CHAPTER I

INTRODUCTION

1.1   Background

The economic growth of Nepal is very low and poor, since it is rich in water resources, Himalayas, low cost manpower etc. The development of an economy of any country is the productive activity of that country, which is the result of investment venture in productive enterprises. It needs a huge amount of funds and environment to establish these enterprises. The existing enterprises and companies need the both short term and long term capital investment for their existence, smooth growth, operation and development with in the economy to be the productive enterprises. Therefore, the required short term and long term capital for the productive enterprises can be procured mainly from security markets (either primary or secondary) and financial institutions. Financial Institutions are such sectors which helps the enterprises from its starting to the end. This is the age of business. Globalization has affected every part of the country. But due to the landlocked nature, Nepal is deprived from access to sea which is very essential for foreign trade because sea transportation is the cheapest source of transportation. So, physical structure of our country is also a barrier for the economic development. For the economic and social progress of a country industrialization is a must. Industrialization creates employment to the society and the people's income level also because high. It provides different products and services to the society. On unutilized resources can be used properly due to industrialization. Thus, industrial development has a multiple effect on the economy.

Commercial banks are such financial institutions which mainly deal with the activities of trade, commerce, industry and agriculture that seek regular financial and other help from banks for growing and flourishing. The main objective of commercial bank is to mobilize idle resources in particular productive users after collecting them from scattered sources. Commercial banks as financial institutions transfer monetary sources from savers to users.

They furnish necessary capital required for savings of the individual and institution. Normally banks play at public money therefore, they should pay more attention whether their money is properly utilized or not and is running at profit or loss.

1.2 Development of Banking

The term "Bank" is deprived from the Italian word "Banco" which means a counter table or each used by medieval money exchangers. Banking concept started from the ancient period when the gold smith to the rich people used to safe guard the valuable items of general people and to receipt and the depositors would get back gold and valuable items after paying a small amount for safe keeping and saving. In Nepalese context, although it has not been a long time since modern banking has started banking related activities were known from prior period in B.S. 780, Lichhavi king Gunakamdev borrowed money to reconstruct Kathmandu city. In B.S. 936, businessman shankhar freed all the people from lone and established Nepal Sambat. In 14th century at Jayasthiti Malla's regime. "Tankadhai" were the people who used to make as profession the transaction of gold coins.

During the priministership of Ranodip Singh (1877-1885), "Tejarath Adda" was established as the first financial institution of the country. At the beginning, only government staffs were allowed to take loan at 5% interested. Later on, general public were also allowed to take loan at the same rate of interest with gold and sliver ornaments as security or collateral. The create facilities of Earth Addax were also extended out side the valley during the prime minister ship of Chandra Samsher Rana. Although these institutions didn't accept any deposits, it had played and important role in the development process of banking system in Nepal.

1.3 Commercial Banks in Nepal

This is the age of banking. No business can run effectively without banking transaction. Number of commercial banks and other bank and financial institution is growing rapidly. There are altogether 26 Commercial Banks in Nepal now. Here is a list of commercial Banks with their established date and head office.

S.N	Name of Commercial Banks	Head Office	Data of Establishme
1	Nepal Bank Limited	Dharma path, Kathmandu	1994
2	Rastya Banijya Bank	Singh Durbar, Kathmandu	2022
3	Agriculture Development Bank	Ramshaha path, Kathmandu	2024
4	Nabil Bank L.td.	Kantipath, Kathmandu	2041
5	Nepal Investment Bank	Durbarmarg, Kathmandu	2042
6	Standard charted Bank L.td.	Nayabaneshowar, Kathmandu	2043
7	Himalayan Bank L.td.	Thamel, Kathmandu	2049
8	Nepal SBI Bank L.td.	Hattisar, Kathmandu	2050
9	Nepal Bangladesh Bank L.td.	Nayabaneshowar, Kathmandu	2051
10	Everest Bank L.td.	Lazimpat, Kathmandu	2051
11	Bank of Kathmandu L.td.	Kamaladi, Kathmandu	2051
12	Nepal Credit and Commerce Bank L.t	Siddhartha Nagar, Rupandehi	2053
13	Lumbini Bank L.td	Narayanghat, Chitawan	2055
14	Nepal Industrial and Commercial Bank L.	Biratnagar, Morang	2055
15	Machhapuchhre Bank L.td	Prithivi Choch, Pokhara	2057
16	Kumari Bank L.td.	Putali Shadak, Kathmandu	2057
17	Laxmi Bank L.td	Adarsha Nagar Parsa	2058
18	Siddhartha Bank L.td.	Kamaladi, Kathmandu	2059
19	Global Bank L.td.	Birjung, Parsa	2063
20	Citizens Bank International L.td.	Kamaladi, Kathmandu	2064
21	Prime Commercial Bank L.td	Nayasadak, Kathmanu	2064

22	Sunrise Bank L.td.	Gairidhara, Kathmandu	2064
23	Grand Bank L.td.	Kathmandu	2008
24	Janata Bank Nepal L.td.	Baneswor, Kathmandu	
25	NMB Bank L.td.	Babrmahal, Kathmandu	2053
26	Kist Bank L.td.	Anamnagar, Kathmandu	2059
27	Megh Bank Nepal L.td.	Kathmandu	
28	Commerz and Trust Bank Nepal L.td.	Kamaladhi ,Kathmandu	
29	Civil Bank L.td.	Kalodhara, Kathmandu	
30	Century Commercial Bank L.td.	Putali Sadhak, Kathmandu	
31	Sanima Bank L.td.	Naxal , Kathmandu	

Source: - nrb website

Nepal Investment Bank Limited (NIBL):- A brief profile

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosued, of a subsidiary of one the largest banking group in the world.With the decision of Credit Agricole Indosued to divest, a group of companies comprising of bankers, professionals, industrialists and businessman, has acquired on April 2002 the 50% shareholding of Credit Agricole Indosued in Nepal Indosuez Bank Ltd. The name of the Bank has been changed to Nepal Investment bank Limited upon approval of bank's Annual General Meeting, Nepal Rastya Bank and Company Register's office with the following shareholding structure.

- A group of companies holding 50% of the capital.
- Rastriya Banijya bank holding 15% of the capital.
- Rastriya Bima sasthan holding 15% of the capital.
- The remaining 20% being held by General Public.

Now, the bank has 44 branches in different parts of Nepal..

Everest Bank Limited (EBI):- A brief profile

Everest Bank Limited (EBI) started its operation in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer friendly services through its Branch Network and over 250 correspondent banks across the globe. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers to do all their transitions from any branches other than where they have their account. With an aim to help Nepalese citizen working abroad, the bank has entered in to arrangements with bank and finance companies in different countries which enable quick remittance of funds by the Nepalese citizen in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore, and UK. The bank had declared as the "Bank of the year 2006, Nepal" by the banker, a publication of financial times, London. The bank also bagged - Golden peacock Business Excellence Award 2013 by Institute of Directors. Now, the bank has 50 branches,73 ATM Card centers & 5 Extension Counter in different parts of Nepal.

1.4 Statement of the problem

This research highlights the problems of two selected joint venture Banks (JVBs) they are Nepal Investment Bank Ltd. (NIBL) and Everest bank Limited (EBL). I think that joint venture banks (JVBs) are recently set up in Nepal but they are being rapidly increased in short period of time. The first Joint Venture Bank in Nepal is Nepal Aras in Bank Limited (NABIL). There is tough competition between the JVBs in terms of their service, interest role, etc.

NIBL & EBL have achieved success in terms of profitability of market share. But I can't say that they will always be able to maintain profitability and marker share. So, the management of the bank should always evaluate the financial performance of the bank.

Ratio is the numerical relationship between to figures. It is expressed when one figure is divided by another. Ratio analysis is the process of determining and interpreting numerical relationship between figures of financial statement. It is a powerful tool used as an index or yardstick for evaluating the financial performance. Financial analysis satisfies the interest of common stockholders equality investors, creditors of management of the banks.

It has been acknowledge that JVBs are operationally more efficient having superior comparison with local commercial banks. Although two sample banks (i.e. NIBL & EBL) are able to earn profit, there are some questions of problems which are as follows.

a) Are they maintaining sufficient liquidity positions?
b) Is there any relationship of investment loan & advance and deposit with profit?
c) Are they efficient for mobilization of fund for better financial performance?
d) To what extents these two banks are able to raise & maintain their profitability?

1.5 Need of the study

The study is useful to the various parties as follows

a) **Management:-** From the study, management can know about their weak points which can be corrected.
b) **Shareholders:-** The study helps the shareholders by making aware about the financial performance of their banks i.e. how properly their funds are utilized?
c) **Outsiders:-** Investors, depositors, debtors, stock brokers, competitor, market maker also will be benefited in their own way from this study.
d) **Policy Makers:-** The official of the government, concerned ministry, Central Bank, Security Exchange who formulate and determine rules and policies regarding commercial banking operations and making their work easier.

1.6 Objectives of the study:-

The main objectives of the study are to evaluate the comparative financial performance as of NIBL & EBL. Other specifics objectives are as follows:-

a) To evaluate the liquidity, profitability, leverage growth and capital adequacy of NIBL & EBL

b) To identify the relationship of net profit with respect to investment deposit and loan and advance of NIBL & EBL

c) To evaluate the trend of deposits, loan, investment & net profit of NIBL & EBL.

1.7 Limitation of the study:-

Limitations of the study which are as follows-

a) The study concerned with only of 8 years period (i.e. 2005 to 20013)

b) The study related only with two banks (i.e. NIBL & EBL)

c) The whole study based on secondary data collected from respective bank & internet.

d) The study focused only of financial aspects of the banks.

1.8 Plan of the study:-

The study is divided into five chapters. They are introduction, review of literature, Research methodology, presentation and analysis of data and summary, conclusion and recommendation.

a) **Introduction:-** This is the first chapter & is concerned with background of the study, development of the banking, commercial banks in Nepal, statement of problems, need of the study, objectives of the study, limitation of the study and plan of the study.

b) **Review of Literature:-** This part deals with different relevant articles, books, paper, thesis, etc.

c) **Research Methodology:-** This chapter deals with research process, rescores design, sources of data, data collection process and research method. In method analysis, there are two parts (i.e. financial analysis and statistical analysis). In financial analysis, different ratios are mentioned where as different statistical tools like trend analysis, correlation and regression analysis are mentioned under statistical analysis.

d) **Presentation and Analysis:-** In this chapter different ratios like liquidity ratio, profitability ratio, asset management ratio etc are analyzed. Also, trend analysis regression and correlation analysis is done.

e) **Summary, conclusion & Recommendation:-** This is the last chapters. In this chapter summary of whole chapters and different results found in data analysis is mentioned. Various suggestions and recommendation for improving future performance is also given.

CHAPTER II

REVIEW OF LITERATURE

A literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the other literature helps the researchers to develop a thorough understanding and insight into previous research works that relates to the present study. It is a way to avoid investigation problems that have already been definitely answered. Thus a literature review, the process of locating, obtaining, reading and evaluating the research literature is the area of the student's interest (Wolff & Pant, 2005)

The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to be done. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know.

〕 What research has been done in the subject?

〕 What theories have been advanced?

〕 What are the approaches taken by the other researchers?

〕 What are the areas of agreement or disagreement?

〕 Whether there are gaps that can be filled through the proposed research?

In this chapter the overall concept and view of 'financial Performance' will be streamlined by making comprehensive review of relevant literature related to this study which would enable us to know the comparative strength and weakness of the chosen JVBs and the opportunities / threats they possess in the dynamic environment. The review of literature is arranged in the following order:

2.1 Conceptual / theoretical review

2.2 Review of Journals & Articles

2.3 Review of Thesis

2.4 Research Gap

2.1 Conceptual Framework

"Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statements. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analysis is attempting to measure the firm's liquidity, profitability and other indications, that describes the business is conducted in a rational and orderly way or not. If a firm doesn't achieve financial norms for its industry or relationships among data are not seen reasonable, the analysts' notes down the deviations. The burden of explaining the apparent problems may then be placed upon management". (Hampton, 2006: 98).

"Financial statement analysis includes the study of relationship within a set financial statement at a point in time and with trends in these relationships over the time" (Foster, 2002:58).

"Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account" (Pandey, 1999:108).

"Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicated quotient of two mathematical expressions and as the relationship between two or more things". In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm" (Pandey, 1999:109).

"Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between to variable and figures. This relationship can be express as percent (cost of goods sold as a percentage of sales) or as a quotient (current assets as a certain number of times the current liabilities)" (Kuchhal, 1976:21).

"Financial ratio can be divided into four types: liquidity debt, profitability and coverage. Each of these types has a special use for the financial analyst. These ratios are also helpful for managerial control and for providing a better understanding of what outside suppliers of capital expect in the way of financial condition and performance. The usefulness of the ratio depends upon the ingenuity and experience of the financial analyst who employs them. By themselves, financial ratios are fairly meaningless they must be analyzed on a comparative basis".

"A comparison of ratio of same firm over is important in evaluating changes and trends in the firm's financial condition and profitability. This comparison may be historical; it may also include an analysis of the future based upon projected financial statements. Ratios may also be judged in comparison with those of similar firms in the same line of business and when appropriate, with an industry average. Much can be gleaned from a through analysis of financial ratios. With empirical testing of the predictive power of ratios financial ratio analysis is likely to become for more scientific and objective than formerly" (Van Home, 1979:689).

"The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confluence of various segments and extends credit to people" (Ronald, 1991:87).

"Commercial bank is a corporation, which accepts demand deposits, subject to check and makes short-term loans to business enterprises, regardless of the scope of its other service" (American Institution of Banking, 1972:345).

"Ordinary banking business consists of chancing cash for bank deposits and bank deposits for cash, transferring and bank deposits from one person or corporation (one depositor) to another, giving bank deposits in exchange for bills of exchange government bonds, the secured or unsecured promises of business to repay, etc" (Sayer, 1976:22).

"In most public corporations, top management's compensation is tied to the performance of the company's stock, this aligns their interests with shareholder; but compensation tied to stock return is not a complete solution. Stick return responds to events outside management's returns respond to events outside reflect investor's expectation of manager's future performance" (Brealey and Myers, 2003:820).

"The objective of financial analysis is to capsulate how efficiently a company employs its assets and how it has chosen to finance the acquisition and carrying cost of those assets. This is accomplished by analyzing the relationships between an enterprise's operating result (income statement) and its financial structure (balance sheet)" (Altman, 1981: 24, 12).

"Ratio analysis a widely used tool of financial analysis it is defined as systematic use of ratio interprets the financial statement so that the strengths and weakness of a firm as well as its historical performance and current condition can be determined" (Khan and Jain, 1996:60).

"Ratios are relationship expressed in mathematical terms between figures which have a cause and effect relationship or which are connected with each other in

some other manner. But similar to the characteristics of a good financial statement ratio analysis helps interested partial to serve their respective purposes.

"Ratio analysis satisfies the interests of investor creditors, government, institutions and other to form their opinions for enabling them to have guideline towards effective decision making" (Shrestha, 1980:255).

"Ratio analysis is one of the most commonly used techniques in the analysis of financial statement and evaluation of managerial performance. The analysis points out the problems. If there are any areas of business operation and provides a basis to recommend corrective actions. There are many parties who often refer to financial ratio in order to keep track of their investment performance or for some other reasons of their interest" (Pradhan, 1992:35).

"Financial analysis involves the use of carious financial statement the first is the balance sheet, which represents a snapshot of firms financial position at a moment in time and next is the income statement that depicts a summary of the firms profitability over time" (Van Home and Wachowiez, 1997,120).

"Ratio analysis which relates balance sheet an income statement items to one another permits the charting of the firm's history and the evaluation of its present position. It also allows the financial manager to anticipate relations of investors and creditor and thus to gain insight into how attempts to acquire fund are likely to be received" (Weston and Brigham, 1980,160).

2.2 Review of Journals and Articles

The opinions or views expressed regarding commercial banks and their activities on journals, book and booklets, magazines, etc. are focused as follows:

Dambolena and Khoury (1980), in "Ratio stability and corporate Failure" analyzed that as about the stability of all financial ratios overtime, as well as the

level of there ratios as explanatory variables in the derivation of a discriminate function. The data were collected from 68 firms half of them failed and half of them didn't fail. By using the profitability ratio activity and turnover ratio, liquidity ratio and indebtedness ratios he found that the standard deviation of ratio over times appeared to be the strongest measure of ratio stability and the ratio of net profit to sales, net profit to total assets, funded debt to net working capital, total debt to net working capital and fixed assets to net worth have shown to be relevant in predicting corporate failure.

Patton (1982), in "Ratio Analysis and Efficient Markets in Introductory Financial Accounting" concluded that ratio analysis cover the three areas, analysis of business transactions in markets that may not be efficient, contractual limits based accounting ratio and performance prediction and risk evaluation in a efficient market.

Sharma (1988), in "Joint Venture Banks in Nepal Co-existing or crowding out" explained that it would be definitely un wishful for Nepal not to let JVBs to operate in the country and not to take advantage of additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to let the development of the JVCs at the cost of domestic banks. So far, one should admit frankly, no differential treatment has been made to the domestic and joint venture banks at least from the latter are bargaining.

If the JVBs show strength and briskness to come forward to share the trail and tribulation of this poor country, both types of bands will collapse and co-exit complementing each other, contributing to nation's accelerated development on the contrary if the joint venture banks use their strength against treading to the cumbersome path of development along with the domestic banks government they will eventually throe out the domestic banks from the more profitable and

lucrative urban sectors unless reincarnated by the determination by the determination of government.

Mr. Sharma has made a comparative study of two different natures of banks, especially on - nature of transaction and expertise in banking network. JVCs basically were oriented in urban areas the local banks are set up and conducted banks are situated in rural areas rather than in urban areas.

Bajracharya (1990), in "Rastriya Banijya Bank A comparative performance study" explained that deposit growth of commercial banks in not consistent indigenous banks and better in mobilize, but they are not much efficient in credit expansion. Credit deposit ratio is better in joint venture banks. Non-performing loan is greater in designer's banks but profitability is greater in JVBs Local banks ate forced to open and continue their branches at the rural areas but JVBs are relevant but ready to pay fines for not doing so.

Shrestha (1990), in "Commercial Banks Comparatively performance Evaluation" Explained that the joint venture banks are operationally more efficient than the local commercial banks. Because joint venture banks generally used sophisticated technology, skill manpower out performed the JVBs in terms of granting loans to modern global balance sheets absence of precise classification of loans and absence of proper development of computer networks. More ever, local commercial banks have to face various problems from social-economics, political system on one hand spectrum and that of issues and challenges from JVCs commanding significant banking business on other spectrum.

Barjracharya (1990), in "Monetary policy and Deposit Mobilization in Nepal" states that the mobilization of the domestic saving is one of prime objective of the monetary policy in Nepal and commercial banks are the most active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investors in different sectors of the economy.

15

Hodlock and James (2002), in "Do banks Provide Financial Slack?" states that the banks have ability to accurately price financial claim, thus including a preference for undervalued firms to chose bank debt as their managerial financial source. They refers to this motivation for using bank debt as the information benefit will be weighted against a variety of contracting cost in a firm's ultimate financing choice.

Diamoud and Rajan (2005), in "Liquidity Shortage and Banking Criese" concluded that how liquidity shortages and solvency problem in banks interact and how each can caused the other. Interestingly, the possibility of the contagion of banking failures arises precisely because of the structure of banks to deals with a commitment problem; they finance illiquid assets with demandable claims. But if deposits cannot be made perfectly state, contingent this structure can cause or exacerbate a liquidity shortage when depositor losses are unavoidable, each depositor demands payments. This can force hanks to foreclose on loans that otherwise would soon produce real liquidity.

Krishna, Ritchken and Thomson (2005), in "Monitoring and Controlling Bank Risk: Does Risky Debt Help" concluded that whether risky debt issued by banks and bank holding companies (BHCs) enhances risk monitoring and helps control risk taking: In theory if investors accurately understand changes in a firm's risk condition and incorporate their assessment promptly into the prices of risky debt issued by a firm, then changes in credit spreads should provides useful information on how firm-specific risks have change. In this way, risky debt may he less likely to adopt risk strategies in first place, because if they take excessive risks, debt prices may reflect the risk taken by the firm and make borrowing costlier for the firm. This is the preventative influence benefit of risk debt that serves to control risk taking.

Boyd and Nicolo (2005), in "The Theory of Banks Risk Taking and Competition Revisited" explained that when confronted with increasing competition moral hazard is exacerbated and bank intentionally take on more risk, shown that a positive relationship between the number of banks competitors and risk seeking is fragile. In particular it makes an enormous difference when one allows for the existence of loan markets and requires that there be the same number of banks competing for both deposits and foe loan. They assumed that borrowers entirely determine project risk conditional on the loan rate set by banks. In effects bank a raised portfolio problem and transform it into a contracting problem with moral hazard. Without structure, banks use increasing market power to raised loan rates and when confronted with increased funding cost, borrowers optimally choose higher risk projects.

Pant (2006), in "Nepal Membership in WTO and Financial Service Sector" explain that Globalization and Liberalization have flounced across the world no longer it is choice but reality. A financial service is the key sector that underpins global economic growth and plays a major role in the development of infrastructure for trade in goods and services. Liberalization of trade in goods and services, when undertaken in conjunction with transparent and strong regulatory regimes, benefits countries in many ways, with this said, there is mammoth proportion to gain for Nepal from the liberalization of the financial sector. But insurgency and the political instability have raised the risk for foreign investors to invest in the country. Risk rating of Nepal is at the highest degree.

Pradhan (2006), in "Opportunities and Challenges on WTO Accession in Insurance and Banking and Financial Services in Nepal" explained that Nepal is scheduled to open its banking sector to foreign competition by 2010 A.D. Banking community needs to accepts the challenges and be prepared to enter into global market with proper strategic plan.

In order to grab the opportunities, banking sector need to explore geographical comparative advantage for providing financial services globally. International financial center could be established and explored. Similarly, in order to strengthen them domestic financial institutions and to expand the business, merger, acquisition, management contacts, technical service and management agreement can explored. Regional, Bilateral and multilateral integration have already created foundation for global integration which needs to be continuously strengthened in the future too.

The key of integration today is to accept fair competition and achieve development benefit. Therefore, the banking industry should be prepared to accept the challenges concerned and explore the opportunities contained there in by enhancing capita.

Norris (2007), in "Be Cautious While Licensing a New Foreign Bank" studied about the possible impact of foreign banks setting up their branches here said if proper regulations are not made by Nepal Rasta bank, then the Nepali banks stand to lose a lot. Banks have been assuming that when foreign banks come in, they will only be interests in wholesale lending. But if the right rules are not set in place, nothing will stop foreign bank, going into the retail sector. They might do bank going into the retail sector. They might do it just to kill off competition and monopolies' the Nepali retail sectors which is profitable given the number of bank making profit in retail business currently. The solution suggested is to adopted policies to prohibit foreign banks from entering the retail sector.

2.3 Review of Thesis

Jyoti Thapa (2002), conducted her master's thesis on "Investment policy of Commercial Bank of Nepal, A Comparative Study of Everest Bank with NABIL and BOK" with the main objective of examining and evaluating the investment policy of EBS and compares the same with NABIL and BOK. The major finding

of her research was EBL had not adopted any cost management strategy to have control over its cost of funding. EBL is moderately successful in mobilization of fund and earn return from such mobilized fund. EBL is not comparative enough to collect cheaper fund. From the analysis of current ratio it is found that the mean ratio of EBS is slightly higher than BOK and lower than NABIL. The current ratio of EBL is more variable than that of NAIL and BOK. It indicates the unstable liquidity policy. EBL has maintained high growth rate in total deposits, loans and advance but it has moderate position in investment. Growth in net profit is worse in comparison with BOK and NABIL.

Narayan Prasad Subedi (2002), conducted his master's thesis on "A Comparative Study of Financial Performance Between Himalayan bank Limited and Everest Bank Limited" with a objective of examining and comparing the financial performance of two joint ventures and has concluded that the current ratio of EBL is greater than that of HBL. The variability of the ratio of HBL is mote uniform than that of EBL. The liquidity of bank may be affected by external internal factor such as interest rate supply and demand position of loan and saving to investment situation. HBL has maintained the ratio of cash and bank balance to total deposit considerably lower than that of EBL. Comparatively HBL's profitability ratios like return on total assets, return on total deposit is not satisfactory in the both banks. HBL has lower capital adequacy ratio in comparison to directive issued by NRB. HBL's loan and advances to total deposit ratio are significant to lower than that of EBL.

Subi Joshi (2003), conducted her master's thesis on "A Study of Financial Analysis of Nepal Investment Bank Limited" had a main objectives to evaluate the overall financial position, Examine liquidity, Profitability and ownership ratio and to study the income and expenditure statement of the Bank.

On the basis of various analyses, the researcher comes out with the following conclusion. The current ratio of the bank over the study period is 1.09 times on average. Therefore the liquidity position NIBL is in normal standard. The cash and bank balance proportion with respected to the current asset is moderate since the average ratio in 10.17%. The result of the analysis indicates that the share of fixed deposit is high in the total deposit. Saving deposits stand mid way between current and fixed deposits. The analysis indicates that the cash reserve as bank is more than required. Hence, in general this liquidity position of the bank is good enough to meet the short-term obligation. The debt equity ratio of bank is high, which means the creditor have invested more n the bank than the owners.

Interest earned in comparison to the assets in inadequate. Net profit earned in comparison to the total deposit is relatively low. The result of the analysis indicates that the net profit earned in comparison to total assets in fluctuating. Profit earning and the shareholder's equity of NIBL is better. In general the profitability ratio of the bank indicates that the overall performance of the bank is effective in maximizing the wealth. The activity ratio of bank indicates that it had utilized its resources in the best possible way to maximize its wealth. Because the bank has succeeded to utilize total deposits in profit generating purpose and the bank hand mobilized its total deposit in loans and advance satisfactory.

The EPS of the bank is quite good because through the EPS had fluctuate its average stands 54.16% during the study period. The proportion of earning distributed to the shareholder per share is very low and they are being compensated very slowly. DPR of the bank is decreasing and very low.

Nabin Kishor Luintel (2003), conducted his master's thesis on "A Study on Financial Performance of Nepal Bank Limited" with main objectives to evaluate the bank's efficiency to face the challenges and measure the comparative financial strength and weakness and analyze the banks performance under priority sectors

of government. And concluded that the Nepal Bank Limited has not maintained a balanced ratio among its deposit liabilities during the last five year period the bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. Operating profit for some year has gone negative. The study period at an average showed negative net profit. The only positive aspect is if risk can be managed, percentage of loan and advance on total deposit has suffered continuous loss. The net worth for some year is negative due to the heavy loss during the year long-term debts, total debts and total deposit ratios have gradually decreased. It indicates that bank has not followed any experienced negative EPS and P/E ratios have also heavily fluctuated during the study period. Thus, it can be said the financial position of the NBL is worse to its failure to utilize its resources efficiently and due to worse management.

Gopal Prasad Ghimire (2003), conducted his master's thesis on ″Financial Performance of Commercial Bank A Comparative Case Study of Nepal Bangladesh Bank Ltd. Himalayan Bank Ltd. and Everest Bank Ltd". had main objectives of comparative analysis of the liquidity position, profitability status, leverage standing and activity of these bank and evaluate the trend and growth of loan, investment and total deposit patterns below the normal standard to conclusion that current ratio of all the banks is always below the normal standard 2 percent which generally indicates unsatisfactory liquidity position but liquidity position of Everest Bank is comparatively better. Nepal Bangladesh bank comparatively utilized their resource much satisfactory. Capital adequacy ratio of all the banks unsatisfactory except that of Everest Ltd. Himalayan Bank's return on net worth is higher than other two banks. Interest earned on total assets ratio of both Himalayan Bank Ltd Nepal Bangladesh bank Ltd has recorded a falling In case of return on total assets ratios; the banks have earned about 1% or so. However the performance of Nepal Bangladesh Bank Ltd is relatively higher.

Yadab Prasad Pokharel (2004), conducted his master's thesis on "Financial Assessment of Joint Venture Bank in Nepal" had main objectives to analyze the liquidity, examine the profitability position and find out the market price position of the joint venture banks, and conducted that current ratio of NSCB is mote significant to meet the short-term obligation than other joint venture bank. Cash and bank balance to deposits and bank balance to deposits (excluding fixed deposits) ratio of NSBI has very sound position for ready to serve against its customer deposits than others TVC. It indicates that NSBI has followed conservative working capital policy and selective lending policy whereas other JVC have followed aggressive working capital policy and they have invested more assets for income generating purpose.

Similarly NSCB has high net profit to total assets ratio, net profit to total deposits ratio, return on net worth ratio, return on loan and advance ratio, earning per share.

Kumar Bhattarai (2005), conducted has master thesis on "A Comparative Study of Financial Performance of Nepal SBI Bank limited and Everest Bank Limited" had a objective to examine and evaluate the performance of two joint venture bank and reached to the conclusion that total deposit, total investment, loan and advance are net worth have been growing in faster pace in NSBIBL. But the growth rate of net profit seems faster in EBL Which will made the net profit of EBL exceed than that of NSBIBL after three year if past trend continues, the high growth rate of EPS and MVPS will make MVPS of EBL exceed than that of NSBIBL after three year.

Arun Darshandhari (2005), conducted his master thesis on "Financial performance Analysis of Everest Bank limited" had a major objectives to evaluate the earning generating capacity and analyze the liquidity, turnover and profitability of the EBL and conducted that current ratio of the bank over five years is 1.03 times on a average. It indicates that the margin for safety for

customers has not been maintained satisfactorily. The average of cash and bank balance to current assets ratio is 14.26 percent that indicates that the cash and bank balance proportion with respect to the current assets is moderate. The ratio for loan and advance to current assets has been lent to the customers as loan and advances. The result of the analysis indicates that the share of fixed deposit is high in the total deposit, which may be termed as favorable one from viewpoint of liquidity. Cash and bank balance has been maintained properly against anticipate calls of its depositors. Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation.

The researcher found that the operating efficiency of the bank is fair enough. Interest earned in comparison to total assets is not fair enough; this might be the reason that the bank has average operating profit. Interest paid to total assets is relatively low which is good from viewpoint of profitability. Net profit earned in comparison to total assets and total deposit is relatively low.

Rajendra Banskota (2006), conducted his master's thesis on "Analysis of Financial Performance of Himalayan Bank limited" had main objective to examine the financial statement of the bank and analyze them to see the financial; soundness, reached to the conclusion that the bank had utilized their resource in proper order in profit generating sectors. Therefore, there is no doubt that banking has been operating smoothly and succeeds in becoming the pillars of economic system of the country. Banks has direct contribution to the shareholder and employment to the qualified personal in order to make them equipped with all the technical knowledge of banking.

Gokul Bahadur Saud (2006), conducted his master thesis on "A study of Financial Performance of Selected Commercial Bank in Nepal (Himalayan Bank, NB Bank and Everest Bank)" had a main objectives to evaluate the trends and

growth of loan, investment and total deposit patterns, and he find out that sample banks have gain normal position of different financial ratio.

➢ Due to lower liquidity position (bellow than normal standard) and highly leveraged capital structure and lower liquidity position as profitability as ling as more risky.

➢ In case of earning capital and utilization of profit researcher come into the following conclusion.

➢ Himalayan Bank has performed better in terms nit of profit during the study period. All of these three sample banks are able to earn above 1% on total asset and to mobilize deposit properly.

➢ In case of dividend all sample banks are not able to pay regular dividend to its stockholder. However they are maintaining its EPS above its value.

➢ Regarding earning per share al of the sample banks is not able to retain its EPS on its previous level. The research concluded that during the study period trend line shows the decreasing pattern of net income after tax.

Suchita Joshi (2006), conducted her master's thesis on "Financial Performance of Joint Venture Banks in Nepal with reference to Everest Bank Limited" had objectives to evaluate liquidity, profitability, capital structure, turnover, cost effectiveness and growth position of EBL and she found that the liquidity position of EBL is efficient. It showed that EBL cannot maintain the EBL cannot maintain the convenient standard of current ratio of 2:1; besides it can also conclude that saving deposit of bank increasing trend as compared to fixed deposit. In addition, EBL has used higher proportion of debt in their capital structure financing assets from capital structure of EBL appears to be levered EBL follows more risk more profit strategy. Bank is not able to maintain the capital Adequacy ratio as directed

by NRB. EBL is maintaining is interest coverage ratio. Beside, bank is utilizing more outsiders' funds in order in order to extend loan and advances to generate profit. But the profitability ratio of the bank is not favorable condition.

Sunil Maharjan (2006), conducted his master's thesis on "A Comparative Study of Financial Performance of Commercial Bank (with reference to Himalaya Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited)" had main objectives to identify the relationship between net profit with respect to deposit, loan and advance and investment and to analyze financial performance of sample banks in terms of liquidity, profitability, growth, leverage and capital adequacy, and reached to the conclusion, the overall performance of sample banks found to be satisfactory. All sample banks are not strong in all performance. Some are strong in liquidity point of vie, EBL, found to be comparatively. All the sample banks are comparatively successful in assets and deposits in profitable sectors in form of loan and advance, investment in government securities and shares and debenture.

Surendra Deoja (2001), conducted his master's thesis on "A comparative study of financial performance of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited" with the main objective of evaluating the comparative financial performance of NSBIBL and NBBL and examining the liquidity, profitability, capital structure, turnover and capital adequacy positions of these two banks and concluded that cash and bank balance to current assess, saving deposits to current deposits cash and bank balance to current deposit ratio are higher in NSBIBL while fixed deposit to total deposit loam and advance to current assess are higher in NBBL. Similarly, NBBL had better utilization of resources in income generating activity than NSBIBL. The profitability position of NBBL was better than that of NSBIBL. Also it was found that both these banks were highly leveraged.

Ajaya Luitel (2007), conducted his master's thesis on "A comparative Analysis of financial performance of the Joint creature Banks" had the main objective of examining and comparing the financial performance of HBI, SCBNL and NABIL and concluded that the loan and advances of HBL was greater as compared to SCBNL and NABIL during the whole period of analysis. The interests of NABIL were found to be money of less volatile but the investments of there two were in increasing trend. Similarly, the general loan loss provision to total loan was highest for HBL as compared to SCBNL and NABIL Also, it was found that the credit Deposit ratio of NABIL stood highest at 67% as compared to 39% and 55% of SCBLA and HBL respectively at the end of fiscal year 2005/2006.

Arun pratap Khadka (2007), conducted his master's thesis on "financial performance Analysis of Everest Bank Limited" with the main objective of evaluating the overall financial position of the bank and reached to the conclusion that the liquating position of EBL was efficient. Comparing to banking industry, the current ratio of the bank was satisfactory EBL lent greater portion of loans in secured sectors. Income and expenditure analysis showed fluctuated trend and the hat profit and deposits were found to be in increasing trend.

2.4 Research Gap

Research Gap is the difference between previous works done and the present research works. Earlier researches conducted by many researchers in the similar topic "Comparative Financial Performances of commercial banks" are very useful and appreciated by the personals in the various related fields, including academicians, bankers, shareholders and the general public. Those dissertations in a great extent have been successful in analyzing the financial performance of concerned JVBs. The suggestions and recommendations given by preceding researchers to improve and strengthen the financial decisions have been really benefiting to the relevant banks.

Commercial banks invest its deposits in different profitable sectors according to the directives and circulars of the Nepal Rastra Bank and the guidelines and policies of their own bank. The policy of Nepal Rastra Bank is being changed time to time. So the updated study over the change of time frame is major concern for the researchers and concerned organizations as well. The study is based on the more recent financial data.

No research has been undertaken regarding the comparative analysis of the financial performance between Nepal Investment Bank Ltd. and Everest Bank Ltd. But some researchers have done the comparative study of other joint venture banks. Financial analysis is the major function of every bank for evaluating the financial performance. Therefore, it is major concern of stakeholders to know the financial condition of the bank.

NIBL and EBL are the leading joint venture commercial banks of the country having huge market share and investment activities. These banks have significant impact for developing the economy of the country. Financial performance is being changed every year due to the various environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with c a rational of each teps) to be adopted by a researcher in studying a problem with certain objective in view (Kothai, 1994:9). Thus the overall approach to the research is presented in this chapter .This chapter consists of research design, sample size and selection process, data collection procedure and data processing techniques and tools.

3.2 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, from which sources and by what procedures (Paul and Donald, 1997:42).

Thus a research design is a plan for the collection an analysis of dada. For research there exits different types of research design like; Historical research, Descriptive research, Case study research, Field study research, Analytical research, True experimental research and so on. This is mainly concerned with historical research. If applicable, sometimes descriptive analytical approach may also be used. But general, to analyze the comparative analysis of the commercial JVBs, past historical data are used. The relevant and needed data have been collected from various publications of different commercial banks. The study is based on the wide range of variables and factors influencing financial decisions of the

JVBs. Comparative data of JVBs are presented in such a way, so as to make the research actually informative to the readers.

3.3 Population and Sample

The term "population" or universe for research means the universe of research study in which the research is based (Wolf & pant, 2000:75). Population is the entire group of people, events or things of interest that a researcher wishes to investigate. It is not possible t study all the data related with all the bank of Nepal. There are all together 26 commercial banks in Nepal. Out of these, EBL & NIBL are selected for the purpose of study.

3.4 Sources of data

The researcher can use two methods of data collection i.e. Primary and Secondary data. Primary data are the data collected directly from the site. It can be called as first hand data. Those data are very reliable if researcher can reach the correct destination with required tools. Secondary data are second hand data collected from different other sources such as magazines, newspapers, journals, second persons, etc. Here only the secondary data is used for the study. The study is based on secondary data. All the data are collected from the respective commercial bank's annual reports especially from profit and loss accounts, balance sheet and other publications made by the banks, which are the secondary data. Likewise, some other related information is gathered from related banks and related agencies like Nepal Rastra Bank, Nepal Stock Exchange Limited. Various data and information are also collected from the journals, periodical bulletins, magazines, newspapers and internet.

☞ Annual Reports of Nepal Investment Bank limited (NIBL)
☞ Annual Reports of Everest Banks Limited (EBL)
☞ Precious related research and dissertations.

☞   Books, Magazines, Newspapers and Journals.

☞   Internet and Other sources

3.5 Data Processing Techniques

After the necessary data has been collected, relevant facts and figure have to be tabulated under the different headings. Such tables and formats are to be interpreted and explained as required. Different tools and techniques are used to interpret and explain the data. Scientific calculator and simple microcomputer has been used to compute data.

3.6 Data Analysis Tools

In order to get the concrete results from this research, data are analyzed using different types of tools. As per topic requirements, emphasis is given on financial tools. In addition, statistical tools are also used where applicable. This main methods used for the Comparative Analysis of JVBs are financial tools and statistical tools.

3.6.1 Financial Tools

This study is to Comparative Financial Analysis. So, financial tools are more useful. They help to identify the financial Strengths and Weaknesses of the firm. In spite of various financial tools available, the research has primarily stressed on Ratio Analysis assuming it to be the most suitable one.

A ratio is a number expressed in terms of other number and it expresses quantitative relation between any two variables (C.R. Kothari, 1996; 187).

Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit and loss a/c or balance sheet. It provides information relating to comparative study of financial data in relation to others (Lawrence, 1988:275).

Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there is the number of items. But under the ratio analysis technique, it is not practical to work out all the ratios. Hence only the required ratios have been worked out. The calculated ratios have been grouped into the following headings.

Ratio Analysis

Ratio is the numeric or an arithmetical relationship between two figures. It is expressed when one figure is divided by another. Ratio analysis is the process of determining and interpreting numerical relationship between figures of financial statements. Ratio is used as an index for evaluating the financial position and performance. It helps to make the quantitative judgment about financial positions and performance of a firm.

There are various types of ratios that can be used to analyze the financial performance of the firm. Here, in this research only the relevant ratios are used to find the financial position of NIB and EBL.

Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short term obligations. Liquidity ratios measure the short term solvency or liquidity position of a firm. It reflects the short term financial strength of the business. In order to ensure short term solvency, the company must maintain required liquidity ratio. But if the entire amount is invested in liquid assets, it will result bad credit rating, less creditors' confidence, eventually may lead to bankruptcy. Thus, the company should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and avoiding risk.

a. Current Ratio

The current ratio shows the relationship between current assets and the current liabilities. It is calculated by dividing total current assets by total current liabilities.

$$\text{Current Ratio} = \frac{\text{CurrentAssets}}{\text{Current Liabilites}}$$

Assets that can be converted into cash within one year period are called current assets. It includes cash and bank balance, investment in treasury bills, loans and advances, bills receivables, account receivables, prepaid expenses, etc.

Current liabilities are those liabilities which are to be paid normally within a year. It includes bills payable, tax payable, dividend payable, bank overdraft, accrued expenses, short term bank loan, etc.

The current ratio of 2:1 is regarded as the satisfactory ratio.

b. Cash and Bank Balance to Current and Saving Deposit Ratio

The bank should maintain adequate cash and bank balance to meet the unexpected and heavy withdrawal of deposits. So this ratio measures the ability of the bank to meet its immediate obligations.

Cash and bank balance consists of cash in hand, foreign cash in hand, cheques and balance with domestic and foreign banks. Likewise a current and saving deposit includes all types of deposits except fixed deposit.

Cash and bank balance to current and saving deposit ratio is calculated by dividing cash and bank balance by current and saving deposits as under

Cash and Bank Balance to Current and Saving Deposit Ratio $= \dfrac{\text{Cash \& Bank Balance}}{\text{Current \& Saving Deposit}}$

This ratio shows the bank's ability to meet its immediate obligations. Higher the ratio shows the higher liquidity position and the ability to cover the deposit and vice-versa.

c. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measure percentage of most liquid fund with the bank to make immediate payment to depositors. This ratio is computed by dividing cash and bank balances by total deposit.

Cash and Bank Balance to Total Deposit Raio $= \dfrac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$

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

d. Fixed Deposit to Total Deposit Ratio

This ratio measures the proportion of fixed deposit to total deposit and can be calculated by dividing fixed deposit by total deposit as under.

$$\text{Fixed Deposit to Total Deposit Ratio} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

Higher the ratio shows the higher liquidity position and vice-versa.

e. Saving Deposit to Total Deposit Ratio

Saving deposit is a short term liability. This ratio measures the proportion of saving deposit in total deposit and calculated by dividing saving deposit by the total deposit. So,

$$\text{Saving Deposit to Total Deposit} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

Leverage Ratio

This ratio is also called solvency ratio or capital structure ratio. A firm should have strong short-term as well as long-term financial position. To judge the long term financial position of the firm, these ratios help to measure the financial contribution of owners and creditors comparatively. These ratios indicate the situation of the capital structure, which is calculated to measure the company's ability of using debt for benefit of shareholders. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long term financial health, debt servicing capacity and strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary debt ratio tell us the relative proportions of capital contribution by creditors and by owner.

a. Debt Assets Ratio

This ratio exhibits the relationship between creditors fund and owners capital. This ratio shows the proportion of outside fund used in financing total assets. lt also provides security /financial safety to the outsiders i.e potential shareholder, depositor or investors. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and lower ratio indicates lower financial risk as well as decreasing claims of outsider over the total assets of the firm. Generally 1'.2 ratios are considered good but however no hard and fast rule is prescribed. This ratio implies a finance company success in exploiting debt to more profitable areas. This ratio is represents as follows

$$\text{Debt Assets Ratio} = \frac{\text{Debt}}{\text{Assets}}$$

b. Debt Equity Ratio

Debt equity ratio examines the relative claims of creditors and owners against the firm assets. Alternatively, the debt equity ratio indicates the combinations of debt capital and equity capital fund to the total investment. The ratio is computed by using following formula:

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

c. Long Term Debt to Total Assets

This ratio shows the proportion of long term debt to the total assets. Here long term debt consists of all liabilities except current liabilities and a total asset consists of current assets as well as fixed assets. It is calculated by dividing long term debt by total assets as under

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

d. Interest Coverage Ratio

This ratio measures how much net income before interest and taxes could decline and still provide coverage of total interest expenses. It is sometimes called as debt service ratio. This ratio emphasizes the ability of the firm to generate enough income to cover interest expenses. This ratio is directly connected to the ability of the firm to pay interest (Munankarmi ; 2002 : 470). This ratio is obtained by dividing net profit before deduction on interest and tax by interest chare as follows.

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit befor deduction on Interest \& Tax}}{\text{Total Interest}}$$

This ratio indicates the ability of bank to pay interest out of its profits. it is also indicates the extent to which the profits of the company may decrease without in any way affecting its ability to meet its interest obligations. Higher ratio is desirable but too high ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation.

Profitability Ratio

Profit is the difference between total revenues and total expenses over a period of time. Profit is the ultimate out put of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. The relation of the return of the firm to either its sales or equity of its assets is

knows as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment. Higher the profitability ratio, better the financial performance of the bank and vice-versa. Profitability ratio can be calculated by following different ratio:

a. Return on Total Assets

Return refers the profit after interest and taxes. It is also known as Net Profit on Total Assets. This ratio evaluate the efficiency of company in utilizing and mobilizing of assets and its survival. It is useful for measurement of the profitability of all financial resources invested in the bank assets. It also provide the foundation necessary for company to deliver a good return on equity. Higher return on Assets (ROA) indicates higher efficiency in utilization of total assets and vice-versa. ROA is calculated by dividing the amount of net profit by the total assets.

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

b. Net Profit to Total deposits

Net profit to total deposit ratio evaluate whether management has been capable to mobilizes and utilize the deposit. It also helps to know the overall performance and generation of profit of Bank. This ratio is most important to identify whether the organization well efficient or not in mobilizing its total deposits. So that corrective action could be taken. Higher ratio indicates better utilization of deposit and vice-versa. Here net profit is profit after taxes and total deposit means total amount of deposit in various account i.e. saving, current, fixed and other The return on total deposits ratio can be computed by dividing net profit by total deposit This can be express as follows:

$$\text{Net Profit to Total Deposits} = \frac{\text{Net Profit}}{\text{Total Deposit}}$$

c. Interest Earned to Total Assets

The ratio shows the earning capacity of a Bank on its total assets (working fund). This ratio exhibits the extent on which Banks are successful in mobilizing their working funds to generate income as much as possible. The higher ratio will indicate the high earning power of the banks on its total assets. Total interest earned is calculated by adding the total income from loans, advances, cash, credit, overdrafts and government securities etc. This ratio is calculated by dividing net profit by total working fund.

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

d. Staff Expenses to Total Income

Staff expenses include the salary and allowances contribution to provident fund and gratuity fund, staff training expenses and other allowances and expenses made to staff. It measures the proportion of income spent for the staff whose contribution is great significance in the success of the bank

This ratio is calculated by dividing staff expenses by total incomer as follows.

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

Activity / Assets Management Ratio

Activity ratio evaluates the efficiency with which the firm manages and utilizes its assets. This ratio is also known as turnover ratio. It measures how effectively the company employs the resources at its command. Funds are creates by the collection of share as well as debt from the owner, creditors and outside parties. Those funds are invested in procuring various kinds of

assets to generate profits or income. Activity ratios are the indicators of a concern with regard to its efficiency in assets management, hence they are often referred to as efficiency ratio are computed to assess finance companies efficiency in utilizing available resource

a. Loan Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to utilize the outsiders fund (Total deposit) for the profit generating purpose on the loans and advance. Generally, a high ratio reflects higher efficiency to the utilization of fund and vice-versa. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given as below:

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{TotalDepost}}$$

Here loan and advances refers to total of loan, advances and overdraft and total deposits refer to total of all kinds of deposit

b. Loan and Advances to Fixed Deposit Ratio

This ratio indicates how many times the amount is used in loans and advances in comparison to fixed deposits. Fixed Deposits are the main source of deposit of bank and are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposits that is given below

$$\text{Loan and Advances to Fixed Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Fixed Deposit}}$$

c. Loan and Advances to Saving Deposit Ratio

Loans and advances to saving deposits ratio indicates how much saving deposits are used as loans and advances by the individual banks. Saving deposits are low interest bearing and are also most liquid form of liabilities. So this ratio should be maintained with due consideration. Too high ratio indicates most of the deposit is invested and it will be difficult for the banks to make the payment to the customers. Similarly too low ratio also indicates idle cash in the bank.

$$\text{Loans and Advances to Saving Deposit Ratio} = \frac{\text{Loans and Advances}}{\text{Saving Deposit}}$$

d. Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on investment in government securities and share, debenture of the other companies and banks. This ratio measure the extent to which the bank are successful in mobilizing total investment on the total deposits, the amount of deposits should be soundly investment as the bank has to put only provide interest on its deposits but also has to declared a handsome dividend to its owners and shareholders. This ratio can be calculated by dividing total investment by total deposit. This ratio is mention as below:

$$\text{Total Investment to Total Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total Deposit}}$$

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

Market Value / Growth Ratio

Market value ratio represents how well the banks are maintaining their economic and financial position. The ratios can be calculated by dividing the last period dividend by the first period dividend, then by referring to the compound interest tables. Alternatively, it is calculated by using the following formula,

$FV = PV(1+r)n$

Where,

FV = Future Value

PV = Present Value

r = rate of interest

n = no. of year

A high ratio generally indicates better performance and vice-versa. To examine and analyze the expansion analysis growth of company, following growth ratio are calculated in this study.

a. Earning Per Share

Earning per share refers the rupee amount earned per share of common stock outstanding. EPS is one of the most important financial indicators, which measures the earning capacity of a firm. It measures the profit available to the ordinary shareholders on a per share basis. The higher earning indicates the better achievements of the profitability of the banks by mobilizing their funds and vice versa. In other words, higher earning per share denotes the strength and lower earning per share indicates the weakness of the banks. EPS is calculated by dividing net income available to the common stockholders by the total number of common shares outstanding.

$$\text{Earning per Share} = \frac{\text{Net Profit after Taxes}}{\text{Number of common stock outstanding}}$$

b. Dividend Per Share

Dividend per share indicates the rupee earnings actually distributed to common stockholders per share held by them. It measures the dividend distributed to each equity shareholders. The DPS simply shows the portion of earning distributed to the shareholders on per share basis. Generally, the higher DPS creates positive attitude of the shareholders toward the bank, which consequently helps to increase the market value of the shares. And it also works as the indicator of better performance of the bank management. It is defined as the result received by dividing the total dividend distributed to equity shareholders by the total number of equity shares outstanding.

$$\text{DPS} = \frac{\text{Total Dividend}}{\text{Number of common stock outstanding}}$$

c. Dividend Payout Ratio

It is the portion of the earning used for the payment of dividend. The dividend payout ratio is the earnings paid to the equity holders from the earnings of a firm in a particular year. This ratio shows what percentage of the profit is distributed as dividend and what percentage is retained as reserve for the growth of the banks. In other words, the amount of dividend that a bank pays depends upon the earning capacity of the bank. Higher earning enhances the ability to pay more dividends and vice versa. There is a reciprocal relationship between dividends and retained earnings, the higher the dividend payout ratio, the lower will be the retained earnings and hence the capacity of internal financing of the firm is checked. It is calculated to indicate the percentage of the profit that is distributed as dividend. This ratio is calculated by dividing dividend per share by the earning per share. It is the percentage of profit i.e. distributed as dividend. It is calculated as follows:

$$\text{D/P ratio} = \frac{\text{Dividend per share (DPS)}}{\text{Earning per share (EPS)}}$$

3.6.2 Statistical Tools

Statistical tools are the mathematical techniques used to analyze and interpret performance. It is used to describe the relationship between variables and interpret the result. Statistics is also used to test the hypothesis that is set to know the information of population.

Mean (X):

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes. For this reason an average is frequently referred to as a measure

of central tendency. In this study it is used in data related to dividend of sample banks over five years. It is calculated as:

No. of values

$$\text{Mean} = \frac{\text{Sum of Total Values}}{\text{No. of values}}$$

Standard Deviation (S.D.):

The measurement of the slatterns of the mass of figures in a series about an average is known as dispersion. S.D. is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. In simple term high SD means very less similarity in the values and low SD means high similarity among the values. SD gives the accurate result between the values only if their mean are same. In case of different mean, SD cannot be the accurate result. It is calculated for selected dependent and independent variable specified. It is the positive square root of mean squared deviation from the arithmetic mean and is denoted by

$$SD = \sqrt{\frac{\text{ʄɛ } Z\bar{\epsilon}\,\hat{A}^2}{\rho}}$$

Coefficient of Variation (CV):

CV reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as C.V. It is used for comparing variability of two distributions. If the X be the arithmetic mean and the standard deviation of the distribution, then the C.V. is defined as,

C.V. = (SD/X) × 100%.

Less the C.V. more will be the uniformity; consistency and more the C.V. less will be the uniformity and consistency.

Coefficient of Correlation (r):

Correlation Analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. Coefficient of Correlation is the measurement of the degree of positive and negative relationship between two casually related sets of figures. Its value lies somewhere ranging between -1 to +1. If both variables are constantly changing in the similar direction, the value of coefficient will be +1 indicating perfect positive correlation. When the value coefficient will be -1 two variables take place in opposite direction. The correlation is said to be perfect negative. In this study, simple coefficient of correlation is used to examine the relationship of different factors with dividend and other variables. The data regarding dividend over different years are tabulated and their relationship with each other are drawn out. In practical life, the possibility of obtaining either perfect positive or perfect negative correlation is very rare.

$$r = \frac{Cov(XY)}{\sigma_x \sigma_y}$$

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{(N-1)\sigma_x \sigma_y}$$

or ,

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

$\exists_x$,$\exists_y$ are the standard deviation of the distributions of X and Y values respectively.

Cov (X, Y) = Co variation of X, Y value

$$= \frac{\int_{\varepsilon} Z\overline{\varepsilon} A \int_{\psi} Z\overline{\psi} A}{\int_{\rho} Z1A}$$

Coefficient of Determination (r2):

The coefficient of determination is the measure of the degree of linear association or correlation between two or more independent variables. It measures the percentage total variation in dependent variables explained by independent variables. If r2 has a zero value then, it indicates that there is no correlation which means all the data points in scatter diagram fall exactly on the regression line. If it has the value equal to one then it indicates that there is perfect correlation and as such the regression line is the perfect estimator. But in most of the cases the value of r2 will lie somewhere between these two extremes of 1 and 0. One should remember that r2 close to one indicates a strong correlation between two variables and r2 near to zero means there is little correlation.

$$\text{Coefficient of Determination } (R^2) = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

Or,

$$1 - \text{Unexplained Variation}$$

$$R^2 = \frac{\text{Total Variation}}{}$$

Probable Error:

The Probable Error (PE) of correlation coefficient is an old measure of testing of reliability of an observed correlation coefficient .The Probable Error of the correlation coefficient is the basis for the interpretation of its value.

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

• If r<PE than it is insignificant or there is no evidence of correlation.

• If r >6PE than, it is significant.

• If PE<r<6PE than, nothing can be concluded.

Regression Analysis:

Regression analysis is the development of the statistical model that can be used to predict the values of variable. There are two types of variable in regression analysis. The variable whose value is to be predicted is called dependent variable and the variable which is used for prediction is called independent variable. The dependent variable is based upon the value of independent variable.

The simple linear regression analysis would be

Y= a+ bX

Where,

Y is the dependent variable

X is the independent variable

Yi is the predicted value for observation I and X1 is the value of X for observation I.

a is the average value of Y when X equals zero.

b is the expected change in Y per unit change in X

Trend Analysis:

The Arrangement of Statistical data chronologically (according to occurrence of time) is known as time series and the statistical analysis of this chronological variation is termed

as Trend Analysis. It helps to know the past behavior of data in certain span of time interval. On the basis of these past trends, one can make plan in forthcoming days. This Least square method is the most popular and widely used mathematical method of measuring trend. This is frequently used for future prediction. There are various types of curves that may be used to describe the given data but in this text, an attempt has been made to discuss only the fitting of linear trend by the least square method.

Let, the equation of Trend Analysis would be,

$Y = a + bx$

Where,

Y = the given value of the variable in time series. It is a dependent variable.

a = Intercept of trend line or y-intercept.

b = Slope of Trend Line.

x= Time Varible

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

The purpose of this chapter is to carry out secondary data analysis. In this chapter, the relevant data and information regarding the ratios of the commercial banks are presented and analyzed comparatively. The financial as well as statistical tools are used for the comparison of the financial indicators. Also the correlation and regression analysis of the sample firm is calculated and data are presented in a systematic tabulated form.

4.1 Ratio Analysis

Ratio analysis is the process of determining the significant operation and financial characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management as reflected in the financial records and reports. It gives the analyst a way making meaningful comparisons of a firm's financial data at different points in the time and with other firm.

The technique of ratio analysis has considerable significance in studying the financial stability, liquidity, profitability of the firm. It has been used to evaluate the financial health, operating result and growth of the sample bank.

4.1.1 Liquidity Ratio

Bank should maintain it's satisfactory liquidity position to satisfy the short term credit needs of the community, to meet demands for deposits, withdraws, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact the short-run solvency of the firm.

The liquidity positions of the Banks are comparatively studied through following ratios.

A. Current Ratio

The current ratio shows the relationship between current assets and the current liabilities. This is the board measure of liquidity position of the Banks. In another words, it measures the availability for current assets for meeting current liabilities. This ratio is also known as working capital.

$$\text{Current Ratio} = \frac{\text{CurrentAssets}}{\text{Current Liabilites}}$$

Following table shows the comparative current ratio for eight years.

Table 4.1

Current Ratio

Rs. In Million

Year	NIB			EBL		
	CA	CL	Ratio	CA	CL	Ratio
05/06	15953.47	14743.89	1.082	11598.45	10599.90	1.094
06/07	20986.69	19364.70	1.083	15807.19	14696.48	1.075
07/08	26813.39	24912.72	1.082	21262.48	19931.06	1.066
08/09	37903.21	35136.52	1.076	26788.83	24928.10	1.074
09/010	51950.05	48014.16	1.081	36489.70	34413.22	1.060
010/11	56457.23	54232.20	1.041	38508.74	37475.44	1.027
011/012	59498.32	57569.27	1.033	40529.77	39354.33	1.029
012/013	69529.43	64665.32	1.075	49566.76	48443.36	1.023

(Source: Annual Report of the concerned banks)

Above table indicates the current ratios of the sampled banks. The current ratio of NIB is somewhat constant for all eight fiscal years. But in case of EBL it is little fluctuating. It ranges from 1.094 in FY 2005/06 to 1.023 in FY 2012/013.

Above calculated ratios of NIB and EBL shows current ratio is below the standard 2:1. However looking at the nature of assets and liabilities of the commercial banks the ratio, below the standard may be accepted as satisfactory. But it signifies bank have poor liquidity position. The bank may face the problem of working capital if they need to pay the current liabilities at demand. Bank may lose their goodwill incase of delay in the payment of liabilities. Bank will have the problem in winning the confidence of current depositor and short term lenders.

B. Cash and Bank Balance to Current and Saving Deposit Ratio

The main purpose of this ratio is to examine the bank's liquidity capacity on the basis of Cash and bank balance. The following table shows the cash and bank balance to total deposit ratio of the selected sample banks.

Cash and Bank Balance to Current and Saving Deposit Ratio

$$= \frac{\text{Cash \& Bank Balance}}{\text{Current \& Saving Deposit}}$$

Table 4.2

Cash and Bank Balance to Current and Saving Deposit Ratio

Rs. In Million

Year	NIB			EBL		
	Cash & Bank Bal	Current & Saving Deposit	Ratio (%)	Cash & Bank Bal	Current & Saving Deposit	Ratio (%)
05/06	1340.48	8286.54	16.76	1624.2	6857.54	23.68
06/07	2336.52	9787.68	23.87	1619.6	8075.01	20.05
07/08	2441.51	12917.36	18.90	3329.0	10703.24	31.10

08/09	3754.94	16827.44	22.31	3198.4	14376.20	24.24
09/010	7918.00	20822.82	38.63	6164.37	19642.2	31.38
010/11	7558.4	2122.6	35.95	7818.8	17533.3	44.59
011/012	8290.4	18348.3	45.18	6122.9	12830.3	47.72
012/013	12009.1	17597.6	68.24	10363.3	23367.6	44.34

(Source: Annual Report of the concerned banks)

Bank should maintain suitable cash and bank balance in current and saving deposit.

C. Cash and Bank Balance to Total Deposit Ratio

The main purpose of this ratio is to examine the bank's liquidity capacity on the basis of cash and bank balance. The following table shows the cash and bank balance to total deposit ratio of selected sample banks.

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Table 4.3

Cash and Bank Balance to Total Deposit Ratio

Rs. In Million

Year	NIB			EBL		
	Cash & Bank Bal	Total Deposit	Ratio (%)	Cash & Bank Bal	Total Deposit	Ratio (%)
05/06	1340.48	14254.6	9.40	1624.2	10097.69	16.08
06/07	2354.9	18927.30	12.44	1619.6	13802.44	11.73
07/08	2791.51	24488.86	11.39	3329.0	19047.7	17.43
08/09	3754.94	34451.73	10.90	3198.4	23976.30	13.33
09/010	7918.00	46698.10	16.96	6164.37	33322.95	18.50

010/11	7558.4	50094.7	15.08	7818.8	36932.3	21.17
011/012	8290.4	50138.1	16.53	6122.9	41127.9	14.88
012/013	8700.91	57010.66	15.26	10363.3	50006.1	20.72

(Source: Annual Report of the concerned banks)

Holding cash and bank balance can have a negative impact to the goodwill and reputation of the banks to fulfill the demand of the profit holder and lower cash balance can have a negative impact on the customer. Therefore banks should maintain the enough liquidity. Though high ratios indicate its high liquidity position but it also affects profitability due to idleness of high interest bearing fund.

D. Fixed Deposit to Total Deposit Ratio

This ratio measures the proportion of fixed deposit to total deposit. Fixed deposits are high interest bearing and are also for long time period.

Table 4.4

Fixed Deposit to Total Deposit Ratio

Rs. In Million

Year	NIB			EBL		
	Fixed Deposit	Total Deposit	Ratio (%)	Fixed Deposit	Total Deposit	Ratio (%)
05/06	3212.26	14254.6	22.53	3444.5	10097.69	34.11
06/07	5412.97	18927.30	28.60	4298.2	13802.44	31.14
07/08	7516.69	24488.86	30.69	5658.7	18186.25	31.11
08/09	7944.23	34451.73	23.06	6598.0	23976.30	27.51
09/010	11633.38	46698.10	24.91	7094.7	33322.95	21.29
010/11	16825.1	50094.7	33.58	10440.3	36932.3	28.26
011/012	18378.3	50138.1	36.65	15061.9	41127.9	36.62

| 012/013 | 20057.5 | 57010.6 | 35.1 | 13007.5 | 50006.1 | 26.01 |

According to the above table, NIB has 22.53%, 28.60%, 30.69%, 23.06%,24.91% 33.58%, 36.65% and 35.1% as fixed deposit among the total deposits in the FYs from 2005/06 to 2012/13. Similarly EBL also has 34.71%, 31.14%, 31.11%, 27.51%, 21.29% ,28.26%,36.62%and 26.01%as fixed deposit in the above mentioned FYs. It shows there is not so high fixed deposits in these two commercial banks. Fixed deposits are necessary for the banks but too much fixed deposits also add high cost to the banks as they is high interest bearing.

E. Saving Deposit to Total Deposit Ratio

Saving deposit is a short term liability. This ratio measures the proportion of saving deposit in total deposit. Saving deposits need to pay low interest.

Table 4.5

Saving Deposit to Total Deposit Ratio

Rs. In Million

Year	NIB			EBL		
	Saving Deposit	**Total Deposit**	**Ratio (%)**	**Saving Deposit**	**Total Deposit**	**Ratio (%)**
05/06	6703.51	14254.6	47.03	4806.9	10097.69	47.61
06/07	8081.98	18927.30	42.70	6929.21	13802.44	50.20
07/08	10742.33	24488.86	43.86	9018.0	18186.25	49.58
08/09	13688.77	34451.73	39.73	11883.96	23976.30	49.56
09/010	17066.25	46698.10	36.54	14782.3	33322.95	44.36
010/11	14322.5	50094.7	28.58	13360.0	36932.3	36.17
011/012	13554.8	50094.7		13039.1	41127.9	31.70

			27.03			
012/013	17276.0	57060.6	30.2	17269.3	50006.1	34.53

Ratio of saving deposit is decreasing each year for both the commercial banks. It was 47.03% in FY 2005/06 for NIB but it reached to 43.86% in 2007/08. Same is the case with EBL, it was 47.61% in 2005/06 but at the end of FY 20011/12 it decrease to 34.53%. Saving deposits bear very low interest.

4.1.2 Leverage Ratio

Like other ratios, leverage ratio is also very necessarily important tool in measuring financial performance of any institution. This ratio reveals the proportion of funds used by the institution either from the creditor's side or form owner side. In order to maintain healthy financial position any institution need to maintain proper proportion of debt & equity. There are various tools in order to measure leverage of the institution among them.

A. Debt Assets Ratio

It measures proportion of the creditor's funds used by the institution to acquire the assets. The increased proportion of debt indicated the risky ness or burden to the institution. The debt is considering more risky and also cheap source of financing. It is risky in the sense that the debt financing needs regular payment of interest in any condition of economy. The debt asset ratios of sample banks are as below:

Table 4.6

Debt to Total Assets Ratio

Rs. In Million

Year	NIB			EBL		
	Debt	Assets	Ratio (%)	Debt	Assets	Ratio (%)
05/06	15094.32	16274.06	92.75	10890.80	11732.52	92.82
06/07	19914.70	21330.14	93.36	14996.48	15959.28	93.96
07/08	25712.73	27590.84	93.19	20231.06	21432.57	94.39
08/09	36186.52	38873.31	93.09	25228.10	27149.34	92.92
09/010	49102.96	53010.80	92.62	34713.22	36916.85	94.03
010/11	54102.53	56009.70	96.59	44612.23	46815.75	95.29
011/012	69504.92	76769.55	90.53	57711.32	62654.37	92.11
012/013	74503.89	79788.89	93.37	63758.54	65562.27	97.24

(Source: Annual Report of the concerned banks)

Debt assets ratios of both the banks are seen to be very high. NIB has financed 92.75% to 96.59% of its assets by outsider's fund. Similarly EBL has also

financed 92.82% to 97.24% of its assets from the debt. Above calculated ratios shows larger portion of the bank's asset has been financed through outsider's fund. This ratio shows that bank is following high profit high risk strategy.

B. Debt Equity Ratio

The Debt Equity ratio implies the debt equity proportion used by the institution High Debt Equity ratio indicates more use of money from creditors side and vice versa. High Debt Equity ratio is considered good if the institutions have higher return than the cost paid on debt.

Table 4.7

Debt to Equity Ratio

Rs. In Million

Year	NIB			EBL		
	Debt	Equity	Ratio (Times)	Debt	Equity	Ratio (Times)
05/06	15094.32	587.74	25.68	10890.80	832.62	13.08
06/07	19914.70	590.59	33.72	14996.48	962.8	15.57
07/08	25712.73	801.35	32.08	20231.06	1201.51	16.83
08/09	36186.52	1203.92	30.07	25228.10	921.24	27.38
09/010	49102.96	2407.10	20.40	34713.22	2203.63	15.75
010/11	54102.53	5600.97	9.66	44612.23	4681.57	9.52
011/012	69504.92	7676.95	9.05	57711.32	6265.44	9.21
012/013	74503.89	7978.89	9.33	63758.54	6556.23	9.72

(Source: Annual Report of the concerned banks)

Total Debt includes long term and short term interest bearing obligation which are loans and advances taken from other financial institution and deposits carrying

interest i.e. saving deposit, fixed deposit and call deposit. Equity is combination of paid of capital and reserve and surplus. Debt Equity Ratio shows the mix of debt and equity in capital structure.

Most of the investment and assets of the banks are financed by the debt. The debt of NIB is 25.68 times higher than equity in FY 2005/06. In 2006/07 and 2007/08 this ratio again increased but after that it is in decreasing trend. EBL has borrowed less debt compared to NIB.

C. Long Term Debt to Total Assets

This ratio shows the proportion of long term debt to the total assets. Long term debt consists of all liabilities except current liabilities. Long term debts are high cost bearing liabilities such as: debentures, bonds, etc.

Table 4.8

Long Term Debt to Total Assets Ratio

Rs. In Million

Year	NIB			EBL		
	Long Term Debt	Total Assets	Ratio (%)	Long Term Debt	Total Assets	Ratio (%)
05/06	350.00	16274.06	2.15	300.00	11732.52	2.55
06/07	550.00	21330.14	2.58	300.00	15959.28	1.88
07/08	800.00	27590.84	2.90	300.00	21432.57	1.40
08/09	1050.00	38873.31	2.70	300.00	27149.34	1.10
09/010	1050.00	53010.80	1.98	300.00	36916.85	0.81

010/11	1150.00	56009.70	2.05	300.00	46815.75	0.64
011/012	1250.00	76769.55	1.62	300.00	62654.37	0.47
012/013	1400.00	79788.89	1.75	300.00	65562.27	0.45

(Source: Annual Report of the concerned banks)

Long term debt of NIB is increasing each year. In the FY 2005/06 it was Rs 350.00 million but it reached to Rs. 1050.00 million in FY 2009/010,and FY 2012/13it reached to Rs. 1400.00 million . As assets of the bank are also increasing the ratio of long term debt to total assets is decreasing. But EBL has equal amount of long term debt for all the eight FYs, and the ratio is decreasing. As long term debt bears high interest, lower ratio is preferred well than the high one.

4.1.3 Profitability Ratio

Profit is the ultimate out put of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns.

A. Return on Total Assets

This ratio is a measuring tool of profitability with respect to each financial resources investment of the assets. If Bank's working fund (total assets) is well managed and utilized efficiently, return on such assets will be higher and vice versa. This ratio measures the productivity of assets. The following comparative table shows the return on total assets ratio of these two banks recorded over the study period.

Table 4.9

Return on Total Assets Ratio

Rs. In Million

Year	NIB			EBL		
	NPAT	Total Assets	Ratio (%)	NPAT	Total Assets	Ratio (%)
05/06	239.67	16274.06	1.47	168.21	11732.52	1.43
06/07	350.54	21330.14	1.64	237.29	15959.28	1.48
07/08	501.40	27590.84	1.81	298.00	21432.57	1.39
08/09	696.73	38873.31	1.79	451.22	27149.34	1.61
09/010	900.62	53010.80	1.69	638.73	36916.85	1.73
010/11	1422.5	56009.70	2.53	831.8	46815.75	1.77
011/012	1263.2	76769.55	1.64	931.3	62654.37	1.48
012/013	1318.3	79788.89	1.65	1090.6	65562.27	1.66

(Source: Annual Report of the concerned banks)

Return on Total Assets for NIB remained 1.47% in FY 2005/06 and it increased to 2.53% in 2010/11 but it has decreased to 1.64% in 2011/12. For EBL also it was 1.43% in 2005/06 but it decreased to 1.39% in 2007/08, After that it is continuously increasing and reached to 1.77% in 2010/011 then after it is decrease in 2011/012 and2012/13.

Higher the ratio indicates the success of management in overall operation and in earning net profit with efficient utilization of total assets.

B. Net Profit to Total deposits

This ratio is most important to identify whether the organization well efficient or not in mobilizing its total deposits. Net profit to total deposit ratio evaluate whether management has been capable to mobilizes and utilize the deposit. The following table reveals the percentage of net profit to total deposit of sample banks.

Table 4.10

Net Profit to Total Deposit Ratio

Rs. In Million

Year	NIB			EBL		
	NPAT	Total Deposit	Ratio (%)	NPAT	Total Deposit	Ratio (%)
05/06	239.67	14254.6	1.68	168.21	10097.69	1.66
06/07	350.54	18927.30	1.85	237.29	13802.44	1.72
07/08	501.40	24488.86	2.04	298.00	18186.25	1.64
08/09	696.73	34451.73	2.02	451.22	23976.30	1.88
09/010	900.62	46698.10	1.92	638.73	33322.95	1.91

010/11	1422.5	59554.7	2.38	831.8	36932.3	2.25
011/012	1263.2	61357.0	2.05	931.3	41127.7	2.26
012/013	1318.3	69781.5	1.88	1090.6	50006.1	2.18

(Source: Annual Report of the concerned banks)

The ratio of net profit to the total deposit is 2.04% and 2.02% in FY 2007/08 and 2.38% in FY 2010/011   then it is decreasing 2011/12 and 2012/13 respectively of NIB. But in other years this ratio is less and fluctuating also. EBL has also not been able to maintain consistency and increase the ratio between net profit and total deposit.

4.1.4 Activity / Assets Management Ratio

It measures how effectively the company employs the resources at its command. Activity ratios are the indicators of a concern with regard to its efficiency in assets management, hence they are often referred to as efficiency ratio are computed to assess finance companies efficiency in utilizing available resource

A. Loan Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize the total deposits on loans and advances for the purpose of income generation. The following table exhibits the ratio of loans and advances to total deposits of the banks throughout the study period.

Table 4.11

Loan Advances to Total Deposit Ratio

Rs. In

Million

Year	NIB			EBL		
	Loans & Advances	Total Deposit	Ratio (%)	Loans & Advances	Total Deposit	Ratio (%)
05/06	10126.06	14254.6	71.03	7618.67	10097.69	75.44
06/07	12776.21	18927.30	67.50	9801.31	13802.44	71.01
07/08	17286.43	24488.86	70.58	13664.08	18186.25	75.13
08/09	26996.65	34451.73	78.36	18339.08	23976.30	76.48
09/010	36241.21	46698.10	77.60	23884.67	33322.95	71.67
010/11	4201.9	59554.7	70.05	28156.4	36932.3	76.23
011/012	4294.6	61357.0	70.02	31661.8	41127.7	76.98
012/013	6169.0	69781.5	88.40	36616.8	50006.1	73.22

(Source: Annual Report of the concerned banks)

The ratio indicated the proportion of total deposit invested in loans and advances. Out of the total deposit of NIB 71.03%, 67.50%, 70.585, 78.36% and 77.60% ,70.05%,70.02% and 88.40% is used as loans and advances in the FY 2005/06 to 2012/013 respectively. Similarly for EBL also 75.44%, 71.01%, 75.13%, 76.48%, 71.67% ,76.23%,76.98% and 73.22%is used from FY 2005/06 to 2012/013 respectively. As per banking practice, banks maintain the ratio around 70- 75%. Above table shows banks are successful in utilizing its deposits on loans and advances. But the trend of utilization is fluctuating for both the banks.

B. Loan and Advances to Fixed Deposit Ratio

This ratio measures the effectiveness of mobilizing loan and advances in respect with the total deposit. Fixed deposits are high interest bearing obligations whereas loans and advances are the major sources of investment to generate income for the commercial banks. The following table displays the ratio of loans and advances to fixed deposit ratios of the sample banks.

Table 4.12

Loan Advances to Fixed Deposit Ratio

Rs. In Million

Year	NIB			EBL		
	Loans & Advances	Fixed Deposits	Ratio (%)	Loans & Advances	Fixed Deposits	Ratio (%)
05/06	10126.06	3212.26	315.23	7618.67	3444.5	221.18
06/07	12776.21	5412.97	236.02	9801.31	4298.2	228.03
07/08	17286.43	7516.69	229.90	13664.08	5658.7	241.47
08/09	26996.65	7944.23	339.2	18339.08	6598.0	277.94
09/010	36241.21	11633.38	311.52	23884.67	7094.7	336.65
010/11	39324.50	13734.48	286.31	28156.4	10440.3	269.68

011/012	46563.40	17946.89	259.45	31661.8	15061.9	210.21
012/013	51679.20	25241.36	204.47	36616.8	13007.5	281.50

The above table shows that the NIB has fluctuation in using the fixed deposit of the bank. It has effectively utilized fixed deposit in FY 2005/06 but for the next two years it has decreased the utilization. Again in 2008/09 it increased the ratio to 339.20% but it also decreased in next 4 years to 204.47% in case of EBL the above table clearly indicates that loans and advances are being effectively and properly utilized with respect to fixed deposit. EBL has good performance and efficiently utilized the high interest earning fixed deposit in the loan and advance. Fixed deposits are main source of deposit of the bank and high interest bearing obligation

Whereas loan and advance are major sources of investment to generate income for the commercial banks.

C. Loan and Advances to Saving Deposit Ratio

Loans and advances to saving deposits ratio indicates how much saving deposits are used as loans and advances by the individual banks. The following table displays the ratio of loans and advances to saving deposit ratios of the sample banks.

Table 4.13

Loan Advances to Saving Deposit Ratio

Rs. In Million

Year	NIB			EBL		
	Loans & Advances	Saving Deposit	Ratio (%)	Loans & Advances	Saving Deposit	Ratio (%)

05/06	10126.06	6703.51	151.05	7618.67	5187.35	146.87
06/07	12776.21	8081.98	158.08	9801.31	6929.21	141.44
07/08	17286.43	10742.33	160.91	13664.08	9029.25	151.33
08/09	26996.65	13688.77	197.21	18339.08	11883.86	154.31
09/010	36241.21	17066.25	212.35	23884.67	14257.45	167.52
010/11	40251.25	14322.5	281.03	28156.4	13360.0	210.75
011/012	25254.50	13554.8	186.31	31661.8	13039.1	242.82
012/013	36145.60	17276.0	209.22	36616.8	17269.3	212.03

(Source: Annual Report of the concerned banks)

The ratio of NIB and EBL shows both banks are utilizing their saving deposits in the form of loans and advances in an effective way. Both are in increasing trend. It was 151.05 % in 2005/06 and it reached to 209.22% in 2012/013 for Nib. Similarly for EBL it was 146.87% in 2005/06 and in FY 2012/13 it was 212.03%.

It indicates insufficient utilization of saving deposit in a form of loans and advances. So bank should follows different policy to increase the amount of loan and advance to saving deposit which generate the income and reduce the interest cost.

A. Earning Per Share

Normally the performance and achievement of business organization are measured in terms of earning capacity to generate earning. Higher earning shows the higher strength while lower earning shows weaker strength of business organization. So higher the EPS better the position is seen in stock market.

Table 4.14

Analysis of Earning Per Share (EPS)

year	NIB	EBL
05/06	39.50	54.22
06/07	59.35	62.78
07/08	62.57	78.42
08/09	57.87	91.82
09/010	37.42	99.99
010/11	48.65	89.25
011/012	58.25	98.75
012/013	39.20	59.50

The table 4.2 shows the earning per share of the two listed banks from the year 05/06 to 012/013. EPS of NIB was increasing in the previous three years from 2006/07 to 2007/08 but in 2008/09 it decreased to Rs 57.87 and in 2008/09 to Rs 37.42.,2012/2013it is 39.20 It shows NIB is not being able to pay good earning to its share holders in the last two years. But EBL is increasing its EPS each year. In 2005/06 EPS was Rs 54.22 but in the last year of this study 2012/013 it is Rs 59.50.

Better earning per share shows high strength of the bank and better position in the stock market also.

B. Dividend Per Share

Dividend per share (DPS) is that amount, which is paid to common shareholders on a per share basis. DPS shows what exactly do the ordinary shareholders

receive. It is calculated by dividing the dividend provided to equity shareholders by the total number of equity shares.

Table 4.15

Analysis of Dividend per Share (DPS)

Year	NIB	EBL
2005/06	12.50	19.90
2006/07	20.00	25.00
2007/08	5.00	10.00
2008/09	7.5	20.00
2009/010	20.00	30.00
2010/011	25.00	35.00
2011/012	30.00	25.00
2012/013	35.00	25.00

Dividend per share of the NIB was Rs 12.50 in FY 2005/06 and in 2006/07 it increased to Rs 20.00. After that, FYs 2008/09 DPS of NIB decreased and in FYs 2009/010 it started to increased last year 012/13 it was Rs 35.00.   EBL was able to distribute dividend to its shareholders in FY 2005/06 Rs 19.90. in 2006/07 and 2011/2012 it paid Rs 25.00 as DPS and after increasing the DPS in next two years, it again distributed Rs 30.00 in FY 2009/010. In an average all the above listed banks are providing good dividend to its shareholders. Investors invest their money and want maximum return from it so DPS is also one of the indicator of evaluating the return.

C. Dividend Payout Ratio

Dividend payout ratio (DPR) indicates the percentage of actual earnings of the bank received by the ordinary shareholders. It is calculated by dividing the dividend per share to ordinary shareholders by the earning per share (EPS).

Table 4.16

Analysis of Dividend Payout Ratio (DPR)

Year	NIB	EBL
2005/06	31.65	-
2006/07	33.70	39.82
2007/08	7.99	12.75
2008/09	12.96	21.78
2009/010	53.45	30.00
2010/011	55.45	35.00
2011/012	49.39	36.23
2012/013	38.54	48.20

According to the above table, there is high fluctuation in the DPR of these two commercial banks. NIB's DPR is 31.65%, 33.70%, 7.99%, 12.96%, and 53.45%,55.45%,49.39%,38.54% in the FYs from 2004/05 to 2012/013, Similarly, EBL has not paid any dividend in the FY 2005/06 and in the following years its DPR is 39.82%, 12.75%, 21.78%, 30.00% , 35.00%, 36.23%,48.20% It seems banks are retaining most of their earnings for future investment of the bank and the ratio of their retention is not consistent.

4.2 Statistical Tools

4.2.1 Correlation Analysis

This tool is used to predict the relationship between deposits and loans& advances, net profit and outside assets and deposits and total investment. Under this study, Karl Pearson's coefficient of correlation is being used.

A. Correlation Analysis between Total Deposit and Profit

Deposit is the main tool for developing the banking performance of the banks. By mobilizing the deposits of the customers, banks earn the profit. So, it is necessary to study the relation between these two variable deposits and net profit. Here, deposit is taken as independent variable (x) and profit (v) are dependent variables. The purpose of computing the correlation between these two variables is to justify whether deposits are significantly used or not to earn the net profit by the banks.

Table 4.17

Correlation Analysis between Total Deposit and Profit

Banks	r	r^2	PE	6PE	Remarks
NIB	0.9954	0.9908	0.0027	0.1665	Significant
EBL	0.9969	0.9938	0.0019	0.0112	Significant

Table 4.21 helps us to depict the relationship between the total deposit and profit of the two commercial banks namely NIB and EBL. The correlation coefficient (r) between the Total Deposit and Profit for both the banks is positive which indicates the positive relationship between the two. When there is increase in the total deposit then the profit also increases along with it.

PE measures the reliability of the observed correlation coefficient. The relationship between the total deposit and the profit is significant as the value of 'r' is greater than 6PE.

B. Correlation Analysis between Total Deposit and Loans & Advances

Deposit is the main tool for developing the banking performance of the banks. Likewise loans and advances are the key part to mobilize the collected deposits. The coefficient of correlation between deposits and loans & advances measures the degree of relationship between these two variables. For this study, deposit is taken as independent variable(x) and loans & advances are dependent variables (V) The purpose of computing 'r' between these two variables is to justify whether deposits are significantly used as loans and advances in proper way or not.

Table 4.18

Correlation Analysis between Total Deposit and Loans & Advances

Banks	r	r^2	PE	6PE	Remarks
NIB	0.9980	0.9960	0.0012	0.0073	Significant
EBL	0.9970	0.9940	0.0018	0.0108	Significant

The above table shows the relationship between the total deposit and the loans & advances. There is highly positive relationship between these two for both banks. With the increase in the total deposit there will be similar increase in the loans and advances, which results in good earning for the banks.

Probable error in the measurement of relationship between total deposit and loans and advances of NIB and EBL is significant.

C. Correlation Analysis between Investment and Profit

Following table shows the relation between the investment and net profit. As we say in above investment is done in different profitable area to maximize the profit. Net profit is the key to survive the banks. Without profit banks cannot sustain in the market. Therefore it is necessary to measures the degree of relationship between these two variable. For this study, Loans & advances (x) is taken as

independent variable and net profit(y) taken as dependent variable. The following table shows the coefficient of correlation between(r) coefficient of determinants (r') and probable error (P.E) investment and net profit of banks

Table 4.19

Correlation Analysis between Investment and Profit

Banks	r	r^2	PE	6PE	Remarks
NIB	0.9135	0.8345	0.050	0.30	Significant
EBL	0.8421	0.7091	0.088	0.526	Significant

According to the above table, correlation coefficient between investment and profit for NIB is highly positive, for EBL also it is highly positive but the relationship is comparatively lower than of NIB. When there is increase in investment, profit will also increase for NIB, the ratio of increase in profit is slightly lower for EBL.

According to the above table, PE of NIB and EBL is significant.

D. Correlation Analysis between Loans & Advances and Profit

Loan and advances also plays a vital role in earning the profit. By mobilizing the deposit in loan & advances banks earns the profit. So, it is necessary to study the relation between these two variable loan & advances and net profit. Following table shows the coefficient of correlation between(r) coefficient of determinants(r 2) and probable error (PE) Loan & advances and net profit of banks. For this study loan and advances(x) is taken as independent variable and net profit (y) is taken as dependent variable.

Table 4.20

Correlation Analysis between Loans & Advances and Profit

Banks	r	r^2	PE	6PE	Remarks
NIB	0.9926	0.9852	0.0044	0.0268	Significant
EBL	0.9939	0.9878	0.0037	0.0221	Significant

Table 4.24 shows the relationship between the loans and advance and the profit. The correlation coefficient (r) is highly positive for loans and advances also. Increase in loans and advances leads to the increase in profit and vice-versa. NIB and EBL both are able to increase their profit relatively with the loans and advances.

The Probable Error for both the banks is significant. It means the calculation done here is significant.

E. Correlation Analysis between Deposit and Investment

Investment is also a measures part of banks to mobilize the collected deposit. By investing in different profitable area like shares and debenture eg, government securities banks maximize the profit. Therefore it is important to study the relation between the deposit and investment. For this analysis deposit is taken as independent variable (x) and investment (y) is taken as dependent variable. This analysis measures the degree of relationship between these two variables. Besides this, it will justify whether the deposits are significantly used in proper way or not and whether there is any relationship in between these two components. The following table exhibits the coefficient of correlation
(r) between deposits and total investment, coefficient of determination(r^2), probable error (P.E).

Table 4.21

Correlation Analysis between Deposit and Investment

Banks	r	r^2	PE	6PE	Remarks
NIB	0.8800	0.7744	0.0680	0.4083	Significant
EBL	0.8715	0.7595	0.0725	0.4353	Significant

The correlation coefficient between the deposit and the investment is presented in the above table. The presentation shows that the relationship between deposit and investment is positive. With the change in deposit there will be positive change in the investment also. The PE of relationship between deposit and investment for both the banks is significant.

4.2.2 Trend Analysis

The main objective of this part is to analyze the trend of prospective net profit in future by analyzing the trend of past data of the banks. Trend analysis is very useful and commonly applied tool to forecast future event in quantitative term on the basis of tendencies in the dependent variable in the past period. Straight-line trend implies that irrespective of seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time.

A. Trend Analysis of Total Deposit

Trend analysis of Total Deposits shows the pattern of total deposit in the banks. Trend helps the investor to estimate its future deposit. Prediction of total deposit for the next five Fiscal years is done here.

Table 4.22

Trend Analysis of Total Deposit

	Actual							Forecasted
NAME	a	b	08/09	09/10	10/11	11/12	12/13	13/14
NIB	27764.12	8041.143	46698.1	51887.55	59928.69	67969.83	76010.9	84052.12
EBL	19877.13	5662.438	33322.95	36864.44	42526.88	48189.32	53851.75	59514.19

Above table 4.26 shows the trend analysis of the total deposit for the coming five Fiscal Years of NIB and EBL. Total Deposits of both the banks are increasing. It shows good future of the banks if they can regularly increase their deposits as per the prediction.

Figure 4.10 has shown this trend analysis more precisely.

Figure 4.1

Trend Analysis of Total Deposit
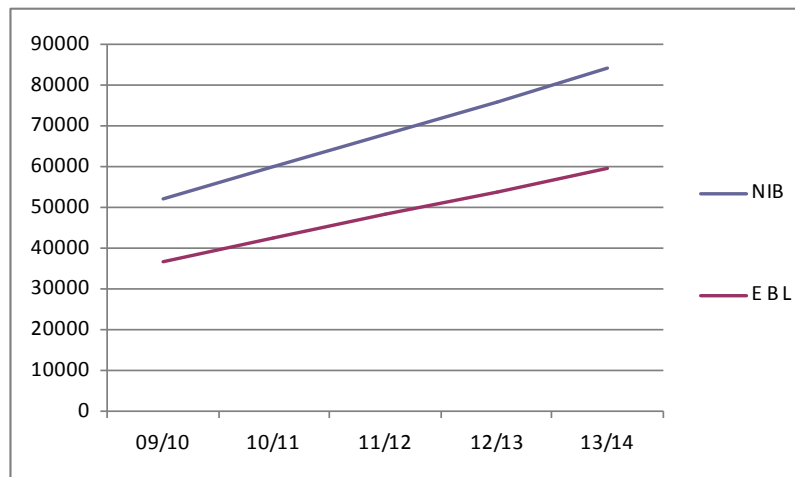
B. Trend Analysis of Loans and Advances

Loans and advances of the two commercial banks for the coming five years are forecasted here. According to the calculation done in Appendix, the future forecast of the loans and advances of the above mentioned banks is shown in the table below.

Table 4.23

Trend Analysis of Loans & Advances

NAME	a	b	08/09	09/10	10/11	11/12	12/13	13/14
					Actual			Forecasted
NIB	20685.31	6645.074	36241.21	40620.53	47265.61	53910.68	60555.76	67200.83
EBL	14661.56	4106.977	23884.67	26982.49	31089.47	35196.4	39303.42	43410.4

Table 4.27 presented above predicts the Loans & Advances of the commercial banks for five years 2009/10, 2010/11, 2011/12 and 2012/13. Loans and advances of both the banks are in increasing trend. For the coming years also it is expected to increase as per the calculation done in this study.

The following figure shows the above table in more descriptive form.

Figure 4.2

Trend Analysis of Loans & Advances
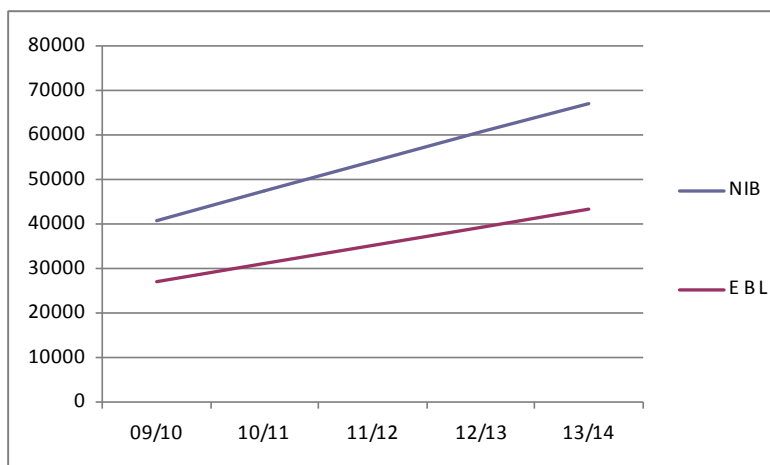
C. Trend Analysis of Investment

Trend Analysis of the investment shows the pattern of investment of the commercial banks. Future Investment of the listed sample banks are predicted in the given table.

Table 4.24

Trend Analysis of Investment

	Actual							Forecasted
NAME	a	b	08/09	09/10	10/11	11/12	12/13	13/14
NIB	6063.314	820.239	7399.81	8524.031	9344.27	10164.51	10984.75	11804.99
EBL	4464.35	849.815	5948.48	7013.803	7863.618	8713.433	9563.248	10413.06

As Deposit and Loans & Advances, investment of the commercial banks is also forecasted to grow. For the coming five years from 2009/10 to 2013/14 the investment is growing for both the banks - NIB and EBL. It shows that banks are able to increase their deposit and also investment, which helps the banks to earn good income.

The trend of Investment has been presented to have eagle eye on future trend.

Figure 4.3

Trend Analysis of Investment
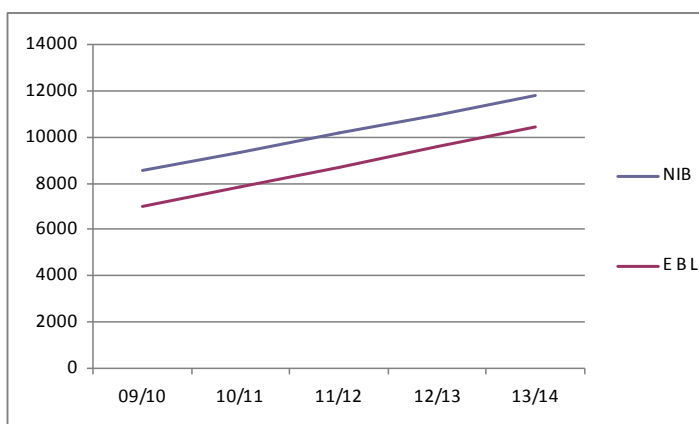
4.3 Major Findings of the study

1. Neither NIB nor EBL met the standard current ratio 2:1 over the five years of study period. But this ratio also seems to be satisfactory in case of banking institute.

2. Cash & Bank balance to current & saving deposit ratio is highly fluctuated for both the banks. When it is too low it can be concluded that banks are not being able to meet its immediate obligations and when it's too high it indicates banks are unable to utilize their funds. So suitable ratio is to be maintained.

3. Total deposit includes current, saving, fixed, call and other deposits. Liquidity position of both the banks NIB and EBL is weak. According to the study, highest ratio of NIB is 16.96% in 2008/09 and of EBL is 21.17% in FY 010/11.

4. The ratio of fixed deposit to total deposit is highly fluctuating. Both NIB and EBL are not seen consistent in maintaining the fixed deposit in the banks. Too high fixed deposit also bears high cost and too low also leads to liquidity problem in the banks. So it should be maintained with due care.

5. The ratio of saving deposit to total deposit is inconsistent for both the banks NIB and EBL. Saving deposits are short term obligations and also bear very less interest.

6. Debt assets ratio shows that large portion of assets is financed by outsiders fund i.e. debt. This ratio of NIB & EBL is more than 92% for all the eight FYs. It means banks have to pay large interest for those banks.

7. Debt Equity ratio of NIB and EBL shows that in its capital structure most of the capital is financed by its debt. NIB is using more debt than EBL. In 2006/07 ratio of NIB is 33.72 times which is highest among the eight FYs and for EBL 27.38 times in 2008/09 is highest and 9.21 times in 2011/012 is the lowest.

8. Long term debt of NIB is increasing each year but due to the good increase in total assets, ratio has decreased to 1.62% in 2011/012. But EBL has constant long term debt for all eight years and the ratio is decreasing continuously.

9. Interest coverage ratio of both bank need to increase NIB is highest in FY 2010/011 i.e. 2.38 times and lowest in 2006/07 i.e. 1.85 times. Similarly for EBL highest ratio is 1. times in 2011/012. This higher ratio is a sign of low burden of borrowings of banks and lower utilization of borrowing capacity. Lower ratio indicates more use of debt for which interest is to be paid.

10. The ratio of profit to total assets is less than 2.5% for both NIB and EBL for all the eight FYs. It shows that the profitability with respect to financial resources investment of banks assets was satisfactory.

11. Net profit earned by banks with total deposit was highest in 2011/012 with 2.38% for NIB but it has decreased to 1.68% in 2005/06. In case of EBL it is lower than 2%. This ratio is not too high for both sampled banks which mean they don't have strong profitability position.

12. NIB has made comparatively less expenses for the staffs than EBL. Fewer expenses may lead to less motivation to the staffs and also high expenses leads to more cost. So expenses for staffs is to be done with due consideration.

13. Interest earned to Total Assets ratio of NIB decreased for the three years and in the FY 2008/09 it again increased. EBL has also increased this ratio. It seems banks are not being able to utilize their assets in the profitable sectors.

14. The ratio between 70-75% is said to be satisfactory level for loans and advances to total deposit. Both banks are trying to maintain this level. But there is high inconsistence in this ratio.

15. NIB was previously not utilizing its fixed deposit but in the last two years it is seen successful in utilization of fixed deposit. EBL has also increased the

utilization of fixed deposit each year. So both the banks have efficiently utilized the high interest bearing fixed deposit in loans and advances.

16. Ratio of loans and advances to saving deposit is increasing for both the banks. It means both are increasing the use of saving deposit for the purpose of loans and advances.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

In this chapter, three major aspects of the study are discussed. In the beginning all the findings have been summarized and some conclusions have been drawn up based on findings. Then, the gaps found and factors that caused those gaps are also presented. This chapter is very important in the following senses:

a) It shows a glance of the study what was observed during research.

b) It concludes the findings in an understandable form

c) It provides some suggestion to the concerned authority as well as practitioner and academicians. The recommendation is presented in this chapter considering the major findings and gaps found there too.

5.1 Summary

Industrialization is an important factor for achieving the basic objective of a country's economic and social progress. Industrialization not only provides necessary products and services to the community but also create employment opportunities. Industrial development thus has a multiplier effect on the economy. Banking industries been regarded as one of the component of economy. It transfers the scattered funds collected from saving of the public into various productive sectors. Economic activities remains halt in absence of banking industries as it plays the role of catalyst for economic development of the country in the developing country where there prevail unorganized transactions. It helps to enhance economic activities of the country by providing

capital funds for the smooth operation of business activities, create employment opportunities, investing agriculture, industry.

Commercial banks in Nepal have come across a long way to reach at the present status they hold in the national economy. Since from the beginning of the establishment of Nepal bank limited (NBL) in 1937 A.D. to the present scenario with the emergence of new and growing banks have brought tremendous changes in terms of services, capacity development and the way they serve customers. Modern banking practices have been introduced by almost all the commercial banks in Nepal. Commercial banks that were initially involved merely in lending and deposit sector have now modified their traditional business concepts and introduced new services to Nepalese customer like, credit card, debit card, SMS banking, E-banking etc. banking sectors has made significant improvement after the Government of Nepal adopted liberal economic policy. One of the fast growing industries of Nepal is banking industry, after Nepal adopted liberal economic policy. But intense competition and lack of sufficient investment opportunities have created threat to banks. Therefore future in the banking sector will be more competitive with quality and speedy service. Banks have to provide quality and speedy service and attain objectives along with maintaining social responsibility to sustain in market. Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of balance sheet and profit and loss account. Ratio analysis is used by financial analysts for making decisions. It will compare the bank's ratios to its past performance. Among 26 commercial banks of Nepal, Nepal Investment Bank Limited and Everest Bank Limited has been selected with their Eight years data staring from 2005\06 till 2012\13.

Main objective of this study is to find out financial performance of EBL. Descriptive and analytical analyses have been done for the purpose by using various methodologies and based on the secondary data.

5.2 Conclusion

The study is based on the data of two commercial banks namely NIB and EBL for five Fiscal Years from 2005/06 to 2012/013. The thesis includes only secondary data and all the calculations and presentations are based on the secondary data. According to the analysis, the overall performance of the sample banks is found to be satisfactory. All the sample banks are not strong in performance. Some are strong in liquidity position and some are strong in profit making. Current ratio of both the banks is similar and is less than the standard ratio i.e. 2:1. Deposits of NIB are comparatively higher than EBL. Ratio of cash and bank balance to total deposit is lower for NIB than EBL. This proves that NIB has utilized more amounts in loans and advances rather than for liquidity purpose. While calculating the leverage ratio, it is found that NIB is using more debt that equity. It leads to increase in interest expenses. Debt is more risky that equity. Ratio of NPAT to Total Assets and NPAT to Total Deposit both is higher for NIB. So from the profitability point of view, NIB is better than EBL. EBL has incurred more expenses for staffs. More staff expenses may lead to the increase in motivation level of staffs and also leads to the increase in expenses of the bank. Interest earned on total assets for both the banks are similar. It means NIB has shown better profitability due to more other incomes rather than the interest income.

EBL is consistent and better in advancing loan. Ratio of loans and advances to total deposit is better for EBL. EPS of EBL is also better. But in case of dividend, EBL is not able to pay dividend in the FY 2005/06. But the average DPS of both the banks for the above eight years are similar. There is no consistency in the DPR for both Nib and EBL.

Banks have to prove that they are the potential contributors to the national economy ensuring adequate rate of return on investment, efficient and viable agencies for mobilization of savings and its channels in to productive sectors and strategically well planned to be competitive with competitors and other agencies and are trustworthy.

5.3 Recommendation

Based on the analysis, interpretation & conclusions, some recommendations are made here so that the concerned authorities, future researchers, academicians, bankers can get some insights on the present conditions on above topics. It is assumed that this research will be profitable to improve the current situation as well as for the grounding of further researches.

On the basis of the major findings some important suggestions have been forwarded so that they might help the sample banks to strengthen weaker aspects of the financial activities.

- Loans and advances to Total Deposit ratio are good for both the banks, but the banks should not invest more in similar and non productive sectors. There should be good portfolio in the investment sector of the banks. They should also search the productive sectors for investment. It leads to the increase in the interest income as well as profit of the bank.

- Banks should maintain liquidity ratio for the daily cash transactions. All the deposit should not be invested in loans and advances. Some percentages of deposit is to be kept in the banks for fulfilling the required demand of the customer. Standard liquidity ratio is 2:1, but here both the bank's current ratio is seen to be lower than this. Therefore the sampled

banks should modify their working capital policy to maintain the standard ratio.

) Debt financing exceeds 90% for both NIB and EBL. It indicates excessively geared capital structure. Since debt financing need to pay regular interest, they are high burden to the banks. Therefore, they should try to decrease the debt financing and increase the equity financing for which dividend is to be paid which is obviously lower than the interest.

) Inconsistency is seen in the growth of the commercial banks. Banks are therefore suggested to predict more accurate data in order to remain in the same position.

) The success of the banking sector depends upon the banking awareness of the general public. Unless they find a convincing reason about their savings, it is almost impossible for the banks to sustain. For this there should be awareness program time and again. This will help the general public to know about the new schemes of the banks and good reasons for their savings.

) Today is the age of competition; banks have to survive within these competitions. Therefore for the attraction of the general public, there should be attractive programs, facilities, technologies like- ATM, credit cards, 365 days banking, etc.

) Fixed deposits are the deposits deposited for long time period and need to pay higher interest. Therefore, much fixed deposits are to be used for the long time investment and generate income for the bank.

) Banks play the vital role in the development of the economy of the country. However all the banks have satisfactory performance, there is situation of inflation, which is a cause of narrow scope operation. So,

banks have to prove that they are the potential contributors to the national economy ensuring adequate rate on investment.

BIBLIOGRAPHY

Altman, E.I. (1981), *Financial Handbook.* New York: A Ronald Press Publication.

American Institution of Banking (1972), *Principle of Banking Operation.* Prentice Hall.

Banskota, Rajendra (2006), *"Analysis of Financial Performance of Himalayan Bank limited"* An Unpublished Master's Thesis. Kathmandu, SDC, Library.

Bhattarai, Kumar (2005), *"A Comparative Study of Financial Performance of Nepal SBI Bank limited and Everest Bank Limited"* An Unpublished Master's Thesis. Kathmandu, Central Library.

Brealey, R.A. and Myers, S.C. (2003), *Principle of Corporate Management.* New Delhi: Tata McGraw- Hill Publishing Company Limited .

Boyd, J. H. and Nicolo, G.D. (2005), *"The Theory of Banks Risk Taking and Competition Revisited"* Journal of finance, New York: Publication of Finance Association, 60 (3):1329 .

Darshandhari, Arun (2005), *"Financial performance Analysis of Everest Bank limited"* An Unpublished Master's Thesis. Kathmandu, Central Library.

Diamoud, D.W. and Rajan, R. G. (2005), *"Liquidity Shortage and Banking Crises"* Journal of finance, New York: Publication of Finance Association, 60 (2): 615.

Foster, G. (2002), *Financial Statement Analysis.* Singapore: Pearson Education
Pandey, I.M.   (1999), *Financial Management.* India: Vikas Publication House Pvt. Ltd.

Hodlock, C.J. and James, C.M. (2002), *"Do banks Provide Financial Slack?"* Journal of finance, New York: Publication of Finance Association 57 (3): 1383 .

Joshi, Suchita (2006), *"Financial Performance of Joint Venture Banks in Nepal with reference to Everest Bank Limited"* An Unpublished Master's Thesis. Kathmandu, SDC, Library.

Khadka, Arun Pratap (2007), *"Financial performance Analysis of Everest Bank Limited"* An Unpublished Master's Thesis. Kathmandu, SDC, Library.

Khan, M.Y. and Jain, P.K. (1996), *Management Accounting.* India: Tata McGraw- Hill Publishing Company Limited .

Krishna, C.N.V. Ritchken,P.H. and Thomson, J.B. (2005), *"Monitoring and Controlling Bank Risk: Does Risky Debt Help?"* Journal of finance, New York: Publication of Finance Association, 60 (1): 343.

Kuchhal, S.C. (1976), *Corporate Finance*. India: Chaitanya Publishing House.

Luitel, Ajaya (2007), *"A comparative Analysis of financial performance of the Joint Venture Banks"* An Unpublished Master's Thesis. Kathmandu, SDC, Library.

Maharjan, Sunil (2006), *"A Comparative Study of Financial Performance of Commercial Bank (with reference to Himalaya Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited)"* An Unpublished Master's Thesis. Kathmandu, Central Library.

Norris, Kim (2007), *"Be Cautious While Licensing a New Foreign Bank"* New Business Age. Kathmandu: New Business Age Publication, Jan: 65.

Pant, R (2006), *"Nepal Membership in WTO and Financial Service Sector in Nepal"* World Trade Organization and Financial Services in Nepal. Kathmandu: Nepal Rastra Bank's Publication, March 31: 47.

Pradhan, S.M. (2006), *"Opportunities and Challenges on WTO Accession in Insurance and Banking and Financial Services in Nepal"* World Trade Organization and Financial Services in Nepal. Kathmandu: Nepal Rastra Bank's Publication, March 31: 61.
Pradhan, S. (1992), *Basics of Financial Management.* Kathmandu: Educational Enterprise Pvt. Ltd.

Ronald, G. (1991), *The New Function of Banking.* Harvard Business Review.

Saud, Gokul Bahadur (2006), *"A study of Financial Performance of Selected Commercial Bank in Nepal (Himalayan Bank, NB Bank and Everest Bank)"* An Unpublished Master's Thesis. Kathmandu, SDC, Library.

Shrestha, M.K. (1980), *Fnancial Management.* Kathmandu: Curriculum Development Center, Tribhuwan University.

Van Horne, J.C. (1979), *Financial Management and Policy.* New Delhi: Prentice Hall.

Van Horne, J.C. and Wachowiez, J.M. (1997),*Fundamental of Financial Management.* Wiley Eastern Ltd. **.**

Wolff, H.K. & Pant, P.R (2005), *Social Science Research and Thesis Writing.* Kathmandu: Buddha Academic Enterprises Pvt. Ltd. .
Hampton, John. J. (2006), *Financial Decision Making.* New Delhi: Prentice Hall of Private Limited.
.

Websites
www.nibl.com.np
www.ebl.com.np

www.nrb.com.np