CHAPTER- I
INTRODUCTION

1.1 Background

Banks are the most important financial institutions in the economy of the country. Bank is a business establishment that safeguards people's money and uses it to make loans and investments. A bank is an organization concerned with the accumulation of the idle money of the general public for the purpose of advancing to others for expenditure or investment. A bank is the institution, which accepts deposits from the public and in turn advances and loans by creating credit.

Bank is a resource mobilizing institution, which accepts deposit from various sources, and invests such accumulated resources in the fields of agriculture, trade, business and industry. Banks are the institutions that provide the funding required starting the business to those with skills and desire to operate the business collecting from those with the money but no skill or time to operate the business**.** In other words, banks are the institutions offering deposits subject to withdrawal on demand and making loans of a business nature. Banks offers wide range of financial services like credit, savings, payments services etc (Shrestha, 2010:20).

1.1.1 A Brief Introduction of Selected Commercial Banks

1.1.1.1 Nabil Bank Limited

Nabil Bank Limited is the first JVB of Nepal, commenced its operations in 12th July 1984 A.D. Dubai bank Ltd, Dubai (later acquired by Emirates Bank International Limited, Dubai-EBIL) was the first joint venture partner of Nabil. Later EBIL sold its entire stock to National Bank Ltd, Bangladesh (NBL). NABIL Bank Ltd. had the official name Nepal Arab Bank Limited till 31st Dec 2001. Hence 50% equity shares of NABIL are held by NBL and out of another 50% shares, 20% shares has been hold by financial institutions and remaining 30% shares were issued to general public of Nepal. Nabil was incorporated with the objective of extending international standard modern banking

services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 24 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective. Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore India, Internet banking system and telebanking system (www.nabilbank.com).

1.1.1.2 Everest Bank (EBL)

Everest Bank Limited (EBL) was established in 1994 A.D. with a view to extend professional and efficient banking services to various segments of the society. EBL joined hands with Punjab National Bank (PNB), India as its joint venture partner in 1997. PNB is the largest Public Bank of India having 109 years of banking history with more than 4400 officers' all over India and is known for its strong system and procedures and a distinct work culture. The local Nepalese promoters hold 50% stake in the Bank's equity, while joint venture partner PNB contributes 20% of equity, whereas the public holds remaining 30%.

Drawing its strength from its joints venture partner, EBL has been steadily growing in its size and operations ever since its inception and today it has established itself as leading private sectors bank of the nation, reckoned as one of the fastest growing Commercial Bank of the country. It has a main policy is to grant a loan as possible rate and through easy procedures, beside many other commercial activities. The Bank provides a wide range of banking facilities through a wide network of 22 branches covering all 5 regions of the country and over more than 250 reputed correspondent banks across the globe (www.everestbank.com).

1.1.2 Function of Commercial Banks

Commercial Banks are the important type of financial institution for the nation in term of aggregate assets. The business of banking is very broad in modern business age. The number and variety of services provided by commercial bank will probably expand. Recent innovation in banking includes the introduction of credit cards, accounting services in banking business firms, factoring, and leasing participation in the Euro dollar market and lock-box banking (Cotter and Smith; 1976:123).

The function of commercial banks can be defined as in several area and disburse cash, they provide short-term credit, they offer several kinds of short- term investments, they serve as a fiduciary, they provide consulting services in cash management and other fields, they may provide as brokerage function that permits customers to buy and sell securities like commercial papers, bond and stocks, and they can offer some kinds of insurance. The following sections discuss some of these functions in more brief

Depository Function

Banks offer several types of depository accounts. There are two basic types of depository accounts, time and demand. For time deposits, the cash in the account receives interest and must be held in a bank for a specified time period. Demand deposits may be withdrawn at any time by the account holder or other party on presentation of a valid draft or cherub drawn on the account.

Collection, Concentration, and Disbursement Functions

Banks serve as clearing house for cheque. When a firm receives a cheque in payment for some good or service, the firm deposits the cheque in a bank. The bank gives there firm credit for the cheque and returns the cheque to the bank on which it was drawn. Banks also serve as initiating receiving points for wires and automated clearing house transfers.

After cash has been collected in one bank, the cash balance generation is usually concentrated or pooled into a larger account at a centralized bank. Banks offer a number

of services to assist firms to concentrating their cash. On the outflow side, disbursement cheques sent to vendors are drawn on banks.

Short-Term Credit Function

Banks provide financing to corporations to help meet short-term cash needs. Since banks take in cash in the form of short-term deposits, they in turn led cash primarily in the form of short-term loans. The short-term loans may be as the form of a credit line, revolving credit line, and term loans acceptance financing, letter of credit etc.

Investment Function

In addition to be the interest-bearing deposits mentioned, commercial banks provide other opportunities for cash managers to invest short-term funds. They are major brokers of notes and bonds, government agency securities, and municipal notes note and bonds. They also sell bank commercial paper and deal extensively in repurchase agreements.

Fiduciary Function

Many banks are empowered to operate a trust department. A fiduciary act on behalf of other party, banks that provide trust services invest, manage and distribute money as requested in wills, trusts, estates and retirement plans. A trust department may be appointed to serve as a corporate trustee or overseer for a corporate bond or preferred stock issue. The bank monitors compliance with indenture agreements, ensures that the corporation pays interest to the bondholders, and redeems bond as required by the agreement. In addition, a bank may serve as a transfer agent to deep records of the sale and purchase of a corporations stocks and bonds, or as a registrar to maintain lists of current stockholders and bondholders for the purpose for remitting dividend and interest payments.

Consulting services Function

Large banks generally offer consulting services, especially in the area of cash management. Such services are used in designing optimal collection, disbursement and concentration systems.

Brokerage and Insurance Function

Banks were permitted to purchase brokerage firm to help their customers buy and sell stocks and bonds. The law states, however, that a bank can own only a discount brokerage firm one that performs transactions but does not give investment advice. Additionally, banks can now offer certain types of insurance to bank customers (Hill and Sartoris; 1995:049).

1.2 Focus of the Study

This study focuses on comparison of financial performance of EBL and Nabil. Commercial banks play an important role in affairs of the economy in various ways. The operation of commercial banks record the economic pulse of the economy.They are essential instruments to accelerated growth by mobilizing community saving and diverting them into productive channels.

The study also focused to analyze the strength and weakness on the basis of thier internal reports and published annual reports. For the purpose , we focused to find the existing position of selected two banks in terms of profitability and liquadity . The study also focused to see the relationship between net profit and total deposit.

1.3 Statement of the Problem

Financial Performance Analysis is the main indicator of the success or failure of any financial institution and commercial banks. Financial condition of the business firm should be sound from the view point of shareholders, debenture holders, financial institution and nation as a whole. The survival of the existing commercial bank and other financial institutions depend upon how they manage their assets and liabilities to maximize their profits with the minimum exposure of assets to risk, and are guided by three important conflicting criteria of solvency, liquidity and profitability. Commercial banks deal with other people's deposits, adequate cash flow, liquidity, and better utilization of assets.

Saving mobilization and effective credit management system is must for economic development especially for a country like Nepal where the economic growth rate is very low. In this regard, the good banking system can play a vital role in accelerating the pace of economic development through the mobilization of scattered savings and channeling it in the productive sector of the economy. The adaptation of open and free market economic and financial policies is believed to generate more savings as well as improve investment opportunities. Adequate infrastructure development in saving mobilization and investment is therefore the demand of the day. Therefore the bank can contribute a lot by savings and investing it in the productive and development sector of the economy of Nepal through bringing in appropriate and new innovative banking technologies. Keeping in pace with the development in the banking industry, two proposed commercial banks Nabil and EBL have been regularly coming up with new and innovative service to attract customers as well as doing its level best to satisfy the existing customers. They have been able to maintain the position as the market leaders in the banking industry. In compare to other commercial banks, they are getting success in terms of recognize and profitability.

The main problematic of the study is to inquire into the financial performance of two banks namely EBL and Nabil.the study has aimed to find out the answers of following questions.

- What is the comparative position of two banks in terms of profitability ?
- are they maintaning sufficient liquadity position ?
- Are they following up the directives of NRB?
- What is the relationship between total deposit and net profit over the year?

1.4 Objectives of the Study

The main objective of the study is to analyze, examine, compare and interpret the financial performance of Nabil and EBL. Besides this, the following objectives of the study have enlightened the progress and efficiency of the bank.

- To see the existing financial position of Nabil and EBL.
- To see the comparative financial position of Nabil and EBL.

- To see and compare the position of NPA of selected banks.
- To see whether these commercial banks are following NRB directives or not.

1.5 Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. The financials published by the banks gives meaningful picture to the public regarding the financial position of the banks.

The significance of the study can be highlighted as below:

- This study is necessary in order to give the full and clear-cut position and performance of the banks.
- This study will help to encourage for improvement in the diffrent area of selected banks .
- This study has multidimensional signifinance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to resarcher, shareholders, brokers, traders, financial institution and public knowledge.
- This study helps and justify for finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies.
- This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.6 Limitations of the Study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher. This study faced a number of limitations some of these were inadequate coverage of banks, time periods, reality of financial and statistical tools used and other variation. This thesis is not free from limitation. The study is presented just for the partial fufillment of M.B.S. (Master's of Business Studied) degree. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

- This study is based especially on secondary data.
- The study is fully based on data of five years period, i.e. from FY 2006/07 to 2011/12.
- The study is related to only two commercial banks, Everest Bank Ltd (EBL) and Nabil Bank Ltd.

1.7 Organization of the Study

The study on the comparative financial analysis of EBL and Nabil has been divide into five chapters as foows.

Chapter-I: Introduction

The introduction chapter covers background of the study. It describes the introduction of research study, which explains focus 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

In this second chapter, the relevent and pertinent literature and various studies have been reviewed. The review has been made in respect of theoretical background of the rules, regulations and principles of banking which are relevant to this research work.

Chapter- III: Research Methodology

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

Chapter- IV: Presentation and Analysis of Data

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

Chapter- V: Summury, Conclusion and Recomendations

The fifth chapter is the final chapter of the study which consists of the summary of the last fourth chapters.This chapter tries to fetch out the conclusion of the study and attempts to offer various suggestions and recomendation for the performance of the two banks under review.

CHAPTER - II
REVIEW OF LITERATURE

Review of literature is the study of previous research, article or book in related field or topics for finding the past studies conclusion and deficiency that may be known for further research. This chapter is helpful to check the chances of duplication in the preset study. Thus the gap between the previous research and current research can be filled.

Therefore, the chapter is categorized under two main heading. Conceptual framework is concern with fundamental of supportive text that can ensure the interpretation whether it is under the principles and doctrine of the theories related to the topic. Review of related studies is about the legislations related to commercial banks studies of previous thesis, related books and previous researcher in similar topics.

2.1 Conceptual Framework

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

"Financial analysis is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm's financial position analysis at moment in time and next , income statement , that gives analysis summary of the firm's profitability overtime" (Van Horne and Watchowloz; 1991).

2.1.1 Concept of Bank

The term "bank" was originated from Italian word "Banko" now it keeps a specific meaning. A bank is a business organization that receives and holds deposits and funds from other, makes loans and extends credits, and transfers fund by written order of depositors. A Bank is an undertaking that carries on the business of banking (Lawson Etzal; 1997:276).

"The more developed financial system of the world characteristically falls the three parts: the central bank, commercial banks and other financial institution. They are also known as financial intermediations" (Sayers; 1976:16).

2.1.2 Concept of Commercial Bank

Commercial Banks are mainly established to facilitate the development of trade and commercial sector of the country. The first commercial bank in the world was "Bank of England", established in 1694 A.D, as the form of central Bank of Britain. Commercial banks are those financial institutions, which deal in accepting deposits of persons and institutions and lend it to trade, industry and even to agricultural sectors. Moreover commercial banks also provide technical and administrative assistance to industries, trades and business enterprises. The main purpose of priority sector investment scheme is to uplift the backward sector of the economy.

"A commercial bank is one which exchanges money, deposits money, accept deposits, grand loans and performs commercial banking functions and which is not a bank meant co-operation, agriculture, industries or for such specific purpose. The commercial banks are those banks, which provide short term and long-term debts whenever necessary for trade and commerce. They accept deposits from the public and grant loans in different forms. They purchase and discount the bill for exchange promissory notes, and exchange foreign currency" (Nepal Commercial Bank Act; 2031).

"A commercial Bank is defined by law as a depository institution that takes deposits and makes business loans" (William and Sartories; 1995:52).

The commercial Bank can also be defined as an "Investment bank". The investment banker is the link between the corporation in need of funds and the investor. As a middleman, the investment banker is responsible for designing and packaging a security offering and selling the securities to the public (Block and Hirt; 1997:428).

2.1.3 Financial Performance Analysis

Traditionally, banks act as financial intermediaries to channel funds surplus units to deficit units. Unlike other non-banking financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions because of special role they play in the economy, concerned authorities heavily regulate them (Paudel; 2053: 62-63).

Balance sheet profit and loss account and the accompanying notes are the most widely aspects of financial statement of the bank. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans advances and investment and paid in deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission and discounts, foreign exchange income, dividend on investment, other service charge etc.

The users of financial statement of bank require relevant, reliable and comparative information to evaluate the financial performance and position and hence make economic decision regarding the bank. According to 'Commercial Bank Act 2031' the audited balance sheet and profit and loss account must be published in the leading national; newspaper for the information of general public.

Most of the users of financial statements seek to assets the bank's overall performance. Following factors affect the overall performance evaluation of bank

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system.

- Managerial decisions taken by the top management regarding interest rate lending policies exchange rates etc.
- NPA
- Environment changes such as changes in Technology, Government Competition, and Economy etc (Paudel ; 2053: 64-69).

2.1.4 Financial Statement

Financial statements provide information about a firm's position at a point in time as well as its operation over some past period. However the real value of financial statement lies in the fact that they can be used to help predict the firm's financial position in the future, and to determine expected earnings and dividends from an investors standpoint, predicting the future is what financial statement analysis is useful both as a way to anticipate future conditions and more important as a starting point for planning actions that will influence the future course of events (Weston and Brigham; 1990:93).

Financial statements are vital sources of information to a company's stakeholders in learning about the financial health of the company and how their respective interest is there by affected (Chitrakar; 2003:8). Financial statements are prepared primarily for users outside an organization; managers also find their organization's financial statements useful in making decision (Hilton and Ronald; 2002:9-5).

There are primarily four components of financial statement:

A. Balance Sheet
B. Income Statement
C. Statement of Retained Earnings
D. Statement of cash Flows

A. Balance Sheet

The balance sheet shows the balances in the organization's assets, liabilities and owners equity as of the balance sheet date. It represents an organizational financial position at a point in time.

B. Income Statement

The income statement reports the income for the period between two-balance-sheet dates.

C. Statement of Retained Earnings

The retained earnings statement shows how income and dividends for the period have changed the organizations retained earnings.

D. Cash flow Statement

It shows how cash obtained during the period and how it was used. The cash flow statement is designed to convert the accrual basis of accounting used to prepare the income statement and balance sheet back to a cash basis. This may sound redundant but it is necessary .The accrual basis of accounting generally is preferred for the income statement and balance sheet because it more accurately matches revenue sources to the expenses incurred generating those specific sources.

However, it also is important to analyze the actual level of cash flowing into and out of the business. Like the income statement, the statement of cash flow measures financial activity over a period of time. And the cash flow statement also tracks the effects of changes in balance sheet accounts. The cash flow statement is one of the most useful financial management tools to run business.

It is useful in providing information to the users of financial statements about the ability of the enterprise to generate cash and cash equivalents and the need of the enterprise to utilize those case flows (Wagle and Dahal; 2004:11.1-11.2).

2.1.5 Financial Statement Analysis

Financial statement is the indicator of business performance that whether business is profitable or not. Therefore, financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characteristics of firm. Different types of financial statement analysis can be used on the basis of this research's objectives. Financial statement analysis is helpful to the decision maker for finding out

favorable or unfavorable situation of a business concern. Financial performance is the main indicator of success or failure of the company.

The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements, by making comparison of various components and by examining their content. This can be used by financial managers as the basis to plan future financial requirements by means of forecasting and budgeting procedures (Mohan and Goyal; 1997:356).

According to the Hampton "Financial analysis is used primarily to gain insight in the operating and financial problems conforming the firms, with respect to these problems we must be careful to distinguish between the cause of problem and symptom of it". It is thus an attempt to direct the financial statements in to their components on the basis of purpose in hand and establish relationship as between these components on the one hand as between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have a clear understanding of changing profitability in financial condition of the business organization (Hampton; 1998: 99).

Financial analysis is the process of determining financial strengths and weakness of Analysis Company by establishing strategic relationship between the components of analysis balance sheet and other operative data (Pandey; 1994:96).

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

Financial statement analysis is large study of relationship among the various financial factors in analysis business as disclosed by the single set of statement and analysis study of the trend of these factors as shown in analysis series of statement (Myer; 1961:4).

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

Interested parties in financial statement analysis are management, investors or shareholders or owner, creditors, employees and trade union, bankers and lender and government etc (Dongol and Dangol; 2061:593). Financial statement analysis is technique of answering various questions regarding the performance of a firm in the past, present and the future (Pradhan; 2004:45).

2.1.5.1 Importance of Financial Statement Analysis

- Measure the firm's liquidity, profitability and solvency position.
- Assess the firm's operating, efficiency financial position and performance.
- Fulfill the objectives and interest of short-term creditors, present and potential investors, Long-term creditors, management and regulating authorities. (Munankarmi; 2002:465).

2.1.5.2 Objectives of Financial Statement Analysis

- To judge the financial health of the firm.
- To judge the profitability of the business undertaking.
- To evaluate the capacity to repay the loans and interests there on.
- To evaluate the solvency position of the firm.
- To examine and evaluate the return on investment and or capital employed (Munankarmi; 2002:465).

2.1.5.3 Limitations of Financial Statement Analysis

Analysis of financial statement suffers from certain limitations. The major limitations of financial analysis can be summarized as follows:

- Financial analysis fails to disclose the current worth of the enterprise.
- Financial analysis is based on financial statements, which record historical facts. They do not record the changes in the price level.
- The financial analysis is based on facts and figures contained on financial statements. Hence the limitations of financial statements such as influence of personal judgment, disclose of monetary facts only are the limitations of financial analysis (Munankarmi; 2002:467).

2.1.5.4 Analytical Technique Used

Four analytical tools are used in widespread in analyzing financial statements.

- Horizontal Analysis
- Trend Analysis
- Common-size/ Vertical analysis
- Ratio Analysis

Horizontal Analysis

Horizontal analysis is the analysis of financial statement over a series of years. The calculation of changes in absolute amount or percentage changes in the statement item or totals is horizontal analysis (Bajracharya; 2004:1016).

When the financial statement of previous year along with current year are presented horizontally with added columns to reflect absolutely changes in amount and percentage for each item from the previous year to current yea, it forms the horizontal analysis (Wagle and Dahal, 2004:10.2).

Trend Analysis

Trend analysis is nothing more than the extension of horizontal analysis for several years. It is carried out by assigning a value of 100 to the items of base year (Year with normal

financial and operating environment) financial statements and then expressing the financial statements items in the following years as a percentage of base year value. It is also known as time series analysis (Wegle and Dahal; 2004:10.2).

Trend ratios involve a comparison of the ratios of a firm over time that is present ratios are compared with post ratios for the same firm. Trend ratios indicate the direction of change in the performance-improvement, deterioration or constancy-over the years (Khan and Jain; 2006:4.2). Trend analysis is the comparison over the three or more years (Hilton and Ronald; 2002:920).

Common- Size Statement Analysis

Common size analysis is a vertical analysis. It expresses all items in the statement as percentage of a selected item (the base) in the statement. Financial statement that shows only percentage and no absolute amounts are common-size statements. This is the first step in a comprehensive ratio analysis. Management performance is evaluated through common-size statement analysis. It should be evaluated from the prospective of liquidity, profitability and stability, activity & possibility management itself can be using these parameters to improve the organization's performance in future. it is also known as vertical analysis. Financial analysts use vertical analysis to gain insight into the relative importance or magnitude of various items on the financial statements (Hilton and Roland; 2002:921).

Ratio Analysis

Ratios are the tools for measuring liquidity, solvency, profitability and management efficiency of the firm and it is also equally useful to the internal management, prospective investors and creditors and outsides etc. An analysis of the firm's ratios generally is the first step in financial analysis (Weston and Brigham; 1990:93).

Ratio analysis uses financial report and data summarizes the key relationship in order to appraise financial performance. The effectiveness will greatly improve when trends are

identified, comparative ratios are available and inter-related ratios are prepared (Munakarmi; 2002:468).

Ratio analysis is widely used tool of financial analysis to interpret the financial statement so that the strength and weakness of a firm as well s its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two items/variables. The relationship can be expressed as; percentage, fraction and proportion of numbers. Alternative methods of expressing items, which are related to each other, are for the purpose of financial analysis referred to as ratio analysis. A rationale of ratio analysis lies in fact that makes related information comparable. Single figure by itself has no meaning but when expressed in items of a related figure. It yields significance instances (Khan and Jain; 1996:60).

Ratio analysis is a tool of scanning the financial statements of the firm. Through this one comes to know in which areas of the operation the organization is strong and in which areas it is weak Ultimately, ratio analysis is a tool of scanning the financial statement of the firm (Bajracharya; 2001:1017).

Nature of Ratio Analysis

In financial analysis, ratio analysis is used as an index of yardstick for evaluating the financial position and performance of the firm. It helps in making decisions as it helps establishing relationship between various ratios and interprets there on. It helps analysts to make quantitative judgment about the financial position and performance of the firm. Ratio analysis involves the following four steps.

- Selection of relevant data from the financial statement depending upon the objectives of the analysis.
- Calculation of required ratio from the data presenting them either in pure ratio form or in percentage.
- Comparison of calculated ratios with:
  - The ratio of the same concern over a period of year to know upward or downward trend or static position to help in estimating the future or

- The ratio of another firm in the same line or
- The ratio of projected financial statements or
- The ratio of the industry average
- The pre-determined standards of
- The ratio between the department of the same concern assessing either the financial position or the profitability or both
- Interpretation of the ratio (Khan and Jain; 1996:60).

Types of Ratios

The ratio analysis is classified into seven broad groups for better understanding and analysis:

I) Liquidity Analysis/ Working Capital Analysis

It measures the adequacy of a firm's resources to meet its near term cash obligations. It is pre-requisite for the very survival of firm. Liquidity analysis measures the liquidity position and short-term obligation.

To meet the current or short-term obligations, commercial banks must maintain adequate out in commercial banking. NRB has directed all the banks to maintain adequate CRR to meet its current obligations. Thus to measures the banks liquidity positions. CRR assumes the key indicator has other ratios. It is also found that central banks practically pay more attention towards the CRR of commercial banks.

Cash Reserve Ratio (CRR)

CRR measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank. The cash reserve ratio (CRR) is being used as a prime and effective instrument to inject liquidity to and absorb liquidity from the economy. The CRR, which has been used particularly for last few to reduce the cost of resources of commercial banks and to manage necessary liquidity in the economy, has been gradually lowered in the neighboring countries as well as the majority of the countries in the world in complement to the prevalent use of indirect monetary

instruments and prudential regulatory measures. "In this context, the CRR has been maintained at 5.50 % for FY 2010/11 "(Monetary Policy; 2010/11: NRB).

ii) Profitability Ratio Analysis

A company should earn profit to service and grow over a long-term period of time. Profits are essential but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits irrespective of social consequences.

Profit is the differences of revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it fails to make sufficient profits. Therefore the financial manager should continuously evaluate the efficiency of its company. So the profitability ratio measures the net income of the firm relative to its revenue and capital. The following major profitability ratios are calculated to measure the efficiency of banks.

Net Profit Margin

This ratio measures the overall profitability of the firm by establishing relationship between profit and sales revenue. The relationship between the net profit and sales indicated management's ability to operate the business with sufficient success not only to recover the cost of production, operating expenses of business and cost of borrowed mat also to leave margin of reasonable compensation to the owners for providing their capital at risk.

Return on Assets (ROA)

It measures the productivity of the assets. It is a measure in terms of relationship between net profit and assets. The income figure used in computing this ratio should be operating income (Munankarmi; 2002:485).

Interest Income on Loan and Advances

The major source of operating income of any commercial bank is interest income. Among the interest income should, loans and advance and overdraft are the major source of interest income. Investment on government securities and debentures are also the major source of interest income. Interest income to loan and advance ratio shows the high utilization of loan and advances. Higher percentage income reflects better operational efficiency or higher level of risk due to higher volume of investment in loan and advances (Shrestha; 2003: 124).

Operating Ratio

Operating ratio of banks tries to establish relationship between operating expenses and total income. Operating expenses include administrative expenses, interest on short-term loan, discount allowed and bad debts (Munankarmi; 2002:484).

iii) Activity Ratio Analysis

Funds of creditors and owners are invested in various assets to generate sales and profits. Activity ratios are employed to evaluate the efficiency with which the firm manages and utilized its assets. These ratios are also called turnover ratios because they indicate the speed with which assets are being converted or turned over ratio into sales. Activity ratios, thus involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well. Several activity ratios can be calculated to judge the effectiveness of asset utilization (Pandey; 1997:119). Various activity ratios are calculated to find out the degree of effective utilization of resources by the bank.

Credit Deposit Ratio

Loan and advances to total deposit ratio is calculated by dividing total function is to be mobilize the funds from the depositors to the borrowers. To measures the activity position of commercial banks, loan and advances to total deposit ratio is calculated (Shrestha; 2003:96).

iv) Long-term Debt & Solvency Analysis

It is also known as "Leverage or Capital Structure Ratio". Solvency analysis may be defined as financial ratios, which through light on the long-term solvency of a firm reflected in its ability to assure the long-term creditors with regard to (a) periodic payment of investors during the period of loan and (b) payment of principal on maturity or in predetermined installments at due dates. There are aspects of the long-term solvency of the firm:

- Ability to repay the principal when due and
- Regular payment of the interest (Khan and Jain, 1996:98).

To measure banks capacity of borrowing as means of capital accumulation i.e. over extension of credit and borrowing power, which determine the long-term solvency of the banks; several capital structure ratios are calculated. These ratios help to calculate the proportion of outsides and owners contributions of these banks. To highlight on debt serving capacity financial health, strength and weakness assets of the bank, it is better to calculate capital-structure ratio.

Capital Adequacy Ratio

Capital adequacy ratio is calculated by dividing total capital fund (Net worth) by total deposits. Capital adequacy has remained one of the biggest issues in banking industry and the appropriate capital adequacy ratio for commercial banks has always been a controversial issue. According to capital adequacy principal, safety and stability fragile system ultimately rests upon the confidence of the depositors and creditors. NRB emphasizes upon capital as cushion to absorb unexpected losses arising from various risks that can create instability in banks earnings. Thus they prescribe a ratio of capital to total assets.

As per the directions of NRB, the commercial banks must maintain minimum percentage of adequacy of capital fund on risk weighted assets of the bank. NRB has provided a risk of on balance that and off-balance sheet of assets with risk rates on the basis of which commercial bank should calculate risk weighted assets. As per the directive of NRB in

the 2010/11, capital adequacy ratio (CAR) to be maintained by the banks and financial institutions on the basis of risk-weighted assets (RWA) will be continued at 11.0%, with core capital at 5.5% (Monetary Policy, 2010/11, NRB). The ratio of core capital supplementary capital and total capital fund on risk-weighted assets in case of the banks has been as follows:

1. **Core Capital:** It is the combination of paid up capital, share premium, non-redeemable preference share, general retained fund and retained earnings of banks.
2. **Supplementary Capital:** It is combination of general loan loss provision, exchange equalization reserve, assets re-valuation reserves, hybrid capital instrument, unsecured sub-ordinates term debt and other free reserves.
3. **Total Capital Fund:** It is the addition of core capital and supplementary capital (Panta; 2005:63). In other words, it is total assets minus current liabilities or the net worth.

Interest Expenses to total Deposit Ratio

Ratio measures the cost of the deposits with borrowing in relative term. Interest expenses are the major expenses of the operation expenses of the commercial banks. Interest expenses consist of interest paid on various deposits (saving fixed call) etc and borrowings.

The performance banks independent upon its ability to generate cheaper fund. The cheaper the fund, more profitability on generating loan and advances and vice-versa. High ratio is indicative of costly fund and his adversely affects the lending activities o bank

v) Market Value Analysis

The market value ratios represent a group of ratio that relate to the firms stock price to its earning and book value per share. These ratios give management an indication of what investors think of the company/banks past performance and future prospectus. If the firm's liquidity, asset management, debt management and profitability ratios are all good

then its market value ratio will be high its price will be probably be as high as can be expected (Weston and Brighan; 1996:104).

Earning Per Share

The profitability of a firm from the profit view of the ordinary shareholders is the earning per share (EPS). It measures the profit available to the equity shareholders on per share basis i.e. the amount they can get on each share held. In other words, this ratio measures the earning available to an equity shareholder on a per share basis. The objectives of computing this ratio is to measure the profitability of the firm on per equity share basis. There are two components of this ratio that are as under:

- Net profit after preference dividend.
- Number of equity shares outstanding

It is computed by dividing the next profit after preference dividend by the number of equity shares outstanding.

Price-Earnings Ratio

Price –earning ratio is widely used by the security analyst to value the firm's performance as expected by investors. It reflects investors' expectation about the firm's growth in the firm's earning. This ratio measures investors' expectation and the market appraisal of the performance of the firm (Munankarmi; 2002:490). Price-earning ratio shows how much investor is willing to pay per dollar of reported profits (Westom and Brigham; 1996:296).

So, calculation of P/E ratio of commercial banks is more appreciate by an investor's point of view.

Cash Dividend on share Capital

The amount of earning distributed and paid as cash dividend is considered as the cash dividend on share capital or dividend per share. The net profit after taxes belongs to the equity shareholder (Munakarmi; 2002:489). This ratio is computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding.

vi) Other Relevant Ratios

To measures commercial bank's performance it is necessary to study other relevant ratios too. This ratio includes:

- Staff Expenses to Total operating Expenses
- Staff Bonus to total staff expenses.
- Weighted average interest rate spread
- Exchange/fluctuation gain to Total Income

Staff Expenses to Total Operating Expenses Ratio

Staff expenses to total operating ratio are the contribution of total staff expenses in total operating expenses. It is conclude that higher ratio means the bank has provided better salary and other allowances. It is also the sign of highly motivated staff (Panta; 2005:60). On the other hand, the high ratio affects the net profit.

Staff Bonus to Total Staff Expenses Ratio

This ratio is calculated with provision for staff bonus in terms of expenses. Provision of staff bonus. One of the important operating expenses of the banks, refers to the extra incentives services. Bonus helps to uplift the morale of the staff as well as make them prompt for the next operation. Bonus is distributed if the banks have more profit. A high portion of staff bonus shows that bank has high operating profit. This ratio is calculated as follows:

Weighted Average Interest Rate Spread

It is the difference between interest rate changed by a bank on loan and advances and interest rate offered on deposits. Generally commercial banks charge more interest rate on lending than they provide interest rate on deposits.

High spread shows the bank charges rate for the borrowers than they provide for depositors.

vii) Non-Performing Asset (NPA)

Non- performing asset (NPA) in terms of banking sectors consists of those loans and advances which are not performing well and likely to be turn as bad loan. It may be simply define as bad loan. As per NRB directives, it has been categorized all classifieds loans and advances. NPA has several impacts on the financial institution. On the one hand investment becomes worthless, as expected return cannot be realizable. The profitability is directly affected.

NPA as categorized by NRB are classified as loans and advances. For the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased. (NRB Directive; 2010/11).

Causes of NPA in Nepalese Commercial Banks

- Lack of clear lending policy.
- Lack of proper analysis of loan and advances.
- Lack of good governance debt management inside the bank.
- Overall economic crisis in the country
- Weakness in consortium financing
- Lack in internal control and auditing system.
- Lack of proper supervision of central bank.
- Bad intention of borrowers. (NRB Monetary Policy: 2010/11)

2.1.6 NRB Directives on Classification of Loan and Provisioning

Nepal Rastra bank has issued Unified Directives to bank and financial institution for implementation effective 16 July 2005. This also contains the new directive (No. 2) concerning classification of loan portfolios and provisioning. Except a few important changes, this directive has retained most of the previsions.

Classification of Loan and Advances

The classification criteria are as follows:

- PASS category: all loans and advances the principal of which are not past due or past for a period up to 3 (three) months. Only loans falling under PASS category are termed as "Performing Loan".
- SUBSTANDARD category: all loans and advances the principal of which are past due for a period of more than 3 months and up to 6 months.
- DOUBTFUL category: all loans and advances the principal of which are past due for a period of more than 6 months and up to 1 (one) year.
- LOSS category: all loans and advances the principal of which are past due for a period of more than 1 (one) year.

The respective overdue periods of PASS, sub-standard and doubtful loans shall be considered for higher classification from the next day of the date of expiry of the overdue period provided for each category (Monetary Policy; 2011/12:22)

Lending institutions are not restricted from classifying the loan and advances from low risk category to high-risk category. For instance, loans falling sub-standard may be classified into Doubtful or Loss, and loans falling under Doubtful may be classified into loss category (NRB Directive; 2012).

2.1.7 Effect of NPA on Profitability of the Bank

Under the circumstance assets that do not earn any income to the bank affects the profit in a number of ways. The resources locked up in NPA are borrowed at a cost and have to earn minimum return to service this cost.

- NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets through the claim on provisioning requirements.
- Since they do not earn interest they bring down the yield on advances and the net interest margin or the spread.
- NPA has a direct impact on return on assets and return on equity.

- NPA bring down the profits, affect the shareholder value and thus adversely affect the investor confidence. (NRB directive, 2012:22)

2.2 Review Related Studies

2.2.1 Review of Journal and Articles

Some of the journals and articles published by management experts in financial aspects have been reviewed in this section:

Yadav (2006), in the articles *The Growing Trend of Consumer Banking* published in bussiness Age , Mr Yadav stated some newly adopted policy by the commercial banks in favors of consumer. While long term investment opportunities remain uncertain in the country, the Nepalese banks are starting to diversity the loans in order to reduce excess liquidity and other financial risks. Nepalese banks are moving towards a new era of banking so that the relatively recent concept of consumer banking is swiftly becoming popular and flourishing among the middle to high national jobholders private companies to corporate houses and national to multinational companies. The banks are offering all kind of personal as well as commercial facilities. These days, Nepalese banks are coming up with new products and consumer package on a regular basis. They are increasing collaborating with the international banks too, embracing their banking models, learning lesson from their traditional and latest concept and keeping up to data with the new technologies coming in, hence giving added facilities to the consumers too, Nepalese bank, rapidly expanding their reach through the country are expanding their service hours keeping the customer's convenience in mind.

Pandey (2003), made *A Study on a Topic of a Study of Financial Analysis on HBL,* the study was conducted to analyze and evaluate the financial position of HBL in order to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools like ratio analysis and some statistical tools like average, CV, trend analysis, coefficient of correlation, probable error in his study. And he found that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability

through loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposit as against the fixed deposit.

Gautam (2008), writes in an article**,** *WTO and Challenges of Financial Services Liberalization in Nepal,* has put his opinion in the context of financial service liberalization and financial reform in Nepal. According to him "the process of financial services liberalization in Nepal is very recent phenomenon. It has been gathering pace gradually, the process of liberalization was started with the financial sector reform in mid eighties. It was surged up after the initiation of structural Adjustment Program and Enhanced Structural Adjustment Program with respective loan and assistance of the World Bank and International Monetary Fund. Financial sector reform was implemented on a phase wise basis. It was designed to address the institutional deficiencies and closed and controlled financial system. Various macroeconomic policies were modified and adjusted during the period to facilitate the liberalization process. The procedural relaxation on the entry of joint venture banks (with collaboration), determination of interest rate (first, in 1986 with certain limit and then in 1989 without any limit) and operation of various financial transactions are mainly attributable for the reform.

Maskay and Subedi (2009), in their article *Development of the Nepalese Financial System*, write that, A healthy financial sector is essential to facilitate sustainable economic growth. Theoretically, the channel by which financial development supports economic growth is via enhancing financial intermediation, for example, moving funds from savers to investors in a cost-effective manner which motivates individuals towards more efficient resource allocation decisions .In the literature, there are four channels by which financial development affects economic growth:

- By improving the screening of funds-seeking investors and their subsequent monitoring, and thereby channeling the allocation of resources for its most profitable investments;
- By encouraging the mobilization of savings by means of providing diverse instruments that match the differing preferences of savers;

- By lowering the transaction, screening, and monitoring costs through economies of scale;
- By enhancing various options of risk and liquidity management. Each of these four financial functions influences savings and investment decisions of economic agents and ultimately results in higher economic growth.(NRB, 2009, 31)

Dhungana (2010), in his article, *Financial Sector Reform (FSR) Program in Nepal,* has revealed that Nepalese financial sector is being strengthened under the financial reform program. The expediting of the liberalization and privatization processes within the financial reform programs has succeeded to place the private sector rather than the government in charge of determining who gets credit and at what price. The FSR has also been able to established the system of prudential regulation and supervision design to restrain the private sectors so that we can be reasonably sure that their decisions will also broadly in the general social interest. Many Acts are being promulgated to obtain and maintain a strong legal environment required for the system. It is also equally important that the enforcement aspect in all respects plays a vital role, which is continuously improving, within this reform program the two largest commercial banks NBL and RBB are being restructured institutional building program are being launched, greater autonomy and responsibility have been provided to the central bank, entry and exit norms are being prepared, laws are being prepared for the banking sector. These all are positive aspects to boost up the system. The government has launched this program to eliminate financial problems. Except some aspects, the progress made within the FSRP seems are satisfactory.

2.2.2 Review of Thesis

Ghimire (2006), had conducted a research on a topic *Financial Performance of Commercial Banks: A Comparative case study of NB Bank, HBL and EBL.* He had mainly focused on his study in examining the financial performance of those three banks such as profitability, liquidity, activity and capital structure analysis.

The specific objectives of the research are as follows:

- To measure the financial performance of NB Bank, EBL and HBL.
- To analyze the comparative financial position of NB Bank, EBL and HBL.
- To examine whether these commercial banks are following NRB directives or not.

Major findings of the study are found as below,

- The liquidity position of banks was not satisfactory.
- The HBL was more efficient in utilizing the deposits in loans and advances or other more profit-generating sector.
- The banks did not do a lot of exercises in more credit creation and reducing the interest rate for loan and advance for more competitiveness.
- The banks did not maintain the CRR as per NRB directives.
- The EPS of HBL had been rapidly decreasing over the period. However the EPS of another two banks were in increasing trend.

Acharya (2008), had conducted a research on a topic *A Comparative Study on Financial Performance of Nepal SBI Banks and Everest Bank Ltd*. He had mainly focused on his study in examining financial performance of those banks through profitability, liquidity and activity analysis.

The specific objectives of the research are as follows:

- To measure the financial performance of SBI and EBL.
- To analyze and compare the position of NPA.
- To analyze the comparative financial position of SBI and EBL.
- To examine whether these commercial banks are following NRB directives or not.

Below noted are the major findings of the research.

- They had not a special attention towards NPA
- Both banks had higher operating expenses.
- Both banks had not found out the new productive sectors for their investment purpose.
- Both banks had not given attention towards attracting new deposits.

Basnet (2008), had conducted a research on a topic *A Comparative Study on Financial Performance Between the Commercial Banks*. The study had covered only two banks i.e. NB Bank and Nepal SBI bank. He had mainly focused on his study in examining the financial performance of these two banks.

The specific objectives of the research are as follows:

- To measure the financial performance of SBI and NB Bank.
- To analyze and compare the capital structure of selected bank.
- To analyze the comparative financial position of SBI and NB Bank.
- To examine whether these commercial banks are following NRB directives or not.

Major findings of the study are found as below,

- Liquidity analysis indicates the banks did not maintain sufficient liquidity.
- The efficiency analysis showed that the ratio is in fluctuating trend of Nepal SBI Bank and decreasing trend of NB Bank.
- The profitability position of NB Bank was comparatively better than the same of Nepal SBI Bank.
- Capital structure ratio of both banks was highly levered.

Panta (2008), had conducted a research on a topic *A Comparative Study of Everest Bank Ltd. and Nepal Industrial & Commercial Bank Ltd.* He had mainly focused on his study in comparing and analyzing liquidity, profitability, solvency and activity ratio analysis as well as so other major ratio a\such as weighted avg. interest rate spread Fx-fluctuation gain to total income ratio etc.

The specific objectives of the research are as follows:

- To measure the financial performance of NIC and EBL.
- To examine and compare the position of NPA.
- To analyze the comparative financial position of NIC and EBL.
- To examine whether these commercial banks are following NRB directives or not.

In this research, Major findings are as below.

- CRR of the banks were maintained as per the directives of NRB.
- Both banks had maintained NRB balance to deposits ratio remarkable higher than the standard prescribed by the NRB.
- Both banks were maintaining lower capital adequacy ratio. The total assets, net worth to total deposit and not worth to total credit seemed less satisfactory.
- They should encourage too small, medium and large-scale organizations to avail their services.
- Both banks were suggested to review their overall structure and investment portfolio to make better mix in capital structure as well as investment portfolio.

Neupane (2011), had conducted a research on a topic *A Comparative Study on Investment Policies of Nabil Bank Limited and Standard Chartered Bank Nepal Limited.* The following were the major objective of this study to assess the investment policy and strategies followed by Nabil and SCBNL.

The specific objectives of the research are as follows:

- To study and analyze the investment policies of sampled JVBs.
- To evaluate the different financial ratios regarding investment policies like liquidity, asset management, profitability, risk position, liquidity and growth ratios.
- To identify the effectiveness of sampled organization regarding formulation and implementation of investment policies.
- To forecast the trend of deposits, investment, net profit and loan & advances for next five years of Nabil and SCBNL
- To make a suitable recommendation to adopt the investment policy to sampled JVBs.

The major findings of the study as follows:

- The mean ratio of total investment to total deposits of SCBNL is higher than Nabil. The ratios of SCBNL are more consistent and less variable than Nabil.

- The mean ratio of Investment in Government securities to total working fund ratio of SCBNL is higher than Nabil. The ratios of SCBNL are less variable and more consistent than Nabil.
- The mean ratio of Investment in shares and debentures to total working fund ratio of Nabil is slightly higher than SCBNL. Nabil's ratios are more variable than that of SCBNL.
- The mean ratio of return on total loan and advances of SCBNL has been found to be significantly greater than Nabil. The ratios of SCBNL are less variable and more consistent than Nabil.
- The mean ratio of return on total working fund of SCBNL is slightly greater than Nabil. The ratios of Nabil are less consistent and more variable than SCBNL.
- The mean ratio of total interest earned to total operating income of Nabil is higher than SCBNL. Both the banks have been fairly consistent in their ratios.
- The mean growth rate of deposits of SCBNL is significantly higher than Nabil.
- The mean growth rate of total loan and advances of SCBNL is higher than Nabil.
- The mean growth rate of total investment of Nabil is significantly higher than SCBNL.

Shrestha (2011), had conducted a research on a topic *A Portfolio Analysis on Common Stock Investment of Joint Venture Banks (With Reference to Nabil, SCBNL, EBL, HBL, NBBL & NSBIL)*. He had mainly focused his research on comparative examining the risk and return, profitable status and situation through financial analysis.

The specific objectives of the research are as follows:

- To evaluate the common stocks of joint ventures banks in terms of risk and returns.
- To study systematic and un-systematic risk associated with securities.
- To explore the financial performance of the Joint venture banks.
- To determine the share of joint venture in Nepal over priced or under priced.

Major findings of the study are as follows:

- The systematic risk of HBL is highest among the selected JVBs and SCBNL is highest in unsystematic risk.
- The capitalization of SCBNL is highest and HBL is lowest among the selected banks.
- From the view point of required rate of return , it shows that the entire banks common stocks are under prices excepts the Nabil, which is overpriced.
- While creating the portfolio between two assets of the entire JVBs , the optimal portfolio is SCBNL and HBL gives the maximum expected return.

Subedi (2012), has made a study on *Financial Performance Analysis of Commercial Bank (With Reference of Nepal SBI Bank & Nepal Bangladesh Bank)*, The main objective of the study is to examine the financial performance of Nepal SBI Bank & Nepal Bangladesh Bank Ltd.

The Main objectives of the Study are;

- To analyze the financial performance of selected joint venture banks through the use of appropriate financial tools.
- To highlight various aspects relating to financial performance of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd. For the period of 5 year.
- To analyze the relationship between total deposit and investment, total deposit and net profit etc.

The Major Findings of the study are;

- The current ratio of the NBBL and NSBI show current ratio is below the standard 2:1. The analysis of cash and bank balance to total deposit ratio indicates that the NBBL is more competent in payment of deposits. The company has more liquidity maintained than NBBL.
- Comparing between NBBL and NSBI on the basis of cash reserve ratio, it can be considered the liquidity position of NBBL is better than that of NSBI. However, the

liquidity of NSBI is also sound, as the CRR is above the NRB's requirement in each fiscal year.

- The above analysis shows that NSBI is aggressive then NBBL in mobilizing the total deposit in loans and advances. Further, the variability in the ratio is more consistent in NBBL than in NSBI. Greater average ratio indicates successful utilization of deposit. On the basis of investment to total deposit ratio it is found that NSBI is investing more deposit than NBBL. Greater average ratio indicates successful utilization of deposit.
- From the above calculation it is found that NSBI is investing more deposit than NBBL. Greater average ratio indicates successful utilization of deposit. The average of NSBI is greater than NBBL, it shows that NSBI satisfactory to utilization of total assets in area.

2.3 Research Gap

Large numbers of research are available bearing the same topic *Financial Performance Analysis of Nepalese Commercial Banks*, however; this research has certain gap by covering relevant data and information from the year 2006/07 to 2011/ 12. Moreover, the researcher has selected two commercial banks of Nepal as sample i.e. Everest Bank Limited and Nabil Bank Limited that itself demonstrate the gap of this research because the previous research has not found any research done in these banks in collective forms. Under these topics, many researchers have been done but none of the researcher undertaken regarding the case study of financial performance between the Everest Bank Limited and NABIL Bank Limited. These banks are the leading commercial banks as compared to other commercial banks by which we can find for the complete comparison between highly growing commercial banks rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance; therefore it is the major concern of stakeholders to know the financial situation of commercial bank.

Nabil and EBL are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing

the country economy. Every year the financial performances are changing due to the environment of the country. Hence this study fulfills the prevailing research gap about the depth analysis of the financial performance which is the major concern of the stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial banks.

CHAPTER - III
RESEARCH METHODOLOGY

Research methodology is a sequential procedure and collection of scientific methods to be adopted in a systematic study. In other words, research methodology describes the methods and process applied in the entire of the study. It is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his/ her research problem along with the logic behind them. Thus, this deals with the research design, nature of procedures and tools of analysis.

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

The prime objective of this study is to compare evaluate and asses the financial performance of Everest Bank limited and Nabil Bank Ltd. This chapter contains these methods that make convenience for comparison of the performance made. So far by these banks by analyzing the strength and weakness of the financial performance of these two joint venture bank.

"Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view" (Kothari; 1994:19). A research methodology helps us to find out accuracy, validity and suitability. The research methodology used in the present study is briefly mention below.

3.1 Research Design

A research design is the plan structure & strategy of investigation. It is the arrangement of condition purpose with economy in procedure. It is a blueprint for the collection

measurement and analysis of data. "Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do form the writing the hypothesis and their operational implications to the final analysis of data" (Kerlinger; 1986:275).

The present research tries to analyze the comparative performance of commercial banks in the present e-generation. The research followed analytical and descriptive research design. The study is based on most recent financial data provided by the concerned banks i.e. the data is secondary sources for the research work. Comparative data of two commercial banks have been presented in such a way, so as to make the research informative to the readers. Financial as well as statistical tools are used to analyze and interpret.

3.2 Population and Sample

There are many financial institutions in Nepal; however the research basically covered leading four commercial banks ranked by Nabil. All commercial banks i.e. commercial banks operating in the country are the total population for the study. Only leading two commercial banks ranked by Nabil are selected as a sample using purposive sampling technique. The sampled banks are:

- Nabil Bank td.
- Everest Bank Ltd.

3.3 Nature and Sources of Data

The main sources of information are the concerned Banks and their published reports. NRB and its published reports, Experts views, Newspaper and many other published and non-published sources. Mainly the secondary sources of data are collected in order to achieve the real and fact data as far as available.

The secondary sources of data received from books, journals, newspapers, published reports and dissertations and concerned websites etc. The major sources of secondary data are as follows:

- Annual reports of the concerned banks.
- Related websites of concerned banks.
- Economic survey, Ministry of finance
- NRB Samachar, NRB Directives.
- Bank and financial Institution Ordinance 2062.
- Banking and financial statistics of NRB.
- Survey, reports, journals issued by NRB.
- Annual reports, NEPSE.
- Book related to financial performance analysis.
- Previous Dissertations.
- Newspaper, Journals and Business magazines.
- Other publications etc.

3.4 Data Collection Procedure

The information or data obtained from the different sources are in raw form. From that information, direct presentation is not possible so it is necessary to process data and converts it into required form. Only after then, the data can be presented for this study. For this study, only required data are taken from the secondary sources (Bank's publications) and presented in this study. For presentation different tables are used. Similarly in same case graphical presentation are also made. For reference, the photocopies of raw data are annexed. So far a computation is concerned. It has been done with the help of scientific calculator and computer software program.

3.5 Tools of Analysis

Various percentage data are collected as per the nature of the study and this study required more financial tools cum statistical tools for analysis and presentation of used data to attain the objectives of the study.

3.5.1 Financial Tools

Several financial tools are used to measure the strength and weakness of commercial banks. In addition, Non-performing asset and weighted average interest rate spread also been studied under this research work.

3.5.1.1 Liquidity Analysis

Cash Reserve Ratio

CRR measures the ability to meet short-term obligation and reflect the short-term financial strength and solvency of the bank. The cash reserve ratio (CRR) is being used as a prime and effective instrument to inject liquidity to and absorb liquidity from the economy. The CRR, which has been used particularly for last few to reduce the cost of resources of commercial banks and to manage necessary liquidity in the economy, has been gradually lowered in the neighboring countries as well as the majority of the countries in the world in complement to the prevalent use of indirect monetary instruments and prudential regulatory measures. "In this context, the CRR has been maintained at 5.50 % for FY 2010/11 "(Monetary Policy; 2010/11: NRB).

3.5.1.2 Solvency Analysis

Capital Adequacy Ratio

Capital adequacy ratio is calculated by dividing total capital fund (Net worth) by total deposits. Capital adequacy has remained one of the biggest issues in banking industry and the appropriate capital adequacy ratio for commercial banks has always been a controversial issue. According to capital adequacy principal, safety and stability fragile system ultimately rests upon the confidence of the depositors and creditors. NRB emphasizes upon capital as cushion to absorb unexpected losses arising from various risks that can create instability in banks earnings. Thus they prescribe a ratio of capital to total assets.

As per the directions of NRB, the commercial banks must maintain minimum percentage of adequacy of capital fund on risk weighted assets of the bank. NRB has provided a risk of on balance that and off-balance sheet of assets with risk rates on the basis of which

commercial bank should calculate risk weighted assets. As per the directive of NRB in the 2007/08, capital adequacy ratio (CAR) to be maintained by the banks and financial institutions on the basis of risk-weighted assets (RWA) will be continued at 11.0%, with core capital at 5.5% (Monetary Policy, 2007/08, NRB). The ratio of core capital supplementary capital and total capital fund on risk-weighted assets in case of the banks has been as follows:

1. **Core Capital:** It is the combination of paid up capital, share premium, non-redeemable preference share, general retained fund and retained earnings of banks.
2. **Supplementary Capital:** It is combination of general loan loss provision, exchange equalization reserve, assets re-valuation reserves, hybrid capital instrument, unsecured sub-ordinates term debt and other free reserves.

Interest Express to Total Deposit Ratio

The performances of banks dependent upon its ability to generate cheaper fund. The cheaper fund, more profitability on generating loan and advances and vice-versa. High ratio is indicative of costly fund and it's adversely affects the lending activities o bank. It is calculated by:

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expenses}}{\text{Total Deposit}} \times 100$$

3.5.1.3 Profitability Analysis

i. Net Profit to Total Income Ratio

This ratio measures the overall profitability of the firm by establishing relationship between profit and sales revenue. The relationship between the net profit and sales indicated management's ability to operate the business with sufficient success not only to recover the cost of production, operating expenses of business and cost of borrowed mat also to leave margin of reasonable compensation to the owners for providing their capital at risk. This ratio is calculated by:

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Income}} \times 100$$

ii. Return on Assets

It measures the productivity of the assets. It is a measure in terms of relationship between net profit and assets. The income figure used in computing this ratio should be operating income (Munakarmi; 2002:485). This ratio is calculated by:

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

iii. Interest Income on Loan and Advances

The major source of operating income of any commercial bank is interest income. Among the interest income should, loans and advance and overdraft are the major source of interest income. Investment on government securities and debentures are also the major source of interest income. Interest income to loan and advance ratio shows the high utilization of loan and advances. Higher percentage income reflects better operational efficiency or higher level of risk due to higher volume of investment in loan and advances (Shrestha; 2003: 124). This ratio is calculated by:

$$\text{Interest Income on Loan and Advances} = \frac{\text{Interest Income}}{\text{Total Loan and Advance}} \times 100$$

iv. Operating Ratio

Operating ratio of banks tries to establish relationship between operating expenses and total income. Operating expenses include administrative expenses, interest on short-term loan, discount allowed and bad debts (Munankarmi; 2002:484). This ratio is calculated as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Total Assets}} \times 100$$

3.5.1.4 Activity or Turnover Analysis

i. Loan and Advances to Total Deposits Ratio

Loan and advances to total deposit ratio is calculated by dividing total function is to be mobilize the funds from the depositors to the borrowers. To measures the activity

position of commercial banks, loan and advances to total deposit ratio is calculated (Shrestha; 2003:96). This ratio is calculated by:

$$\text{Credit Deposit Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Deposits}} \times 100$$

3.5.1.5 Market Value Analysis

i. Per Share Income

The profitability of a firm from the profit view of the ordinary shareholders is the earning per share (EPS). It measures the profit available to the equity shareholders on per share basis i.e. the amount they can get on each share held. In other words, this ratio measures the earning available to an equity shareholder on a per share basis. The objectives of computing this ratio is to measure the profitability of the firm on per equity share basis. There are two components of this ratio that are as under:

- Net profit after preference dividend.
- Number of equity shares outstanding

It is computed by dividing the next profit after preference dividend by the number of equity shares outstanding. It is expensed as an absolute figure.

$$\text{Earning Per Share} = \frac{\text{Net Profit After Tax Preference Dividend}}{\text{No.of Equity Shares Outstanding}}$$

ii. P-E Ratio

Price –earning ratio is widely used by the security analyst to value the firm's performance as expected by investors. It reflects investors' expectation about the firm's growth in the firm's earning. This ratio measures investors' expectation and the market appraisal of the performance of the firm (Munankarmi; 2002:490). Price-earning ratio shows how much investor is willing to pay per dollar of reported profits (Westom and Brigham; 1996:296). This ratio is calculated as follows:

$$\text{P-E Ratio} = \frac{\text{Market Prince Per Share}}{\text{EPS}} \times 100$$

iii. Cash Dividend in Share Capital

The amount of earning distributed and paid as cash dividend is considered as the cash dividend on share capital or dividend per share. The net profit after taxes belongs to the equity shareholder (Munankarmi; 2002:489). This ratio is computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding. It may be expressed as under:

$$\text{Dividend per Share} = \frac{\text{Earning Dividend paid to Shareholders}}{\text{No.of Equity Shareholders}} \times 100$$

3.5.1.6 Other Relevant Ratios Analysis

i. Staff Expenses to Total Operating Expenses

Staff expenses to total operating ratio are the contribution of total staff expenses in total operating expenses. It is conclude that higher ratio means the bank has provided better salary and other allowances. It is also the sign of highly motivated staff (Panta; 2005:60). On the other hand, the high ratio affects the net profit. This ratio is calculated as follows:

$$\text{Staff expenses to Total Staff Expenses Ratio} = \frac{\text{Staff Expenses}}{\text{Total Operating Expenses}} \times 100$$

ii. Staff Bonus to Total Staff Expenses

This ratio is calculated with provision for staff bonus in terms of expenses. Provision of staff bonus. One of the important operating expenses of the banks, refers to the extra incentives services. Bonus helps to uplift the morale of the staff as well as make them prompt for the next operation. Bonus is distributed if the banks have more profit. A high portion of staff bonus shows that bank has high operating profit. This ratio is calculated as follows:

$$\text{Staff Bonus to Total Staff Expenses Ratio} = \frac{\text{Staff Bonus}}{\text{Total Staff Expenses}} \times 100$$

iii. Weighted Average Interest Rate Spread

It is the difference between interest rate changed by a bank on loan and advances and interest rate offered on deposits. Generally commercial banks charge more interest rate on lending than they provide interest rate on deposits. Interest rate spread is calculated as follows:

Interest Rate Spread = Spread Rate on Lending- Interest Rate on Deposits

iv. Exchange- Fluctuation Gain to Total Income

This is the gain from foreign exchange rate fluctuation and profit earning from transaction of foreign currency exchange.

3.5.1.7 Non- Performing Assets

NPA as categorized by NRB are classified as loans and advances. For the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased.

NPA as categorized by NRB are classified as loans and advances. For the probable loss on lending that cannot be recovered even after liquidation. NRB has directed to maintain loan loss provision. The loan loss provision is to be maintained by debiting profit and loss account. Thus as the quality of loan degrades the ratio of loan loss provision is increased (NRB Directive; 2010/11).

3.5.2 Statistical Tools

3.5.2 .1 Arithmetic Mean

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

We have,

Mean $(\overline{X}) = \frac{\Sigma X}{n}$

Where,

ΣX = Sum of all values of the observations.

n = Number of observations.

$\overline{X}$ = Values of variables.

3.5.2.2 Standard Deviation

The standard deviation is usually denoted by the letter sigma (σ). Karl Pearson suggested it as a widely used measure of dispersion and is defined as the given observation from their arithmetic mean of a set of value. It is also known as root mean square deviation. Standard deviation in this study has been used to measure the degree of fluctuation of interest rate and that of other variables as per the necessity of the analysis (Gupta; 2002:238).

We have,

Standard Deviation = $\sqrt{\frac{\Sigma(\mathbf{X} - \bar{\mathbf{X}})^2}{\mathbf{n}}}$

3.5.2.3 Coefficient of Variation (C.V)

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

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

Where,

σ = Standard deviation

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

Coefficient of variation being a pure number is independent of the units of measurement and thus is suitable for comparing the variability or uniformity of two or more distributors. The distribution having less C.V. is said to be less variable or more consistent or more stable. A distribution having greater C.V. is said to be more variable or less consistent or less stable. C.V. is used in this for comparing the variable of sample banks.

3.5.2.4 Correlation Analysis

Correlation is the statistical tool, which studies the relationship between tow variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. There are different methods of correlation analysis but in this research, Karl Pearson's coefficient of correlation has been used. It is simply denoted by 'rxy' or 'r' has been calculated in this study for two purposes. First, to check the calculation whether the obtained value of 'r' is beyond the limit of 1 to 1, which means that there is some mistake in the calculation. Second, to know the degree direction of the relationship between tow variables, if the value of r is +1, there is perfect positive correlation, if the value of r is-1, there is perfect negative correlation and if the value of r is "0" there is perfect co-variation (i.e. no relationship) between the variables. In practice, perfect correlation cannot be found.

The correlation is calculated as follows:

$$r_{xy} = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{[N\sum X2-(\sum X)2][N\sum Y2-(\sum Y)2]}}$$

Where:

N= No. of observations of X and Y

$\sum XY$= sum of the product of the observations in series X and Y

$\sum X$= sum of the observations in series X

$\sum Y$= sum of the observations in series Y

$\sum X^2$= sum of square of variables in series X

$\sum y^2$= sum of square of variables in series Y

Probable Error of Correlation Coefficient

Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value and test of significance of correlation coefficient in so far as it depends upon the conditions of random sampling. If r is the observed correlation coefficient in a sample of n pairs of observations than its standard error, usually denoted by S.E. (r) is given by:

$$\text{S.E. (r)} = \frac{1-r2}{\sqrt{N}}$$

Probable error of the correlation coefficient is given by:

P.E. (r) = 0.6745 x S.E. (r)

Where,

r= the value of correlation coefficient

n= number of pairs of observations.

P.E. is used in interpretation whether the calculated value of r is significant or not.

- If r < P.E. (r) i.e. if the observed value of r is less than its P.E., then correlation is not at all significant.
- If r < 6P.E. (r)= i.e. if observed value of r is greater than 6 times its P.E., than r is definitely significant.
- If P.E. < r < PE, nothing can be concluded with certainty.

CHAPTER - IV
DATA PRESENTATION AND ANALYSIS

Raw Data are properly processes, tabulated and analyzed in this chapter to appraise the performance of selected commercial banks NABIL & EBL. For better understanding and presentation; financial cum statistical tools are used. Tables are based on data provided by concerned banks & charts were also created according the selected table. An attempt has been made to analyze & interpret financial data of the subject matter in sequential order.

4.1 Ratio Analysis

4.1.1 Liquidity/ Working Capital Analysis

Basically, commercial banks need liquidity to meet loan demand and deposit withdraws. Liquidity is also needed for the purpose of meeting cash reserve ratio (CRR) requirement prescribed by NRB. The failure of the bank to meet its cash obligation due to lack of sufficient liquidity will result bad credit worthiness and loss of creditors confidence. A very high degree of liquidity is also bad: idle or non-performing assets earn nothing. Therefore, it is necessary to strike a proper balance between liquidity crunch and liquidity crisis.

4.1.1.1 Cash Reserve Ratio (CRR)

A bank must ensure that it has a sound liquidity position to face the instant claims by its creditors. So, CRR measures the ability to meet short term obligation and reflect the short term financial strength and solvency of the bank.

Adequate liquidity is must also in the banking sector in order to protect its solvency and to honor its short term obligations & liabilities. Failing to do so, banks might have gone for liquidation and hence to protect the creditors interest. Central Bank (NRB) has directed all the banks to maintain the adequate CRR by the provisioning of 5.5 percent of total deposit.

Table 4.1

Cash Reserve Ratio

(In percentage)

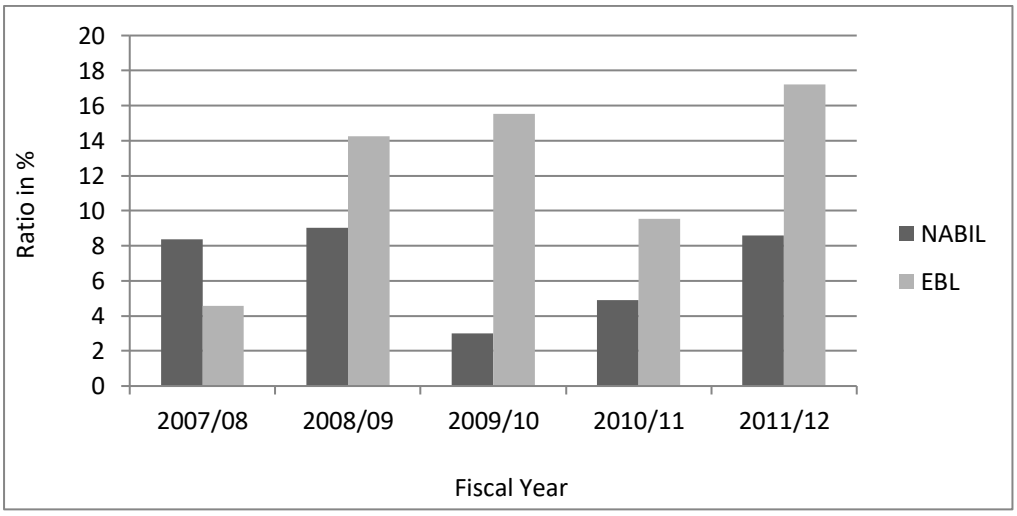
Fiscal Year	Nabil	EBL
2007/08	8.37	4.56
2008/09	9.03	14.26
2009/10	3.02	15.53
2010/11	4.9	9.55
2011/12	8.6	17.22
Mean	6.8	12.2
S.D.	2.67	5.15
C.V.	39.40	42.10

Source: Annex 1

Table 4.1 is computed using scientific calculator. These shows the average CRR of NABIL& EBL is 6. 8 & 12.2 percent respectively. Similarly the CV of the same banks is 39.4 & 42.10 percent respectively. This shows that the average CRR of Nabil and EBL is excess than 5.5%, it means; both banks are able to maintain required CRR as per directive of NRB. However CRR of Nabil in FY 2009/10 and 2010/11 was less than 5 %. On the basis of CV, It indicates that the value of Nabil is more consistent due to lower CV than EBL. This has also been depicted in Figure 4.1.

Figure 4.1

Cash Reserve Ratio



As per above table, CRR of EBL is in increasing trend in recent FY's and highest on FY 2011/12.

4.1.2 Profitability Analysis

The operating efficiency of the banks and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the banks. Sufficient profits must obtain from investors for expansion and growth and to continue towards the social overheads for welfare of the society" (Pandey, 1997:124). Thus profitability ratios are computed to measure to efficiency of banks in terms of profit margin, return on assets, interest on loan & advance and operating ratio.

4.1.2.1 Net Profit Margin (NPM)

Net profit margin indicates margin of cooperation left to the owners for providing their capital after all expenses have been net. It helps in determining the efficiency with which the affairs of the business are being managed. A net profit would enable the firm to withstand adverse economic conditions and low margin will have opposite implications.

Table 4.2

Net Profit Margin

(In percent)

Fiscal Year	Nabil	EBL
2007/08	29.68	24.17
2008/09	30.56	24.92
2009/10	24.11	16.49
2010/11	22.29	14.27
2011/12	23.74	14.36
Mean	26.08	18.84
S.D.	2.39	2.97
C.V.	9.17	15.76

Source: Annex 2

Table 4.2 depicts the computation of average net profit margin of Nabil (i.e.27.76) has higher value than EBL. The average NPM is lowest in case of EBL (i.e.20.29) which is

such below than the Nabil. On the basis of CV, NPM of Nabil is more consistent too. Figure 4.2 reveals it more obvious.

Figure 4.2

Net Profit Margin

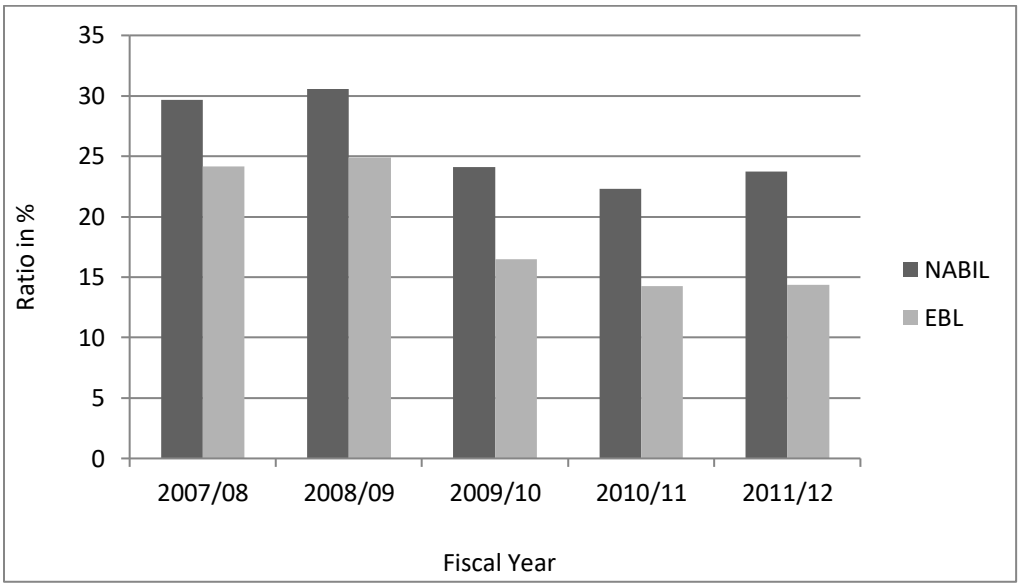


Figure 4.2 shows that the NPM of Nabil is highest than EBL in all FY. It also shows that NPM is in decreasing level in every year.

4.1.2.2 Return on Assets (ROA)

The effectiveness in using the total fund supplied by the owners and creditors is judged by this ration. Higher ratio shows the higher return on assets used in business there by indicating effective use of the resources available and vice-versa.

Table 4.3

Return on Assets

(In percent)

Fiscal Year	Nabil	EBL
2007/08	2.32	1.65
2008/09	2.55	1.7
2009/10	2.8	2.09
2010/11	2.4	2.1
2011/12	2.8	2.11
Mean	2.56	1.93
S.D.	0.22	0.23
C.V.	8.63	12.10

Source: Annex 3

Table 4.3 shows the average ROA of Nabil, & EBL are 2.56 & 1.93 percent respectively. As such Nabil has highest ROA than EBL. This shows that Nabil has utilized its assets properly than EBL. The table shows that the ROA of both banks are higher in the year 2009/10 and 2011/12.

Figure 4.3

Return on Assets

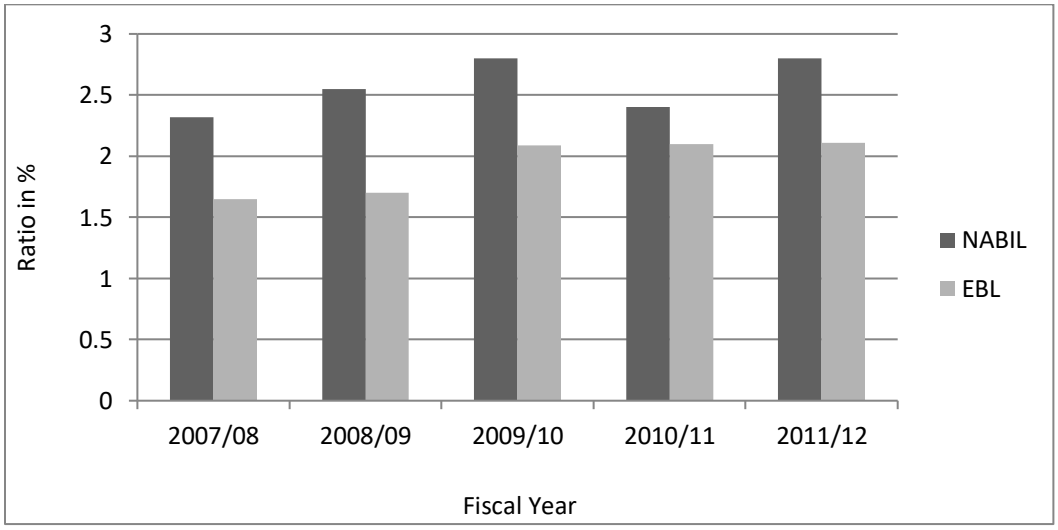


Figure 4.3 shows that the ROA of EBL is fluctuating, due to its fluctuated nature of ROA.

4.1.2.3 Interest Income on Loan and Advances

Interest income is the major source of income from loan and advances that comprises higher rate of interest income. It shows higher utilization of loan & advances.

Table 4.4

Interest Income on Loan & Advances

(In percent)

Fiscal Year	Nabil	EBL
2007/08	8.04	7.06
2008/09	8.82	7.57
2009/10	10.41	9.95
2010/11	12.5	12.22
2011/12	12.85	12.3
Mean	10.52	9.82
S.D.	2.14	2.48
C.V.	20.38	25.26

Source: Annex 4

Table 4.4 shows that, the average interest income on loan & advances of Nabil has higher value than EBL. It indicates that Nabil is able to get high rate of interest income on Loan & Advances than EBL. Besides its interest Income of Nabil on loan & advance is most consistent among two banks, which is depicted by lowest CV i.e. 19.69.

Figure 4.4

Interest Income on Loan & Advances

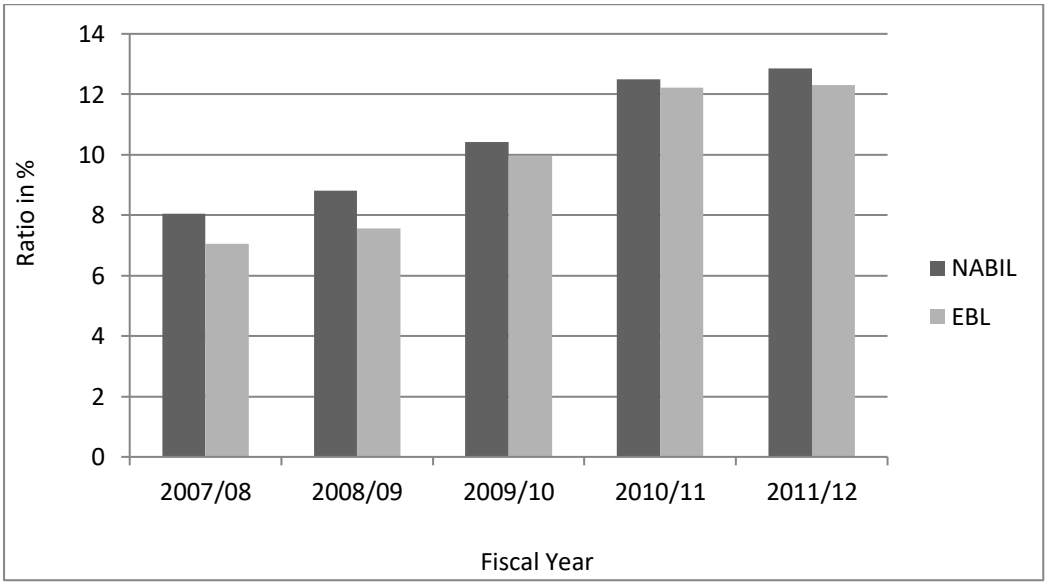


Figure 4.4 show that both banks have highest interest income on loans & advances in the fiscal year 2011/2012. Both banks have interest income on loans and advance seems in increasing nature.

4.1.2.4 Operating Ratio

The operating ratio indicates on operating efficiency increased on total assets. It determines the operational efficiency.

Table 4.5

Operating Ratio

(In percent)

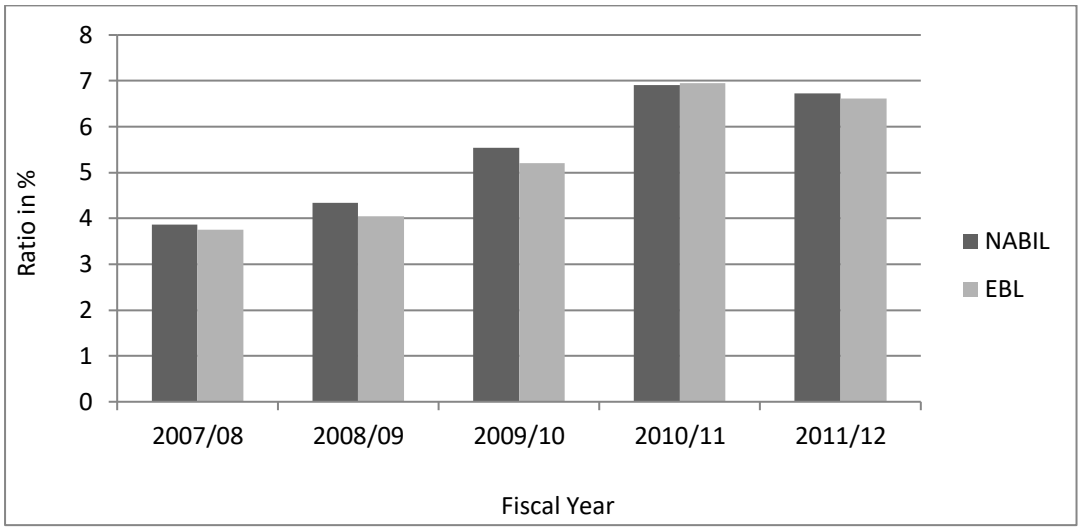
Fiscal Year	Nabil	EBL
2007/08	3.86	3.75
2008/09	4.34	4.04
2009/10	5.54	5.2
2010/11	6.91	6.95
2011/12	6.73	6.62
Mean	5.48	5.31
S.D.	1.37	1.45
C.V.	25.06	27.38

Source: Annex 5

Table 4.5 shows that the average operating ratios of Nabil & EBL are 5.48 & 5.31 percent respectively. It indicates that Nabil incurs slightly higher operating expenses on total assets. On the basis of CV, Nabil seems more consistent than EBL. Figure 4.5 has been shown below to give its clear picture.

Figure 4.5

Operating Ratio



Above figure shows that operating ratio is in increasing trend in every FY.

4.1.3 Activity Ratio Analysis

The activity ratios measure the effectiveness of assets utilization, reflecting the management efficiency to used available resources. The banks used the funds of creditors and owners in various profit generating assets like loan & advances, investments etc. So, the activity ratios are employed to evaluate the efficiency of the banks in terms of utilizing its assets.

4.1.3.1 Credit Deposit Ratio

Banks accepts deposit and lends them by charging a higher rate of interest to the borrowers than they pay to the depositors there by banks make profit. The credit deposit ration confessors the extent to which the banks are successful to mobilize the outsider fund (i.e. total deposit) in loans & advances for the purpose of profit-generation. Comparative CD ratio of selected loading banks has been tabulated below:

Table 4.6

Credit Deposit Ratio

(In percent)

Fiscal Year	Nabil	EBL
2007/08	68.18	78.56
2008/09	73.87	73.43
2009/10	71.17	76.24
2010/11	78.29	76.98
2011/12	77.91	73.22
Mean	73.88	75.69
S.D.	4.35	2.31
C.V.	5.88	3.06

Source: Annex 6

Table 4.6 shows the average credit deposit ratio of EBL having higher value i.e. 75.69%. Also on the bases of CV, EBL has most consistent CD ratio, i.e. 3.06%. CV of Nabil is least consistent. The figure below makes it more obvious.

Figure 4.6

Credit Deposit Ratio

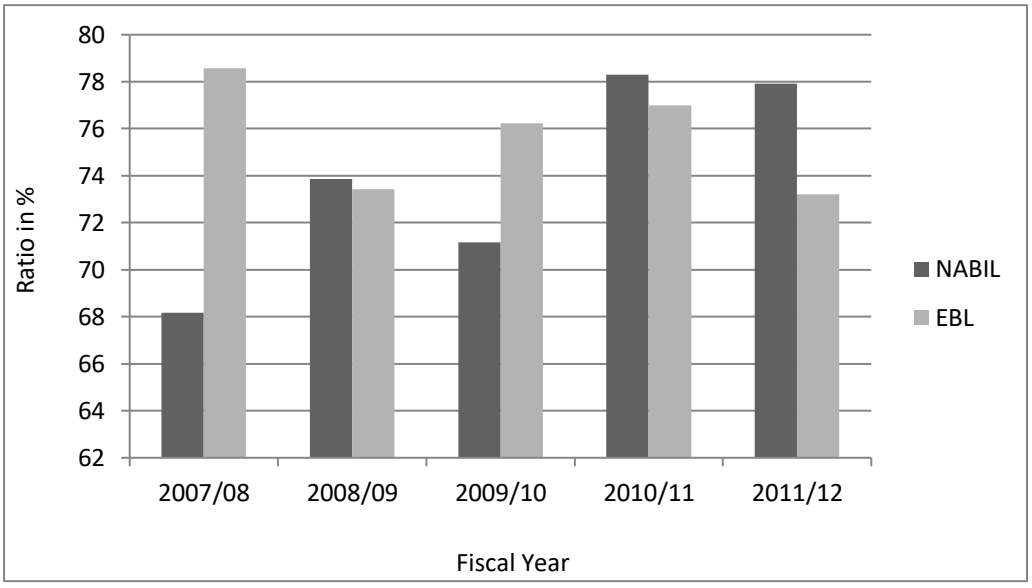


Figure 4.6 shows that the Credit Deposit Ratio of EBL is highest & less fluctuating in nature.

4.1.4 Bankruptcy/Solvency/Capital-Structure Analysis

A bank should have strong short term as well as long term financial position. The long term financial position of the banks is judged by the bankruptcy or average or capital structure ratio. It measures the extent of the banks total debt burden. It shows the banks' ability to meet its short term as well as long term obligation.

To measure banks capacity of borrowing as means of capital accumulation i.e. over extension of credit & borrowing power which determines the long term solvency or bankruptcy of the banks several ratios are calculated as follows:

4.1.4.1 Capital Adequacy Ratio

Capital Adequacy ratio shows whether the commercial banks are maintaining sufficient amount of shareholders fund (net worth) in compression to total amount of their deposits. Extremely high or low ratio is inappropriate in terms of lowered return of lowered solvency repetitively. For this several capital adequacy ratios are calculated.

4.1.4.1.1 Core Capital

Table 4.7

Capital Adequacy Ratio

(In percent)

Fiscal Year	Nabil	EBL
2007/08	8.75	9.04
2008/09	8.74	8.52
2009/10	8.77	8.39
2010/11	8.83	8.46
2011/12	9.7	9.61
Mean	9.0	8.8
S.D.	0.4	0.5
C.V.	4.6	5.9

Source: Annex 7

Table 4.7 shows the average core capital ratio of Nabil is higher i.e. 9.0%. It means, Nabil has been giving higher contribution to maintain core capital. The average core

capital of EBL is 8.8 percent respectively. On the basis of C.V. it can be said that core capital of Nabil is more consistent than that of EBL. Figure 4.7 makes it more obvious.

Figure 4.7

Capital Adequacy Ratio

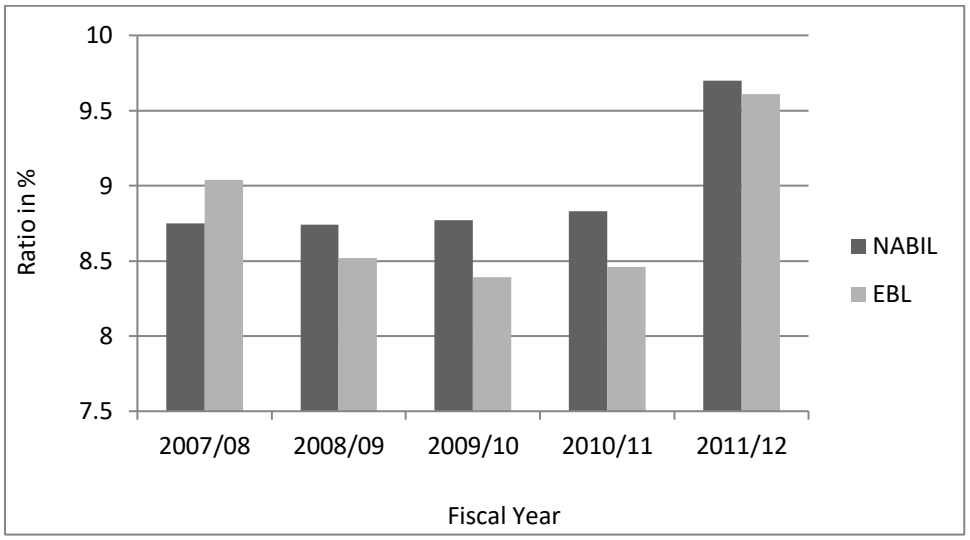


Figure 4.7 is reveals that the core capital of EBL & Nabil have fluctuating trend.

4.1.4.1.2 Supplementary Capital

Table 4.8

Capital Adequacy Ratio

(In percent)

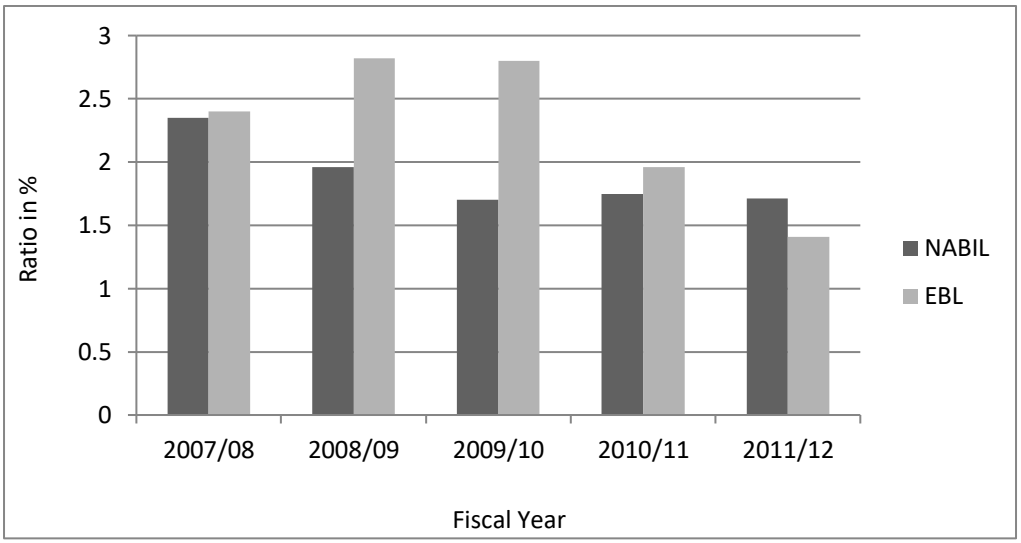
Fiscal Year	Nabil	EBL
2007/08	2.35	2.4
2008/09	1.96	2.82
2009/10	1.7	2.8
2010/11	1.75	1.96
2011/12	1.71	1.41
Mean	1.89	2.28
S.D.	0.28	0.60
C.V.	14.57	26.30

Source: Annex 8

Table 4.8 shows the average supplementary capital of Nabil and EBL is 1.89 & 2.28 percent respectively. Also the CV is 14.57 and 26.30 percent respectively. On the basis of CV, Nabil has the most consistent ratios. It has been clearly depicted in the chart below.

Figure 4.8

Capital Adequacy Ratio



4.1.4.1.3 Total Capital Fund Resilience

Table 4.9

Capital Adequacy Ratio

(In percent)

Fiscal Year	Nabil	EBL
2007/08	11.1	11.44
2008/09	10.7	11.34
2009/10	10.5	10.77
2010/11	10.58	10.43
2011/12	11.1	11.02
Mean	10.8	11.0
S.D.	0.3	0.4
C.V.	2.7	3.8

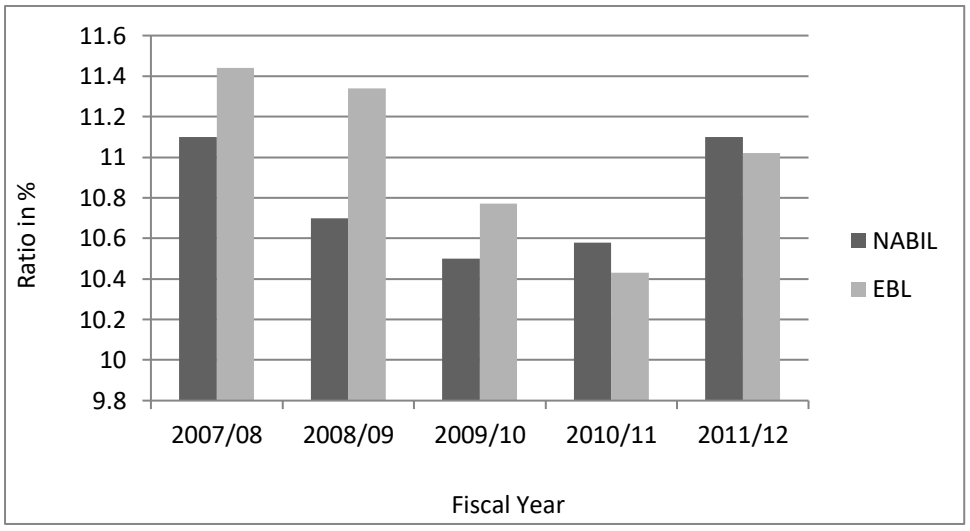
Source: Annex 9

By computation, Table 4.9 shows the average mean of total capital fund of Nabil& EBL is 10.8 and 11.0 percent respectively. Similarly the CV is 2.7 and 3.8 percent

respectively. So, considering the above table it shows that the average total capital fund of Nabil and EBL are almost same. On the basis of CV Nabil have the consistent capital fund.

Figure 4.9

Capital Adequacy Ratio



4.1.4.2 Interest Expenses to Total Deposit Ratio

Interest expenses to total deposit Ratio is analyzed to find out how the banks were successful to generate cheaper fund.

Table 4.10

Interest Expenses to Total Deposit Ratio

(In percent)

Fiscal Year	Nabil	EBL
2007/08	2.64	2.61
2008/09	3.22	2.98
2009/10	4.43	4.18
2010/11	6.15	6.05
2011/12	5.74	5.75
Mean	4.44	4.31
S.D.	1.53	1.56
C.V.	34.45	36.24

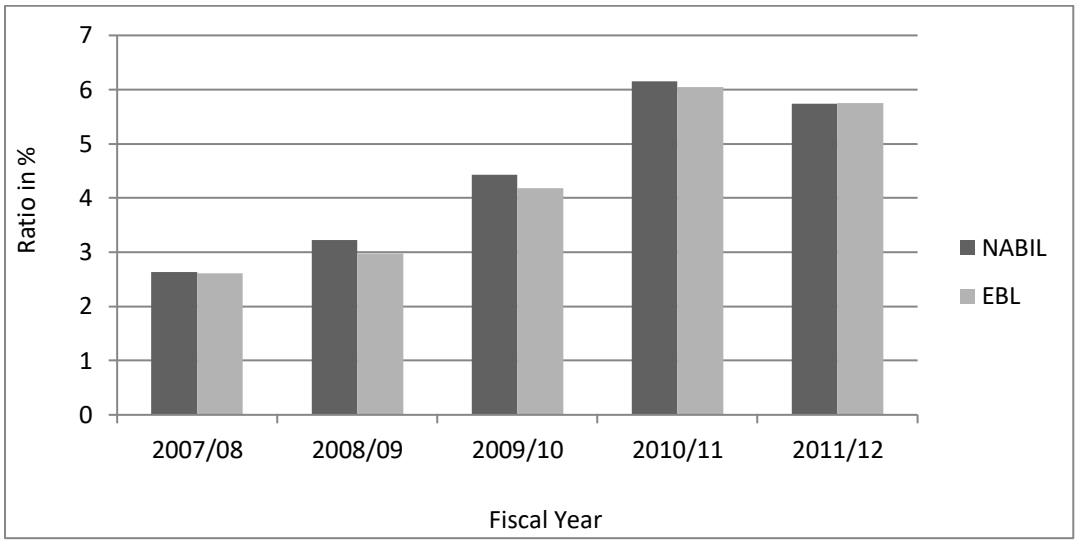
Source: Annex 10

Table 4.10 shows that the average ratio of interest expenses to total deposit of EBL is lower i.e. EBL 4.31%. It means EBL is able to generate cheaper fund than Nabil. On the

basis of CV both bank have same level of consistency and fluctuation. Figure 4.10 makes it more obvious.

Figure 4.10

Interest Expenses to Total Deposit Ratio



The above figure shows that both banks had increasing trend until 2011/12.

4.1.5 Market Value Analysis

Market value analysis indicates the market value of the banks as compared to the bank value and measured the stock price relative to earnings. In this part the researcher analyzes and compares the various market related ratio analysis such as EPS, P-E ratio, Cash divided on share capital & dividend (including bonus) on share capital for better presentation.

4.1.5.1 Earning Per Share (EPS)

EPS shows the profitability of the banks on per share basis. It shows the earning available to each shareholder out of the total earning. It is the major stake with regards to banks shareholders.

Table 4.11

Earnings Per Share

(In Rs.)

Fiscal Year	Nabil	EBL
2007/08	115.86	91.82
2008/09	113.44	99.99
2009/10	83.81	100.16
2010/11	70.67	83.18
2011/12	83.57	88.55
Mean	93.47	92.74
S.D.	20.07	7.37
C.V.	21.47	7.95

Source: Annex 11

Table 4.11 shows that average EPS of Nabil is slightly higher value than EBL. I.e. Nabil 93.47 As such EPS NABIL has earned more profit on per share basis. On the basis of CV EBL has more consistent EPS than Nabil.

Figure 4.11

Earnings Per Share

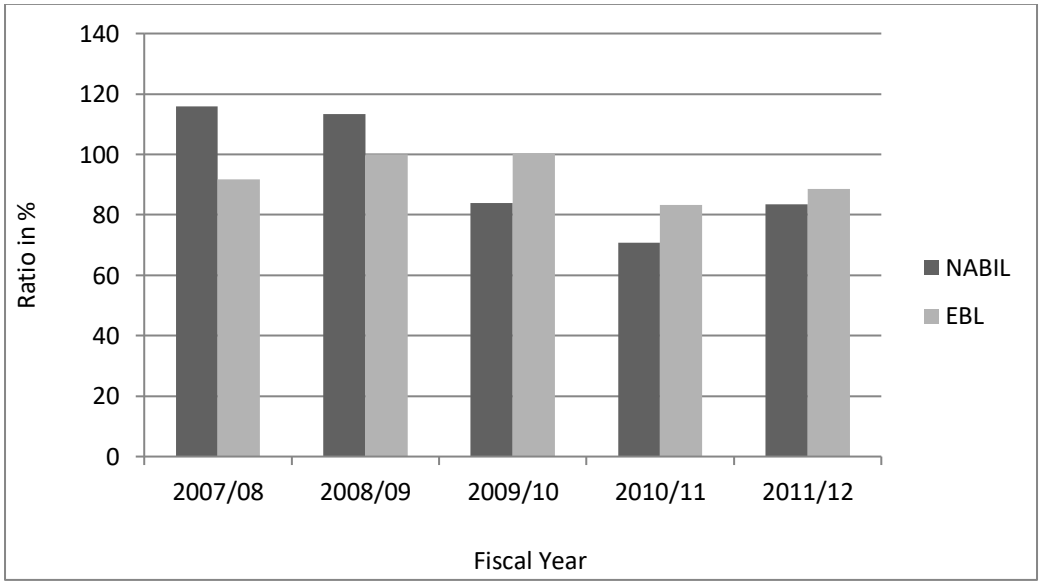


Figure 4.11 displays that both Nabil& EBL has decreasing trend of EPS; which is not a satisfactory trend.

4.1.5.2 Price Earning Ratio (P/E ratio)

Price Earnings ratio is used to assess the banks performance as expected by the investors. Higher ratio is the better for the owners.

Table 4.12

Price Earnings Ratio

(In Times)

Fiscal Year	Nabil	EBL
2007/08	45.53	34.11
2008/09	43.19	24.55
2009/10	28.45	16.27
2010/11	17.72	13.15
2011/12	16.21	11.67
Mean	30.22	19.95
S.D.	13.77	9.35
C.V.	45.56	46.89

Source: Annex 12

Table 4.12 depicts that the average P/E ratio of Nabil is higher value than EBL. On the basis of CV, Nabil has higher consistency (i.e. CV=45.56%). EBL has higher inconsistency than Nabil (ie CV=46.89).

Figure 4.12

Price Earnings Ratio

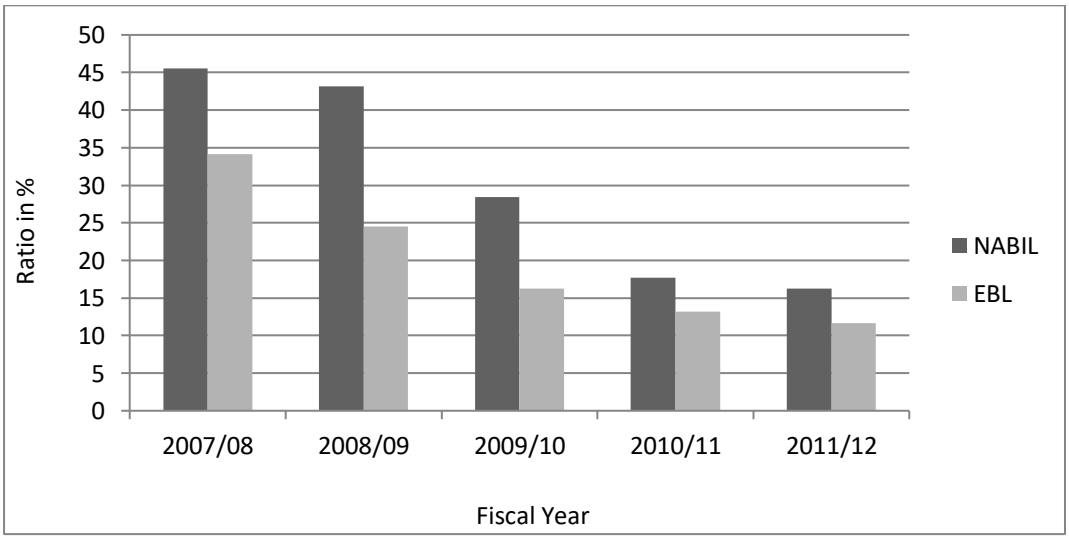


Figure 4.12 shows that P/E ratio of both banks is in decreasing trend,

4.1.5.3 Cash Dividend on Share Capital

It measures the market value or profitability of the banks on dividend per equity share. In general higher the ratio, better it is and vice versa. Generally, this ratio is affected by two competent:

- Amount of earning distributed as dividend.
- No of equity common shares

Table 4.13

Cash Dividend on Share Capital

(In percent)

Fiscal Year	Nabil	EBL
2007/08	60	20
2008/09	35	30
2009/10	30	30
2010/11	30	50
2011/12	40	1.58
Mean	39.00	26.32
S.D.	12.45	17.61
C.V.	31.92	66.90

Source: Annex 13

Table 4.13 shows that the average cash dividend ratio of Nabil is far higher than EBL. Average cash dividend of both banks are in decreasing trend however average cash dividend of EBL in 2010/11 is highest than previous year. The figure below makes it more obvious.

Figure 4.13
Cash Dividend on Share Capital

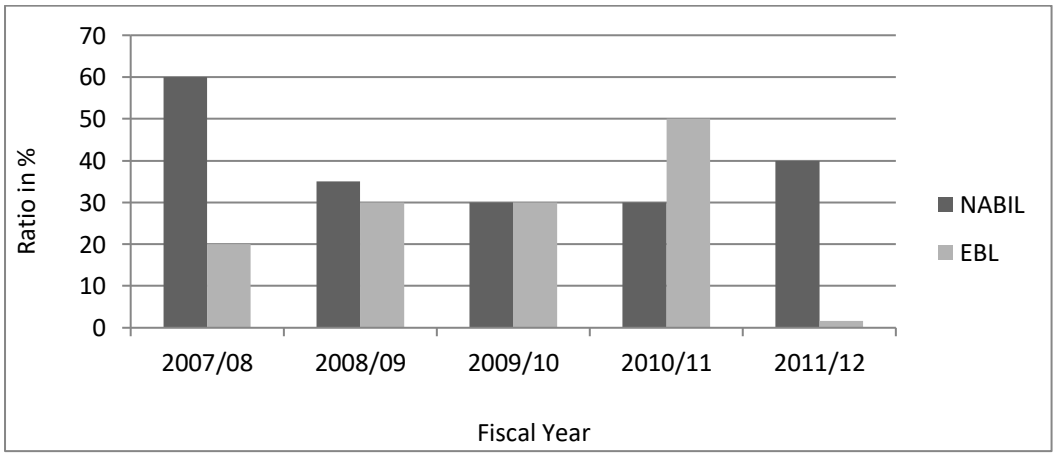


Figure 4.13 reveals that Nabil's cash dividend on share capital is in increasing trend. Nabil has been providing highest cash dividend on 2007/08. EBL is providing in the highest figure on 2010/11.

4.1.5.4. Dividend (including bonus) on Share Capital

Table 4.14

Dividend (Including Bonus) on Share Capital

(In percent)

Fiscal Year	Nabil	EBL
2007/08	100	30
2008/09	85	30
2009/10	70	30
2010/11	30	10
2011/12	60	30
Mean	69.00	26.00
S.D.	26.55	8.94
C.V.	38.48	34.40

Source: Annex 14

Table 4.14 shows the average of such ratio of NABIL allows higher value. I.e. Nabil = 69% where as the average of EBL is 26% only. It indicates that shareholders of Nabil are more satisfied. Nabil especially, has failed to provide dividend (including bonus), in the fiscal year 2010/11.

Figure 4.14

Dividend (Including Bonus) on Share Capital

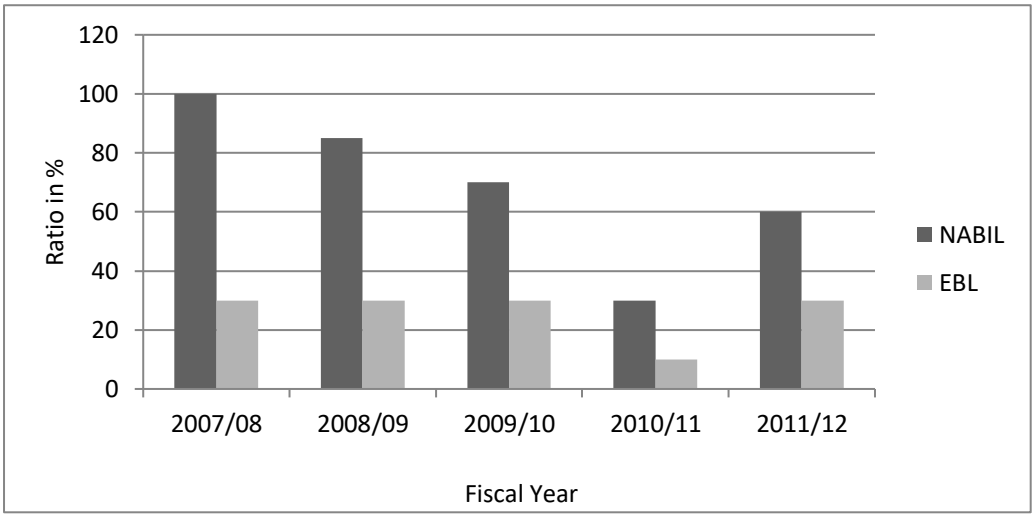


Figure 4.14 shows that dividend (including bonus) on share capital is in decreasing trend of both selected bank.

4.1.6 Other Relevant Ratios

To make more analytical & better permeation of comparative performance analysis it is also necessary to compute following relevant ratios.

4.1.6.1 Staff Expenses to Total Operating Ratio

Table 4.15

Staff Expenses to Total Operating Ratio

(In percent)

Fiscal Year	Nabil	EBL
2007/08	21.17	15.42
2008/09	2.96	12.53
2009/10	13.79	10.52
2010/11	11.91	9.13
2011/12	12.26	9.53
Mean	12.42	11.43
S.D.	6.48	2.59
C.V.	52.22	22.68

Source: Annex 15

Table 4.15 shows that the average of such ratio of Nabil is higher than EBL as Nabil has 12.42 and EBL 11.43 percentage. It means, Nabil has been paying more benefit allowance staff expense. The CV of Nabil & EBL is 52.52 and 22.68 percent respectively. On the basis of CV it can be said that the ratio of EBL is more consistent due to lower CV of EBL. The figure 4.15 makes it more obvious.

Figure 4.15

Staff Expenses to Total Operating Ratio

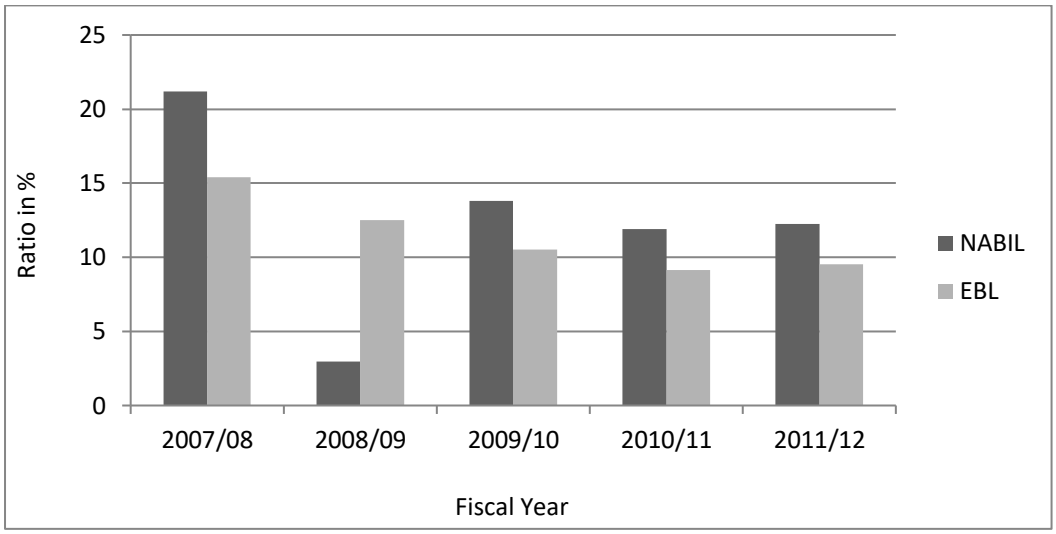


Figure 4.15 show that both banks have decreasing trend up to third year simultaneously. And then the trend is increasing in nature of Nabil after forth year.

4.1.6.2 Staff Bonus to Total Staff Expenses

Table 4.16

Staff Bonus to Total Staff Expenses

(In percent)

Fiscal Year	Nabil	EBL
2007/08	41.42	41.7
2008/09	43.5	47.68
2009/10	44.29	52.48
2010/11	42.05	45.41
2011/12	48.26	44.26
Mean	43.90	46.31
S.D.	2.69	4.07
C.V.	6.12	8.79

Source: Annex 16

Table 4.16 shows the average staff bonus to total staff expenses of EBL is higher value on the last five year i.e. EBL 46.31%. On the basis of CV, the ratio of Nabil is less fluctuating due to lower CV.

Figure 4.16

Staff Bonus to Total Staff Expenses

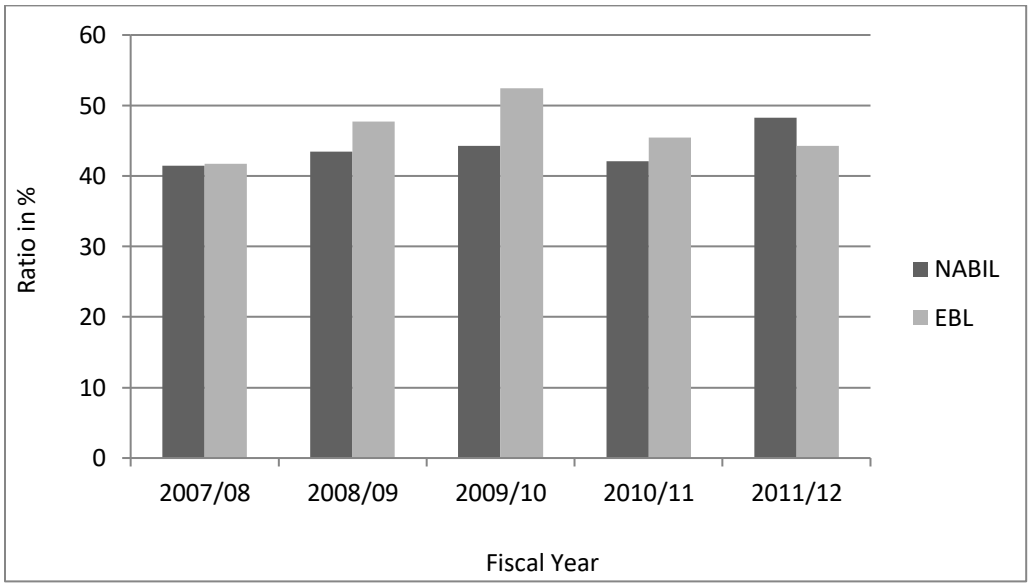


Figure 4.16 shows that the staff bonus to total staff expenses ratio of EBL is fluctuating nature and Nabil is in about same ration.

4.1.6.3 Weighted Average Interest Rate Spread

Table 4.17

Weighted Average Interest Rate Spread

(In percent)

Fiscal Year	Nabil	EBL
2007/08	3.94	4.34
2008/09	4.16	4.4
2009/10	4.4	4.78
2010/11	4.37	4.6
2011/12	4.95	5.32
Mean	4.36	4.69
S.D.	0.38	0.39
C.V.	8.62	8.40

Source: Annex 17

Table 4.17 shows that the average of Weighted Average Interest Rate Spread ratio of EBL has slightly higher value than Nabil. The average of such ratio of Nabil& EBL is

4.36 & 4.69 percent respectively. The weighted average inserted rate spread of these banks has ranged from 3.91% to 5.32. On the basis of CV, Nabil has the lower ratio that means.

Figure 4.17

Weighted Average Interest Rate Spread

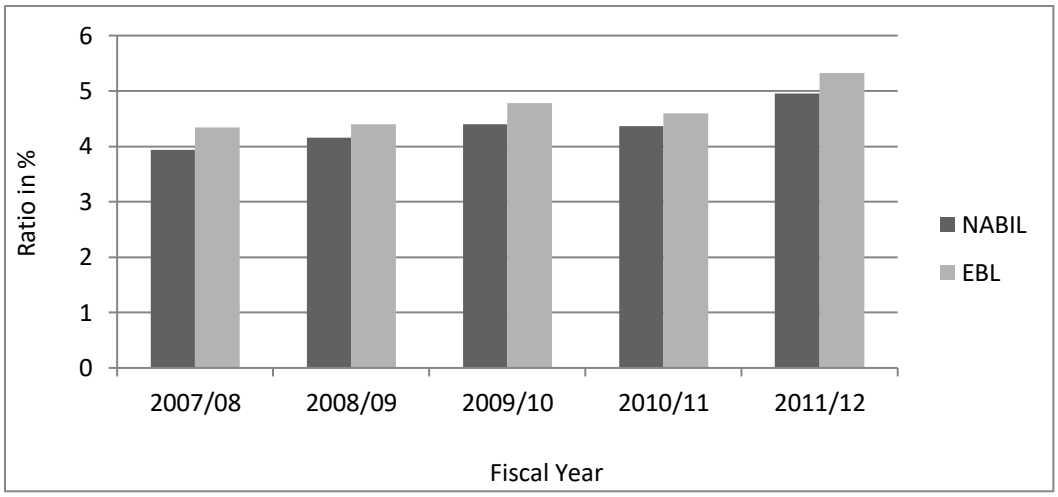


Figure 4.17 displays that the weighted average interest spread rates of both banks are fluctuating in nature. It means they have been maintaining lower interest rate spread on interest rate charged or offered by the banks. It is really a good trend in the view point of customer satisfaction and liberalized environment.

4.1.6.4 Exchange Gain to Total Income

Table 4.18

Exchange Gain to Total Income (in percent)

Fiscal Year	Nabil	EBL
2007/08	10.02	2.07
2008/09	7.81	3.45
2009/10	7.47	2.44
2010/11	6.17	
2011/12	4.6	0.05
Mean	7.21	2.00
S.D.	2.01	1.43
C.V.	27.91	71.23

Source: Annex 18

Table 4.18 shows that the average exchange gain of Nabil & EBL is 7.21 and 2.00 percent respectively. It indicates that Nabil bank has satisfactory level in foreign exchange gain whereas EBL is in unsatisfactory level due to its far lower average in comparisons with Nabil banks. Besides the annual exchange gain of EBL is gradually decreasing. The CV of Nabil & EBL is 27.91 and 71.23 percent respectively. So, on the basis of CV, it seems that Nabil's ratio is most consistent. Nabil is next to it whereas EBL has most fluctuating because it has lower CV among all banks. This is demonstrated in the diagram below:

Figure 4.18

Exchange Gain to Total Income (in percent)

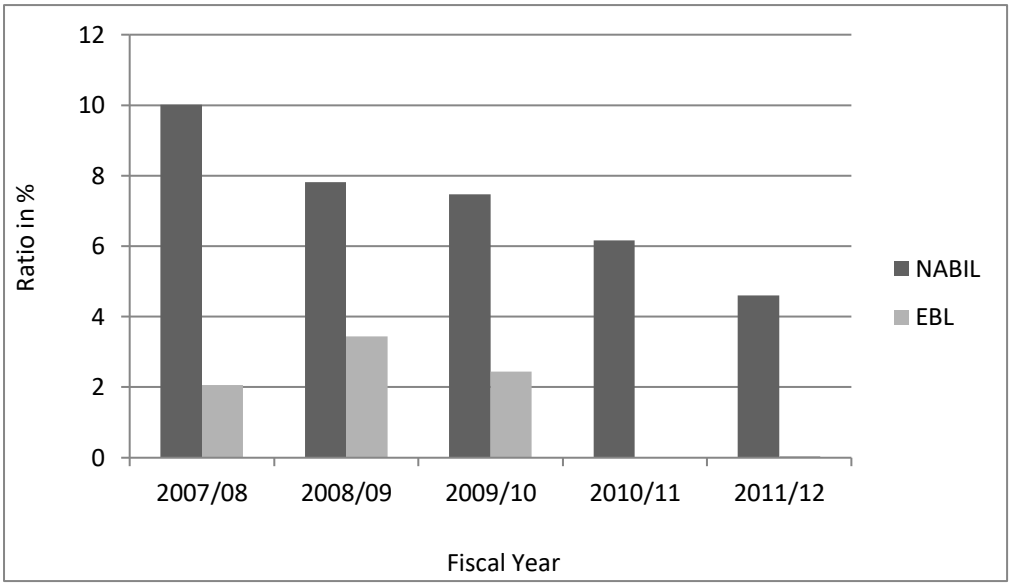


Figure 4.18 reveals that Nabil has more fluctuating pattern of exchange gain. EBL alone has the over decreasing trend.

Non-Performing Assets (NPA)

NPA is mostly considered as the banks efficiency indicator of assets utilization and efficient lending & recovery. At present practices, NPA is the major concern for measuring the banking performance.

Table 4.19

Non-Performing Assets

(In percent)

Fiscal Year	Nabil	EBL
2007/08	0.74	0.68
2008/09	0.8	0.48
2009/10	1.48	0.16
2010/11	1.77	0.34
2011/12	2.33	0.84
Mean	1.4	0.5
S.D.	0.7	0.3
CV	47.1	53.8

Source: Annex 19

The above table shows that average ratio of Nonperforming assets on total loan and advance of Nabil and EBL is 1.4 % and 0.5% respectively. EBL has the lower NPA than Nabil; it means that EBL is utilizing its assets more efficiently. On the basis of CV it can be said that Nabil has higher level of consistency due to lower CV.

Figure 4.19

Non-Performing Assets

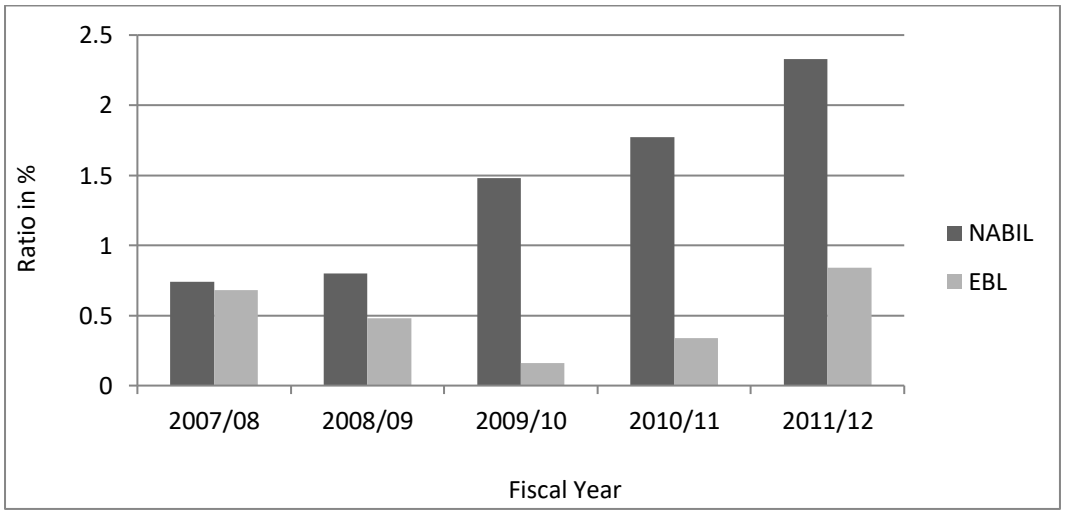


Figure 4.19 helps to concluded that NPA has decreasing nature for both banks. Off course, it is a good sign to the banks from the view point of on non-banking assets. The less NPA is shows the banks efficiency to utilize assets & manage loans.

4.2 Statistical Tools

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

4.2.1 Karl Person's Coefficient of Correlation

It is most widely tools, which measures the significance of the relation between two variables during the study period. Correlation analysis shows the statistical tool that we can use to describe the degree of relationship between two or more variables. Its value are limited between the range (+1) & (-1). Thus if the variable were perfectly correlated the returns on theses would move up and loan together. In case of negatively correlated opposite would happen risk can be culminated completely. But perfect negative correlation almost never be found in the real world.

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

$$r = r_{xy} = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

Table 4.20

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

(Rs In million)

Fiscal Year	Net Profit (X)	Total Deposit (Y)	x2	y2	XY
2007/08	451.2	23976.3	203581.44	574862961.7	10818106.56
2008/09	638.6	33322.9	407809.96	1110415664	21280003.94
2009/10	831.8	36932.3	691891.24	1363994783	30720287.14
2010/11	931.3	41127.9	867319.69	1691504158	38302413.27
2011/12	1090.564	50006.1	1189329.84	2500610037	54534852.44
Total	3943.46	185365.50	3359932.17	7241387605.01	155655663.35

Source: Annex: 20

r= 0.9849

Above calculation of coefficient of correlation between net profit and total deposit of EBL is 0.9849. This analysis indicates that there is high positive relation between net profit and total deposit, therefore it can be said that the increment in net profit can be get if the deposit can be enhanced.

Table 4.21

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

(Rs In million)

Fiscal Year	X	Y	x2	y2	XY
2006/07	637.96	23342.285	406992.962	544862269	14891444.14
2007/08	746.468	31915.047	557214.475	1018570225	23823561.3
2008/09	1031.053	37348.256	1063070.29	1394892226	38508031.39
2009/10	1141.051	46410.701	1301997.38	2153953167	52956976.79
2010/11	1337.745	49696.113	1789561.69	2469703647	66480726.69
Total	**4894.28**	**188712.40**	**5118836.80**	**7581981534.90**	**196660740.31**

Source: Annex: 21

r= 0.9592

Above calculation of coefficient of correlation between net profit and total deposit of Nabil is 0.9592. This analysis indicates that there is high positive relation between net profit and total deposit; however it is slightly less than EBL. Therefore it can be said that the increment in net profit can be get if the deposit can be enhanced.

4.2.2 Computation of Probable Error

If the value of r is less than six times of probable error there is no evidence of correlation ie value of r is not significant. Thus If the value of r is more than six times of probable error the coefficient of correlation is practically correct or value of "r " significant.

Table 4.22

Summary of Probable Error

Banks	r	r2	PE	6PE	Remarks
EBL	0.9908	0.9817	0.005	0.03	Significant
Nabil	0.9724	0.9456	0.005	0.03	Significant

Source: Annex: 22

Above table 4.22 shows that value of r is more than six times of probable error in the both banks. So we can say that the coefficient of correlation is practically correct or value of "r " is significant.

4.3 Major Findings of the Study

The main findings of the study are carried out on the basis of the analysis of financial data of the selected banks; which are as follows:

1. Liquidity/ Working Capital Analysis

The analysis of liquidity (CRR) indicates satisfactory managed by the both banks over the past five year's period. the average CRR of Nabil& EBL are 6.8 & 12.2 percent respectively. This shows that the average CRR of Nabil and EBL is excess than 5%, it means; both banks are able to maintain required CRR as per directive of NRB. However CRR of Nabil in FY 2009/10 and 2010/11 is less than 5 %.

2. Profitability Analysis

- The analysis of Net Profit Margin indicates satisfactory in comparison over the five years period to each other among EBL and Nabil.
- The analysis of ROA indicates Nabil effectively using the total fund supplied by the owners and creditors; this also has successful to get higher return on the assets used in business in comparison with EBL.
- The analysis of Interest Income on Loan and Advances indicates both banks earned high rate of interest income on loan and advances over the study period. It means, they had high utilization of loan and advances. Among two selected banks, Nabil has highest and consistent interest income.
- The analysis of Operating ratio indicates that EBL is more successful to minimize the operating ratio.

3. Activity Ratio Analysis

- The analysis of Credit Deposit Ratio indicates the average credit deposit ratio of EBL having higher value ie 75.69%. Also on the basis of CV, EBL has most consistent CD ratio. It means, NABIL make less profit by lending or utilizing the

deposits by charging a high rate interest to the borrower than they pay the depositors.

4. Solvency Analysis

- The analysis of Capital Adequacy Ratio indicates the average core capital ratio of Nabil is higher i.e.9.0%. It means, Nabil has been giving higher contribution to maintain core capital.
- The analysis of Interest Expenses to Total Deposit Ratio indicates the average of ratio of interest expenses to total deposit of EBL is lower i.e. EBL 4.31%. It means EBL is able to generate cheaper fund than Nabil. On the basis of CV, both banks have same level of consistency and fluctuation.

5. Market Value Analysis

- The analysis of Earning per Share (EPS) indicates average EPS of Nabil is higher value than EBL. ie Nabil 93.47. It means NABIL has earned more profit on per share basis. On the basis of CV EBL has more consistent EPS than Nabil.
- The analysis of P/E ratio indicates the average P/E ratio of NABIL is far higher value than EBL. On the basis of CV, Nabil has higher consistency with the lower CV.
- The analysis of Cash Dividend on Share Capital indicates the average cash dividend ratio of Nabil is far higher than EBL. Average cash dividend of both banks are in decreasing trend however average cash dividend of EBL in 2010/11 is highest than previous year.
- The analysis of Dividend including bonus of Share Capital indicates that Nabil's cash dividend on share capital is in increasing trend. Nabil has been providing highest cash dividend on 2007/08. EBL is providing in the highest figure on 2010/11.

6. Other Relevant Ratios

- The analysis of Staff Expenses to Total Operating Ratio indicates the average of such ratio of Nabil is higher than EBL as Nabil has 12.42 and EBL 11.43

percentage. It means, Nabil has been paying more benefit allowance staff expense. The CV of Nabil & EBL is 52.22 and 22.68 percent respectively. On the basis of CV it can be said that the ratio of EBL is more consistent due to lower CV of EBL.

- The analysis of Staff Bonus to Total Staff Expenses the average staff bonus to total staff expenses of EBL is higher value on the last five year i.e. EBL 46.31%. On the basis of CV, the ratio of Nabil less fluctuating due to lower CV.
- The analysis of Weighted Average Interest Rate Spread indicates the average of Weighted Average Interest Rate Spread ratio of EBL has slightly higher value than Nabil. The average of such ratio of Nabil& EBL is 4.36 & 4.69 percent respectively. On the basis of CV, EBL has the lower ratio that means, EBL has the more consistencies.
- The analysis of Exchange Income/Gain indicates the average exchange gain of Nabil & EBL is 7.21 and 2.00 percent respectively. It indicates that NABIL bank has satisfactory level in foreign exchange gain whereas EBL is in unsatisfactory level due to its far lower average in comparisons with Nabil banks.

7. Non-Performing Assets (NPA)

- The analysis of NPA indicates average ratio of Non- performing assets of Nabil and EBL is 1.4 % and 0.5% respectively. EBL has the lower NPA than Nabil; it means that EBL is utilizing its assets more efficiently. On the basic of CV it can be said that Nabil has similar level of consistency due to lower CV.

8. Correlation Analysis

- Coefficient of correlation between net profit and total deposit of EBL is 0.9849 and NABIL is 0.9592. This analysis indicates that there is high positive relation between net profit and total deposit, therefore it can be said that the increment in net profit can be get if the deposit can be enhanced.
- Value of r is more than six times of probable error in the both banks. So we can say that the coefficient of correlation is practically correct or value of “r " significant.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

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

5.1 Summary

Commercial banks are the real intermediaries who transfer savings to the borrowers so that the money can be used in the productive sector. As a financial intermediary, commercial banks are giving greater contribution to GDP for economic. At present, there are 32 commercial banks operating in the country. They are guided & regulated under Company Act 2053, Commercial Bank Act 2031 & NRB directives.

Financial analysis shows the relationship between the various component from Balance Sheet and Profit & Loss statement. The analyzed statements contain such information which is useful for management, shareholders, creditors, investors, depositors, etc. As in other industries, banking industries also need financial analysis for evaluating a bank's performance as compare to the other and also with own past performance.

The research work entitled A comparative study on financial performance of Everest Bank limited and NABIL. The research work is conducted to satisfy the queries of research problem specified as the statement of the problem in the introductory chapter. The researcher consulted mainly the secondary sources such as documents published by concerned banks. Obviously, it helped the researcher to construct conceptual framework. Then the research work was analyzed and interpreted by financial tools such as cash

reserve ratio, net profit margin, return on assets, earning per share, P-E ratio, NPA as well as statistical tools such as mean, standard deviation, CV and coefficient of correlation.

As such; the researcher analyzed and presented the 4th chapter, which is the main body of the research work. On the basis of data analysis and presentation, the researcher extracted some major findings. Finally, the researcher reached in the conclusions keeping in the previously set objectives in mind. Ultimately, the researcher will recommend on the research problem to its stakeholders in this chapter.

In order to know the real performance of banks, the researcher observed and saw the comparative performance analysis of EBL and NABIL for five years period. It is hoped that the comparative financial analysis of these banks will give a rational result and represent the overall banking scenario in terms of comparative study of two banks.

5.2 Conclusion

Average CRR of Nabil and EBL is excess than 5.5%, it means; both banks are able to maintain required CRR as per directive of NRB. However CRR of Nabil in FY 2009/10 and 2010/11 is less than 5 %. Average CRR of Nabil is 6.26 only so NABIL should work for continuing the average CRR.

EBL have been getting lower net profit out of total income with comparison to Nabil. i.e. 18.84%. EBL has lower NPM in all five years in study period and more fluctuated too .Comparatively, EBL is successful in utilizing the deposits by charging higher rate of interest to the borrowers than pay to the depositors. Its Credit Deposit ratio is 76% with CV only 3.06%. However Nabil has also the satisfactory level of credit deposit ratio.

From the viewpoint of Earning per Share, average EPS of Nabil is higher value than EBL. It means Nabil has earned more profit on per share basis.

Nabil has been providing comparatively much greater Cash Dividend on Share Capital (i.e.39%) and 69% with bonus share. It means Nabil providing satisfactory level compansation to share holders than EBL.

The average exchange gain of Nabil & EBL is 7.21 and 2.00 percent respectively. It indicates that Nabil bank has satisfactory level in foreign exchange gain whereas EBL is in unsatisfactory level due to its far lower average in comparisons with Nabil banks. Nabil bank has more consistence ratio too.

Weighted average interest spread rates of both banks are fluctuating in nature. It means they have been maintaining lower interest rate spread on interest rate charged or offered by the banks. It is really a good trend in the view point of customer satisfaction and liberalized environment.

Ratio of Non performing assets on total Loan and advance of Nabil and EBL are 1.4 % and 0.5 % respectively. EBL has the lower NPA than Nabil, however both are in satisfactory level. it means that both banks are utilizing its assets more efficiently.

Coefficient of correlation between net profit and total deposit of EBL is 0.9849 and Nabil is 0.9592. This analysis indicates that there is high positive relation between net profit and total deposit, therefore it can be said that the increment in net profit can be get if the deposit can be enhanced. Value of r is more than six times of probable error in the both banks. So we can say that the coefficient of correlation is practically correct or value of "r " significant.

5.3 Recommendations

- For maintaining the liquidity position; it is recommended to Nabil to continue the previous position or minimum 5.5% and also investment in marketable securities.
- Profit is generated form proper use of the assets. This is reflected on ROA ratio. EBL is recommended to effective utilization of total fund (assets) so as to make more profitability. Interest income on loan and advances is at satisfactory, so it is

recommended to keep on continuing as previous. The lower Operating Ratio is better for profit maximization.

- It is recommended to EBL to pay more attention about shareholder's profitability (EPS). Nabil should give continuity. It is recommended to Nabil to give consistency in P-E ratio. It is recommended to EBL to provide Cash Dividend in a consistent manner than dividend (including bonus) on Share Capital. Moreover; EBL is strongly recommended to make Annual Dividend Plan so that it could provide dividend each year.
- It is recommended to EBL to keep-it-up the Capital Adequacy ratio as per the directives of central bank.
- It is generously recommended to EBL to bear comparatively sound contribution towards staff expenses out of total operating expenses at viewpoint of employee satisfaction and their effective utilization. This is must for EBL to maintain its employee motivation and productivity. It is recommended EBL to pay more attention towards interest rate spread. EBL is recommended to pay more attention towards exchange of foreign currencies. It will give contribution to total income too EBL has very poor average on income from exchange gain.
- NPA is the most sensitive part of banking performance. The effectiveness of loan & recovery is depicted from NPA position. It is key variable for measuring bank's performance. Both bank have same level of NPA, NPA of EBL seems substantially lowest in last three FYs. EBL is highly appreciated for its substantially lowest NPA and suggested to keep-it-up.