial liabilities of the former. Second, as a result of reduction in the financial liabilities the government operated commercial banks have been forced to shut down some of their branches in the remote areas of country. Never the less a look at the activities of these joint venture banks provide a fill up in to the tremendous and they provide to the national economy. They have been instrumental in mobilizing capital more effectively and to a large extend. Especially, they have been more helpful in funding the private sector. (Facts about Nepalese Economy, 1998)

2.7 Financial Analysis

Financial analysis involves the use of various financial statements. The first is the balance sheet, which represents a snapshot of the firm's financial position at the movement in time and next is the income statement that depicts a summary of the firm's profitability over time. (J.C.C, Vanhrone and H.N. Wachowicz, 1997, p – 120)

Analysis and interpretation of financial statement is an attempt to determine the financial performance of any organization so that a forecast may be made of the

prospects for future earning ability to pay interest debt maturity and probability of a sound dividend policy. In the words of Myers, “financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statement and study of trends of these factors as shown in series of statement. (J.C.Moer,1961, p.4.)

Financial Analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account in a proper way. (I.M. Pandey, 1994, p. 96)

It is also the analytical and judgments process that helps answer the questions that have been posed. Therefore, it is means to end apart from the specific analytical answers, the solutions to financial problems and issue depend significantly on the views of the parties involve in the relative issues and on the nature and reliability of the information available. (E.A. Helfert, 1992, p.2)

Besides, it can be taken as the starting point for making plans, before using any sophisticated forecasting and planning procedures, financial data can be used to analyze a firm’s past performance and assess its present financial strength. Management of the firm would be particularly interested in knowing the financial strength to make their best use and to spot out the financial weakness, and to take corrective action.

The analysis make an attempt to dissect the financial statements into their components on the basis of the purpose on one hand and individual companies and total of these items on the other. In course of study and evaluating the financial position of the organization, a study of trends of various important factors over the past several is also undertaken to have clear understanding of changing profitability and financial condition of the business organization. (R.M. Srivastave,1993, p. 56)

Financial statement analysis involves a comparison of a firm’s performance with that of other firms in the same line of business, which is often, identifies the firm’s industry classification. (J.F. Weston S. Besley and E.F. Brigham, 1996, p. 78)

Through the application of analytical tools, profitability financial health of concern is evaluated in a proper, legal and scientific manner. (Hampton, 1998, p. 99)

Financial performance as the part of the financial management is the main indicator of the success or failure of the firm. Financial condition of business firm

should be sound from the point of view of shareholders, debenture holders, financial institution and nation as a whole.

Management of the firm is interest in all aspects of financial analysis to adopt a good financial management system and for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the liquidity position of the firm. Long term creditors are more interested in the cash flow ability of the enterprise to service debt over a long run; similarly, all concerned groups are directly or indirectly interested about the financial performance of the firm.

A quantitative judgement about the firm's financial position performance should be made from the view of a firm's investment. Thus, financial analysis is the main quantitative judgment process of identifying the financial strengths and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account.

So, a financial analysis assists in identifying the major strengths and weakness of a firm. It indicated whether a company has enough cash or not to meet its obligations and ability to utilize properly their available resources. Financial analysis can also be used to assess the company's viability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risks taken.

Effective management of working capital is one of the important aspects of the corporation to ensure the liquidity. Ineffective management of working capital put the company into serious liquidity crises and many other financial panics. 'Most of the Nepalese corporations are facing the problem of working capital management. Hence, they are failure to maintain liquidity.'" Dr. Mohohar K. Shrestha" has found in his study the fact that low paid up capital or inadequate provision of working capital poor inventory management and high accounts receivable contribute to creating liquidity problem in corporation in Nepal.

Financial performance of corporation is depends upon how effective plan and policy the firm has followed. Financial planning involves analyzing the financial flow of the firm as a whole forecasting the consequences of various investment financing and dividend decisions and weighing the effects of various alternatives. The idea is to determine where the firm has been where it is now, and where it is going not only the most likely course of events, but only the most likely course of events, but deviations from the most likely outcome. If things become unfavorable, the company should

have a back up plan, so that it is not caught flat – fooled, without financial alternatives.” (Van Horne James, 1988, p. 799)

Financial managers have to undertake number of activities to highlight the central goal of maximizing the values of the corporation. These financial activities have great impact on all the other business activities like marketing, production and personnel activities. Thus any mistake made in financial decisions adversely affects the whole operation of the corporation. These activities should be analyzed and evaluated from time to time. “Scientific analysis and interpretation can give the better picture of progress that the company has made in the past, its present position and its future prospects.” (Dr. A.N. Agrawal, 1974, P. 65)

It is useful to provide feedback information for drawing the attention of Management regarding what should be done for strengthening the financial performance. Hence, analysis of financial performance is a crucial part of financial decision making process financial performance is evaluated from the stand point of profitability, liquidity and solvency.

Financial performance as a part of the financial management is the main indicator of the success or failure of the enterprises. There are different personal institutions that are affected by the decision of the enterprises stockholders such as owners, managers, creditors, investors, customers; tax authorities etc are indirectly interested about the financial performance, of the enterprise. Though the type of analysis various according to the specific interest of the party involved. Shareholders of the enterprise are concerned principally with the present and expected future earning and the stability of the earning of other enterprises. This shows that they concentrate their analysis on the profitability of the enterprises. Management of the enterprises is interested in all aspects of financial analysis to adopt a good financial management system and for interested in the liquidity position to see the ability of the enterprises to pay their short term claims, long term creditors are more interested in the cash flow ability of enterprises to services debt over a long run. Similarly, all the concerned groups are interested either directly or indirectly about the financial performance of the company. Thus financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account. In sum it is a process of evaluating the relationship between component part of financial statement to obtain a better understanding of a firm’s position and performance.

Financial statement refers to the two statements which the accountant prepares at the end of a period of item for a business enterprise; they are balance sheet or statement of financial position and the income statement or profit and loss account.” Balance sheet is prepared by a business enterprise on a particular date in order to know its financial position and it refers to only two groups of accounts, assets, liabilities and capital. Income statement is prepared by business concern in order to know the profit earned and loss sustained during a specified period. (Mayer, N. John, 1974, p. 3)

Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and study of the trend of these factors as shown in series of statement. It is the process of identifying the financial strength and weakness the items of the balance sheet and profit and loss account. Thus the analysis of financial statement is an important aid to financial analysis. It is helpful in assessing the financial position and profitability of a business concern. (Pandey I.M, 1979, p. 500)

The analysis of financial statement thus refers to the treatment of the information contained in the financial statement in a way so as to afford full diagnosis of the profitability and financial position.

The statement of changes in financial position, prepared to determine only the sources and uses of working capital between dates of two balance sheets is known as the funds flow statement. (Pandey I.M, 1988, p. 456)

This statement is prepared in order to reveal clearly the various sources from where the fund are procured to finance the activities of a business concern during the accounting period this also brings highlight to the use in which these funds are put during the same period.

2.8 Objectives of Financial Analysis

From the concept of financial performance analysis: it has been proved that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected result. Various parties are involved in the business directly or indirectly. Therefore, objective of the analysis also differs from one party to other. However, major objectives of the analysis, in broad sense, can be stated as follows. (Hampton,1998. P. 99)

Assessment of past performance and current position

Assessment of potential and related risks:

(a) Assessment of past performance and current position

Past performance is often good indicator of future performance. Therefore, an investor or creditor is interested in the past sales, expenses, net income, cash flow and return on investment. In addition, an analysis of current position will tell what assets the business owns and what liabilities must be paid. Besides, it will provide the information about various facts in relation to the business such as:

Earning capacity or the profitability of the concern.

Operational efficiency of the concern as a whole of its various departments.

Long term and short-term solvency of the business for the benefit of debenture holder's and trade credit.

Real meaning and significance of financial date.

(b) Assessment of potential and related risks

The past and present information are useful only to the extent that has been bearing on future decision. Investor judges the potential earning capacity of a company because that will effect the value of the investment or share and the amount of dividend, the company will pay. The creditors judge the potential debt paying ability of the company. The potentials of the existing company are easier to predict than that of others. This means there is a less risk associated with them. The risk of the investment or loan hinges on how easy it is to predict the future profitability and liquidity. Besides, managers of the business concern will get various information about the potentials such as:

) Possibility of development in the near future through forecast and budget allocation.

) Financial stability of the business concern.

) Reforms needed for in the present policies and procedures that will help to reduce weaknesses and strength the performance.

2.9 Techniques of Financial Analysis

To evaluate the financial condition and performance of company, the financial analyst needs certain yardsticks. The yardstick frequently used is a ratio or index relating two pieces of financial data to each other. Analysis and interpretation of various financial data would give experienced and skilled analyst a better understanding of the financial condition and performance of the firm, than they will obtain from analysis of the financial data alone. (J.C Vannorne, 1999, p. 691 – 692)

The technique of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in these items as reflected in successive financial statement. The fundamental of the analytical technique is to simplify or reduce the data under review to the understandable terms.

Out of the various techniques, selection of a technique or combination of the techniques can be used for the analysis depending on the purpose and availability or the materials demanded by the technique.

(a) Trend Analysis

This method is immensely helpful in making comparative study of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the comparison may be earliest year. The latest year or any intervening year under the studie. This exhibits the direction to which the concern is preceding.

Trend analysis reveals weather the current financial position of the company has improved over the past year or not. It shows which of the items have moved in a favorable direction and which of them in unfavorable direction. Though, it is the important tool of analysis.

(b) Ratio Analysis

Ratio analysis is carried out to develop meaningful relationship between individual items or group of items usually in the periodical financial statements. An accounting ratio shows the relationship between the two interrelated accounting figures. Ratios are guides or shortcuts that are useful in evaluating the financial

position and the balance sheet is established. Ratio may be expressed in the form quotient, percentage or proportion.

Ratio analysis involves two types of comparisons for the useful interpretation of the financial statement. A ratio itself does not indicate the favorable or unfavorable position. Most commonly used standards evaluate the ratio are:

Comparison of present ratio with past or expected future ratios.

Comparison of the ratio of the firm with these similar firms over the period of time or with industry average at the same point time.

With the help of ratio, one can judge the financial performance of business concern over a period of time and against the industry average. The ratio helps the analyst to form the judgment whether the performance of the firm is good, questionable or poor. Management of the firm can take strategic decision on the basis, of position revealed by ratio. Investors can decide about the future of their investment. Creditors can judge whether the firm is able to meet its obligation and whether the more lending would be beneficial for them or not.

Liquidity ratio measures the ability of the firm to meet its current obligation. Leverage ratio evaluates the long-term financial position of the firm. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. Finally, profitability ratios are calculated to measure the operating efficiency of the company.

2.10 Review of previous related researches

Various studies have been conducted in different aspects of commercial banks and joint venture banks such as lending policy, liquidity position, interest rate structure, investment policy and capital structure etc. The conclusion of previous studies on the different aspects of joint venture commercial banks. The studies of previous theses are reviewed in this regard.

A study conducted by **Adhikari Devraj** entitled "Evaluating the financial performance of Nepal Bank Limited" The main objectives of the study are to examine the deposit trend, cost of deposit, mobilization, assess the investment portfolio of the bank, credit operation of the bank, liquidity and profitability, earning and dividend paying ability of the bank and finally provide suggestions based on the findings.

The major findings are the fixed deposit had the highest share of deposit in the bank with the current deposit share remaining the lowest in share. The growth in total deposit, average growth in total deposits, average growth in cost of deposit loans and advances share in the investment, investment portfolio on government securities increase (risk less asset portfolio) which is not principle of the commercial bank. Liquidity position of the bank is not so bad, return on capital, EPS is in declining trend.

A study conducted by **Shankar Kumar Singh** “A comparative Evaluation of financial performance of Nepal Arab Bank Ltd and Nepal Grindlays Bank Ltd” has got the following objectives and findings.

Objectives are to present the financial position of both the banks and to identify the financial strengths and weakness by analyzing the financial ratios and the income and expenditures. The major findings he came with are the liquidity position of both the bank is below the normal standard. Current ratio indicates unsatisfactory of both the banks. Loans and advances to total deposits ratio and loans and advances to saving deposit ratio of NABIL are higher than that of NGBL. The loss ratio of NABIL is higher and more fluctuating than that of NGBL hence NABIL has more difficult in the debt recovery. The interest coverage ratio of NABIL is slightly higher than NGBL. Profitability ratio of both the banks show positive return EPS of both banks reveals better performance.

A study on “A comparative analysis on the financial performance of NABIL and NIBL” by **Bindeshwor Mahato** has the following objectives and findings.

To evaluate the financial performance of NABIL and NIBL comparatively in terms of liquidity. Profitability, leverage, activity ratio and others the researcher has come up with the following findings.

The liquidity position of both the banks are satisfactory. Both the banks are utilizing their deposits funds through loans and advances to generate revenue efficiently but comparatively NIBL is doing more efficiently than NABIL, the probability for possible losses on loans and advances in NABIL is better than NIBL. The profitability ratio of NABIL is better than NIBL. The various leverage ratio such as long term debt to net worth, total debt to net worth and net fixed assets to long term debt were computed and found the first two ratio are higher in NIBL and the last one is higher in NABIL.

Ram Chandra Bhattarai ‘A study of financial analysis of HBL and NSBL’.

The main objectives of the study is to review the previous research studies of HBL and NSBL, evaluate the liquidity, position of the banks and the earning position with the necessary conclusions and recommendations.

Cash and bank balance to current deposit of HBL and NSBL is fluctuating. NSBL has a higher ratio showing weaker position of HBL. NSBL balance with NRB to total deposits is higher than HBL showing stronger position on NSBL. Liquidity assets to total deposit ratio of HBL is higher than NSBL. Debt to equity ratio of HBL and NSBL are fluctuating and increasing. Debt to assets ratio of HBL is riskier than NSBL. Long term debt to Net worth of HBL was fluctuating. Interest on deposit to interest on loans and advances ratio of HBL is higher than NSBL. HBL has earned more on investment than NSBL. Net profit margin of both is satisfactory but is found better in HBL. Return on net worth of HBL was higher than NSBL. Correlation between total investment and net profit was found higher in case of NSBL than HBL.

Mohan Bhandhari has a comparative analysis study on “NBL and NGBL” with the following objectives and findings.

The major objectives are to examine the financial performance of the banks and to analyze how the banks are effective in collecting and monitoring policies of the banks. On the findings it has come up with the liquidity position of the both banks being adequate to meet the short term obligations, the total investment to total deposits ratio of NGBL is better than that of NBL. The turnover ratio of NGBL is better than NBL, the profitability of NGBL is satisfactory them NBL.

A study conducted by **Bachu Kailash Kaini** “A comparative study of financial performance of NABIL and NGBL” has the following objectives and findings.

The objectives are to find the bank deposits mobilization and investment, to examine the strength and weakness, to evaluate performance. The major findings are as the liquidity of the both the banks is below the generally accepted normal standard. The capital structure of both the banks is higher leverage operating expenses of NABIL is higher than NGBL and performing assets is higher for NABIL than NGBL.

Heralal Prashad has conducted on “A comparative study in the financial performance of Nepal Indo – Suez Bank Ltd and Nepal Grindlays Bank Ltd.” NGBL has been able to gain a higher market share in case of deposits or compare to NISBL. The liquidity of position is too higher than NISBL. NISBL has better utilization of

resources. NISBL has maintained the ratio of cash and bank balance to total deposit considerably higher than that of NGBL. NISBL and NGBL are not seen to be successful in aspect of foreign investment in Nepal, by means of their wide international banking networks. NGBL is maintaining more amount as money at call or at short notice than of NISBL. Supplementary capital of NISBL and NGBL seems insufficient. And comparatively NGBL profitability position is better than that of NISBL. So NISBL should utilize its risky assets and share holders funds to gain higher profit margin and reduce its expenses for being more profitable.

CHAPTER – III

RESEARCH METHODOLOGY

In this section, the methodology used to research methodology used to conduct the present research has been explained. More specifically, this section explains about research design such as population and sample, Nature and source of data, data collection technique and data analysis techniques.

Evaluating financial performance of major two joint venture Banks (i.e. Everest Bank Limited and Nepal Investment Bank Limited) in a micro level and to highlight the effects of the financial decisions of these banks in the economy at the macro level forms the basis objectives of this research. This chapter outlines the methods followed in the process of analyzing the financial performance of two joint venture Banks.

A research methodology helps us to find out accuracy, validity and suitability. Research is a systematic inquiry of any particular topic and methodology is the method of doing research in a well manner. Hence, research methodology is the systematic study of research problem that solves them with some logical evidence.

3.1 Research Design

Research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the study purpose with economy in procedure to fulfill the objectives of this study, primary as well as secondary data will be used. This study is descriptive as well as analytical.

A plan of study or blue print for study that presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal is called a research design or strategy. (Joshi; 2001: 12)

Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance. The plan is overall scheme of programmed of the research. It includes on outline of what the investigator will do from writing the hypothesis and their operational implicational to the financial analysis of data. (Wolf, and pant, 1999:50)

Research design is the specification of methods and procedures of acquiring the information needed. It is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions to control variance. This research is aimed at studying the financial performance of commercial bank. For this purpose, this research follows descriptive and analytical research design.

3.2 Population and sample

The population for this study comprises all the license commercial banks of the country. A list of licensed commercial bank was obtained from NRB. There are altogether 23 commercial bank in Nepal. The commercial bank of Nepal can be categorized into two type namely public sector and private sector. Out of the total population bank is selected as sample for the study by using judgmental sampling method.

- (i) Everest Bank Limited (EBL)
- (ii) Investment Bank Limited (IBL)

Population comprises of data published by the concerned authority or institution to make the descriptive and analytical study. This study covers the balance Sheet, profit and loss account for the analysis. For the analytical part, sample of data should be taken into consideration within which the analysis and evaluation is made. For this purpose the study has taken a sample data of recent seven (T) years' financial statements.

3.3 Natures and sources of Data

The data so collected are the annual report of the secondary type and are collected from those banks (EBL and NIBL). The financial data used in this study are to analyze financial aspect of the firm namely in terms of deposits, loans and advances investment and other financial analysis to be taken in account.

3.4 Data Collection Techniques

Data are collected using secondary data. Secondary data are collected through the annual report of EBL and NIBL which were collected from concerned bank and other reports were downloaded from websites. Various publication of NRB was collected from concerned department of NRB. Similarly, reports of credit information

Bureau have been collected from office of CIB, Thapathali. The reference of NRB directives and test books, Journals, and unpublished dissertations have been obtained by visiting T.U. Central Library and other libraries and Central Department of management (CDM)'s Library.

3.5 Data Analysis Techniques

The data is collected, recorded identified systematically from different sources. The available information is grouped as per need of the research work in order to meet research objectives. The collected data are presented in appropriate forms of table or charts. For analysis purpose different kinds of appropriate financial tools, statistical tools and mathematical tools have been applied. The following diagrams and graphs have been used to represent the data in simple form.

3.5.1 Financial Tools

“Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account.” (I.M. Pandey; 1999: p. 108).

Financial analysis is the use of financial position and performance and to assess future financial performance” (Wild, Subramanym, and Halsey, 2003: p. 13)

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

A widely used tool of financial analysis is ratio analysis. It refers to the numerical or quantitative relationship between two items or variables. It is the expression of the relationship between two items either from balance sheet or from income statement or from both statements.

The calculated ratios have been grouped in following headings.

3.5.1.1 Liquidity Ratios

Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. A bank is subject to a minimum cash reserve requirement (CRR imposed by central bank to ensure that a minimum amount of total assets to meet unexpected withdrawals.

The following ratios are evaluated under liquidity ratios.

(a) Current ratio

The ratio is calculated by dividing current assets by current liabilities.

$$\text{Current ratio} := \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

Current assets include cash and those assets, which can be converted into cash within a financial year which is normally one year. These include cash and bank balance, investment in government securities, loans and advances, money at call and short notice, bills for collection, interest receivables etc. All obligations maturing within a year are included in current liabilities. These consist of current saving and short term deposits, fixed deposits maturing in that year, borrowing, accrued expenses, bills for dividend payable, customer acceptances etc.

(b) Cash and bank balance to current and saving deposits ratio

This ratio is calculated by dividing cash and bank balance by current and saving deposit.

Cash and bank balance to current and saving deposits ratio =

$$\frac{\text{Cash and bank balance}}{\text{Current and saving deposits}}$$

Cash and bank balance comprise of cash in hand, foreign cash in hand cheque and other cash items, balance with domestic banks and balance held in foreign banks. Current and saving deposit consists all types of deposits excluding fixed deposits.

The ratio measures the ability of bank to meet its immediate obligations. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposit. High ratio indicates sound liquidity position of the bank. However, too high ratio is not good enough as it reveals the under utilization of funds.

(c) Cash and bank balance to total deposit ratio

This ratio is calculated by dividing cash and bank balance by total deposit.

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

Total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits. The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of

the bank. But too high ratio is not favorable for the bank because it produces adverse effect in profitability due to idleness of high interest bearing fund.

(d) Fixed deposits to total deposit ratio

The ratio can be determined by dividing fixed deposit by total deposit this ratio can be determined.

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

The ratio shows what percentage of total deposit has been collected in form of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long-term loans. Low ratio means the bank should invest the fund of low cost in short term loans.

3.5.1.2 Leverage ratio

The long-term financial position of the firm is judged by the leverage or capital structure ratio. The leverage ratio is calculated to measure the financial risk and the firm's ability to use debt or, the benefit of the shareholder. This ratio measured the proportion of outside fund and owner's capital used in the banks. The following ratios are used under this group.

(a) Total debt to equity ratio

The ratio is calculated by dividing total debt by shareholder equity.

$$\text{Total debt to equity ratio} = \frac{\text{Total debt}}{\text{Share holder's equity}}$$

Total debt consists of all interest bearing long term and short-term debts. These include loans and advance taken from other financial institution, deposits carrying interest etc. Shareholders equity includes paid up capital reserves and surplus and undistributed profit.

The ratio shows the mix of debt and equity in capital. It measures creditor's claims against owner. A high ratio shows that the creditor's claims are greater than those of owners. Such a situation introduces inflexibility in the firm's operation due to the increasing interference and pressures from creditors.

Low ratio implies a greater claim of owner than creditors. In such a situation shareholders are less benefited if economic activities are good enough. Therefore, the ratio should neither be too high nor too low.

(b) Total debt to total assets ratio

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

$$\text{Total debt to total assets ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

This ratio shows the contribution of creditors in financing the assets of the bank. High ratio indicates that the greater portion of the bank's assets has been financed through the outsider's fund. The ratio should be neither too high nor too low.

(c) Debt to total capital ratio

This ratio can be obtained by dividing total debt by total capital of the firm.

$$\text{Debt to total capital ratio} = \frac{\text{Total debt}}{\text{Total Capital}}$$

Total capital refers to the sum of interest bearing debt and net shareholders equity. It shows the proportion of debt in total capital employed by the bank. High ratio indicates greater claim of creditor's. On the contrary, low ratio is the indication of lesser claim of outsiders. For the sound solvency position the ratio should not be too high or too low.

(d) Interest coverage ratio

The ratio is calculated by dividing net profit before deduction of interest and tax by interest charges.

$$\text{Interest coverage ratio} = \frac{\text{NPBIT}}{\text{Interest Charges}}$$

(NPBIT = Net Profit Before Interest Tax)

The ratio is also known as times interest earned ratio is used to test the debt servicing capacity of the bank. It shows the numbers of times the interest charge are covered by funds that are ordinarily available for the payment. It indicates the extent to which the earning may fall without causing any embarrassment to the regarding the payment of interest. Higher ratio is desirable, but too high ratio indicates the firm is

vary conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation.

3.5.1.3 Capital adequacy ratio

Capital adequacy ratio measures whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequate or not. The ratio is tested to ensure the safety and stability of the firm in long run.

Over capitalization and under capitalization both have adverse effect on the profitability of the firm's capital is insufficient; the form may not be able to group the opportunity from potential profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. As per the directive, the ratio should be 85 of their total risk weighted assets and total of balance sheet transitions. Here, capital fund refers to the core capital and supplementary capital. Commercial banks cannot declare and distribute dividend until they meet capital adequacy ratio. Under this group; following ratio are tested;

(a) Net worth to total deposit ratio

$$\text{Net worth to total deposit ratio} = \frac{\text{Net Worth}}{\text{Total deposit}}$$

The ratio measures the percentage of Net worth in relation to the total deposit collected in the bank. The ratio is a yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank.

(b) Net worth to total assets ratio

$$\text{Net worth to total assets ratio} = \frac{\text{Net Worth}}{\text{Total assets}}$$

Net worth includes share capital and shareholder's reserves. It means the relative proportion of the shareholders fund with respect to the credit. High ratio shows that the firm has adequate capital, which is the index of safety. Moreover, a bank with higher ratio is less affected by the instability of the financial market.

3.5.1.4 Turnover ratio

Turnover ratio is also known as utilization ratio that is employed to evaluate the effluence of firm with which the firm manages and utilizes its assets. They measure how effectively the firm uses the investments are made in order to produce profitable sales. Unlike other manufacturing concerns, the bank produces loan, advances and other innovation. High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank. Low ratio is the result of insufficient utilization of resources.

Depending upon special nature of assets and sales made by the bank, following are tested

(a) Loans and advances tot total deposits ratio

Loans and advances tot total deposits ratio := $\frac{\text{Loan and advances}}{\text{Total deposit}}$

Loans and advance consists of loans advances, cash credit overdrafts and foreign bills purchased and discounted.

The ratio indicates the proportion of total deposits invested in loans and advances. High ratio means the greater use of deposit for investing in loans and advances. But very high ratio shows poor liquidity position and risk in loans. On the contrary, too low ratio may be the cause of idle cash or use of fund in less productive sector.

(b) Loan and advances to fixed deposit ratio

Loan and advances to fixed deposit ratio= $\frac{\text{Loan and advances}}{\text{Fixed deposit}}$

The ratio indicates what proportion of fixed deposit has been used for loan and advances. Since, fixed deposits carry high sate of interest, fund so collected need to be invested in such sectors which yield at least sufficient return to meet the obligation. High ratio means utilization of the fixed deposit in form of loans.

(c) Investment to total deposit ratio

Investment to total deposit ratio: = $\frac{\text{Investment}}{\text{Total deposit}}$

Investment comprises of investment in Nepal Government treasury bills developments bonds, company, shares and other types of investment.

The ratio shows how efficiently the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of fund.

(d) Performing assets to total assets ratio

$$\text{Performing assets to total assets ratio} = \frac{\text{Performing assets}}{\text{Total assets}}$$

Performing assets to total assets include those assets which are invested for income generation purpose. These consist of loans and advances, bills purchased and discounted investment and money at call or short notice.

(e) Performing assets to total debt ratio

$$\text{Performing assets to total debt ratio} = \frac{\text{Performing assets}}{\text{Total debt}}$$

It shows the pattern of use of the fund collected from the outsiders. High ratio represents the success of bank in utilization of creditors fund in productive area. Low ratio indicates idleness of the cost bearing resources.

3.5.1.5 Profitability ratios

Profitability is a measure of efficiency and the search for it provides and incentive to achieve efficiency. Profitability also indicates public acceptance of the product and shows that the firm can produce competitively. Moreover, profit provides the money for repaying the debt incurred to finance the project and the resource for the internal financing expansion. The profitability of a firm can be measured by its profitability ratio (Khan M.Y, and Jain P.K.)

(a) Return on total assets ratio

$$\text{Return on total assets ratio} = \frac{\text{Net profit}}{\text{Total assets}}$$

Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in right side of balance sheet.

It measures the sufficiency of bank in utilization of the overall assets. High ratio indicates the efficiency of management in overall operation. Lower ratio means insufficient operation of the bank.

(b) Return on net Worth

$$\text{Return on net Worth} = \frac{\text{Net profit after tax}}{\text{Net Worth}}$$

This is tested to see the profitability of the owner's investment. It reflects the extent to which the objective of the business is accomplished. The ratio is of great interest to present as well as prospective shareholders and also of great significance to management which has the responsibility of maximizing the owner's welfare.

(c) Return on total deposit

$$\text{Return on total deposit} = \frac{\text{Net profit after tax}}{\text{Total deposit}}$$

The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is the index of strong profitability position.

(d) Total interest expenses to total interest income ratio

$$\text{Total interest expenses to total interest income ratio} = \frac{\text{Total interest expenses}}{\text{Total interest income}}$$

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loan taken by the bank. Total interest income includes interest income received from loans and advances, cash credit overdrafts, government securities; inter bank loans and other investment.

(e) Interest earned to total assets ratio

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

The ratio shows the percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of bank's assets for income generating purpose. Low ratio represents unsatisfactory performance.

(f) Staff expenses to total income ratio

$$\text{Staff expenses to total income ratio} = \frac{\text{Staff expenses}}{\text{Total income}}$$

Staff expenses includes the salary and allowance, contributes to the provident fund and gratuity fund, staff training expenses and other allowances and made for staff.

The ratio measure the proportion of income spent for the staff, whose contribution is of great significance in the success of the bank. High ratio indicates that the major portion of income is used for the staff.

(g) Office operation expenses to total income ratio

$$\text{Office operation expenses to total income ratio} = \frac{\text{Office operation expenses}}{\text{Total income}}$$

Office operation expenses comprise of expenses incurred in house rent, water and electricity, repairs and maintenance, legal expenses, audit expenses and other miscellaneous expenses made in course of operation.

It shows the percentage of income spent for the operating activities of the bank. High ratio shows that large amount of income is spent for the operating activity of the bank.

3.5.1.6 Other Financial indicators

Above stated ratios throw light on various aspects of bank Management, investors and creditors can get information regarding their interest. Some indicators are dealt which provide more knowledge about the performance of the bank. They are listed below:

(a) Earning per share (EPS)

It is obtained by dividing earning available to common shareholders by number of equity share outstanding.

$$\text{Earning per share (EPS)} = \frac{\text{Earning available to common shareholders}}{\text{Number of equity share outstanding}}$$

EPS refers to the income available to the common shareholders on per share basis. It enables us to compare whether the earning based on per share basis has changed over past period or not. The investors favor high EPS. It reflects the sound profitability position of the bank.

(b) Dividend per share (DPS)

It is obtained by dividing earning paid to shareholders by number of equity share outstanding.

$$\text{Dividend per share (DPS)} = \frac{\text{Earning paid to common shareholders}}{\text{Number of equity share outstanding}}$$

The net profit after the deduction of preference dividend belongs to equity shareholders. But the income that they really receive is the amount of earning distributed as dividend. Dividend may distribute in form of cash or bonus share. Dividend distribution affects the price of share. The shareholder prefer high dividend. But it may sometimes be wise to distribute less amount of profit, if investment opportunities are available.

(c) Price – earning ratio (P/E Ratio)

$$\text{Price – earning ratio (P/E Ratio)} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

P/E ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors judgment or expectation about the growth in the bank's earning.

(d) Market value per share to book value per share

$$\text{Market value per share to book value per share} = \frac{\text{Market Value per share}}{\text{Book Value per share}}$$

The ratio measures the value that the financial market attaches to the management and organization of the bank as a growing concern. High ratio is the indication of strong management and organization.

3.5.1.7 Income and expenditure analysis

This is a tool with the help of which the components of income and expenditure can be compared between two competitive firms. By the analysis, one is able to conclude which sources of income and expenditure are dominant in the related concerns. Under income analysis overall income is split up into major headings – Interest income, commission and discount, foreign exchange income and other income. Under expenditure analysis, entire operating expenses are split up into 4 major headings. Interest expenses staff expenses, office operating expenses and bonus facility.

3.5.2 Statistical tools

Statistical tools are the mathematical techniques used to facilitate the analysis and interpretation of numerical data “Statistical analysis is one particular language, which describes the data and makes possible to talk about the relations and the difference of the variables.” Following statistical tools have been used in this study.

3.5.2.1 Arithmetic Mean (X)

An average is a single value selected from a group of values to represent them in same way. That is supposed to stand for a whole group of which is a part, as typical of all the value in the group. Out of various measures of the central tendency, arithmetic mean is one of the useful tools applicable here.

$$\text{Mean } (\bar{X}) = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N} \text{ or,}$$
$$\text{Mean} = \frac{\sum X}{N}$$

3.5.2.2 Measures of Dispersion

Dispersion measures the variation of the data from the central value. The central value alone is not enough to analyze the quality of data regarding its variability. With the light of dispersion, an average becomes more powerful and meaningful. Following tools of measuring dispersion has been used in this study.

3.5.2.3 Standard Deviation (S.D.)

S. D. is the most popular and the most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the value of standard deviation higher is the variability and vice versa. It is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution. It can be calculated as follows:

$$\text{Standard Deviation } (\sigma) = \frac{\sqrt{\sum (x - \bar{X})^2}}{N}$$

3.5.2.4 Coefficient of Variation (C.V.)

The risk per unit of expected return can be measured by the coefficient of variation, which is computed as follows:

$$\text{Coefficient of Variation (C.V.)} = \frac{\sigma}{\bar{X}} \times 100$$

3.5.2.5 Correlation Coefficient (r)

Correlation Coefficient refers to the degree of relationship between two variables. Correlation coefficient determines the association between the dependent variable and independent variable. If between the variables, increase or decrease in one cause increase or decrease in another, then such variables are correlated variables. It is calculated as follows.

$$\text{Correlation Coefficient (r)} = \frac{S_{xy}}{\sqrt{S_x^2 \cdot S_y^2}}$$

The Karl Pearson Coefficient of correlation always falls between -1 to +1. The value of correlation in minus (-) signifies the negative correlation and in plus (+) signifies the positive correlation. If,

$r = 0$, there is no relationship between the variables.

$r < 0$, there is negative relationship between the variables.

$r > 0$, there is positive relationship between the variables.

$r = +1$, the relationship is perfectly positive.

$r = -1$, the relationship is perfectly negative.

The reliability of the correlation coefficient is judged with the help of probable error (P.E.). it is calculated as follows:

$$\text{Probable Error (P.E.)} = \frac{0.6745 (1 - r^2)}{\sqrt{N}}$$

Where, r = Correlation Coefficient

N = No. pairs of observation

If $r > 6 \text{ P.E.}$, then the correlation coefficient is significant and reliable.

If $r < \text{P.E.}$, then the correlation coefficient is not significant and there is no evidence of correlation.

3.5.3 Trend Analysis

Trend Analysis is one of the statistical tools, which is used to determine the improvement or deterioration of its financial situation. Trend Analysis informs about the expected future value of various variable. The least square method has been adopted to measure the trend behaviors of these selected banks. This method is widely used in practices. The formula of least square method for the straight line is represented by the following formula.

$$Y_c = a + bx$$

Where Y_c = Trend Values.

a = Y intercept or the computed trend figure of the Y variable, when $x = 0$

b = Slope of the trend line of the amount of change in Y variable that associated with change in 1 unit in x variable.

X = Variable that represent time i.e. time variable.

The value of the constants a and b can be determined by solving the following two normal equations.

$$Y = Na + b \quad Y \dots\dots\dots (i)$$

$$XY = a \quad x + b \quad Y \dots\dots\dots (ii)$$

Where, N = Number of years.

But for simplification, if the time variable is measured as a deviation from its mean i.e. Mid point is taken as the origin, the negative value in the first half of the series balance out the positive value in the second half so that ($\sum X = 0$). The value of constant a and b can easily be determined by using following formula.

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

3.5.4 Diagrammatic and Graphical Representation

Diagrams and graphs are visual aids that give a bird eye view of a given set of numerical data. They represent the data in simple and readily comprehensive form. Hence, various bar diagrams, pie charts and graph have been used for presentation and analysis of data.

CHAPTER –IV

PRESENTATION AND ANALYSIS OF DATA

A careful examination of financial statements gives much idea about any business entity. A firm's financial statement includes profit & loss account, Balance sheet, cash flows etc. financial statement analysis is not merely confined to finding more details behind the account classification. Instead it may be better defined as being a process of synthesis and summarization and a study of relationship. Data from both income statement and balance sheet are brought together in the form of ratio to reveal important relationship. In briefly, financial statement analysis demands attention for signification relationship.

4.1 Financial Tools (Ratio Analysis)

Ratio Analysis is a powerful tool of financial analysis that through it the economic and financial position of a business unit can be fully x-rayed.

4.1.1 Liquidity ratio

Liquidity ratios are used to judge the ability of the business organization to meet its maturing short term obligations. Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and others current obligations. A bank is subjects to a minimum cash reserve requirement (CRR) imposed by central bank to ensure that a minimum amount of total assets of meet unexpected withdrawals.

The following ratios are evaluated under liquidity ratio.

4.1.2 Current ratio (CR)

It is the ratio of total current assets and total current liabilities.

The ratio can be computed by applying the formula.

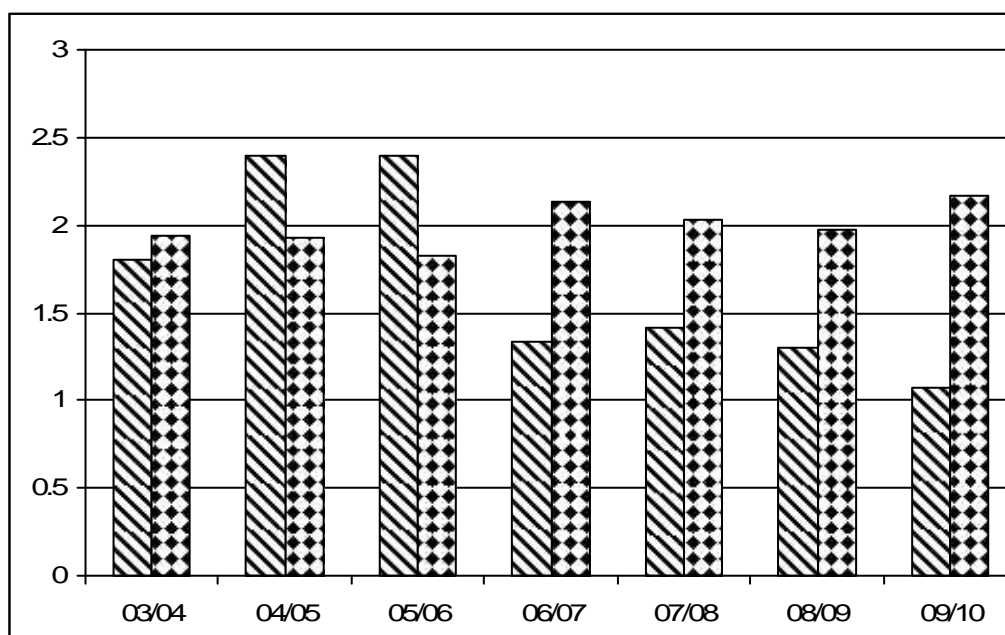
$$\text{Currents Ratio (CR)} = \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}}$$

A proportion of 2:1 is more considered satisfactory. However many firms consider less than 2:1 as standard current ratio.

Table No. 4.1 : Current Ratio

NIBL			EBL			(Rs. 000)
Year	C. A.	C. L.	Ratio	C. A.	C. L.	Ratio
03/04	2509275	1393950	1.80	3702757	1904263	1.94
04/05	6011900	2508450	2.40	4661400	2418161	1.93
05/06	9544883	3987250	2.40	5280307	2880326	1.83
06/07	5777692	4355994	1.33	6700076	3149241	2.13
07/08	8381205	5920191	1.42	8798848	4344642	2.03
08/09	9924689	7587417	1.30	12438279	6291369	1.97
09/10	11391609	10612111	1.07	15089509	6945882	2.17
Total			11.72			14
Mean			1.67			2.0
S.D			0.5			0.11
C.V			30.0107			5.51

Sources:- Final report of NIBL & EBL



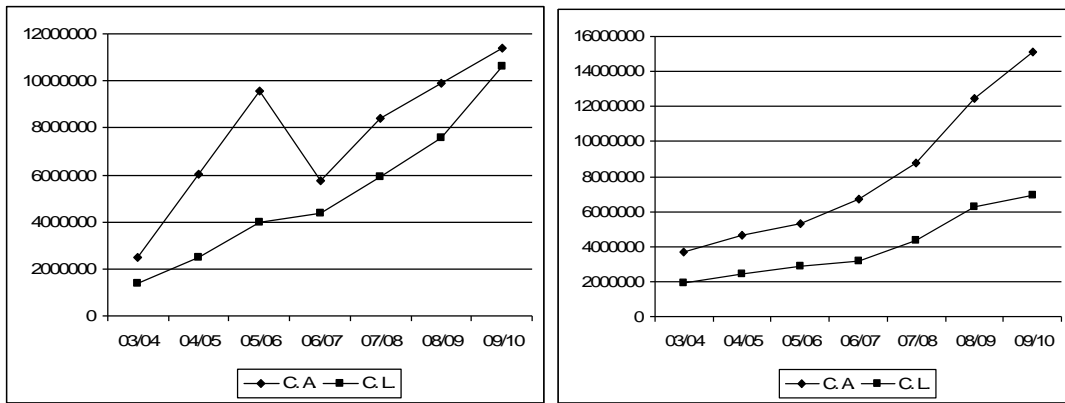


Fig.no.4.1

NIBL

EBL

The table of NIBL shows that the current ratio of the company is above the standard level i.e. 2.40 in year 04/05 and 05/06. However, all the CR over the different years are less than standard level. The highest CR has been recorded as 2.40 in 04/05, and the lowest CR is recorded as 1.07 in 09/10.

Similarly the above table of EBL shows that the CR of the Bank is above the standard, in the years 06/07, 07/08 and 09/10.

The comparative table and figure listed have shows that, the current ratio of both bank have in fluctuating trend throughout the study period. This mean ratios of CR of EBL is greater than that of NIBL i.e., $2.0 > 1.67$, the coefficient of variation between ratios of NIBL is considerable greater than that of EBL. i.e., $30.01 > 5.51$. It means that the variability of ratio of EBL is more uniform than that of NIBL.

The trend analysis of current asset and current liabilities of both the banks have adopted an increasing trend in the study period.

4.1.3 Cash and bank balance to current and saving deposit ratio

The ratio is calculated by dividing cash & bank balance and saving deposit

$$\text{Cash and bank balance to current and saving deposit ratio} = \frac{\text{Cash and bank balance}}{\text{Curent and saving deposit}}$$

The ratio measures the ability of bank to meet its immediate obligations. The bank should maintain adequate cash & bank balance to meet the unexpected as well as heavy withdrawal of deposit. High ratio indicates grated liquidity position of the bank, However too high ratio is not good enough as it reveals the under utilization of funds.

In the below table Cash and bank balance to current saving deposit ratio of NIBL seems to be fluctuating over the different period of time. The ratio has ranged between 10.82 (in 03/04) and 16.45 (in 07/08).

Similarly, there is fluctuation of ratio of EBL over different years. The ratio has ranged between 10.45 in 05/06 and 22.69 in 04/05.

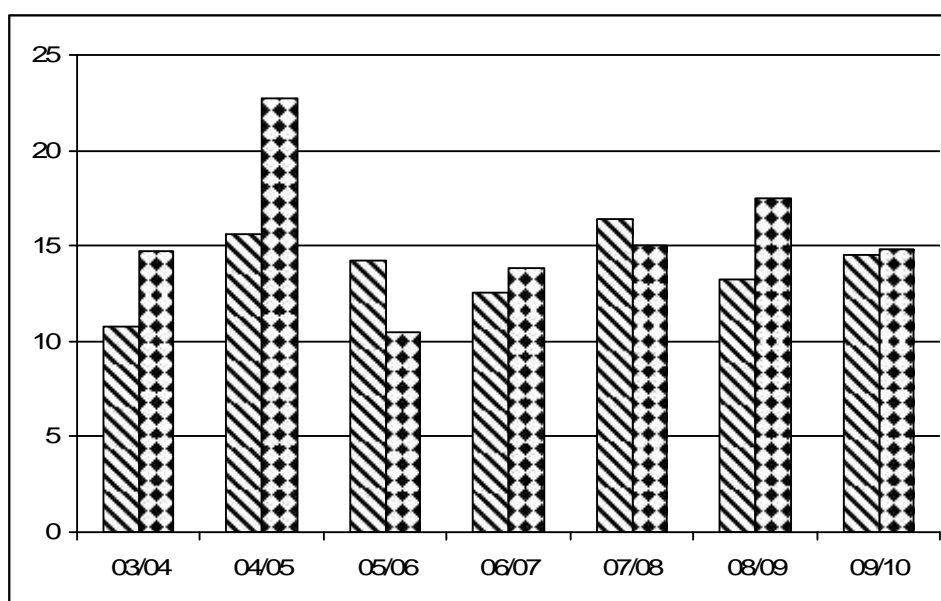
Table No. 4. 2 : Cash and bank balance to current & saving deposits ratio.

NIBL			EBL			(Rs.000)
Year	C & B	C & D	Ratio	C & B	C & D	Ratio
03/04	338900	3131100	10.82	602485	4099956	14.69
04/05	926600	5942100	15.59	1139569	5021222	22.69
05/06	1226900	8644050	14.19	631805	6047927	10.45
06/07	1340481	10690931	12.54	1049989	7573269	13.86
07/08	2335521	14195480	16.45	1552968	10351834	15.00
08/09	2441514	18366642	13.29	2391421	13639691	17.53
09/10	3754942	25838795	14.53	2667972	17982225	14.85
	Total		97.41			109.05
	Mean		13.92			15.58
	S. D		1.73			3.49
	C. V		12.46			22.41

Sources:- Final report of NIBL & EBL

* C & B = Cash and Bank

C & D = Current and Saving Deposit



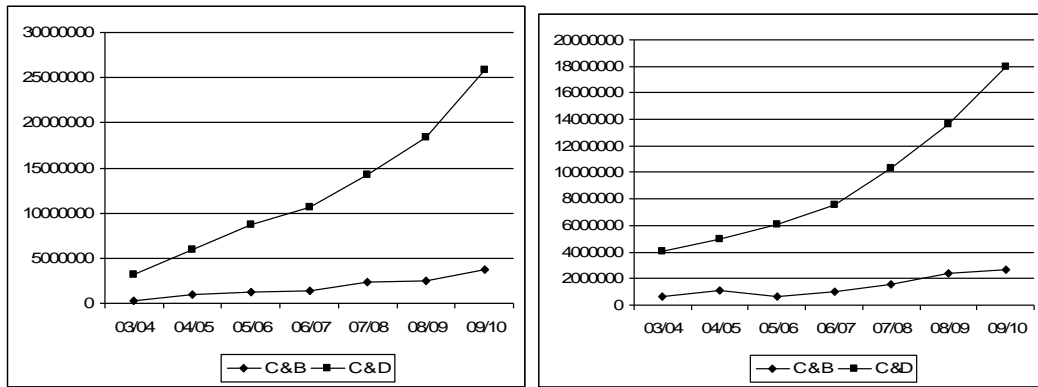


Fig.no.4.2

NIBL

EBL

The comparative table listed above shows that the cash and bank balance to current and saving deposits ratio of both the banks in fluctuating, trend throughout the study period. The mean ratios of cash and bank balance to current and saving deposit ratio of EBL is slightly greater than that of NIBL i.e., 15.58 > 13.92 and the coefficient of variation between ratios of EBL is greater than NIBL i.e. 22.41 > 12.46. It means that the variability of ratios of NIBL is more uniform than that of EBL.

The trend analysis of cash and bank balance and current saving deposit of both the banks have adopted an increasing trend in the study .

4.1.4 Cash & bank balance to total deposit ratio

The ratio calculated by dividing by cash & bank balance to total deposit. It shows the ability of company's immediate fund to meet their current A/C, saving A/C, fixed A/C, & other deposit. A higher ratio shows a higher liquidity position & the ability to cover the deposit.

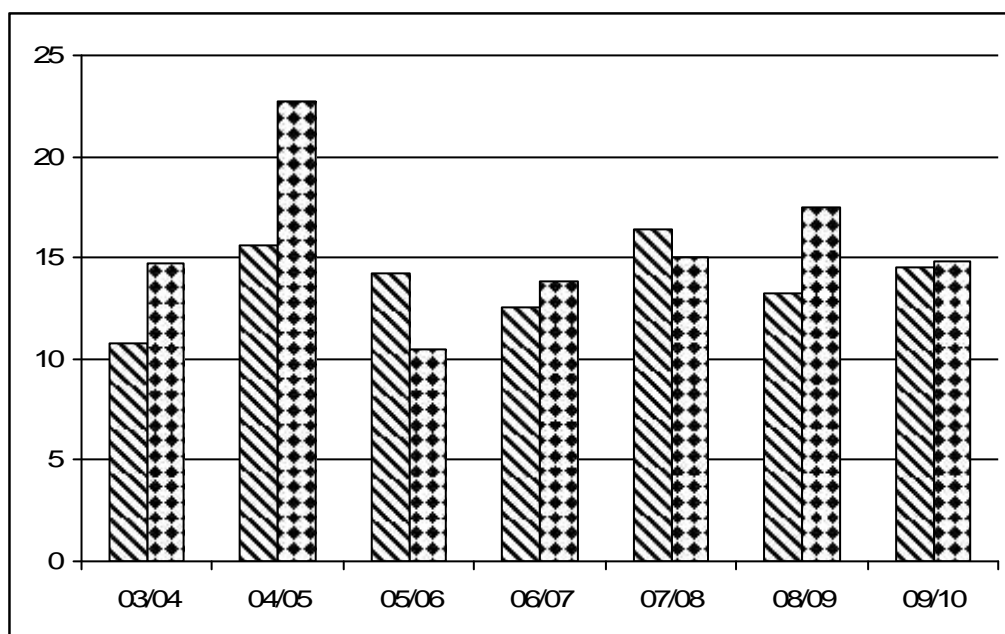
$$\text{Cash \& bank balance to total deposit ratio} = \frac{\text{cash and bank balance}}{\text{Total deposit}}$$

Table No 4.3 : Cash & bank balance to total deposit

NIBL			EBL			(Rs. 000)
Year	C & B balance	Total deposit	Ratio	C & B balance	Total deposit	Ratio
03/04	338900	4174800	8.12	602485	546609	11.02
04/05	926600	7922800	11.70	1139569	6694963	17.02
05/06	126900	11525400	10.65	631805	8063902	7.83
06/07	1340481	14254574	9.40	1049989	10097691	10.40
07/08	2335521	18927306	12.34	1552968	13802445	11.25
08/09	2441514	24488856	9.97	23911420	18186254	13.15
09/10	3754942	34451726	10.90	2667972	23976299	11.13
Total			73.08			81.80
Mean			10.44			11.69
S .D			1.32			2.62
C. V			12.61			22.41

Sources:- Final report of NIBL & EBL

* C & B = Cash and Bank



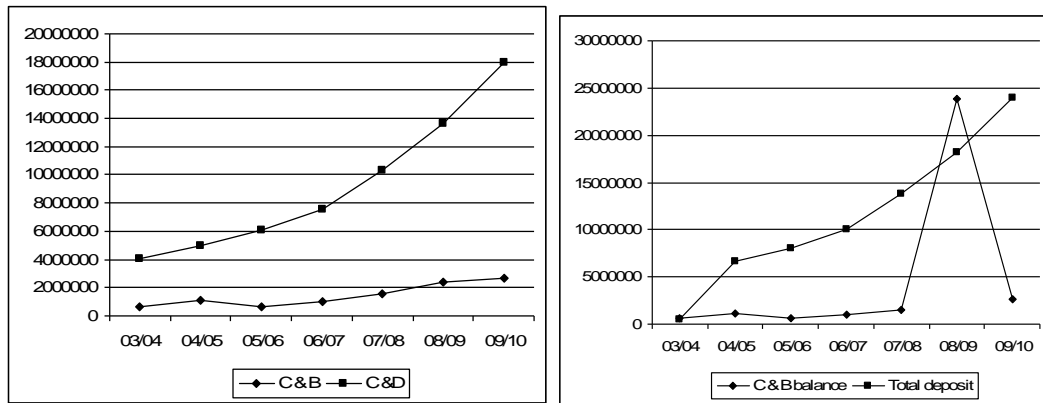


Fig.no.4.3

NIBL

The cash and bank balance to total deposit ratio seems to be fluctuating from beginning to ending period. The highest ratio recorded is 12.34 in 07/08 and the lowest ratio recorded is 9.40 in 06/07. However there is higher fluctuation in EBL than in NIBL. Highest ratio is 17.02 in the year 04/05 and the lowest is 7.83 in 05/06.

EBL

The mean ratio of cash and bank balance to total deposit ratio of EBL is slightly greater than that of NIBL i.e., 11.69 > 10.44 and the coefficient of variation between ratios of EBL is considerably greater than that of NIBL the 22.41 > 12.61. It means that the variability of ratios of NIBL is more uniform than that of EBL. So it is quite obvious from the study that NIBL's liquidity position is to be better than that of EBL.

Cash and Bank balance and total deposit of NIBL's has adopted an increasing trend in the study period. Similarly the trend of EBL has been fluctuating in the study period.

4.1.5 Cash & bank balance to current assets ratio

The cash & bank balance to current Assets ratio reflects the portion of cash & bank balance in the total of current Assets. Cash & bank balance in the total of current assets. Cash & bank balance are highly liquid assets compared to other current assets. It ratio calculated by

$$\text{Cash \& bank balance to current assets ratio} = \frac{\text{Cash \& bank balance}}{\text{Total current Assets}}$$

Table No. 4.5 : Cash & Bank Balance to current Assets & Ratio

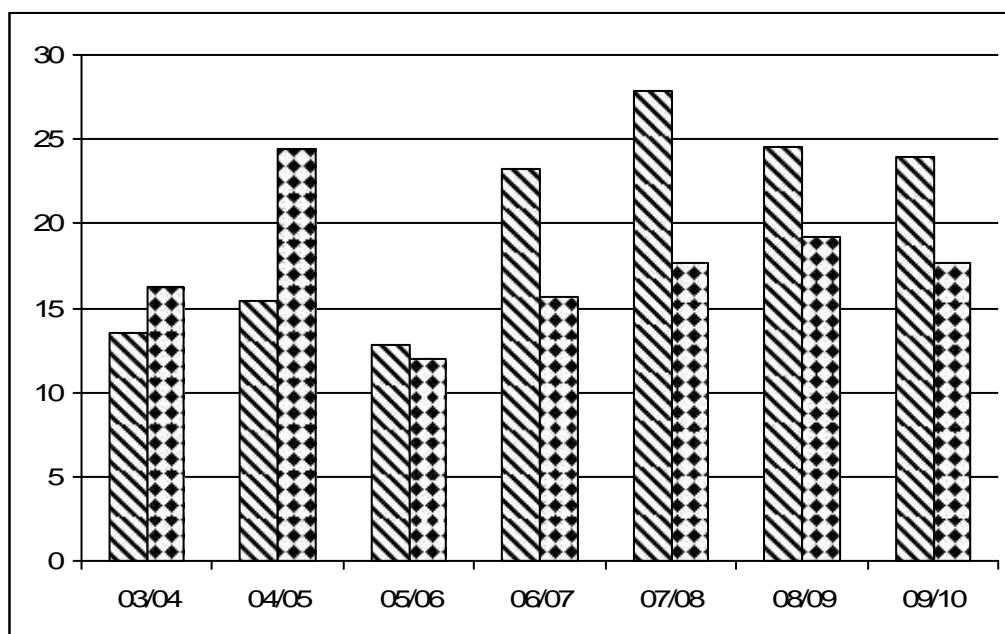
NIBL

EBL

(Rs.000)

Year	C&B balance	Total CA	Ratio	C&B balance	Total CA	Ratio
03/04	338900	3730350	13.50	602485	3702757	16.27
04/05	926600	6011900	15.41	1139569	4661400	24.45
05/06	1226900	9544883	12.85	631805	5280307	11.97
06/07	1340481	5777192	23.20	1049989	6700076	15.67
07/08	2335521	8381205	27.87	1552968	8798848	17.65
08/09	2441514	9924689	24.60	2391420	12433279	19.23
09/10	3754942	11391609	23.96	2667972	15089509	17.68
Total			150.39			122.92
Mean			21.48			17.56
S.D			7.17			3.52
CV			33.40			20.05

Sources:- Final report of NIBL & EBL



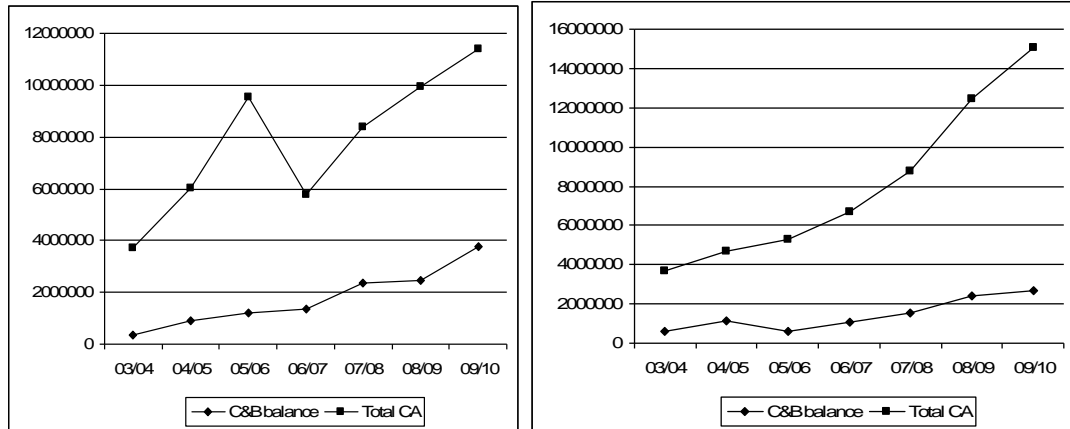


Fig.no.4.5

NIBL

The cash and bank balance to current assets ratio of NIBL seems to fluctuating over different years. It is increasing trend for the first two years. However, it is increasing afterward and again there is fluctuation over all different years.

Similarly, the ratio seems to increasing for first two years and it is decreasing afterward. The ratio ranged between 11.97 (in 04/05) and 24.45 (in 05/06).

The mean ratios of cash and bank balance to current assets ratio NIBL in considerably greater than that of EBL i.e. 21.48>17 560 and the C.V. between ratios of NIBL in considerably greater than that of EBL i.e., 33.40>20.05. It means that the variability of ratios of EBL is more uniform than that of NIBL.

The trend analysis of cash and bank balance and total assets of both the banks have adopted an increasing trend in the study period.

EBL

4.1.6 Loan & Advance to Fixed Deposit Ratio

This Ratio shows the proportion of loans and advances to fixed deposits. How much in the proportion of the Loan and advances on Fixed Deposits in what this ratio in all about

$$\text{Loan \& Advance to Fixed Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Fixed Deposits}}$$

Higher the ratio high is the amount being gone in the form of loans and advances and lower the ratio lower the amount being gone in the form of loans and advances.

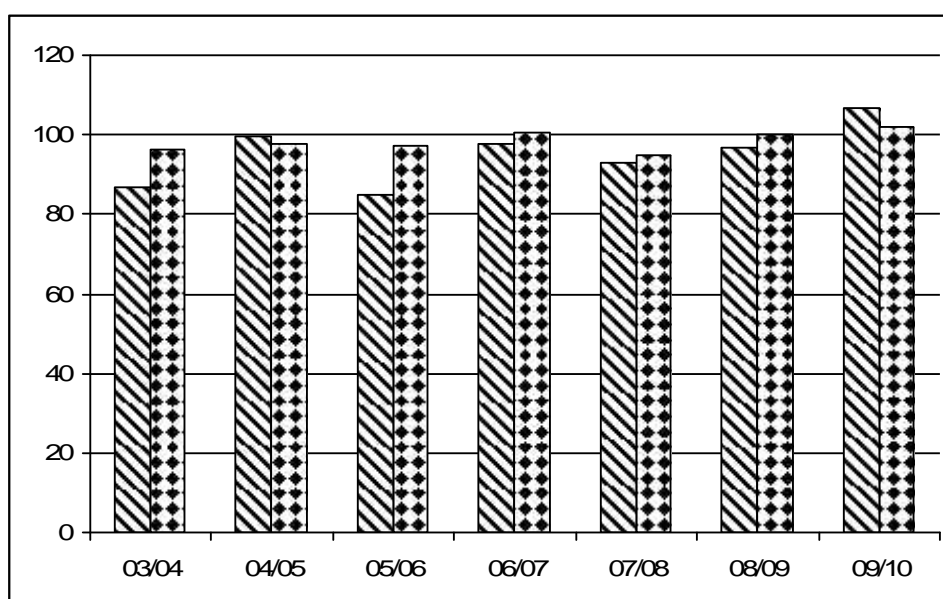
In the below table Loan and advance to fixed deposit ratio of NIBL seems to increasing in first two years and it is decreasing afterward and there is further fluctuation over different year.

Similarly the ratio of EBL is increasing except in year 07/08. The ratio range between 94.68 (in 07/08) and 101.98 (in 09/10).

Table No. 4.6 : Loan & Advance to fixed deposited ratio

NIBL			EBL			(Rs.000)
Year	Loan and Advance	Fixed deposit	Ratio	Loan and Advance	Fixed deposit	Ratio
03/04	2713500	3131100	86.66	3948478	4099958	96.31
04/05	5921800	5942100	99.66	4908461	5021222	97.75
05/06	7338500	8644050	84.90	5884123	6047927	97.29
06/07	10453164	10690930	97.77	7618671	7573268	100.60
07/08	13178152	14195480	92.83	9801308	10351834	94.68
08/09	17769100	18366642	96.75	13664082	13639691	100.18
09/10	27529305	25830795	106.54	18339086	17982224	101.98
Total			665.11			688.79
Mean			95.02			98.40
S.D			6.99			2.41
C.V			7.35			2.45

Sources:- Final report of NIBL & EBL



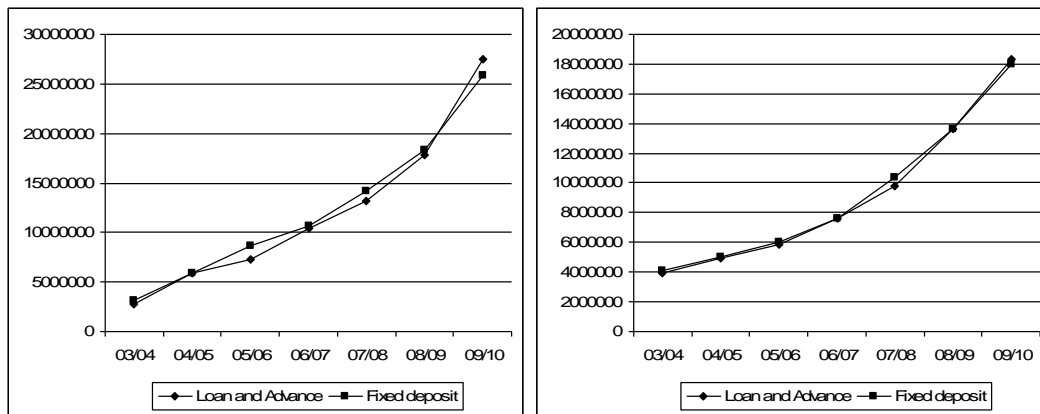


Fig.no.4.6

NIBL

EBL

The mean ratio of loan and advances to fixed deposit of EBL is highly greater than that of NIBL i.e. $98.40 > 95.02$ and the C.V. between ratios of NIBL is greater than that of EBL. It means that the variability of ratios of EBL is more uniform than that of NIBL.

Loan and Advance and fixed deposit of both the banks have adopted an increasing trend in the study period.

4.2 Leverage ratio

The long term financial position of the firm is judged by the leverage or capital structure ratio. The leverage ratio is calculated to measure the financial risk and the ability to use debt the benefit of the shareholder. Those ratio measures the proportion of outsiders fund and owner capital used in the banks.

4.2.1 Total debt to equity ratio

The ratio is calculated by dividing total debt by share holder equity. The ratio shows the mix of debt and equity in capital. It measures creditors claims against owner. A high ratio shows that the creditor claims are greater than those of owners. Low ratio implies a greater claim of owners than creditors. In such a situation shareholders are less benefited if economic activities are good enough. Therefore, the ratio should neither be too high nor too low.

$$\text{Total debt to equity ratio} = \frac{\text{Total debt}}{\text{Share holder's equity}}$$

Table No.4.7 : Total Debt to equity Ratio

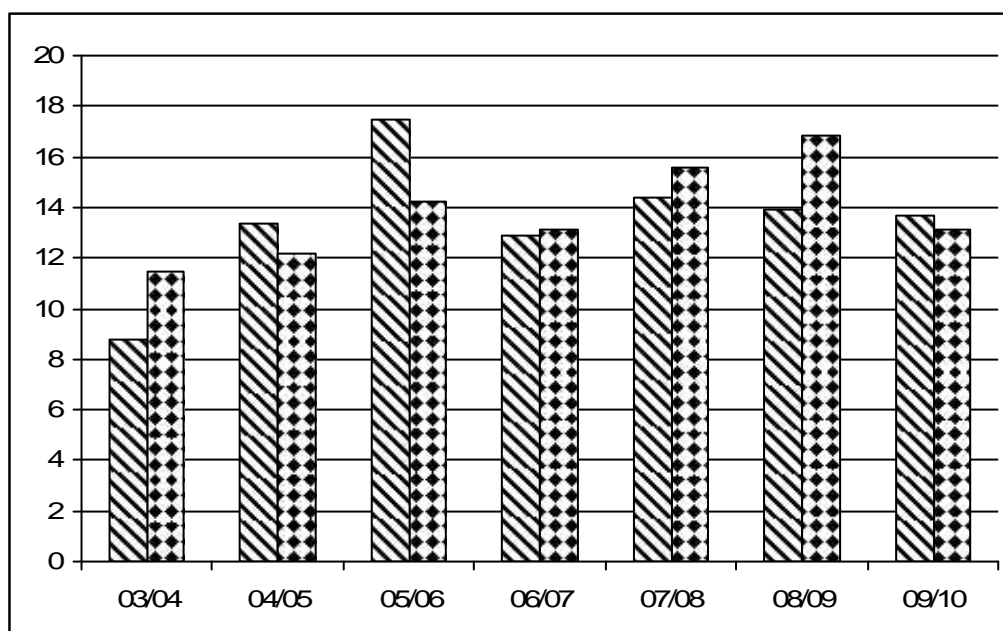
NIBL

EBL

(Rs. 000)

	NIBL			EBL		
F/Y	Total debt	Shareholder equity	Ratio	Total Debt	S.H.E	Ratio
03/04	4599500	523500	8.78	6076261	530910	11.44
04/05	8525400	638500	13.35	7439384	612825	12.14
05/06	12734800	729000	17.47	8976766	631805	14.21
06/07	15210479	1180173	12.89	10899899	832617	13.09
07/08	20316642	1415440	14.35	14996477	962808	15.58
08/09	26195394	1878124	13.95	20231059	1201515	16.84
09/10	36717231	2688727	13.66	25228105	1921238	13.13
Total			94.45			96.43
Mean			13.49			13.78
S.D.			2.366			1.767
C.V.			17.836			12.82

Sources:- Final report of NIBL & EBL



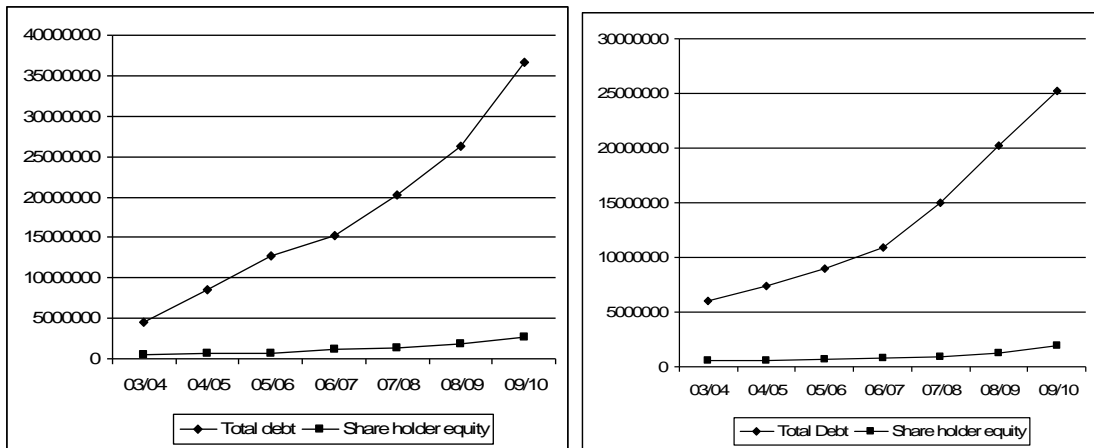


Fig.no.4.7

NIBL

The total debt to equity ratio is NIBL is fluctuating over different year. The ratios has ranged between 8.78 (in 03/04) and 17.47 (in 05/06) in the study period.

Similarly total debt to equity ratio of EBL is increasing trend expect 09/10 year. The highest ratio 16.84 in the year 08/09 and lowest ratio is 11.44 in 03/04.

The comparative table above shows that the ratio is total debt to equity is fluctuating it means ratio of NIBL is lesser than that of EBL i.e. $13.49 < 13.78$. Similarly C.V. of NIBL is greater than that of EBL i.e. $17.536 > 12.82$. Thus the variability of ratios EBL is more homogeneous than that of NIBL.

Total debt and shareholders equity trend of both the banks have followed or increasing trend over the study period.

EBL

4.2.2 Total debt to total assets ratio

This ratio shows the contribution of creditors in financing the assets of the bank high ratio indicates that the greater portion of the banks. High ratio indicates that the greater portion of the bank's assets been financed through the outsider's fund. The ratio should be either too high nor too low. This ratio calculated dividing total debt by total assets.

$$\text{Total debt to total assets ratio} = \frac{\text{Total debt}}{\text{Total assets}}$$

In the below table and trend analysis Total debt to total assets ratio of NIBL seems to slightly increasing first three years and stable ratio 06/07 to 09/10 in the year. The ratio has ranged between 0.90 to 0.95 in the study period.

Similarly, the ratio seems to slightly increasing trend of HBL. The mean ratio 0.93.

The comparative table above shows that the ratio of debt to total assets ratio of HBL and NIBL is same i.e., 0.93 and coefficient of variation between ratios of NIBL is greater than that of EBL i.e., $1.46 > 0.81$. It means that the variability of ratio of EBL is more uniform than that of NIBL.

Total debt and total assets of both banks have adopted an increasing trend in the study period.

Table No. 4.8 : Total Debt to Total Assets Ratio (Rs.000)

Year	NIBL			EBL		
	Total debt	Total assets	Ratio	Total Debt	Total Assets	Ratio
03/04	4599500	5123000	0.90	6076261	6616898	0.92
04/05	8525400	9163900	0.93	7439384	8052209	0.92
05/06	12734800	13463900	0.95	8976766	9608571	0.93
06/07	15210479	16390652	0.93	10899899	11732516	0.93
07/08	20316642	21732081	0.93	14996477	15959285	0.94
08/09	26195394	28073517	0.93	20231059	21432574	0.94
09/10	36717231	39405959	0.93	25228105	27149343	0.93
Total			6.50			6.51
Mean			0.93			0.93
S. D.			0.0136			0.0075
C .V.			1.46			0.813

Sources:- Final report of NIBL & EBL

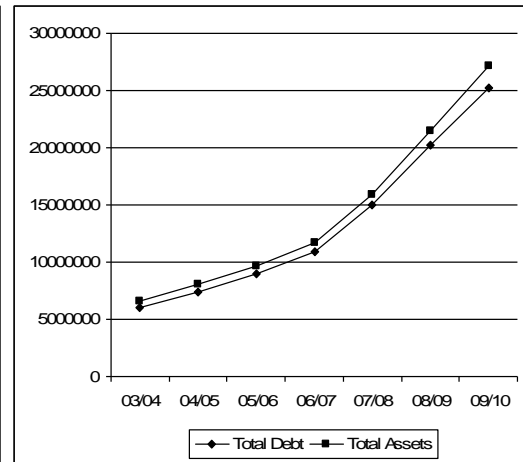
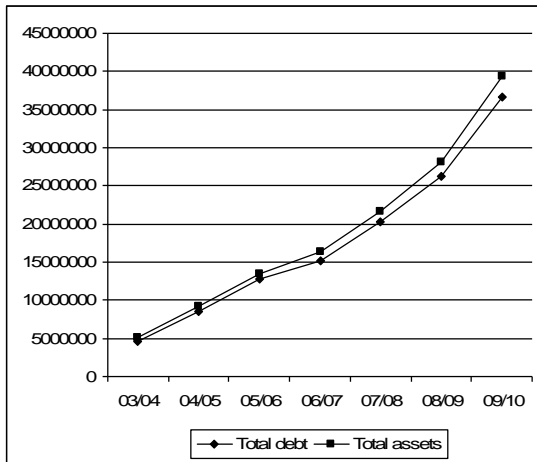
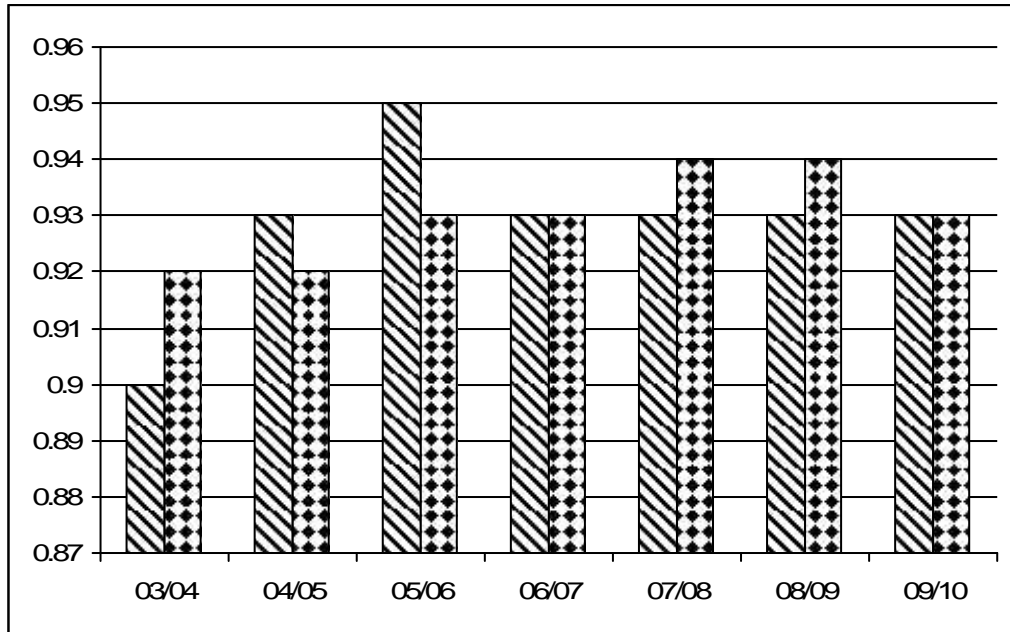


Fig.no.4.8

NIBL

EBL

4.2.3 Debt to total capital ratio

This ratio can be obtained by dividing total debt by total capital of the firm. Total capital refers total debt and share holder equity. It shows the proportion of debt in total capital employed by the bank. High ratio indicates greater claim of creditor's low ratio indication of lesser claim of outsiders. For the sound solvency position. The capital ratio should not be too high or too low.

$$\text{Debt to total capital ratio} = \frac{\text{Total Debt}}{\text{Total Capital}}$$

In the table below the table debt to total capital ratio of NIBL is highly fluctuating over different year. The highest ratio is 28.68 in the year 06/07 and the lowest ratio is 7.39 in 03/04.

Similarly, total debt to total capital ratio of EBL is increasing from 03/04 to 05/06 years other years are fluctuating. The ratio has ranged between 9.62 (in 06/07) and 13.47 (in 08/09) in the study period.

Table No. 4.9 : Total Debt to Total Capital Ratio

NIBL		EBL			(Rs. 000)	
Year	Total debt	Total capital	Ratio	Total Debt	Total capital	Ratio
03/04	4599500	622100	7.39	6076261	530910	11.44
04/05	8525400	706500	12.07	7439384	612825	12.14
05/06	12734800	1090500	11.68	8976766	680319	13.19
06/07	15210479	530173	28.68	10899899	1132617	9.62
07/08	20316642	1965440	10.34	14996477	1262808	11.88
08/09	26195394	2678124	9.78	20231059	1501515	13.47
09/10	36717231	3738727	17.04	25228105	2221238	11.36
Total			68.30			83.10
Mean			9.76			11.87
S.D.			7.80			1.19
C.V.			79.91			10.00

Sources:- Final report of NIBL & EBL

The comparative table and figure listed above shows that the debt to total capital ratio of NIBL is in fluctuating trend then that of EBL. The mean ratio of debt to total capital ratio EBL is greater than that of NIBL, i.e. $11.87 > 9.76$ and the coefficient of variation between ratios of NIBL is greater then that of EBL i.e. $79.91 > 10.00$. It means that the variability of ratios of EBL is more uniform then that of NIBL.

Debt and total capital of both banks have adopted an increasing trend in the study period.

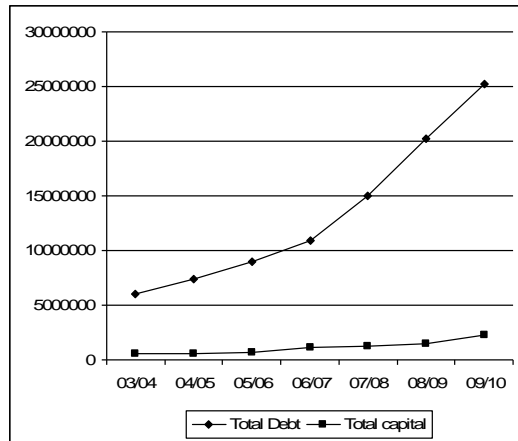
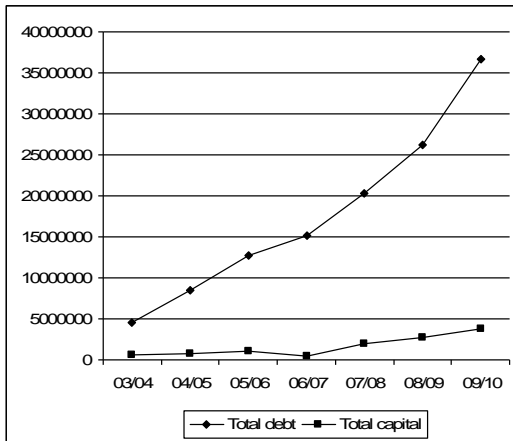
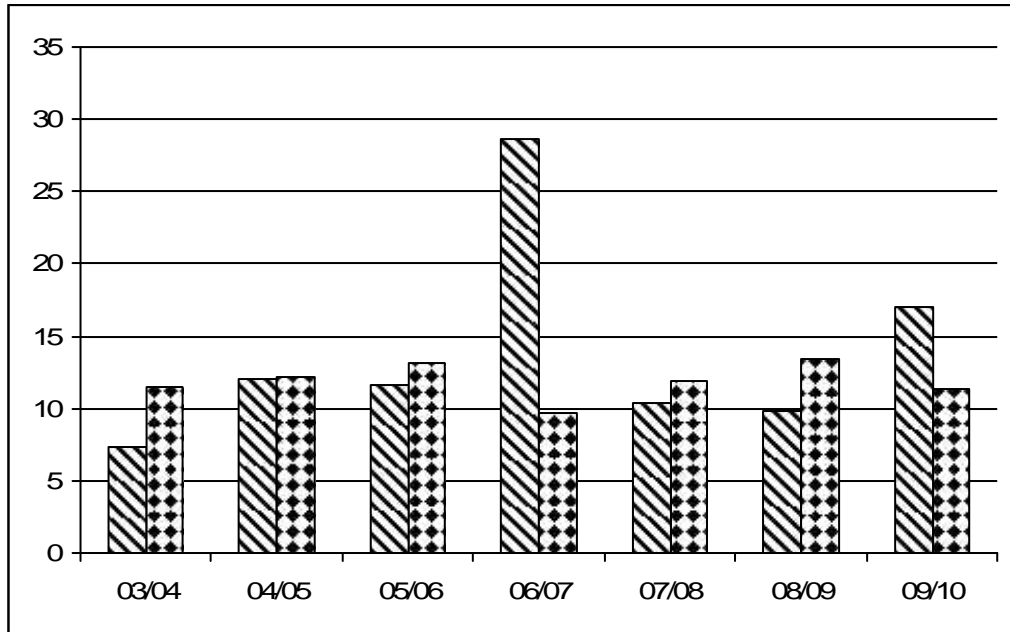


Fig.no.4.9

NIBL

EBL

4.2.4 Interest coverage ratio

The ratio is calculated by dividing net profit before interest and tax by interest charges. It indicates the extent to which the earning may fall without causing any embarrassment to regarding the payment of interest higher ratio is desirable. Higher ratio is desirable, but too high ratio indicates the firm is vary conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation.

$$\text{Interest coverage ratio} = \frac{\text{NPBIT}}{\text{Interest charges}}$$

Table No.4.10 : Interest coverage Ratio

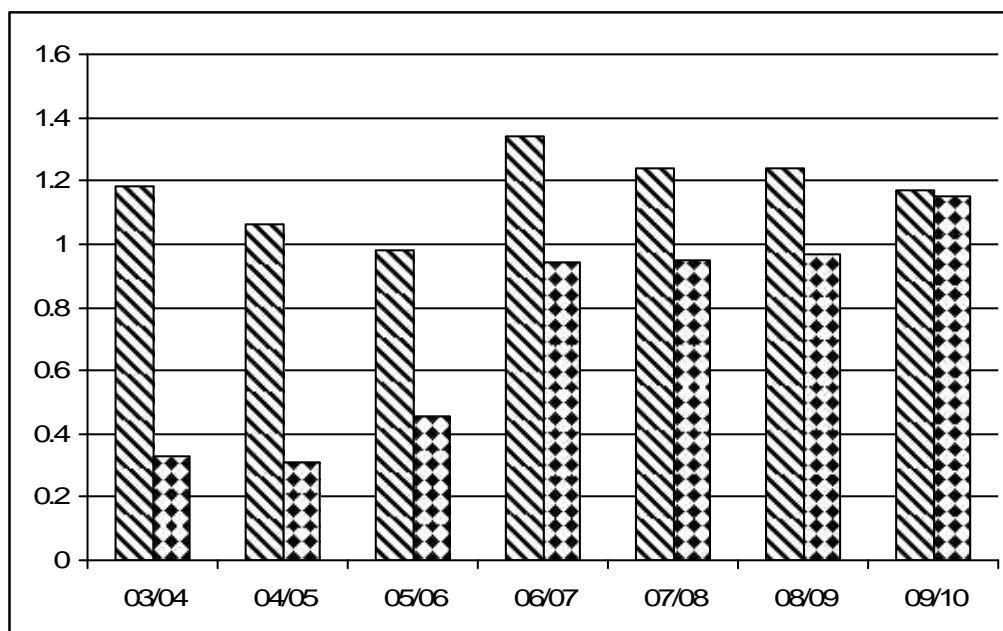
NIBL

EBL

(Rs.000)

FY	NPBIT	Interest Charge	Ratio	NPBIT	Interest Charge	Ratio
03/04	153300	130400	1.18	85347	257051	0.33
04/05	200400	189200	1.06	94180	307639	0.31
05/06	322500	326200	0.98	143567	316366	0.454
06/07	474085	354549	1.34	280803	299565	0.94
07/08	608722	490947	1.24	380160	401397	0.95
08/09	853094	685530	1.24	500179	517166	0.97
09/10	1155950	992158	1.17	724555	632609	1.15
Total			8.21			5.104
Mean			1.17			0.73
S.D.			0.111			0.325
C.V			9.53			44.51

Sources:- Final report of NIBL & EBL



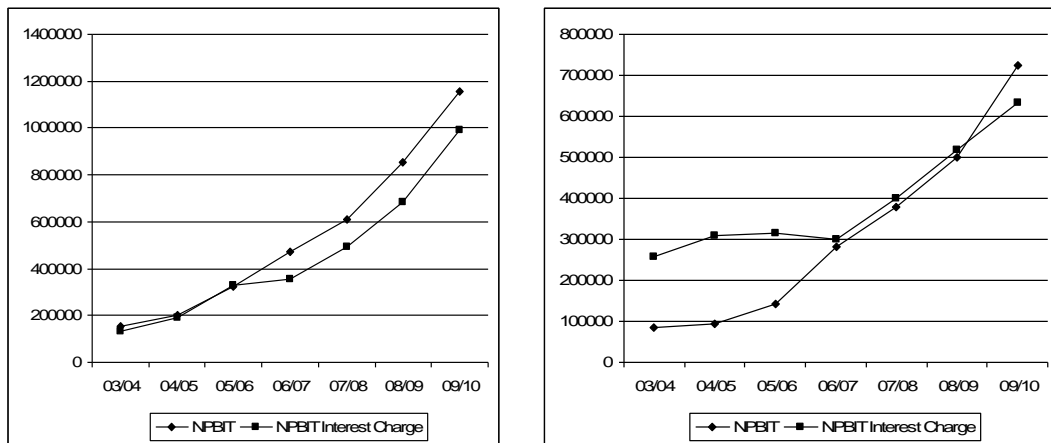


Fig.no.4.10

NIBL

EBL

The ratio of NPBIT to interest charge of NPBIT to interest charge of NIBL seems to be less fluctuation over different period of time.

Similarly there is not fluctuation in the ratio of NPBIT to interest charge of EBL. The mean ratio of interest coverage ratio of NIBL is considerably greater than that of EBL i.e., $1.17 > 0.73$ and the coefficient of variation between ratios of EBL is more uniform than that of EBL. The higher mean interest coverage ratio of NIBL measures the higher percentage of net worth in relation to total deposit collected in bank as comparison to EBL.

Net profit before interest and tax and interest charges of both bank have adopted an increasing trend in the study period.

4.2.5 Net worth to total assets ratio

This ratio is calculated by dividing Net worth by total assets. This ratio is calculated by dividing Net worth by total assets. A bank with higher ratio is less affected by the instability of the financial market.

$$\text{Net worth to total assets ratio} = \frac{\text{Net worth}}{\text{Total Assets}}$$

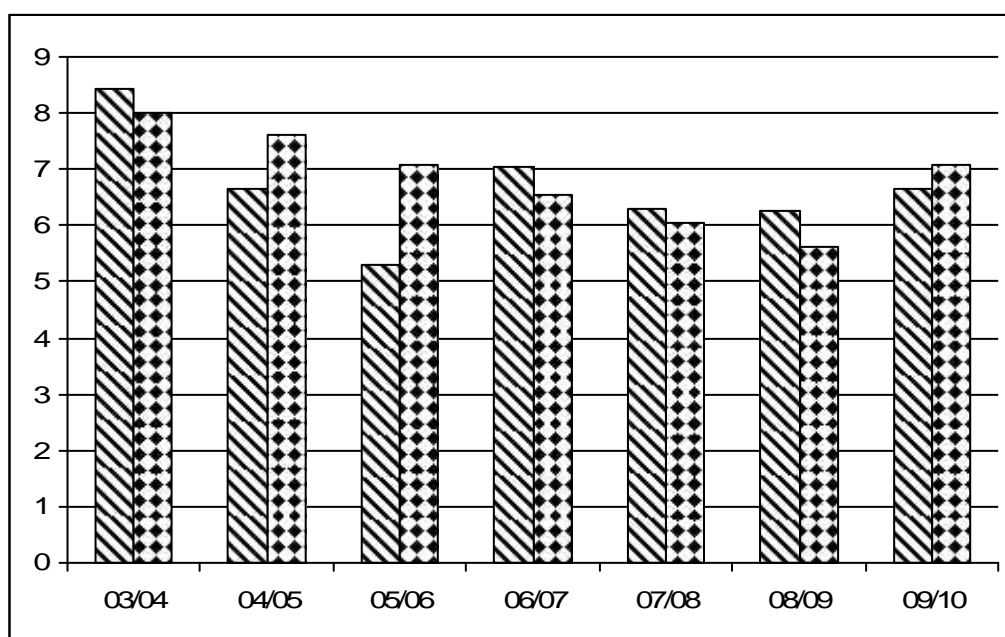
Table No. 4.11 : Net worth to Total Assets Ratio

NIBL

EBL (Rs.000)

F/y	Net Worth	Total Assets	Ratio	Net Worth	Total Assets	Ratio
03/04	431800	5123000	8.42	530910	6616898	8.02
04/05	670100	9163900	6.66	612825	8052209	7.61
05/06	714300	13463900	5.31	680319	9608571	7.08
06/07	1155250	16390652	7.05	769617	11732516	6.56
07/08	1369490	21732081	6.30	962808	15959285	6.03
08/09	1756770	28073517	6.26	1201515	21432574	5.61
09/10	2619307	39405959	6.65	1921238	27149343	7.08
Total			46.65			47.99
Mean			6.66			6.86
S.D.			0.88			0.468
CV.			13.14			6.82

Sources:- Final report of NIBL & EBL



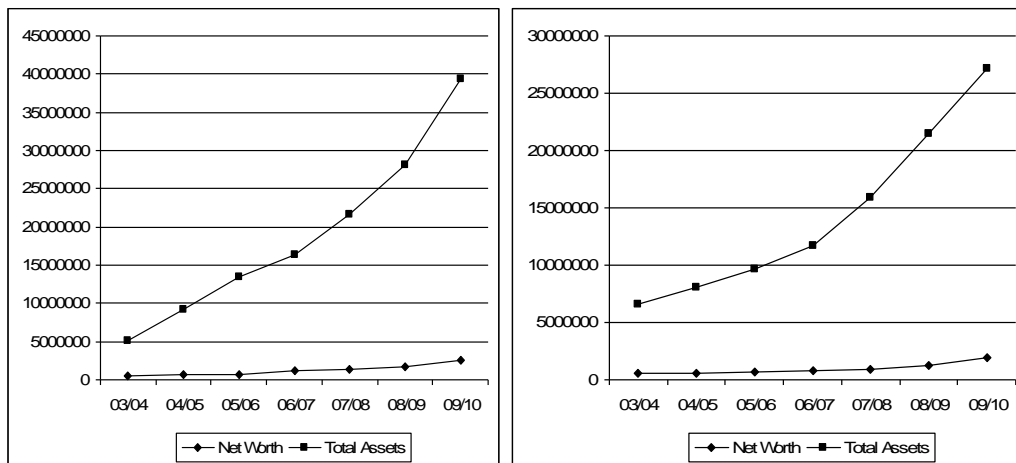


Fig.no.4.11

NIBL

EBL

Net worth to total assets ratio of NIBL seems to be slightly fluctuation the highest ratio in 8.42 in the year 03/04 and the lowest ratio is 5.31 in the year 05/06.

Similarly, the ratio of EBL is decreasing for the first six year and it is increasing in the year 09/10. The ratio have ranged between 5.61 (in 08/09) and 8.02 (in 03/04) in the study period.

The comparative table above shows that the ratio of net worth to total assets ratio of both banks are in fluctuating trend. The mean ratio of EBL is slightly greater than of NIBL i.e., 6.86>6.66. Similarly, C.V. of NIBL is greater than that EBL i.e., 13.14>6.82. Thus the variability of EBL is more homogenous then NIBL.

Net worth and total assets of both banks have adopted an increasing trend in the study period.

4.2.6 Net worth to total deposits ratio

This ratio is calculated by Net worth by total deposit. The ratio measure the percentage of Net worth in the relation to the total deposit collected in the back.

$$\text{Net worth to total deposits ratio} = \frac{\text{Net worth}}{\text{Total Deposit}}$$

Table No.4.12 : Net worth to total Deposited Ratio

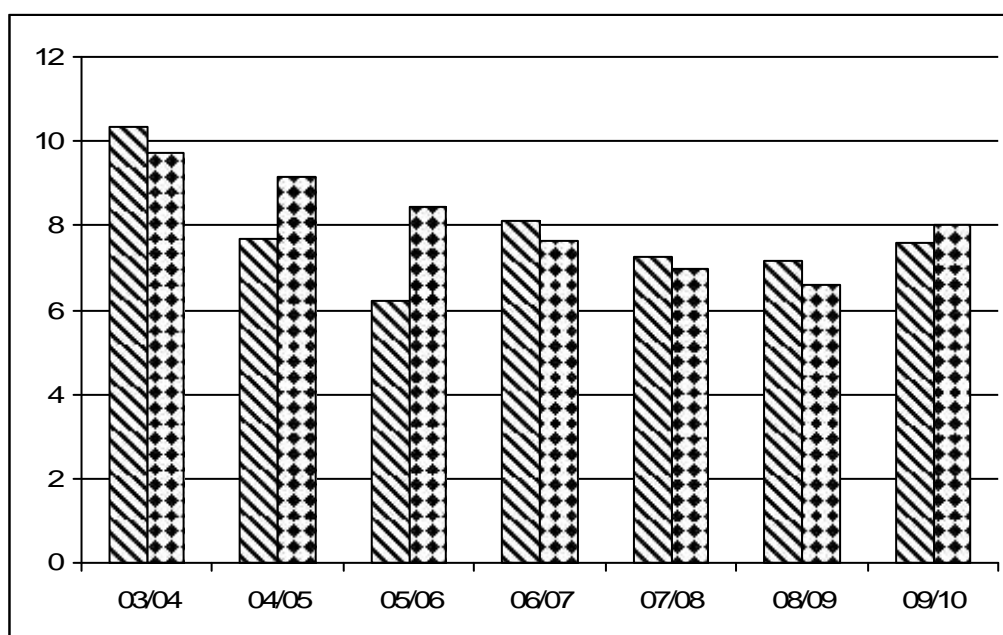
NIBL

EBL

(Rs.000)

F/y	Net worth	Total deposit	Ratio	Net worth	Total deposit	Ratio
03/04	431800	4174800	10.34	530910	5466609	9.71
04/05	610100	7922800	7.70	612825	6694963	9.15
05/06	714300	11525400	6.20	680319	8063902	8.44
06/07	1155250	14254574	8.10	769617	10097691	7.62
07/08	1369490	18927506	7.24	962808	13802445	6.98
08/09	1756770	2448856	7.17	12.1515	18182654	6.60
09/10	2612307	34451726	7.60	192123	23976299	8.01
Total			54.35			56.5
Mean			7.76			8.07
S.D.			1.19			1.04
C.V.			15.39			12.87

Sources:- Final report of NIBL & EBL



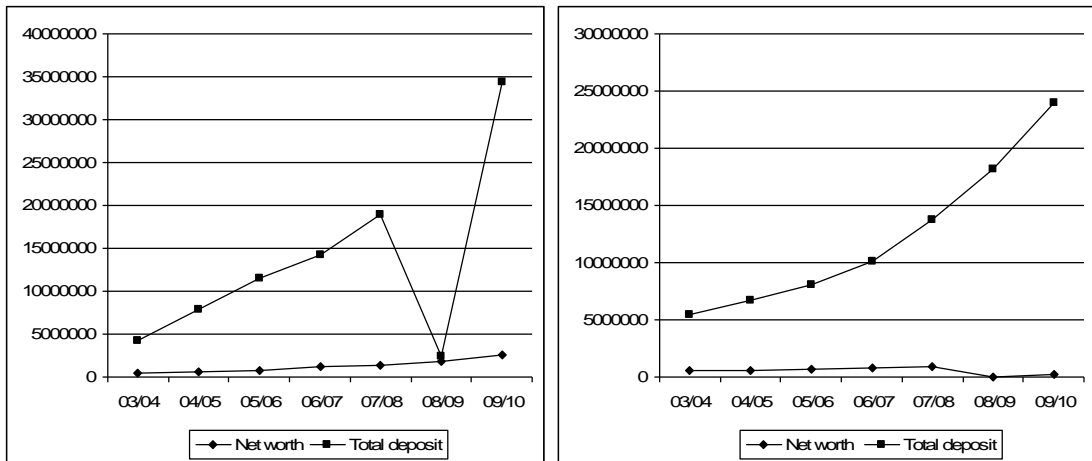


Fig.no.4.12

NIBL

Net Worth to total deposit ratio of NIBL seems to decreasing for the first three years and increasing for the one year and constant after that period. However the highest ratio is 10.34 in year 03/04 and the lowest ratio are 6.20 in year 05/06.

EBL

Similarly, Net worth to total deposit ratio of EBL seems to fluctuating over the different period of time. The ratio has ranged between 6.60 (in 08/09) and 9.71 (in 03/04) in the study period.

The comparative table and figure listed above shows that the ratios of net worth to total deposit ratio of NIBL is in fluctuating trend than EBL. The mean ratio of net worth to total deposit of EBL is greater than that of NIBL i.e., 8.07 >7.76 similarly CV of NIBL greater than that of EBL i.e., 15.39>12.87. Thus the variability of ratios of EBL is more homogenous than that of NIBL.

The trend analysis of Net worth and total deposit of both the banks have adopted an increasing trend in the study period.

4.2.7 Performing Assets to Total Assets Ratio.

This ratio is calculated by performing assets by total assets. Performing assets consist of loan advance, bills purchased and discounted investment and money at call or short notice.

$$\text{Performing Assets to Total Assets Ratio} = \frac{\text{Performing assets}}{\text{Total Assets}}$$

Table No.4.13 : Performing Assets to Total Assets Ratio.

NIBL			EBL			(Rs.000)
F/y	Performing assets	Total Assets	Ratio	Performing Assets	Total Assets	Ratio
03/04	3178950	5123000	62.05	2906887	6616898	43.93
04/05	4706100	9163900	51.35	3281219	8052210	40.80
05/06	7841783	13463900	58.24	4397336	9608571	45.76
06/07	4234485	16390652	25.83	5443802	11732516	46.40
07/08	5844594	21732081	26.89	7067872	15959285	44.29
08/09	7248378	28073517	25.82	9824199	21432574	45.84
09/10	7359070	39405959	18.68	12045322	27149343	44.37
Total			268.86			311.39
Mean			38.41			44.48
S.D.			16.73			1.73
C.V.			43.55			3.90

Sources:- Final report of NIBL & EBL

Performing assets to total assets ratio of NIBL seems to fluctuating highly over different years. The highest ratio is 62.05 is the years 03/04 and the lowest ratio is 18.68 in the year 09/10.

Similarly performing assets to total assets ratio of EBL is less fluctuating over different year. The ratio have ranged between 40.80 (in 04/05) and 46.40 (in 06/07) in the study period.

The comparative table and figure listed above reveals that the ratio of performing assets to total assets of NIBL seems to highly fluctuating than that of EBL. The mean ratio of EBL is greater than that of NIBL i.e., $44.48 > 38.41$. Similarly the C.V of performing assets to total assets of NIBL is greater than that of EBL i.e., $43.55 < 73.90$. Thus the variability ratio of EBL is more homogenous then that of NIBL. The analysis of above study reveals that EBL has been able to utilize the assets for income generating purpose than that of NIBL.

Trend analysis is shows the performing assets and total assets of NIBL has adopted increasing trend in the study period. Similarly the trend of EBL have adopted increasing trend in the study period.

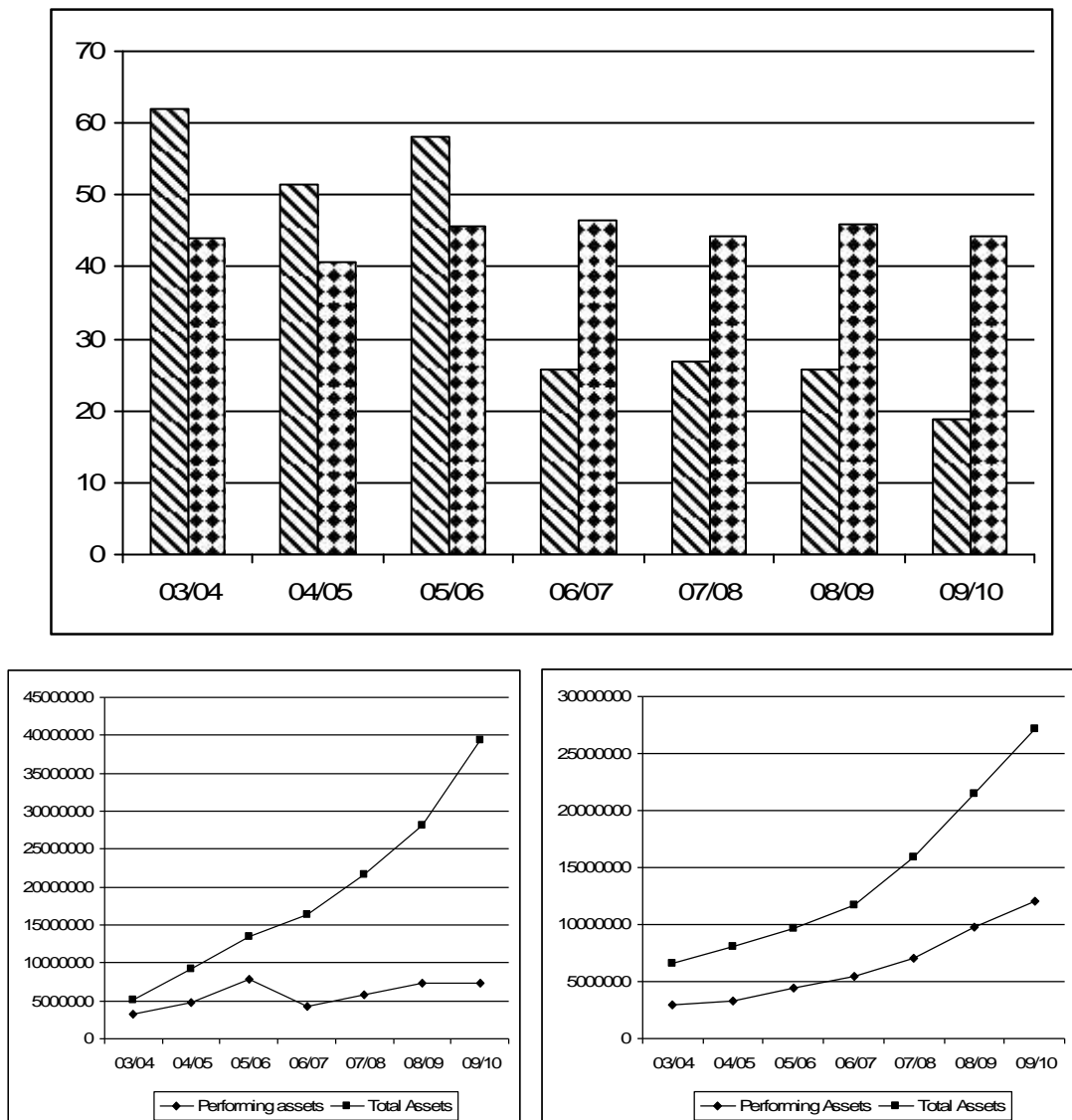


Fig.no.4.13

NIBL

EBL

4.3 Profitability ratios

Profitability is a measure of efficiency and the search for it provides and incentive to achieve efficiency. Profitability also indicates public acceptance of the product and shows that the firm can produce competitively. Moreover, profits provide the money for repaying the debt incurred to finance the project and the resource for the internal financing expansion. The profitability of a firm can be measure by its

profitability ratios. Here, profitability ratios can be determined on the basis of investment. The following are the profitability ratio used in this study.

4.3.1 Return on total Assets ratio

This ratio can be obtained by dividing net profit by total assets.

$$\text{Return on total Assets ratio} = \frac{\text{Net profit}}{\text{Total Assets}}$$

It measure the sufficiency of bank in utilization of the overall assts. High ratio indicates the efficiency of management in overall operation. Lower ratio means insufficient operation of the bank.

Table No: 4.14 : Return on total Assets ratio

NIBL		EBL		(Rs.000)		
Fly	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
03/04	57100	5123000	1.11	85347	6616898	1.29
04/05	116800	9163900	1.27	94180	80522091	0.116
05/06	152600	13463900	1.13	143567	96085701	0.49
06/07	232147	16390652	1.42	168215	11732516	1.43
07/08	350536	21732081	1.61	237291	15959285	1.49
08/09	501399	28073517	1.79	296409	21432574	1.38
09/10	698673	39405959	1.77	451219	27149343	1.66
Total			10.1			7.856
Mean			1.44			1.12
S .D			0.27			0.54
C.V			18.46			48.03

Sources:- Final report of NIBL & EBL

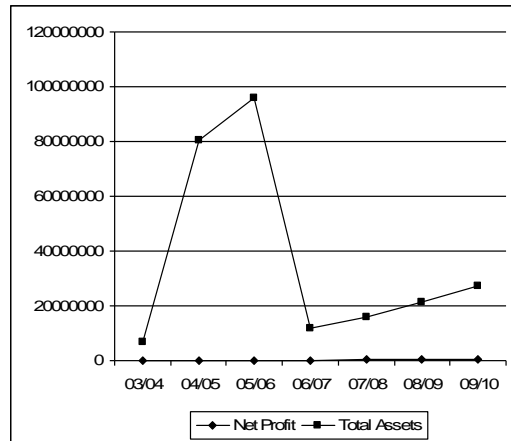
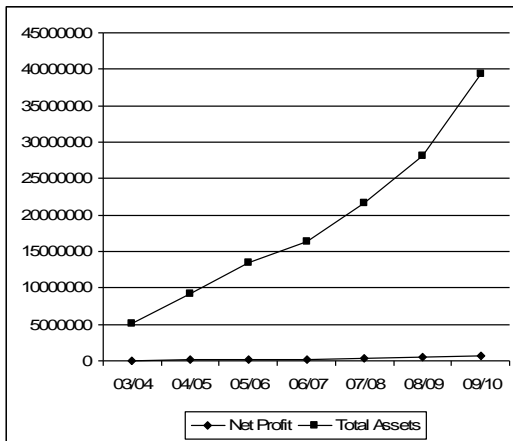
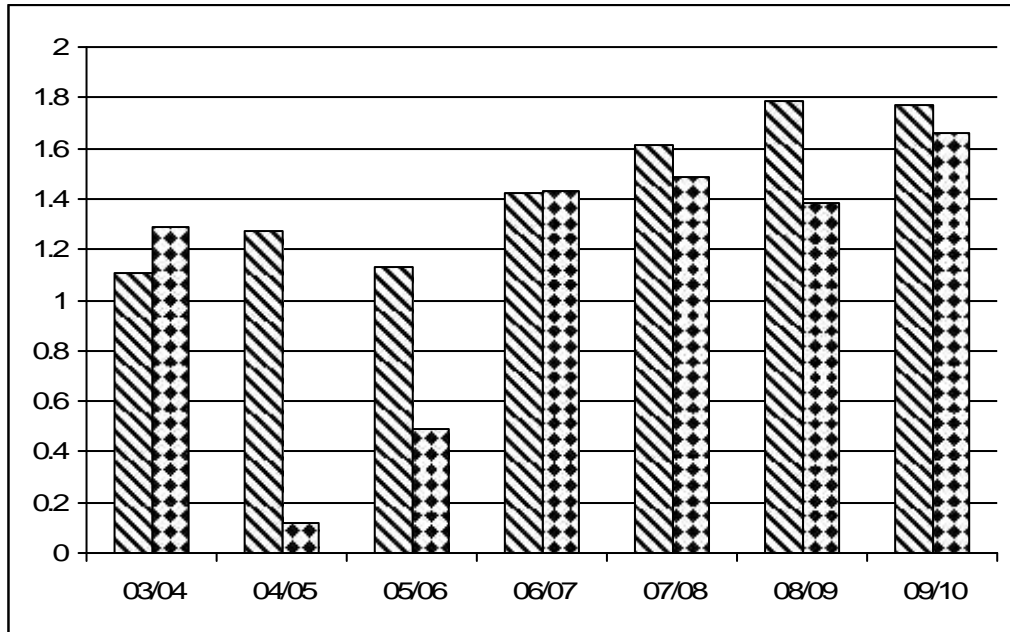


Fig.no.4.14

NIBL

Return on total assets ratio is increasing trend except 05/06 in the year. The mean ratios of NIBL is 10.1 in the study period.

Similarly return on total assets ratio is fluctuating over the different year. The ratios has ranged between 0.49 (in 05/06) and 1.66 (in 09/10) in the study period.

The comparative study above reveals that the ratios of NPAT to total assets of both banks are in fluctuating trends during the study period. The mean ratio of return on total assets of NIBL is greater than that of EBL i.e., $1.44 > 1.12$. Similarly the C V of ratios of EBL is greater than that of NIBL i.e., $48.03 > 18.46$. Thus variability of ratios of NIBL is more consistent than that of variability of EBL.

Trend analysis of Net profit and total assets of both bank have adopted an increasing trend in the study period.

EBL

4.3.2 Return on net worth

This ratio can be obtained by dividing net profit after tax by net worth.

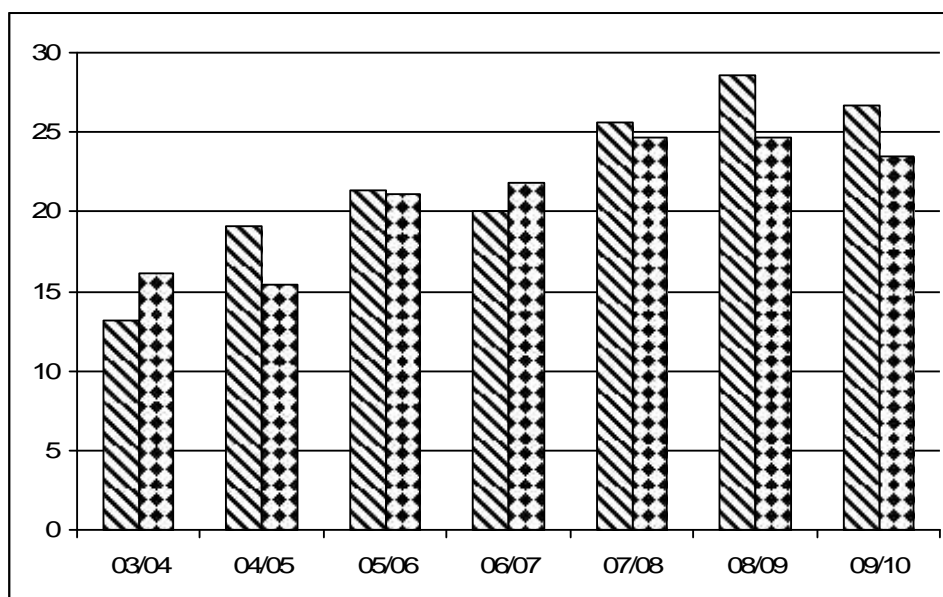
$$\text{Return on net worth} = \frac{\text{Net Profit after tax}}{\text{Net worth}}$$

The ratio is of great interest to present on well as prospective shareholders and also of great significance to management which has the responsibility of maximizing the owner's welfare.

Table No. 4.15 : Return on net worth

	NIBL		EBL		Rs (000)	
F/y	Net profit	Net worth	Ratio	Net profit	Net worth	Ratio
03/04	57100	431800	13.22	85347	530910	16.08
04/05	116800	610100	19.14	94180	612825	15.37
05/06	152600	714300	21.36	143567	680319	21.10
06/07	232147	1155250	20.09	163215	769617	21.86
07/08	350536	1369490	25.60	237291	962808	24.65
08/09	501399	1756770	28.54	296409	1201515	24.67
09/10	998673	2619307	26.67	451219	1921238	23.49
Total			154.62			147.22
Mean			22.09			21.03
S .D.			4.822			3.58
C .D.			22.09			17.02

Sources:- Final report of NIBL & EBL



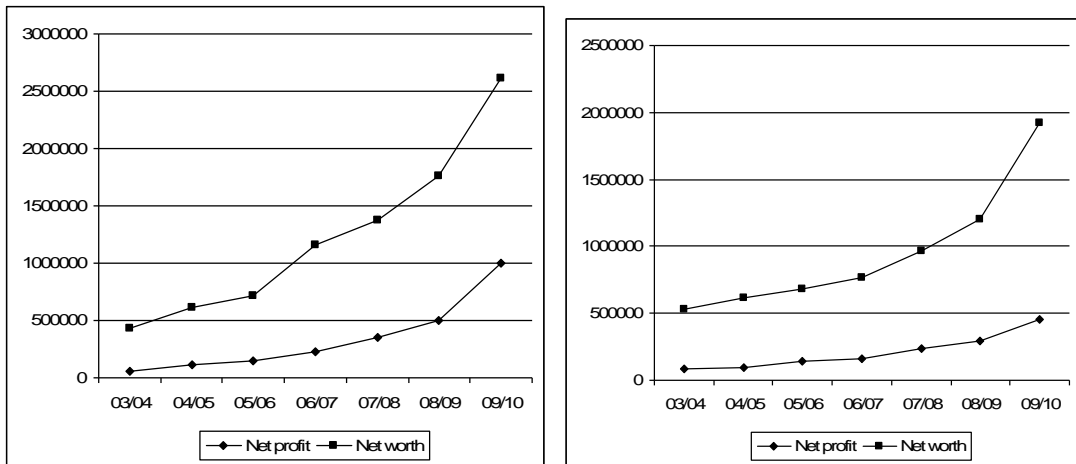


Fig.no.4.14

NIBL

The return on net worth of NIBL is fluctuating over different years. The higher ratio is 28.54 in year 08/09 and the lowest ratio is 13.22 in year 03/04.

Similarly return on net worth of EBL is also fluctuating over different years. The ratio has ranged between 15.37 (in 04/05) and 24.67 (in 08/09) in the study period.

EBL

The comparative table above reveals that the ratio of return on net worth of NIBL is greater than that of EBL. The mean ratio of NIBL is greater than that of EBL i.e., 22.09 > 21.03. Similarly, the CV of ratios of NIBL is greater than that of ratios of EBL i.e., 22.09 > 17.02. The variability of ratios of EBL is more consistent than that of the variability of ratios of NIBL. EBL is more homogeneous than that of NIBL.

Net profit and net worth of both the banks have adopted an increasing trend in the study period.

4.3.3 Return to total deposit ratio

This ratio is calculated net profit after tax dividing by total deposit.

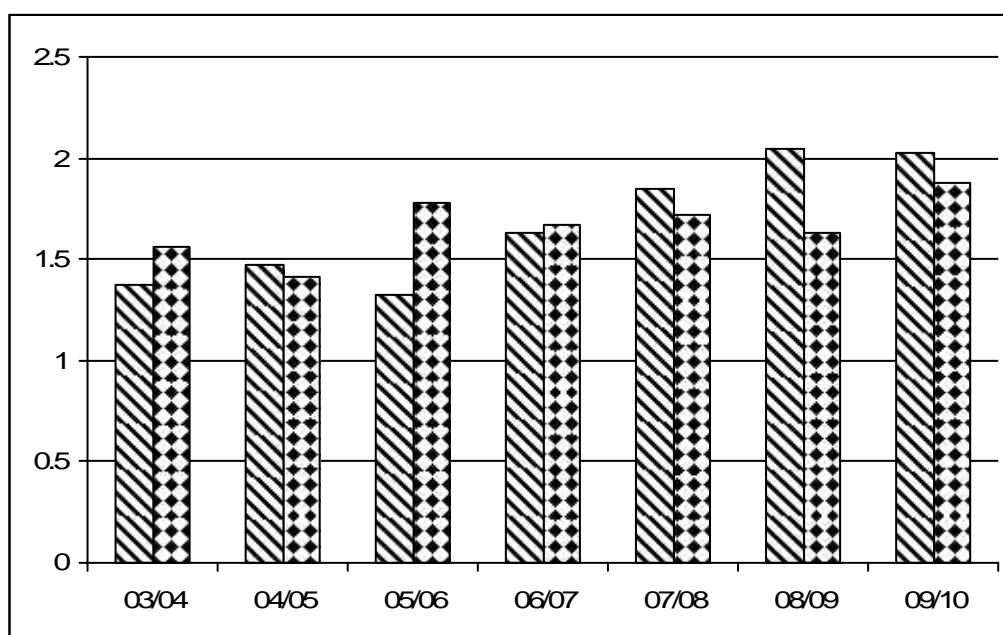
The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is the indicates of strong profitability position.

$$\text{Return to total deposit ratio} = \frac{\text{Net Profit after}}{\text{Total Deposit}}$$

Table No. 4.16 : Return to total deposit ratio

NIBL			EBL			Rs (000)
F/y	Net profit	Total Deposit	Ratio	Net profit	Total Deposit	Ratio
03/04	57100	4174800	1.37	85347	5466609	1.56
04/05	116800	7922800	1.47	94180	6694963	1.41
05/06	152600	11525400	1.32	143567	8063902	1.78
06/07	232147	14254574	1.63	168215	10097691	1.67
07/08	350536	18927306	1.85	237291	13802445	1.72
08/09	501399	24488856	2.05	296409	18186254	1.63
09/10	698673	34451726	2.03	451219	23976299	1.88
Total			11.72			11.65
Mean			1.67			1.66
S.D.			1.283			0.141
C.V.			16.94			8.52

Sources:- Final report of NIBL & EBL



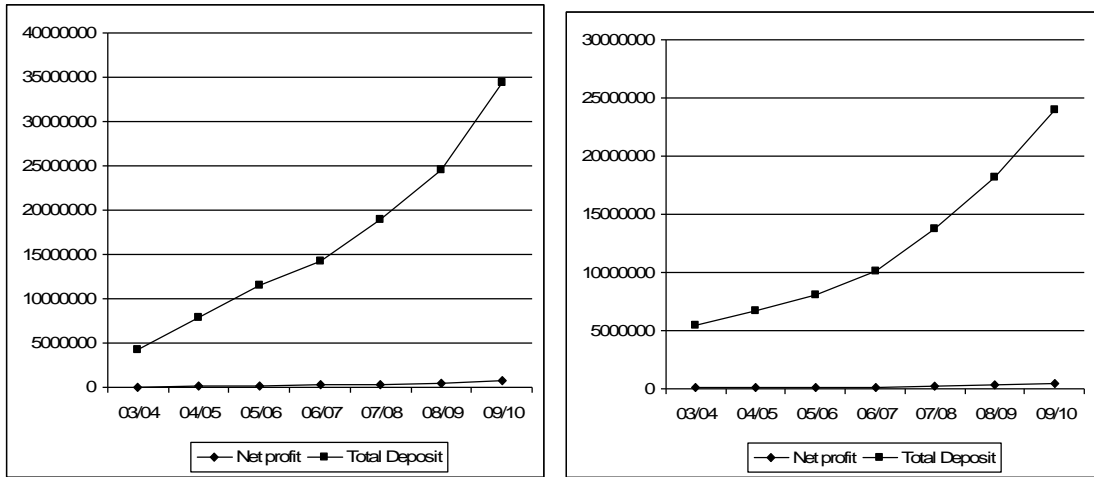


Fig.no.4.16

NIBL

EBL

The return on total deposit ratio of NIBL is increasing trend expect 05/06 in the year. The ratio has ranged between 1.32 (in 05/06) and 2.05 (in 08/09) in the study period.

Similarly, the return on total deposit ratio of EBL is slightly fluctuating over the different year. The highest ratio is 1.88 in the year 09/10 and the lowest ratio is 1.41 in the year 04/05.

The comparative study above reveals that the ratios of NPAT to total deposit of both banks are in slightly fluctuating trend during the study period. The mean ratio of NIBL is greater than that of EBL i.e., 1.67 > 1.66. The C.V. of NIBL is greater than that of EBL i.e., 16.94 > 8.52 thus the variability of the ratio of EBL is more consistent than that of NIBL.

Trend analysis of both banks have adopted increasing trend in the study period.

4.3.4 Total interest expenses to total interest income

This ratio can be obtained by dividing total interest expenses by total interest income.

$$\text{Total interest expenses to total interest income} = \frac{\text{Total interest expenses}}{\text{Total interest income}}$$

Table No. 4.17 : Total interest expenses to total interest income

NIBL			EBL			(Rs. 000)
F/y	Int-exp	Int-income	Ratio	Int-exp	Int-income	Ratio
03/04	130400	195800	66.60	257051	443821	57.92
04/05	189200	270300	70.00	307639	520173	59.14
05/06	326200	405200	80.50	316366	657249	48.13
06/07	354549	532251	66.61	299565	719298	41.65
07/08	490947	681795	72.00	401397	903411	44.43
08/09	685530	899457	76.22	517166	1144408	45.19
09/10	992158	1202117	82.53	632609	1548657	40.85
	Total		514.46			337.31
	Mean		73.49			48.19
	S .D.		5.95			6.91
	C .V.		8.09			14.34

Sources:- Final report of NIBL & EBL

The total interest expenses total interest income of NIBL seems to increasing for the first two years and further it is in increasing trend for four years from year 06/07. Similarly, the ratio of EBL seems to be fluctuating over different period of time. The ratio has ranged between 40.85 (in 09/10) and 59.14 (in 04/05).

The comparative table above reveals that the ratios of interest expenses to interest income of both banks are in fluctuating trend during the period of study. The mean ratio of interest expenses to interest income of NIBL is greater than that of EBL i.e., $73.49 > 48.19$. The C.V. of EBL is greater than that of NIBL i.e., $14.34 > 8.09$. Thus the variability of the ratio of NBIL is more consist than that of EBL.

The higher mean ratio of NIBL shows the higher percentage of interest expenses incurred in relation to interest income.

Trend analysis is interest expenses and interest income of both banks have adopted increasing trend in the study period.

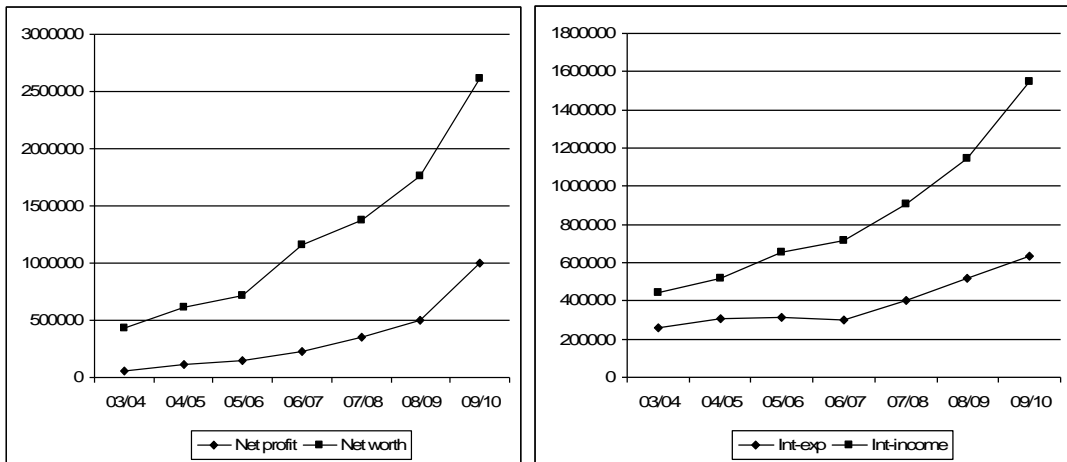
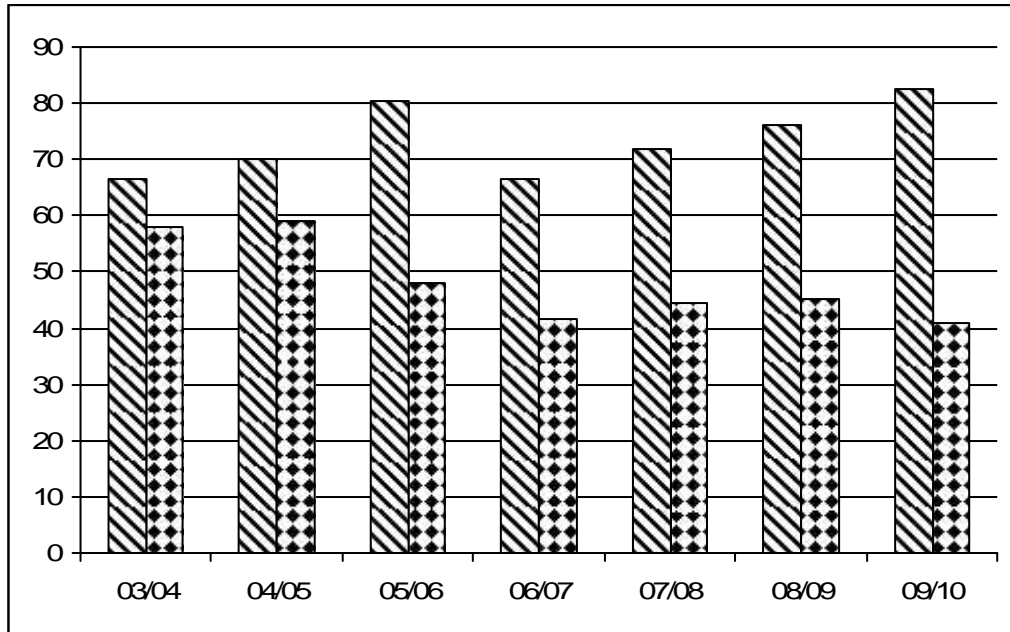


Fig.no.4.17

NIBL

EBL

4.3.5 Interest earned to total Assets ratio

This ratio is calculated by interest earned (income) dividing by total assets.

$$\text{Interest earned to total Assets ratio} = \frac{\text{Interest earned (income)}}{\text{Total assets}}$$

This ratio shows the percentage of interest income as compared to the assets of the bank. High ratio indicates the proper utilization of bank's assets for income generating purpose low ratio represent unsatisfactory performance.

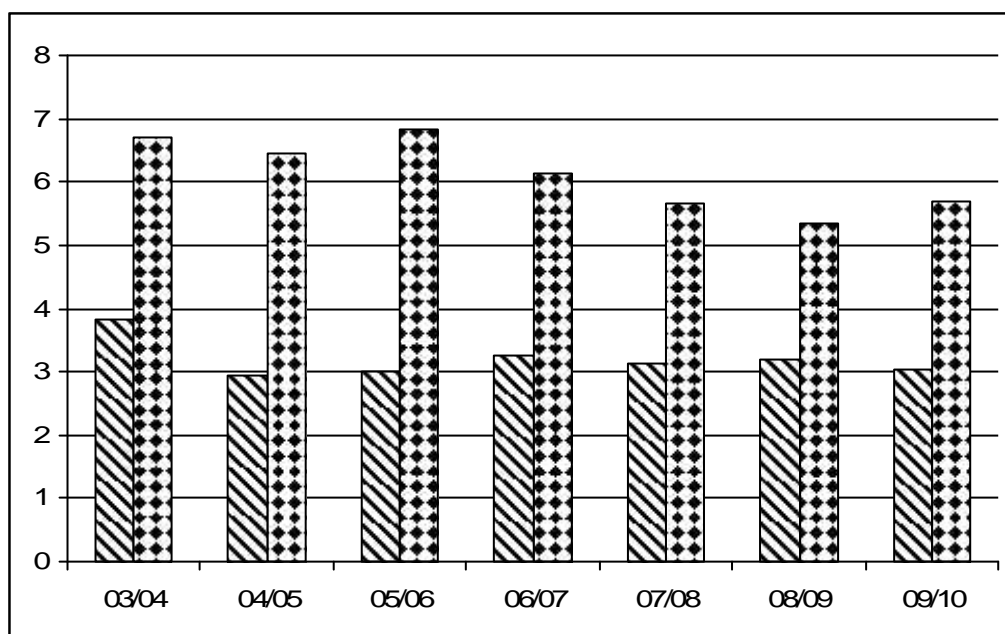
In the below table the interest eared to total assets ratio of NIBL is slightly fluctuating over the different year. The ratio has ranged between 2.95 (in 04/05) and 3.82 (in 03/04) in the study period.

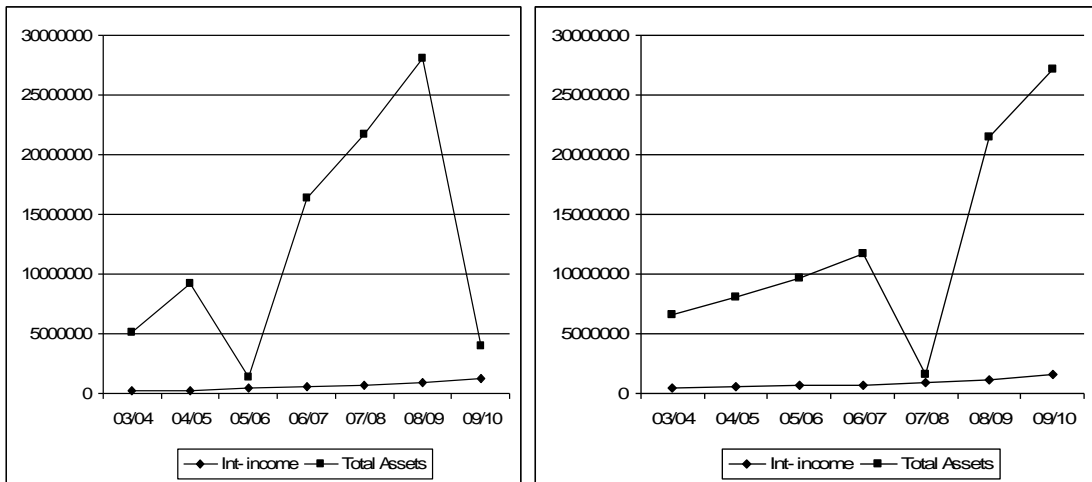
Similarly, the ratio of EBL fluctuating over the different year the highest ratio is 6.84 in the year 05/06 and the lowest ratio is 3.34 in the year 08/09.

Table No. 4.18 : Interest earned to total Assets ratio

NIBL			EBL			(Rs. 000)
F/y	Int- income	Total Assets	Ratio	Int- income	Total Assets	Ratio
03/04	195800	5123000	3.82	443821	6616898	6.71
04/05	270300	9163900	2.95	520173	8052209	6.46
05/06	405200	1346390	3.00	657249	9608571	6.84
06/07	532251	16390652	3.25	719298	11732516	6.13
07/08	681795	21732081	3.14	903411	1595285	5.66
08/09	899457	28073517	3.20	1144408	21432574	5.34
09/10	1202117	3940595	3.05	1548657	27149343	5.70
	Total		22.41			42.84
	Mean		3.20			6.12
	S.D.		0.271			0.53
	C.V.		8.48			8.69

Sources:- Final report of NIBL & EBL





Figur no.4.18

NIBL

EBL

The comparative table reveals that the ratios of interest earned to total assets of both banks are in fluctuating trend during the period of study. The mean ratio of interest earn to total assets of EBL is greater than that of NIBL i.e., 6.12>3.20. Similarly the C.V of EBL is slightly greater than that of NIBL i.e., 8.69>8.48. Thus the variability of the ratio of NIBL is more consistent than that of EBL.

Trend analysis interest income and total assets of both the banks have adopted increasing trend in the study period.

4.3.6 Staff expenses to total Net income ratio

This ratio is calculated by staff expenses dividing by net income.

The ratio measure the proportion of income spent for the staff, whose contribution great significance in the success of the banks. High ratio indicates the major portion of income is used for staff expenses. From the firms point of view, low ratio is advantageous but the staff prefer high ratio, as it is the result of higher level of facilitates and benefits provided to them.

$$\text{Staff expenses to total Net income ratio} = \frac{\text{Staff expenses}}{\text{Total income}}$$

Table No. 4.19 : Staff expenses to total Net income ratio

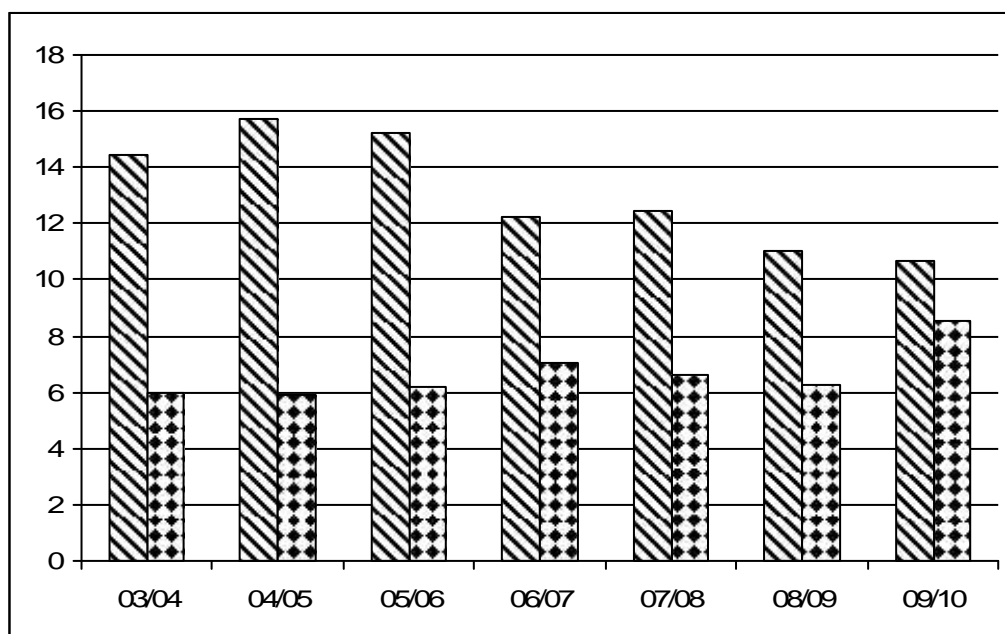
NIBL

EBL

(Rs. 000)

F/y	Staff exp	Total income	Ratio	Staff exp	Total income	Ratio
03/04	41700	288300	14.46	32187	540931	5.95
04/05	61200	388700	15.74	37368	635332	5.88
05/06	89700	587500	15.26	48530	785059	6.18
06/07	97000	791079	12.26	60597	858960	7.05
07/08	120664	970482	12.43	70925	1066510	6.65
08/09	145371	1314233	11.06	86118	1370710	6.28
09/10	187150	7158249	10.64	157957	1847040	8.55
	Total		91.85			46.54
	Mean		13.12			6.65
	S .D.		3.5499			0.86
	C .V.		27.06			12.97

Sources:- Final report of NIBL & EBL



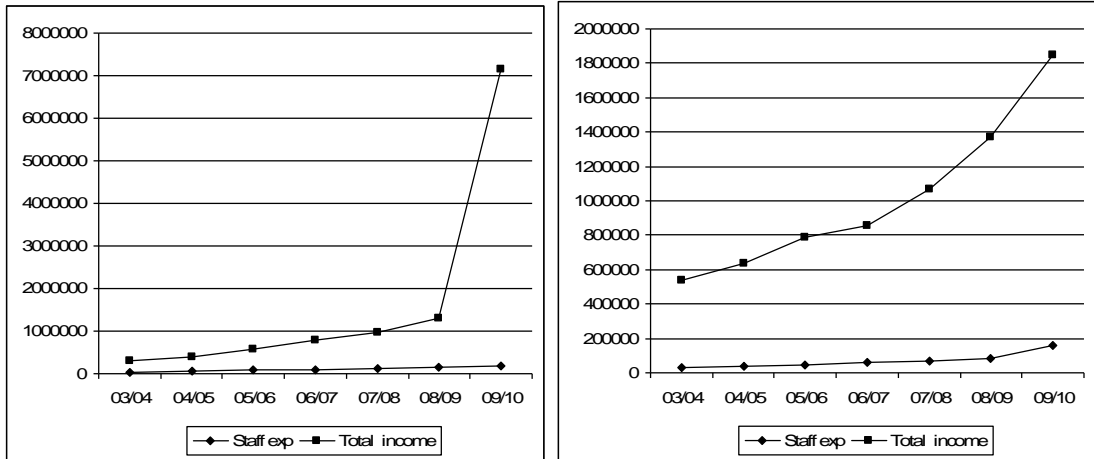


Fig no 4.19

NIBL

EBL

The comparative table and figure listed above reveals that the ratio staff expenses to total income of both banks have been fluctuating trend during the period of study. The mean ratio of staff expenses to total income of NIBL has greater than that of EBL. i.e., $13.12 > 6.65$. The coefficient of variation of the ratio of NIBL is greater than the CV of the ratio of EBL i.e., $27.06 > 12.97$. Thus, the variability of the ratio of EBL is more consistent than that of NIBL.

The higher mean ratio of NIBL measures the higher percentage of staff expenses in relation to total income than that of EBL which also reflects that NIBL has been using higher percentage of income in staff expenses purpose.

Trend analysis Staff expenses and Total income of both the banks have adopted increasing trend in the study period.

4.3.7 Office operation expenses to total income ratio

This ratio is calculated by dividing office operation expenses by total income. It shows the percentage of income spent for the operating activities of the bank. High ratio shows that large amount of income is spent for the operating activities of the bank.

$$\text{Office operation expenses to total income ratio} = \frac{\text{Office operation expenses}}{\text{Total income}}$$

Table No. 4.20 : Office operation expenses to total income ratio

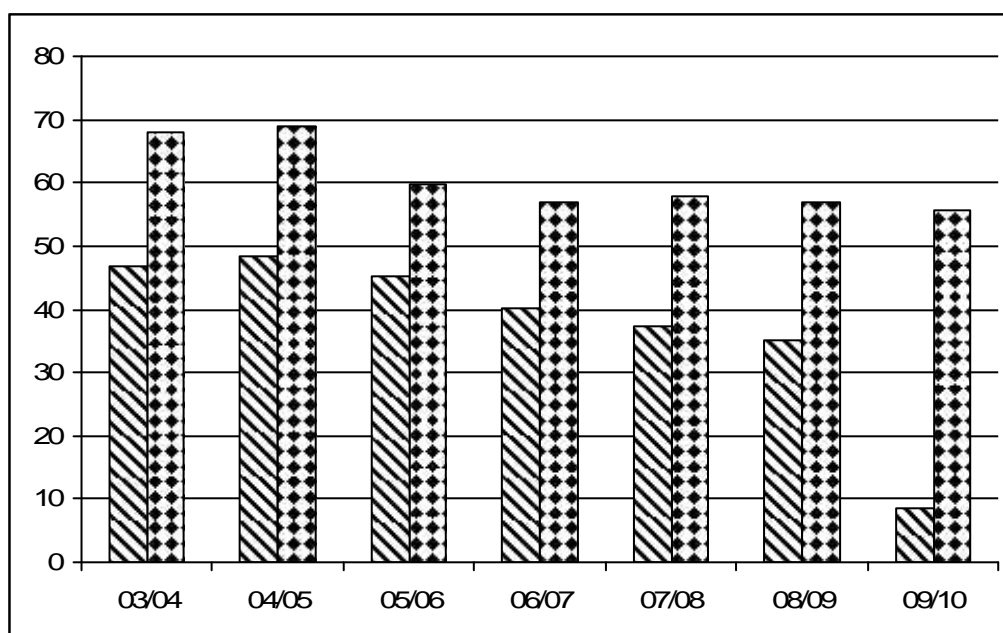
NIBL

EBL (Rs. 000)

FY	OPE	Total income	Ratio	OPE	Total income	Ratio
03/04	135000	288300	46.83	368268	540931	68.08
04/05	188200	388700	48.42	438592	635332	69.03
05/06	264900	587500	45.09	468704	785059	59.70
06/07	316994	791079	40.07	489240	858960	56.96
07/08	361760	970482	37.28	615880	1066510	57.75
08/09	461139	1314233	35.08	780840	1370710	56.97
09/10	602300	7158249	8.41	1026470	1847040	55.57
Total			296.46			424.06
Mean			42.35			60.58
S.D.			12.83			5.18
C.V.			30.29			8.55

Sources:- Final report of NIBL & EBL

* OPE = Office Operating Expenses



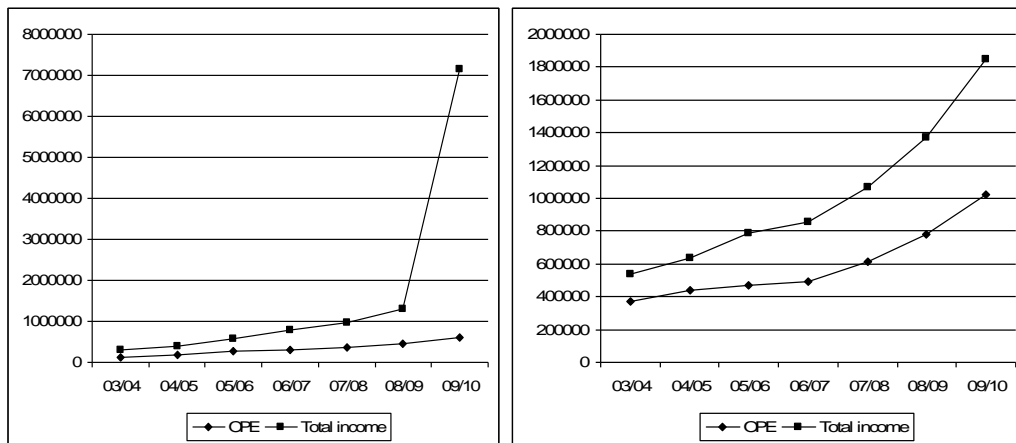


Fig no 4.20

NIBL

The office operation expenses to total income ratio of NIBL seems to slightly fluctuation in the year except 09/10 in the year. The ratio has ranged between 8.41 (in 09/10) and 48.42 (in 04/05).

Similarly, the ratio of EBL seems to be decreasing trend over the period of time. The highest ratio is 69.03 in the year 04/05 and lowest ratio is 55.57 in the year 09/10.

The comparative table above reveals that the ratio office operating expenses to total income of both banks are in slightly fluctuating trend during the period of study. The mean ratio of NIBL is lesser than EBL i.e., $42.35 < 60.58$. The C.V. of NIBL is greater than that of EBL i.e., $30.29 > 8.55$. Thus the variability of the ratio of EBL is more consistent than that of NIBL.

Trend analysis office operating expenses and total income of both the banks have adopted increasing trend in the study period.

EBL

4.4 Other financial indicators

Above stated ratios throw light on various aspects of bank, Management, investor and creditors and creditors can get information regarding their interest. Some indicators are dealt here which provide more knowledge about the performance of the bank. They are listed below.

4.4.1 Earning Per Share (EPS)

Earning Per Share refers to the income available to the common shareholders on per share basis. It enables us to compare whether the earning based on per share

basis has changed over past period or not. The investors favour high EPS. It reflects the profitability position of the bank.

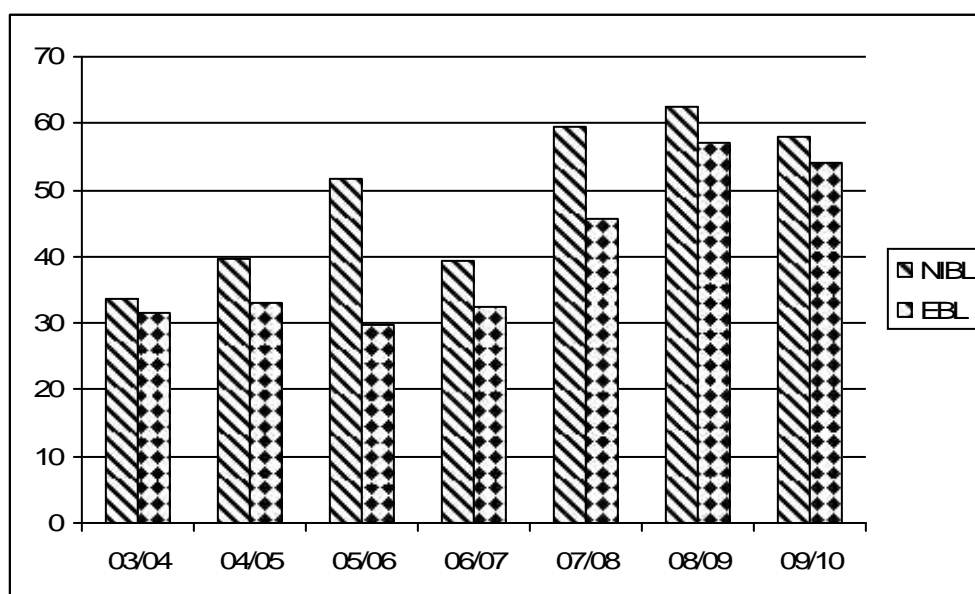
The table reveals the EPS of these two banks have been increasing except fiscal year 06/07 and 09/10 of NIBL. The highest EPS is 62.57 in the year 08/09 and the lowest EPS is 33.59 in the year 03/04.

Similarly EBL's EPS is slightly increasing the year. The EPS has ranged between 29.89 (in 05/06) and 57.22 (in 08/09) in the study period.

Table No. 4.21 : Earning Per Share

FY	NIBL	EBL
03/04	33.59	31.56
04/05	39.56	32.91
05/06	51.70	29.89
06/07	39.50	32.47
07/08	59.35	45.81
08/09	62.57	57.22
09/10	57.87	54.14
Total	344.14	284
Average (₹)	49.16	40.57
)□S.D. (10.65	10.73
C.V.	21.66	26.44

Source: www.nepalstock.com



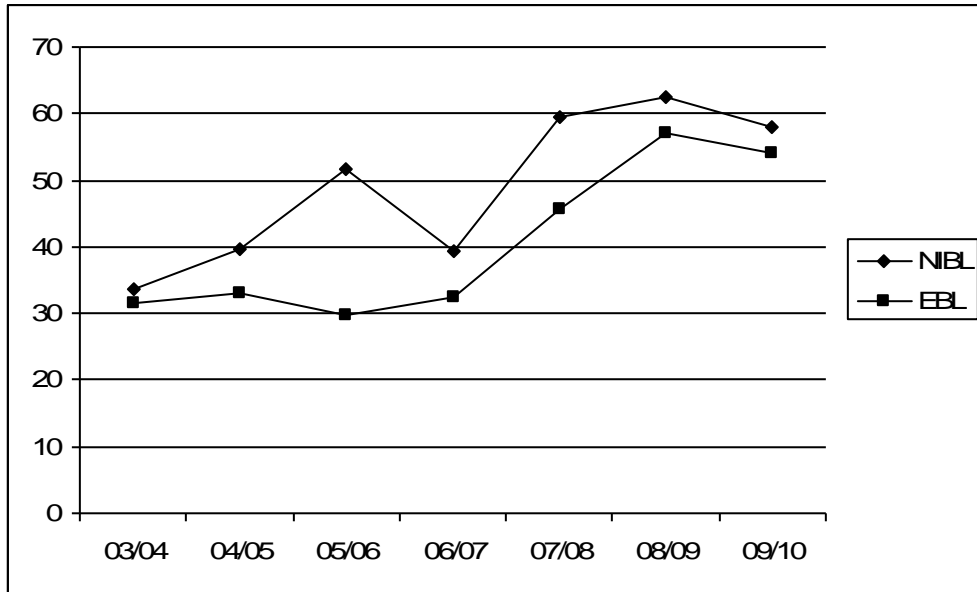


Fig no 4.21

Above comparative table shows that average EPS, NIBL is greater than EBL i.e., $49.16 > 40.57$. So, from the above analysis it can conclude that the EPS of NIBL has better position than that of EBL.

Trend analysis earning per share NIBL and EBL slightly increasing trend in the study period.

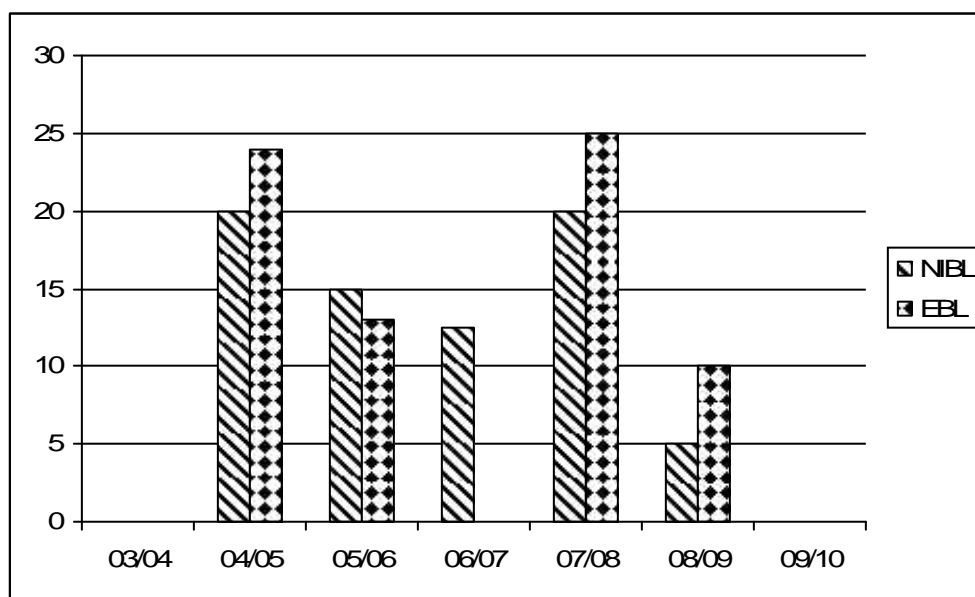
4.4.2 Dividend Per Share (DPS)

The net profit after the deduction of preference dividend belongs to equity shareholders. But the income that they really receive is the amount of earning distributed as dividend. Dividend may distribute in form of cash or bonus share. Dividend distribution affects the price of share the shareholders prefer high dividend. But it may sometimes be wise to distribute less amount of profit if investment opportunities are available.

Table No. 4.22 : Dividend Per Share

FY	NIBL	EBL
03/04	0.00	0.00
04/05	20.00	24.00
05/06	15.00	13.00
06/07	12.50	0.00
07/08	20.00	25.00
08/09	5.00	10.00
09/10	0.00	0.00
Total	72.5	72.00
Average	10.36	10.29
S.D.	8.07	10.21
C.V.	77.85	99.20

Source: www.nepalstock.com



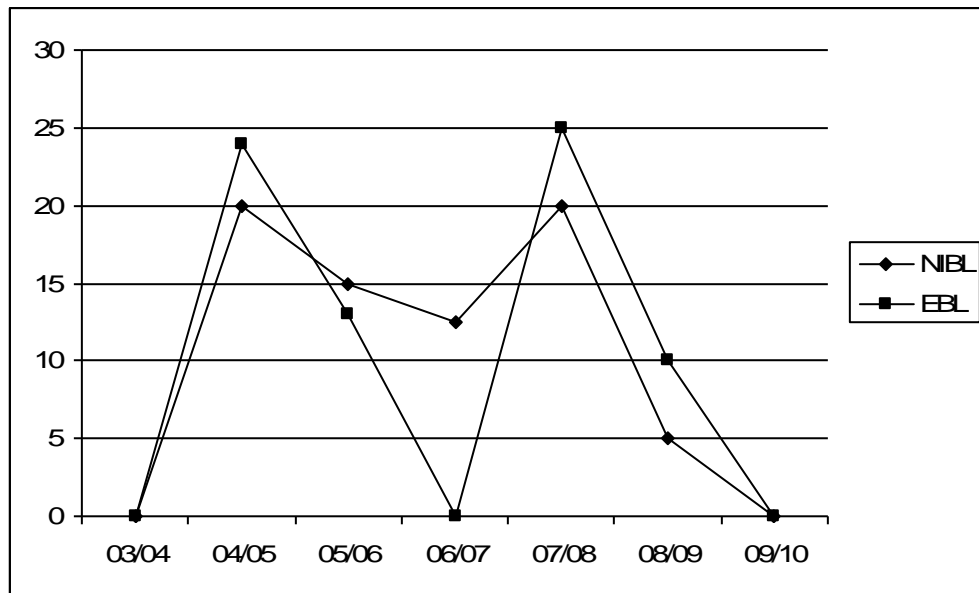


Fig no 4.22

Above comparative table shows that NIBL has not declared any dividend in fiscal year 03/04, and 09/10. DPS of EBL is also fluctuating trend.

The highest means DPS of NIBL signifies that NIBL is more successful to win the confidence of the investor. As dividend do the investors receives the direct return and they evaluate the organization paying high dividend as the better one. This means NIBL can sell its share more easily then those shares of EBL.

The trend analysis of dividend per share of both banks fluctuating trend. The DPS of NIBL have ranged between 5 (in 07/08) and 20 (in 04/05). Similarly EBL's DPS is ranged between 10 (in 08/09) and 24 (in 04/05) in the study period.

4.4.3 Price Earning Ratio (P/E ratio)

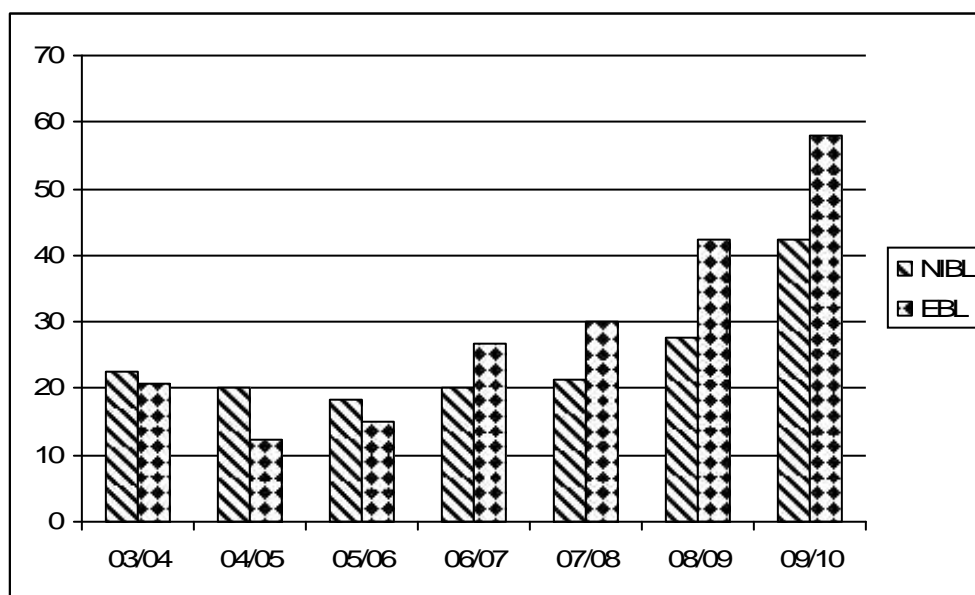
P/E ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors, judgment or expectation about the growth in the bank's earning.

In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of form.

Table No. 4.23 : Price Earning ratio

FY	NIBL	EBL
03/04	22.63	20.60
04/05	20.09	12.31
05/06	18.18	14.89
06/07	20.25	26.79
07/08	21.23	30.10
08/09	27.63	42.47
09/10	42.33	57.85
Total	130.01	205.01
Average	18.57	29.29
S.D.	9.82	14.96
C.V.	52.90	51.09

Source: www.nepalstock.com



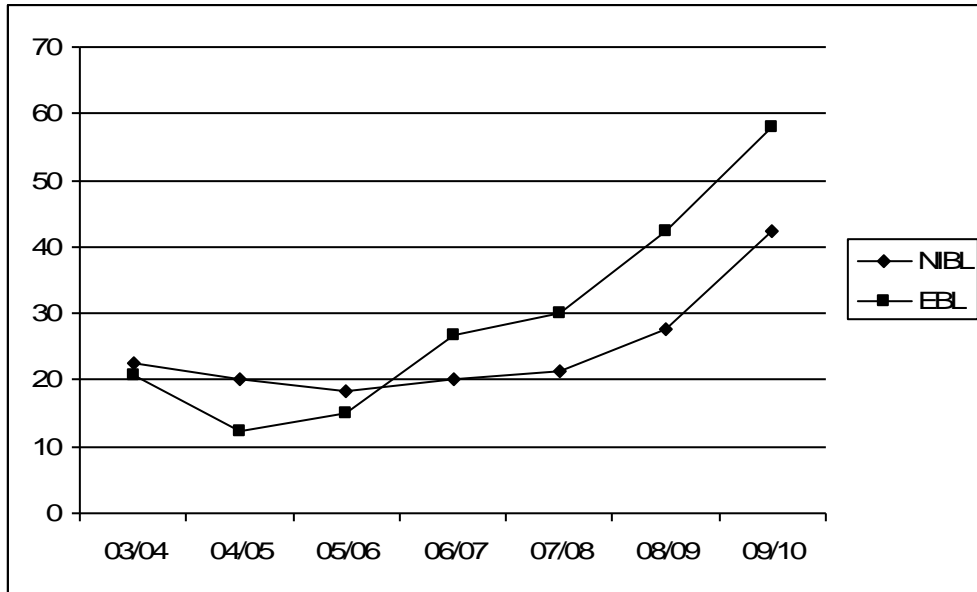


Fig no 4.23

The above table shows that the P/E ratio of both banks are in fluctuating trend during the study period. EBL has higher mean P/E ratio than that of NIBL i.e., $29.29 > 18.57$ in the study period.

The higher mean ratio of EBL reveals that the investors as well satisfied with the performance of the bank. In the other words, market has positively judged in the performance of EBL.

Price Earning trend analysis of both bank have adopted increasing trend expect 05/06 in the year.

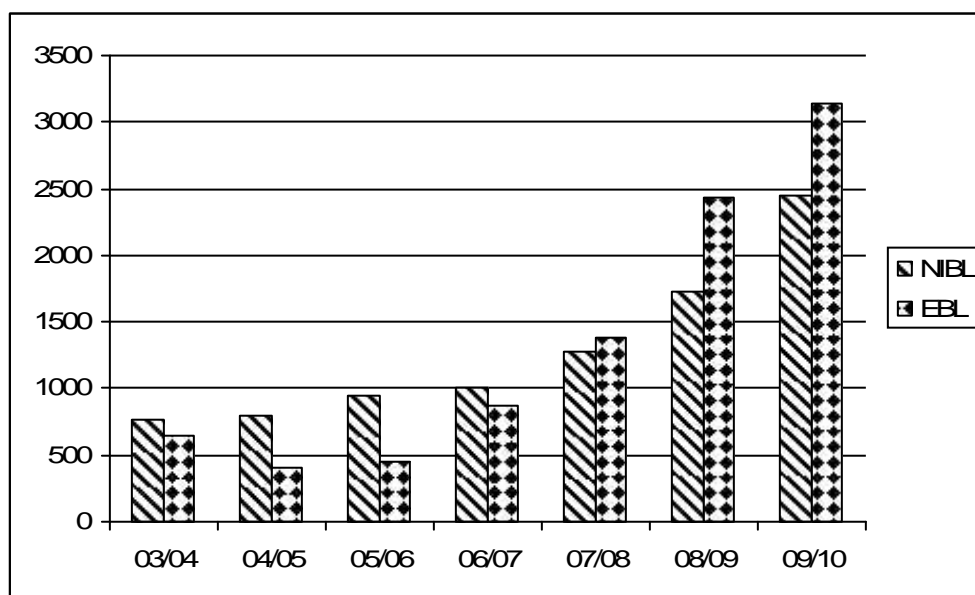
4.4.4 Market Price Per Share (MPS)

MPS is that value of stock which can be obtained by a firm from the sale of a share in the market. The capital market determines MPS. The following table shows the market price of the sample firms as indicated in NEPSE index.

Table No. 4.24 : Market Price Per Share

Year	NIBL	EBL
03/04	760	650
04/05	795	405
05/06	940	445
06/07	1000	870
07/08	1280	1379
08/09	1729	2430
09/10	2450	3132
Total	8954	9311
Average	1279.14	1330.14
S.D.	569.48	983.61
C.V.	44.52	73.95

Source: www.nepalstock.com



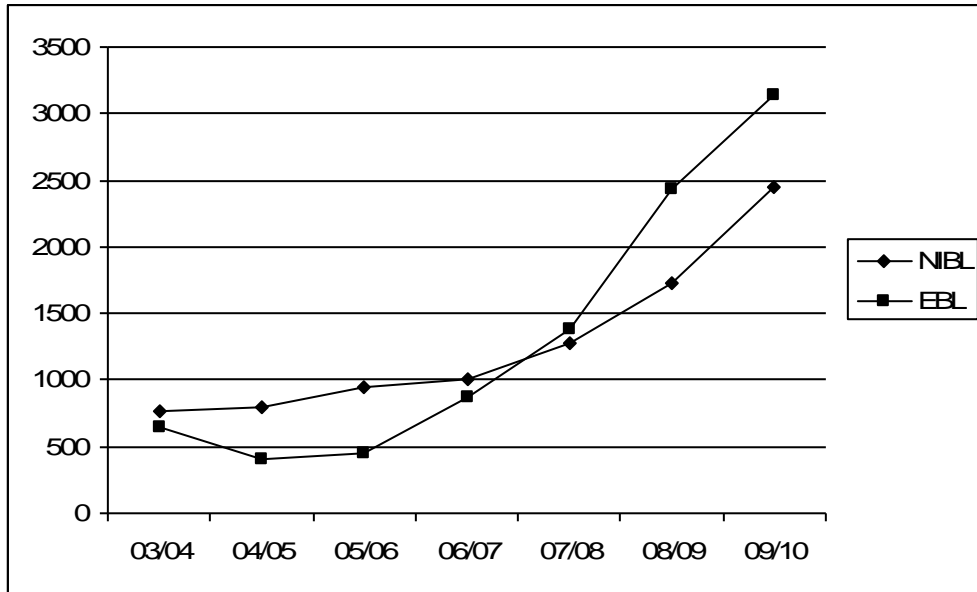


Fig no 4.24

Above table reveals that the MPS of both banks are slightly fluctuating different years. The table shows the highest MPS of NIBL is 2450 in the year 09/10 and lowest MPS is 760 in the year 03/04. The EBL's of MPS range between 405 (in 04/05) and 3132 (in 09/10). The MPS mean EBL is greater than that NIBL i.e., $1330.14 > 1279.14$. It means the high mean indicated the strong management and organization in EBL then that NIBL during the study period.

The trend analysis of MPS of both the banks recorded on increasing trend in the study period.

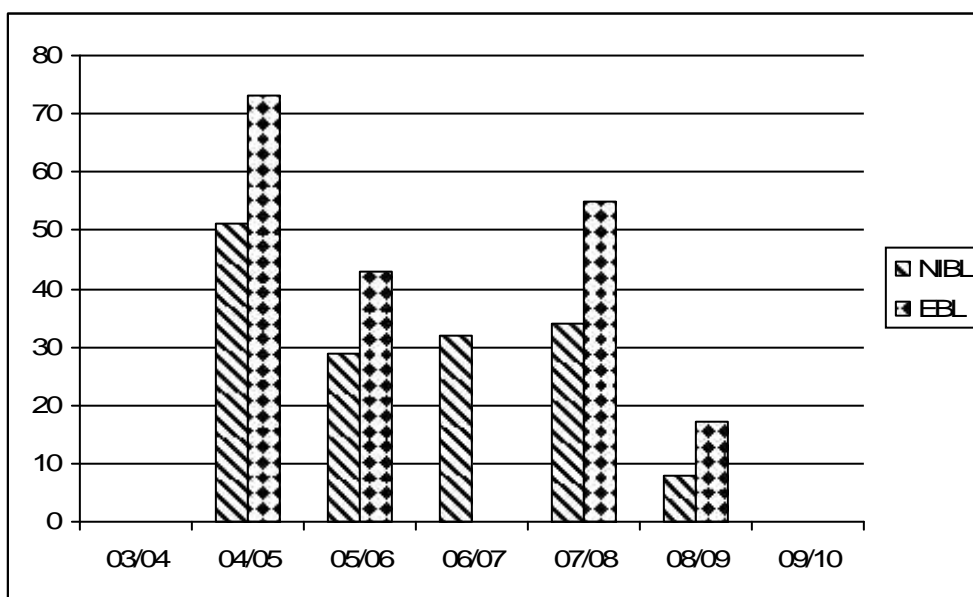
4.4.5 Dividend Payout ratio (DPR)

Dividend Payout Ratio (DPR) is the proportion of earning paid in the firm of dividend. This ratio shows what percentage of profit distributed as dividend and what percentage is retained as reserve and surplus for the growth of the companies. It is calculated by dividing DPS by EPS. The following table shows the DPR of the banks.

Table No. 4.25 : Dividend Payout ratio (DPR)

Year	NIBL	EBL
03/04	0.00	0.00
04/05	51.00	73.00
05/06	29.00	43.00
06/07	32.00	0.00
07/08	34.00	55.00
08/09	8.00	17.00
09/10	00.00	0.00
Total	154	188
Average	22	26.86
S.D.	18.11	27.88
C.V.	82.35	103.81

Sources:- Final report of NIBL & EBL



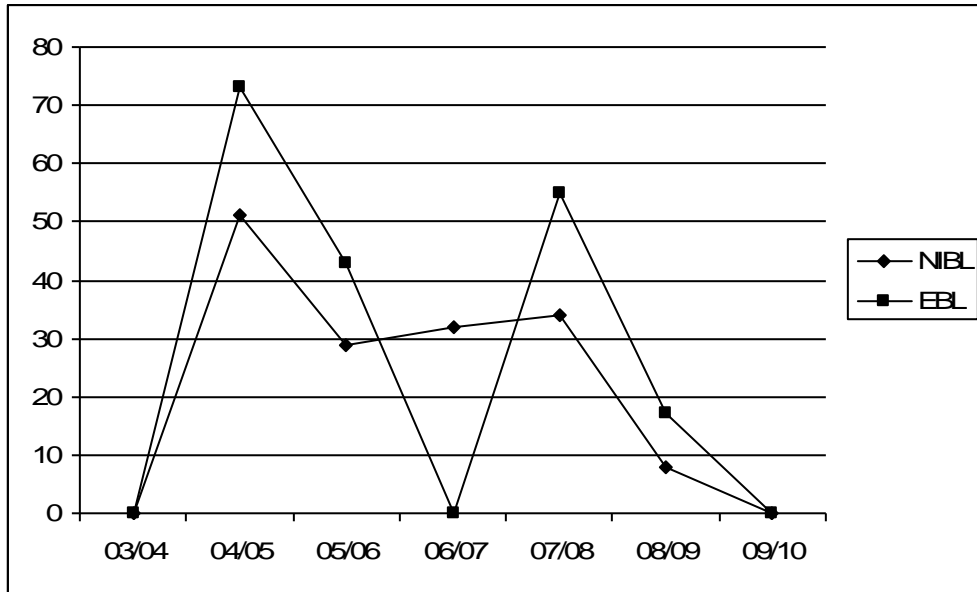


Fig no 4.25

Above comparative table shows that DPR of both NIBL and EBL have been decreasing, the mean of DPR of selected banks (NIBL, EBL) are 22 and 26.86 respectively, which indicates that the NIBL has distributed 22% of profit as dividend in average where as the EBL has distributed 26.86% of profit as dividend in average over the study period. Comparatively the EBL has success to win the confidence of the investor then the NIBL.

The trend analysis of Dividend Payout ratio (DPR) of both banks fluctuating trend.

4.4.6 Karl Pearson's Coefficient of correlation between Total Debt and Net Profit after Tax.

Karl Pearson's coefficient of correlation is calculated to examine the relation between debt and NPAT or it is the statistical technique, which is used to measure the degree of relationship between debt and profit. It is used to examine whether the debts are significant to generate profit or not.

a) Calculation of Karl Pearson's Coefficient of Correlation between NPAT and Total Debt of EBL.

Table No. 4.26

(Rs. in Million)

Year	NPAT (x)	T.Debt (y)	XY	X ²	Y ²
03/04	85.347	6076.261	518590.648	7284.110	36920947.74
04/05	94.180	7439.384	700641.185	8869.872	55344434.30
05/06	143.567	8976.766	1288767.364	20611.483	80582327.82
06/07	168.215	10899.899	1833526510.0	28296.286	118807798.22
07/08	237.291	14996.477	3558529.024	56307.019	224894322.4
08/09	296.409	20231.059	5996667.9670	87858.295	409295748.30
09/10	207.468	25228.105	5234024488.0	43042.971	636457281.9
Total	X = 1232.477	Y = 93847.951	XY = 19130747.19	X ² = 252270.038	Y ² = 1562302864.68

Sources:- Final report of NIBL & EBL

Here N = 7

We have,

$$r = \frac{NSXY - SXS Y}{\sqrt{NSX^2 - (SX)^2} \sqrt{NSY^2 - (SY)^2}} = 0.796$$

Above calculation reveals that the coefficient of correlation between total debt and NPAT of EBL is 0.796 i.e. high degree of positive correlation. The analysis clearly indicates that there is positive relationship between total debt and NPAT of EBL.

(b) Calculation of Karl Pearson's coefficient between NPAT and Total debt of NIBL.

Table No. 4.27

(Rs. in million)

Year	NPAT (x)	T.Debt (y)	XY	X ²	Y ²
03/04	57.10	4599.50	262631.45	3260.41	21155400.25
04/05	116.8	8525.40	995766.72	13642.24	72631301.76
05/06	152.6	12734.80	1943330.48	23286.76	162175131.0
06/07	232.147	15210.479	3531067.068	53892.23	231358671.4
07/08	350.536	20316.642	7121714.42	122875.49	412765942.2
08/09	501.399	26195.394	13134344.36	251400.96	686198666.8
09/10	698.673	36717.231	25653337.93	488143.96	1348155052.00
Total	X = 2109.255	Y = 124299.45	XY = 52642192.43	X ² = 956502.05	Y ² = 2934439956.00

Sources:- Final report of NIBL & EBL

$$r = \frac{NSXY - SXS Y}{\sqrt{NSX^2 - (SX)^2} \sqrt{NSY^2 - (SY)^2}} = 0.994$$

Above calculation reveals that the coefficient of correlation between total debt and NPAT of NIBL is 0.994 i.e. high degree of positive correlation. The analysis clearly indicates that there is positive relationship between total debt and NPAT of NIBL.

Calculation of probable Error

(i) Probable Error of EBL

$$\begin{aligned} PE &= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \\ &= 0.6745 \times \frac{1-(0.796)^2}{\sqrt{7}} \quad 0.003 \\ &= 0.093 \end{aligned}$$

Therefore,

$$PE = 0.093 \text{ and } r = 0.796$$

Here, $r > 6 \times PE$; which means the value of r is significant i.e. there is evidence of correlation between total debt and NPAT.

(ii) Probable Error for NIBL

$$\begin{aligned} PE &= 0.6745 \times \frac{1-r^2}{\sqrt{N}} \\ &= 0.6745 \times \frac{1-(0.994)^2}{\sqrt{7}} \end{aligned}$$

$$PE = 0.003, r = 0.994$$

Here $r > 6 \times PE$, which means the value of r is significant i.e. there is evidence of correlation between total debt and NPAT.

4.5 Major Findings

From the above analysis following findings can be summarized.

-) Current ratio of NIBL and EBL showed the fluctuating trend Both the bank did not maintain the normal standard 2:1. But the EBL has the near of the standard. Comparatively EBL is found slightly better position as compared with NIBL on an average.
-) The analysis of cash and bank balance to current and saving deposit ratio of both the banks are in fluctuating trend. However the mean ratio of EBL is greater than that of NIBL which also signifies the ability of EBL to meet its immediate obligation.
-) Cash and bank balance to total deposit ratio of both banks are in fluctuating trend during the study period. The higher mean ratio of EBL reflects the better liquidity position.
-) Cash and bank balance to current assets ratio of both banks are fluctuating trend. However the mean ratio of NIBL is greater then that of EBL. which also signifies the ability of NIBL to met its immediate obligation.
-) Loan and advance to fixed deposit ratio was slightly higher in NIBL, which also indicates the turnover of fixed deposit in form of loan and advance is slightly better in NIBL than that of EBL.
-) Debt equity ratio of EBL seems to be more consistent then that of in NIBL. Comparatively EBL's higher mean ratio reveals the higher creditors claims against capital.
-) Debt assets ratio remains slightly higher in coefficient of variation is EBL. The ratio seems more uniforms in NIBL.

-) Debt to capital ratio of EBL higher mean ratio. EBL reveals the greater proportion of debt in total capital employed and higher claim of creditors.
-) Interest coverage ratio of NIBL remained higher then in EBL. The study clears that the interest coverage ratio of EBL is more consistent.
-) Net worth to total assets ratio of EBL is greater than of NIBL. It means that EBL is more successful to build up confidence among creditor.
-) The higher mean ratio of Net worth to total deposit of EBL shows the bank has maintained adequate capital fund as compared to NIBL.
-) The higher mean ratio of performing assets to total assets ratio of EBL. It means EBL performing is good.
-) Average return on total assets in NIBL slightly higher then in EBL which reveals the profitability position of NIBL is slightly better then EBL during the study period.
-) The staff expenses to total income ratio shows the NIBL is better than that EBL due to the company point of view except the company view EBL is better than the NIBL.
-) The higher mean EPS and DPS of NIBL indicates better earning per share, and NIBL has been successful to win the confidence of the investor. That means NIBL can sell its share more easily then that the shares of EBL.

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