

# CHAPTER I

## 1. INTRODUCTION

### **1.1 Background:**

Nepal, the steepest country in the world, descends from the height of Everest to the tiger prowling jungles below. Between are valleys rich in more than 2500 years of culture where Hinduism and Buddhism have met and created undreamed of glories of spiritualism through stone, brick and meal for the eye to behold and for the soul to experience. The most beautiful Himalayan Republic countries discover the world of mountain, river, jungle and culture in the world of Nepal. *Visit Nepal 1998:1*

Nepal is one of the least developed agricultural countries of the world. It is a small landlocked country situated in heart of Asia. It is surrounded by People's Republic of China in the North and India in the South, East and West. Nepal is shaped almost as a rectangle. It is located between 26° 22' and 30° 27' North latitude and 80° 4' and 88° 12' East longitude. It covers the area of 1, 47,181 square kilometres. It has an average length of 885 kilometres East to West. The North-South width is not uniform. Its width is 241 kilometres in maximum and 144 kilometres in minimum. *An Introduction to Nepalese Economy; Dr. Shyam Joshi*

Public enterprises is an institution operating a service of an economic character on behalf of the government, but as an independent legal entity, largely autonomous in its management, though responsible to the public through government and parliament and subject to some direction by the government. According to Laxmi Narayan, "Public enterprises are autonomous bodies with are owned the managed by the government and which provide goods and services for a price. The ownership with the government should be 51% or more to make entity public enterprises." Public enterprises are established for rapid social-economic development of the country. Public enterprises in Nepal constitute a vital instrument for social-economic development. It enjoys a strategic and crucial position in our mixed economic. They have been established in many sectors for the overall development of the country with different goals and objectives. Public enterprises can be classified as follows:-

- a) Manufacturing enterprises
- b) Commercial enterprises
- c) Financial enterprises
- d) Public enterprises engaged in social services
- e) Development or services enterprises

## **1.2 Meaning and Origin of the Bank**

A bank is an institution that deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Broadly speaking, bank draws money from the people who are not using it at time and lend to those who are in position to use it for productive purposes. Since banks are rendering a wide range of services to the people from different walk of life, they have become an essential part of modern society. In other words, bank is an institution that accepts the deposits from people and in turn advance loan by creating credit. In this process, they earn interest and commission, out of which they pay interest to the depositors i.e. People who deposits fund with them. Banks have opened their branches in towns and villages offering different types of services to the different level of people.

Bank is also defined as an institution for keeping, lending and exchanging of money. Banks' debt-usually referred as 'Bank Deposit' that is commonly accepted in final settlement of debt of other people. It is different from other financial institution in the sense that they cannot create credit though they may be accepting deposits and making advances. Thus, bank's business was basically to buy and sale of credit. Credit instruments are kept on stock-in-trade also on the basis of its own credit and banks create money transferred by credit instruments. They must gain the confidence and trust of the people to create credits. It is said that the flow of credit is very much important like the circulation of blood in human life. If the circulation of blood is not smooth it will do irreparable harm to the body. Similarly, unsteady and unevenly flow of credit harms the economy.

Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. That mobilized deposits contribute to the development of economic infrastructure of the nation. Banks are not just storehouses of the wealth but are

reservoir of resources. The contribution of the bank has been very substantial in increasing production and employment by motivating people to save and in collecting the scattered saving in the form of deposits. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

The definitions of banking quoted by Dahal, Sarati and Bhuwan (2002:07) are as follows.

➤ A bank is an organization whose principal operations are concerned with accumulation of the temporarily idle money of the general public for the purpose of advancing to other for expenditure.

➤ Banking means the accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise, and withdrawal by cheque, draft or otherwise.

➤ Any institution offering deposits subject to withdrawal on demand and making loan of commercial or business nature is a bank.

Above definitions are applicable to all types of financial intermediaries. In fact, 'banks' now a day, do a large number of financial transactions while 'financial institutions' are authorized to do limit transaction only. Hence, a bank can defined as a "financial departmental store" which renders a host of financial services besides taking deposits and giving loans (Sarita & Bhuwan 2002:02)

The present- day bankers have three ancestors: Merchant, Moneylender and Goldsmith. A modern bank is something of each of there. It is said money has two properties. It is flat so it can pile up and it is round so that it can circulate. The progeny of the moneylender concern flat money piled up money and savings. The progeny of goldsmith are concern with round money circulating money cash. Modern banks have been developed from very beginning. The earlier bankers were merchants, goldsmith and moneylender. History tells us that it was the merchant banker who first evolved the system of banking by trading in community then money. Their trading activities required the remittance of money from one place to another.

Next stage in the growth of banking was goldsmith. The business of goldsmith was such that he had to take deposit such as bullion, money and amendments for security

from theft. This makes possible the goldsmith to change something case of money and bullion. On the other hand, as the evidence of securing valuables, he used to issue a receipt to the depositors as such receipts are used for payments equivalent to amount mentioned. It became like a modern cheque as a medium of exchange and means of payments.

Finally, moneylender in the early age contributed in the growth of banking to large extent. He advances the coins on loan by charging interest. As safeguard he used to keep some money in the reserve. Therefore, moneylender became banker who started performing the two functions of modern banking i.e. accepting deposits and advancing loans. There are various concepts among the economist about the origin of the word 'Banking'. The term **Bank** derived from the Latin word-'**Bancus**' that refers to the bench on which the banker would keep its money and his record. Some people trace its origin to the Italian word-'**Banca**' and the French word -'Banque' that means a bench for keeping and exchanging of money in the market. Moneylenders in the streets of major cities of Europe used bench for acceptance and payment of valuable and coins. When they were unable to meet their liabilities the depositors used to break their bench. The term-'**Bankruptcy**' is derived thereof. It is difficult to say exactly whether the term '**Bank**' has been derived from 'bancus' or German word '**Bank**' that means Joint Stock Company.

Despite the strong criticism by the church on charging interest, modern banking sowed its seed in the medieval Italy. **Bank of Venice** was the first established in 1157 AD in Venice. Italy is regarded as the motherland of first modern bank. The **Bank of Barcelona** and Bank of Geneva were established in 1401 and 1407 respectively. **Bank of Amsterdam** set up in 1609 was very popular. These modern banks gradually replaced goldsmith and moneylender in Europe. The **Bank of Hindustan** established in 1770 is regarded as the first bank in India. However, Bank of England was established in 1694, the growth of banks accelerated only after the introduction of banking act 1833 in United Kingdom as it allowed opening Joint Stock Company.

### **1.2.1 Origin and Growth of Banking System in Nepal**

Like other countries, Goldsmith, Merchant and Moneylender were the ancient bankers in Nepal. In respect to the evolution of banking system in Nepal, which is derived on the ground of historical facts that existed during the Lichhabi period, King Gunkamdev had borrowed money from the rich people to build the city. The historical record shows that Gunkamdev, the king of Kathmandu, borrowed money to rebuild his kingdom in 723AD. Some fifty-seven years thereafter, a merchant 'Shankhadhar' introduced 'Nepal Sambat' by clearing all the indebtedness of the people in 880AD. This clearly proved that money-lending practices were prevalent at that time.

Later, during the regime of Mallas, money-lending business became more penetrating and popular. Towards the end of the 14<sup>th</sup> century, Jayasthiti Mallas, the ruler of Kathmandu, divided the people in sixty-four classes on the basis of their occupation. Among them one was Tankadhari and the people belonging to this class were engaged in money lending business. It is believed that the money lending business became quite popular in the reign of Mallas, particularly in financing the trade with Tibet and India. Thus, the role of Tankadhari was akin to that of a banking agent. However, these moneylenders advanced loan against personal security of land, building etc. As they were free to charge any amount as interest and other charges on the loan advances. Naturally, the interest rate was higher, discriminatory and unfair. Of course, this gave birth to malpractices, frauds and exploitation in the whole Nepalese society. Even today, such practices of usury are prevalent in Nepalese village, which are beyond the purview of modern banking system.

Thus, it was the duty of government to control the malpractices of the moneylenders and to set up a financial institution to make easy credit facilities for the general people. As a result, with growing consciousness and awareness of this, 'Tejarath Adda' had been established as an institution, during the period of Rana, under the Prime minister ship of Randip Singh in 1933 B.S. It was established for simple banking operation. It had carried the function of providing loan for the government's servants and to the general people under the collateral of gold and silver at the low interest rate. Tejarath Adda did not collect deposits from the public but gave loan to

employees and public against the bullion. On the whole, it was not viewed as Bank. Ranodip Singh, who had been Prime Minister for 8 years (1877-1885AD), was not interested in the problem and took concrete steps by establishing a government financial institution known as 'Tejarath'. Tejarath helped the public by supplying easy and cheap credit at 5 percent interest on the security of gold and silver ornaments (Ojha & Rajbahak, 1968:08).

In the overall development of banking system in Nepal, Tejarath Adda could be considered as the father of modern banking institution. It had rendered good services to the government servants as well as the general public for long time. This institution adapted one of the elementary functions of granting loans against gold, silver and other collateral, which is more or less similar to the modern banking system. It did not accept deposits, which probably were not considered then to be the function of banking. Although, credit facilities of Tejarath were extended to some other sectors during the Rana Primeministership of Chandar Shamsheer (1901- 1929AD), it could not meet the credit needs of the entire society. It was the government institution, which basically benefited the government officials. And the general public still had to depend chiefly on the local moneylenders. They used to charge high rate of interest on loans, manipulate the account and purchased the standing crops at a very nominal price and so on.

In such a complex and critical situation, it had become apparent to the government to take some necessary steps in this regard. To make the property- ridden rural people free from the clutches of moneylenders and to develop the trade and industry in the country, the need of commercial bank with the modern banking facilities, was seriously felt by the government. In other word, a commercial bank was required for the sake of the economic expansion of the country. After then, another financial institution was established in 1991 BS as a named of 'Sainik Drabya Kosha' especially for the future welfare of government staffs. Before commencement of 'Sainik Drabya Kosha' the government staffs of that period had to face much more economic difficulties after the retirement from the office (Shakya 2040:40)

The council of industry was organized in 1993BS for the development of trade & industry, which was eventually followed by a corporate sector commercial bank-

Nepal Bank Limited (NBL) in the joint effort of numbers of individual and the government. The Tejarath was replaced by Nepal Bank Limited, which marked the beginning of new era in the history of modern banking in Nepal. Modern banking started with the inception of NBL under the Nepal Bank Act 1936 in BS1994-07-30(1937). NBL had Herculean responsibilities of attracting people towards the banking system from pre-dominant moneylenders and to expand banking services. Being a first Commercial Bank it was natural that NBL paid more attention to profit generating business and opened branches at urban centers. NBL was established with 49% government share and 51% share of general public. However, private shareholders controlled NBL till 1951 and it was only in 1952 that HMG increased its share ownership in NBL to 51% in order to hold control over its management. The Bank was one of the major ventures to be floated under the venture company principle with an authorize capital of Rs 10 million: one fourth of which was issued at once. It was established to solve the prevailing financial inconvenience of the people, to uplift the economic development of country by institutionalizing trade and commerce and by assisting other development activities.

Till the foundation of Nepal Rastra Bank (NRB), NBL remained the only one financial institution of the country with the growing realization about the coordination and promotion of banking activities in the country. The establishment of central bank had become immensely an urgent task. The Government however, has onus of stretching banking services to the nook of the country and also managing financial system in a proper way. Thus, Nepal Rastra Bank (NRB) was set up on BS 2012-01-14 as a central bank with an authorized capital of Rs 10 million fully subscribed by the HMG under Nepal Rastra Bank Act 2012 BS. NRB was credited for the purpose of issuing notes, bringing stability in the exchange of Nepalese currency. Similarly, carrying out transaction of Nepalese currency over the kingdom and encouraging industries after making the capital dynamic for the development of the country, prior to emergence of NRB the note issuing authority was vested with the 'MULUKIKHANA' the Government treasurer office. Since then, it has been functioning as government's bank and has contributed to growth of financial sector. The major challenge before NRB today is to ensure the robust health of financial institution. Accordingly, NRB has been trying to change them and has introduced a host of prudential measure of safeguard to interest of public. NRB is yet to do a lot to

prove them an efficient supervision. NRB really requires strengthening their policymaking, supervision and inspection mechanism (Sarita & Bhuwan, 2002:11)

The preamble of NRB Act lays down the aims of the bank as being that of regulating the issue of paper money, securing country-wide circulating of Nepalese currency and achieving stability in its exchange rate; mobilizing capital for economic development and for stimulating trade and industry and developing the banking system in the country; and later on an incorporated by the amendment in 1964, ensuring facilities and maintaining economic interest of general people.

The foundation of NRB set a milestone in the history of banking in Nepal. After this, novel way of thinking and a new sort of spirit arose in the field of banking. A suitable, specialized and scientific banking institution was felt necessary. By 2013 BS. Nepal Industrial Development Center (NIDC) was established with an authorized capital of Rs 20 million as a financial institution. NIDC has made a great contribution for the development of financial institution in Nepal. In 2016 (1959), it was converted to Nepal Industrial Development Corporation (NIDC). Since its establishment in 1959, NIDC has been playing a significant role in industrialization of Nepal by providing technical and financial assistance for the establishment, expansion and modernization of the industrial projects in the private sectors. The basic objective of NIDC is to assist and encourage private enterprise by providing financial resources and technical guidance.

Integrated and speedy development of the country is possible only when competitive banking services reaches nooks and corner of the country. Keeping this in mind, the government set up Rastriya Banijya Bank (RBB) in BS 2022-10-10 as a fully government owned commercial Bank (Sarita & Bhuwan, 2002:11). In the view of providing facilities to the general people and to manage for economic aids, it was identified with sole ownership of the government with the authorized capital of Rs 10 million and paid up capital of Rs 3 million. Its objectives were confined to facilitate economic aids for the general public to provide loan for industry, trade and commerce and to supply banking services to the people properly.



In the development of financial institution, Agriculture Development Bank (ADB/N) was another significant achievement. It was set-up 2024-10-07 (1967AD) with an authorized capital of Rs 50 million to provide finance for agricultural products so that introducing modern agriculture techniques could enhance agricultural productivity. Its functions are to provide loans for development of agriculture sectors, personal and agricultural enterprise for the purpose of economic development of the country to work as a commercial bank and to distribute loan for the execution of severs programs. No foreign banks were opened in the country before 1974. There were no provisions made in the Commercial Bank Act for the entry of foreign bank into the financial system of Nepal up to 1974.

Commercial Bank Act 1974 has however, made provisions to permit foreign banks to operate in the country by obtaining the approval of NRB. The creation of efficient monetary arrangement and reformation of the financial system of the country could make an important contribution to mobilize more domestic resources to finance and implement the policy of economic acceleration of the country. Therefore, the three, most dramatic and far-reaching, financial reforms programs were carried out in 1980. They were: allowing the foreign banks to operate as joint venture, lifting the control on interest rate and introducing the Government's action on securities.

With the aim to provide quality-banking services, enhance efficiency and healthy competition foreign investment & new technology in banking sectors was introduced. Following the liberalization path for the foreign banks, three joint ventures banks were initiated with a view to encourage efficient banking services, which is the pre-condition for the economic development, industrialization and growth of the country in 1980s. However, excess political and bureaucratic interference and absence of modern managerial concept was hurdled in the operation of institutions as conceived of. Banking service to the satisfaction of customer was a far cry.

Nepal Arab Bank Limited, currently known as NABIL was established as the first Joint Venture Bank in the 12<sup>th</sup> July 1984. It has proved to be a milestone in the history of modern Banking in Nepal. Nabil Bank gave a new ray of hope to the sluggish financial sectors (Sarita & Bhuwan, 2002:12). It was established under the company Act 1965 and executed in accordance with Commercial Bank Act 1974. Dubai Bank

Limited (DBL) was the initial foreign partner with 50% equity investment. Later on, the shares owned by DBL were transferred to Emirates Bank International Limited (EBIL) in accordance with the joint venture and technical services agreement between Nepalese promoters and DBL. NABIL has Rs 130 million authorized capital.

Similarly, Nepal Indosuze Bank Limited, currently known as Nepal Investment Bank was established as second joint venture in BS 2042-11-16 (1986AD) with a view to encourage efficient banking services and facilities. It was a joint venture between Nepalese & French partners. The French partners, Credit Agricole Indosuze, a subsidiary of one of the largest banking group in the world, had hold 50% of the capital of NIBL. The Nepalese partners of the NIBL were RBB with 15% share, of Rastriya Beema Sansthan and 20% share of general public. It had an authorized capital of Rs 120 million and paid up capital of Rs 60 million.

Nepal Grindlays Bank Limited was established as third joint venture bank, venture with Grindlays Bank P.L.C London in 30<sup>th</sup> January 1987. The bank has been operated with authorized capital of Rs 200 million and paid up capital of Rs 100 million and been formed under joint venture principal capitalizing on behalf of foreign and domestic nation. The 50% investment was of Grindlays bank of London, NBL constitutes 35% of its share and 15% share of general public. It had been executed under the direction of Australia and New Zealand Banking Group (ANZG). Now, this group has been taken over by Standard Chartered Group at international level. It was renamed as Standard Chartered Bank Nepal Limited on 13<sup>th</sup> July 2001.

With a novel zeal and confidence to compete, Himalayan Bank Limited (HBL) emerged among the Nepalese people. HBL, a joint venture bank Habib Bank of Pakistan, was established in 1992 under the Company Act 1964. This is the first joint venture bank managed by Nepalese chief executive. The operation of bank started from 1993 February. The main objectives of bank is to provide modern banking facilities like Tele-Banking to the businessmen, industrialists and other professionals and to provide loans for agriculture, commerce and industrial sectors. Promoters' holds 51% share, Habib Bank Limited of Pakistan has 20% share, 14% share of

Employees Provident Fund and Nepalese citizen investment fund has 15% share. The bank has authorized Capital of Rs 240 million and paid up capital of Rs 120 million.

HBL was followed immediately by another venture bank. Nepal SBI Bank Limited was established under joint venture with State Bank of India Limited and Nepali promoters under the Company Act 1964 in 8<sup>th</sup> July 1993. State Bank of India manages the Bank under the joint venture and technical services agreement signed between it and Nepali promoters' viz. Employees Provident Fund and Agricultural Development Bank Nepal. The State Bank of India has 50 % shares. The main objective of the Bank is to carry out modern banking business in the country under the Commercial Bank Act, 1974. The bank provides loan to agriculture, commerce and industrial sector. It has authorized capital of Rs 240 million and Rs 980 million paid up capital.

Later on, Nepal Bangladesh Bank Limited (NBBL) came into the horizon of the Nepalese banking areas. It was inaugurated on June 6, 1994. International Financial Investment and Commerce Bank Ltd (IFIC) of Bangladesh and Nepali Promoters jointly made investment of the bank. IFIC has 50% share, Nepalese promoters has 20% share and 30% share of public. NB Bank has authorized capital of Rs 240 million and Rs 60 million paid up capital.

Immediately, after the operation of NB Bank, Everest Bank Limited (EBL) was started its banking operation in October 1994 as per the Commercial Bank Act 1974. The bank has jointly financed by United Bank of India and Nepalese promoters. United Bank of India has 20% share, Nepalese promoters have 50% share and 30% share of public. It has authorized capital of Rs 240 million and Rs 60 million paid up capital.

After EBL, another Joint Venture Bank, Bank of Kathmandu Limited (BOK) has started its banking operation from March 13, 1995. Siam Commercial Bank Thailand has financed BOK. Siam Commercial Bank of Thailand has 30% share, promoters has 45% share and 25% share of public. Its authorized capital was Rs 240 million. When Siam Commercial Bank divested its full capital in 1988 and its ownership

handed over to the Nepalese Management (for details see an introduction of Sampled Banks).

Nepal Sri Lanka Merchant Bank Limited has started its operation since February, 4 1996 as the first Merchant Bank in Nepal. Merchant Bank of Sri Lanka has financed it. The Merchant Bank of Sri Lanka has 50% share, promoters have 25% share and 25% share of general public. It has authorized capital of Rs 120 million and paid up capital of Rs 30 million.

Nepal Bank of Ceylon Limited was established as a commercial bank on BS Aswin 28. After withdrawal of the investment by Sri Lanka Merchant Bank, the bank come up with new management and renamed as Nepal Credit and Commerce Bank limited since 2002, Sept 10. The equity share structure of bank comprised 30% share of general public, 1% of NB Bank, 8.2 % of Nepal Insurance Company and 60.8% of the Nepalese investors

Lumbini Bank Limited (LuBL) was set up on 2055 Shrawan 1. General public (30%), Employees Provident Fund (14%), Citizen Investment Trust (6%), Lalitpur Finance (7%), NEFINSCO (2%) and Nepalese investors (4%) have financed LuBL.

Nepal Industrial and Commercial Bank Limited (NIC) was set up on BS 2055-04-05 with 30% share to general public, 5% share to RBB and 65% share to the Nepalese investors.

Similarly, Kumari Bank Limited (KBL) was set up on BS 2056-08-24 with 30% share to general public and 70% shares to Nepalese promoters. It has started its operation from BS 2057-12-11 with an objective of providing competitive and modern banking services in the Nepalese financial market (for details see an introduction of Sample Banks).

Another Commercial Bank, Laxmi Bank Limited (LaBL) was established on BS 2058-06-11. Its total capital composition has 35% share to general public and 10% to Citizen Investment Trust and remaining 55% to Nepalese promoters. It has started its operation from BS 2057-12-21.

Siddhartha Bank Limited was set up on BS 2058-06-12 as seventeenth Commercial Bank. It has commenced the transaction from 2059-09-09. Its capital structure has 40% from the general public and 60% from the Nepalese promoters.

### **1.2.2 Nature of Commercial Banks**

Commercial banks are those that accept deposits and finance to the business and finance to the business and project. They provide short term and long- term finance.

As per Commercial Bank Act 2031 B.S, “*A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions*”

In the beginning, commercial bank’s functions were confined to accepting deposits and giving loans but now it increase manifold. Commercial Banks are found operating throughout the world. Bank of Venice set up in 1157, is the first commercial bank. Nepal Bank Limited established on 30<sup>th</sup> Kartik 1994 B.S is the first commercial bank in Nepal. Major functions of commercial banks are accepting various types of deposits, lending money in various productive sectors, Guarantee (G’ tee) Remittance, Bills and others.

Notwithstanding the functions of commercial banks have multiplied through time and a modern commercial bank trifles with providing many ancillary services to its customers, providing lockers to customers, advising its clients on tax matters acting as trustee of minors estate etc., which its ancestral counterpart never even dared to think of performing its major function still consists of accepting the deposits from public and lending those pooled deposits to the needy member of society mostly against the security of collateral.

The term commercial bank lacks accurate description despite its long usages. It is inappropriate because it fails to describe accurately the scope of commercial banks lending activities at present time originally the term was applied because it was widely believed that a commercial loan i.e. Commercial bank loans should be for a

duration of less than one year, should be given only to traders and merchants to enable them to finance the transportation of goods in domestic and foreign trade and to finance the holding of trade inventories for short period required for their sale. It was also believed that besides providing short term financing of trade, commercial bank could also give short term loan to agriculturists for meeting current production expenses and marketing their crops (Vaish, 1978: 04).

With the development of industries, this principal gradually changed and the commercial bank's lending activities was extended to incorporated short term lending to producer for financing of inventories, wages and other needs for circulating capital. Commercial banks, at present, are biggest providers of short-term loans to commerce, industry and agriculture in economy. However, apart from providing short-term loan, they finance to trade, industries and agriculture. Commercial banks today hold a wide variety of earning assets.

Today commercial banks not only issue and transfer deposits through cheque but they also operate saving deposits accounts act as underwriters to new equity issues deal in foreign exchange, provide locker facilities and handle tax matters on behalf of clients.

### **1.2.3 Role of commercial Banks in the National Economy**

Every country of the world, developed or underdeveloped, is in pursuit of attaining the goal of rapid economic development in the same way or other depending upon the prevailing prospects and nature of instruments for economic growth. Commercial Banks play the role of financial intermediary collecting the fund from surplus unit and supplying the to deficit units (investors). The structure of modern economy will be no better than ancient period of barter system without financial intermediaries. Therefore, commercial banks play an important role in development of national economy.

Commercial banks play a vital role in the affairs of the economy in various ways. Their operations record the economic pulse of the economy. The size composition of

their transaction is a mirror of the economic happenings in the country. For example the mass failures of commercial banks during the 1930s reflected the phenomenon of severe global economic depression over the world. They have played an important role in giving a direction to economic development over time by financing the requirements of trade and industry in the country. By encouraging thrift among people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, given the savings income ratio, commercial banks induce the savers to hold their savings in the form of socially useful assets of which bank deposits constitute the most important element. They draw the community saving into the organized sector, which can then be allocated among the different economic activities according to priorities laid down by planning authorities in the nation. Banks bring together the decision of the income earner together with the decision of the savers to save, the decision of the savers to hold their saving as bank deposit and the decision of the producers to draw upon the saving of the community for the purpose of capital assets formation.

Commercial banks help the process of saving and of the holding of saving in a socially desirable form. However, their advances bank also help the creation of the incomes, which further saving by the community and further growth potentials emerge for the good of economy. In a planned economy, bank emerges for the good economy and makes the entire planned productive process possible by providing funds for all types of production incorporated in the plan, regardless of whether the production is in the public sector or whether the production is undertaken by one type of organization or another. All employment income distribution and other objectives of plan are as far as possible subsumed into production plan which banks finance (Vanish, 1978:6-7). The importance of commercial banks in directing the economic activities in the system is indeed overwhelming with the establishment of commercial banks the flood gates of development promising great hopes for people in the life open.

However, poor economy may be there will be needed for institution, which allows such saving as are currently forthcoming to be invested conveniently and safely and which ensure that they are channeled into the most useful purpose (Vanish, 1978:75). Therefore, the tasks of commercial banks in underdeveloped countries are almost

self-evident. Their purpose is to provide a collecting point for saving of a relatively small average amount from a large number of individual sources so long as the means to utilize saving safely and profitably are not available within an economy, funds will either to be directed aboard, sterilized in useless hoards of cash or Precious metals or more likely still will not accumulated all.

Nepal reveals a lot of feature towards the economic backwardness, for example, very low income, unemployment, insufficient capital, lack of use of natural resources, weak human resource, and traditional technique, predominance of agriculture, institutional inadequacy, market imperfection and political instability. The investment in agriculture, by the both public and private sector is inadequate and is not helping agriculture to play an important role in growth of the economy in context of Nepal, who's more than 80% of the population live on agriculture (south Asian Human development report, 2002) In such scenario, agriculture based economy alone cannot solve the overcoming problem of poverty in Nepal. So, non agriculture sector should also be given due priority. Non agriculture sector such as various industries, financial institutions health and educational enterprises etc. will help in the economic development of the country and solve to some extent the problem of unemployment.

The major role in the economic growth and prosperity of the country in the long run is played by financial sector. When the first commercial bank, Nepal Bank Ltd, as semi government organization was established in 1937 AD then concept of financial institutions was introduced on Nepal. It was established under special Banking act 1936 having elementary functions commercial bank. Later on in 1953, and commercial bank were established to mobilize scattered finds in the country. Since then many private commercial banks and joint venture banks were established. Among the banks 31 commercial banks are listed in Nepal stock exchange, which have highest contribution on the market capitalization as compared to other sectors. In Nepal, foreign joint venture banks perform better than Nepalese ones because of their higher managerial efficiency and decision making capability. Recently, Nepal Bank limited and Rastriya Banijya bank are being managed by foreign management group but no considerable performance enhancement is seen for the period of one year of management transfer. But however, high potentialities to increase their risk attitude and improvement of their internal management are seen by Nepalese Banks.



## **1.3 Overview of the banks**

### **1.3.1 Everest Bank Limited (EBL)**

Everest Bank was established in 2051 B.S. It started its operation on 1<sup>st</sup> karkit 2051 in the beginning; it had started with united Bank of India Limited. But in 2053 B.S. United bank handover it's proportion of equity to Punjab National Bank. Regarding the composition of equity share capital Nepalese promoters, General public and Punjab national bank are shared 50%, 30% and 20% respectively. The technical service agreement signed between two banks, Punjab national bank has been providing top management services and banking expertise to Everest bank. Punjab National Bank has helped the bank in laying down sound system and procedures. The bank operates with the objective of providing full range of quality banking service to both the business community and general people.

The bank has 37 branches in various parts of the country. It's head office is located in Baneshwor, Kathmandu other Branches located within kathmandu valley are New road, Satungal Branch, Teku Branch, Pulchowk Branch, Balaju Branch, Lazimpat Branch, Chabahil Branch , Gwarko Branch and Bhakatpur Branch remaining Branches outside the valley are in Biratamod, Biratnagar, Duhabi, Ithari, Janakapur, Birgunj ICD (Driport) Simara, Pokhara, Baglung, Butwal, Bhairawaha, Nepalgunj, Dhangadi, Lekhanath, Narayanghat and one representative office in New Delhi.

The bank is using computerized banking technique 'EBL SUMMIT' is the name given to EBL's ambitious project for replacing 'pumori plus' software by finacle. Finacle has been developed by infosys technologies Limited, India. The old software 'pumori plus' was made by Mercantile Office Systems, Nepal.

- ) Apart from conventional deposit schemes, it has offered cumulative deposit scheme, unfixed deposit scheme and recurring deposit plan.
- ) It provides credit on competitive terms by way of term loans as well as working capital.

- ) It accepts foreign currency deposits at attractive rates and lends in competitive rate.
- ) It has been providing remittance facility to various part of the world by means of swift transfer.
- ) It has been facilitating merchant banking facilities and standing instructions.
- ) Any where banking, evening counter. 24 hour ATM services, safe deposit loader.

Performance review of Everest bank shows that the total deposit of bank reached 18.186 million rupees in the fiscal year 2006/07 from 13.802 million rupees in the previous year indicating an annual growth rate of 31.76% during same period total loans and advances reached 13.664 million rupees from 9801 million rupees showing the growth rate of 39.41% accordingly total investment reached 4984 million rupees from 4200 million rupees showing the growth rate of 18.67% net profit during the period reached 296 million rupees from 237 million rupees showing growth of 24.89%.

### **1.3.2 NEPAL SBI BANK (SBI)**

Nepal SBI BANK was established in 2050 B.S. It started its operation on 23<sup>rd</sup> Ashad 2050. It is an associate of state Bank of India and Nepalese entrepreneurs. regarding the composition of equity capital, state Bank of India, general public, employees provident fund and Agricultural development Bank share 50% , 30%, 15% & and 5% respectively under the technical service agreement signed between two banks, state bank of India has been providing top management services to the Bank operates with objective of providing loan to industry. Commerce and trade it also wishes to have general public benefited from the various services.

The bank has 18 Branches in various part of the Nepal. It corporate office is located in Hattisar, Kathmandu and main branch office in Durbar marmarg, Kathmandu. It has three other branches within the valley New Road Branch. Embassy of India extension counter and Teku Branch. Fourteen Branches outside the valley are Birtmod,

Biratnagar, Birgunj, Rampur, Janakpur, Dharan, PPO Dharan, Pokhara, PPO Pokhara, Bhairahawa, Butwal, Sishuwa, Narayanghat, Nepalgunj.

The bank has utilized advanced computerized technique in its operation. The software in the use is ' Bancas-2000' developed by infosis technology. India, the branches within the valley perform their routine works from Sunday to Friday i.e. six days a week.

Apart from the conventional facilities, other facilities made available by the bank are listed below:

- ) It provides loan and advances by means of term loan as well as working capital.
- ) It provides its customer with letter of credit and guarantees.
- ) It provides remittance facility to various part of the world by means of swift transfer system.
- ) It provides merchant banking facilities like underwriting of public issues and standing instructions.
- ) Any where banking, evening counter, 24 Hrs ATM services, safe deposit loader.

Performance review of bank depicts that the total deposits of the bank grow from 11002 million rupees in the fiscal year 2005/06 to 11445 million rupees in 2006/07 with the growth 4.03% During the same period total loans and advances reached the level of 10065 million rupees from 8241 million rupees recording a growth of 22.13% over the previous year. Accordingly total investment decline to 2659 million rupees from 3758 million rupees showing the negative growth of 29.25% the level of investment declined on account of decrease in investment in government securities. Net profit during the period increased to 254 million rupees from 117 million rupees with the growth rate of 117.87%

### 1.3.3 Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that is known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- HimalRemitTM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All

this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

#### **1.4 Statement of problem:-**

The number of joint venture banks is being increased in response to economic liberalization policies of the government. Besides joint venture banks, commercial banks are also being registered by Nepalese promoters other institutions offering similar nature of service like finance companies, co- operative societies and development Banks are growing in large number. These institutions have the tendency to centralize in major cities focusing the activities among the industrialist's traders and entrepreneurs.

As per the economic survey of recent years, there is mix trend in Nepalese economy. Increase number of financial institutions resulted higher ratio of fund utilization, there is unhealthy competition among financial institution for attracting others deposit and lending.

Presently financial institutions are suffering liquidity problem due to poor economic environment which resulted like in lending rates. Though lending rates are increased, there in negative impact on profitability of financial institutions due to limited investment opportunities and increasing number of financial institutions commercial banks are competitions for limited opportunity narrow clienteres bras and barring investment in treasury bills. There are hardly an other opportunities available for short term investment on account of continue slackness in the economic activities in the country the demand for credit has no picked up. Besides competition in banking sector has turned more intense and lending opportunities in good project are very limited. With the prevailing economic condition of the country, the investment in agriculture, manufacturing and industrial sectors has not grown satisfactory. Hence the joint venture banks are also not succeeding perfectly to shift the deposit in profitable sectors competing being in burning issues at present the related JVBs are at the high time to focus their eyes for the better productive management for the survival and growth.

The problem of the study lies on the issues related to the comparative strength and weakness of NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and

HIMALAYAN BANK LIMITED. It also tries to seek the answers to the following questions.

- ) How far have NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALAYAN BANK LIMITED been able to sift the monetary resources from savers to users?
- ) How sound is the operational result in relation to their profitability?
- ) What is the comparative position of these banks in terms of liquidity, leverage and profitability?

### **1.5 Objectives of the study:-**

Main Objective of this research is to examine and evaluate the financial performance of three joint venture banks namely NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALAYAN BANK LIMITED. The specific objectives of the research are as follows:

- ) To study and highlight the existing situation of three joint venture banks.
- ) To examine and compare the financial position of NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALIYAN BANK LIMITED.
- ) To evaluate liquidity, leverage, capital adequacy turnover, cash flow and profitability position of NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALAYAN BANK LIMITED.
- ) To find the future trend for total deposit, total investment, loan and advances, net worth, net profit, earning per share and market value per share of these banks for coming five years.
- ) To evaluate the relationship between the two variables in term of total deposit to total investment, total deposit to loans and advances, total deposit to net profit.
- ) To provide suggestions to the concerned banks on the basis of study findings.

## **. 1.6 Significance of the study:**

At present the joint venture bank are going a wide popularity through their efficient management and professional service and playing an eminent role in the economy. Regarding the economic structure of the country the banks do not have sufficient investment opportunities. Rapidly increasing financial institutions are creating threats to the joint venture banks. In this contest, the financial analysis would analyze strengths, weakness, opportunities and threats of related joint venture banks. The result of the research will be helpful for JVBS especially for sampled ones to formulate strategies to face the increasing competitions. The study does not doubt will also have multi dimensional importance for various areas. Which are mentioned below in brief:

- ) Importance to shareholders
- ) Importance to policy formulators and academically professional
- ) Importance to management bodies of these banks for the evaluation of the performance of their banks and in comparison with other banks.
- ) Importance to government bodies and policymakers such as the central Bank.
- ) Interested outside parties such as investors, customers (depositors loan takers as well as other types of client) competitors, personnel and the banks stock brokers, dealers and market makers etc.
- ) Significance to student and various groups those having interested in banking sectors as well as the management bodies of these banks for the evaluation of performance of their banks an comparison with other bank.
- ) The study helps these banks to identify its hidden weakness regarding financial administration and necessity of the present study is justified.

## **1.7 Limitation of the study:**

Present study is not without limitations. The limitations are as follows:

- ✓ The study will covers the data of five years only i.e. from FY 2062/63 to FY 2066/67.
- ✓ The study will be concerned on the financial aspect of NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALAYAN BANK LIMITED. And it will not cover other aspects.
- ✓ The study mainly based on secondary data such as annual report of the respective Banks, other related journal, previous thesis, magazine and books.
- ✓ The comprehensibility and the accuracy of the study is based on the data availed from Banks.
- ✓ This study will be support the partial fulfilment for master's degree in business studies. So the study may not meet the expectation of professional researchers and practitioners who have long experience in this field. This in-fact is a first effort of a student for research.

## **1.8 Organization of the study:**

The whole study are divided into five chapters as:-

|           |  |
|-----------|--|
| Chapter 1 | Introduction                           |
| Chapter 2 | Review of Literature                   |
| Chapter 3 | Research Methodology                   |
| Chapter 4 | Presentation and Analysis of Data      |
| Chapter 5 | Summary, Conclusion and Recommendation |

The first chapter deals with background, a brief overview of NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALAYAN BANK LIMITED and statement of problems, objectives of the study, significance of the study, limitation of the study and organisation of the study.

The second chapter deals with conceptual framework including the fundamental concept of financial analysis and the tools of financial analysis. It also deals with the



various theoretical aspects of the Ratio analysis and includes the brief review of previous research work.

The third chapter deals with the research methodology followed to achieve the purposes of the study. It includes the whole producer of this research work i.e. research design, the period covered, nature and source of data, tools used, research variables etc.

In the fourth chapter, analysis and evaluate the data with the help of analytical tools, i.e. ratio analysis, income and expenditure analysis, bankruptcy test, correlation analysis and trend analysis and interpretation of the results obtained.

In the fifth chapter, the last chapter deals with the summary, conclusion and recommendations. This ends the study paper.

The bibliography, appendix and glossary have been included at the end of the study paper.

## CHAPTER II

### **Review of Literature**

Review of the literature is focused and directed towards specific purposes. It is a selective subject. A researcher has to select the kind of literature to be reviewed and determine the purpose. It starts with the selections of a problem for research, continues through the various stages of the research process and end with report writing. Reviewing different available literature from various source are the major objective of this chapter. The prime focus for collecting external literacy information through various textbooks, research journals and research thesis. Various articles relating to different aspects of commercial bank will help to conduct the study smoothly. Review of literature is divided into two categories.

2.1 Conceptual Framework.

2.2 Review of related studies

#### **2.1 Conceptual Frame Work/ Theoretical Review**

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

According to Vanhorn, J.C & Watchowicz, J.M, “Financial analysis is process of identifying the financial strgenth and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm’s financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm’s profitability overtime” (Vanhorn & Watchowicz, 1997:120).

Similarly, Hampton has stated that “It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the

efficiency and performance of the firm management, as reflected in the financial records and reports.” (Hampton, 1998:98)

In financial analysis, certain guideline or criteria are included:

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

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

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

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

**Balance sheet:** It is very important means of analysis of financial performance of any company. It companies assets, liabilities and shareholder's equity.

**Statement of profit and loss account:** It also very important means of financial performance of any company. It comprises of income and expenses over the period of time.

**Statement of Retained Earning:** This statement explains about the Company’s position of earnings to be paid as dividend and the portion of profit to be retained for

future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

Financial analysis is done on the basis of financial statement of the concerned company.

The objective of financial analysis can be described as:

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

### **2.1.1 Objectives of Financial Performance Analysis**

From the concept of financial performance analysis, it has been evident that one can explore various facts related to the past performance of business and predict out the future potentials for achieving expected results. Various parties are involved in the business directly or indirectly. Therefore, objective of the analysis also differs from one party to other. However, major objectives of analysis, in broad sense, can be started as (Needles, 1989);

#### **a) Assessment of past performance and current position**

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

- Earning capacity or the profitability of the concern.
- Operational efficiency of the concern as a whole and of its various departments

- Long term and short term solvency of the business for the benefit of debenture holders and trade creditors
- Real meaning and significance of financial data.

**b) Assessment of potential and related risks**

The past and present information are useful only to the extent they have bearing on the future decisions. An investor judges the potential earning capacity of a company because that will affect the value of the investment or share and the amount of dividend the company will pay. The creditors judge the potential debt paying ability of the company. The potentials of existing company are easier to predict than of others. This means there is less risk of the investment or loan hinges on how easy it is to predict the future profitability and liquidity. Besides, the managers of business concerns will get information about the potential, such as:

- Possibility of development in the future though forecast and budget allocation.
- Financial stability of the business concern.
- Reforms needed for in the present policies and procedures that will help reduce weakness and strengthen performance.

**2.1.2 Limitations of Financial Performance Analysis**

From the above discussion, it has been evident that financial performance analysis of great significance for investor, creditors, management, economist and other parties having interest in business. It helps management to evaluate its efficiency in past performance and take decisions relating to future. However, it is not free from drawbacks. Its limitations are listed below ( Jain & Narayan, 1989:B23-B25):

**a. Historical Nature of Financial Statements:** - The basic nature of statements is historical. Past can never be a precise and infallible index of the future and can never be perfectly helpful for the future forecast and planning.

**b. No Substitute for Judgment:-** Analysis of financial analysis is a tool to be used by expert analyst to evaluate the financial performance of a firm. That's why; it may lead to faulty conclusion if used by unskilled analyst.

**c. Reliability of Figures:-** Reliability of analysis depends on reliability of figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable producers adopted by the accountant for the valuation of fixed assets and such other facts.

**d. Single year Analysis is not much valuable:** - The analysis of these statements relating to single year only will have limited use and value. From this, one cannot draw meaningful conclusion.

**e. Result may have different Interpretation:** - Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the index of sufficiency of the management due to under-utilization of fund.

**f. Changes in Accounting Methods:** - Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods, the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

**g. Pitfall in inter-firm Comparison:** - When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of firm as compared to whole industry.

**h. Price level change reduces the validity of analysis:** - The continuous and rapid changes in value of money, in the present day, economically also reduces the validity of the analysis. Acquisition of assets at different levels of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting period.

**i. Selection of Appropriate Tool:** - There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill,

training, intelligence and expertise of analyst. If wrong tool is used, it may give misleading result and may lead to wrong conclusion, which may be harmful to the interest of business.

### **2.1.3 Types of Financial Performance Analysis**

The nature of financial analysis differs depending on the purpose of analyst. Financial statement analysis can be categorized into different types on the basis of material use, objective of the analysis and the modulus operandi of analysis (Jain & Narayan, 1989:B23-B25).

#### **a) On the Basis of Material Used**

On the basis of material available and used by analyst, financial analysis can either be external or internal. Persons who don't have access to the detailed records of the company make an external analysis. They have to depend almost entirely on published financial statements. Investors, credit agencies, government agencies and research scholars make such type of analysis. Those persons who have access to the books of accounts and other related information to the business make an internal analysis. While conducting this analysis, the analyst is a part of enterprise. For example, analysis for managerial purpose is the internal type of analysis.

#### **b) On the Basis of Objective**

On the ground of the objective or purpose of study, financial analysis can either be long-term or short-term. Long-term analysis is made in order to study the long-term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. This analysis helps for long-term financial planning which is essential for the continued success of a business. Short-term analysis is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business concern. This analysis helps for short-term financial planning which is essential for continuation of success of the business.

#### **c) On the Basis of Modulus Operandi of Analysis**

On the basis of modulus operandi of analysis it can either be horizontal or vertical. Horizontal analysis is conducted to review and analyze financial statements

of a number of years and therefore, it is based on data taken from several years. Hence it is also known as dynamic analysis.

Vertical analysis is conducted to review and analyze the financial statement of one particular year only. As it is based on data from one year, it is also called static analysis.

#### **2.1.4 Method of Financial Performance Analysis**

An enterprise communicates financial information to users through financial statement and reports. Financial statements are summarized information of the firm's financial affairs, organized systematically. They are the means to present the firm's financial situation to owners, creditors and general public. The preparation of financial statement is the responsibility of top management. As investor and financial analysis to examine the firm's performance in use these statement under to make investment decisions. So concern authority should be prepared very carefully and contain as much as information as possible.

Two basic financial statements are prepared for the purpose of external reporting to owner, investor and creditors are:

1. Balance Sheet (*or Statement of Financial Position*)
2. Profit and Loss Account (*or, Income Statement*)

For internal management purpose i.e. for the planning and controlling much information than contained in published financial statement is needed. The accountant or account officer prepares these financial statements at the end of firm's income year. Balance sheet and income statement undoubtedly provides useful financial data regarding the operation of an enterprise but they fail to present all the useful financial data required for major investing and financial decision by the management. Therefore, another financial statement fund flow statement is also in use. It summarized the source from which funds have been applied. It is prepared to show additional useful information not covered by the traditional statements.



### **2.1.5 Major Steps in Financial Performance Analysis**

The basis for financial analysis is financial information obtained from balance sheet and profit and loss account. The analysis of financial statements is completed in three major steps (Srivastav, 1993:56).

The first involves the reorganization and rearrangement of the entire financial data as contained in the financial statements. This calls for regrouping them into few principal elements according to their resemblance and affinities. Thus the balance sheet and income statement are completely recast and presented in the condensed form entirely different from original shape. The next step is the establishment of significant relationship between the individual components of balance sheet and profit and loss account. This is done through the application of tools of financial analysis.

Ultimately, significance of result obtained by means of financial tools is evaluated. This requires establishment of standard against which actual be compared.

### **2.1.6 Tools & Techniques of Financial Performance Analysis**

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

The techniques of analysis are employed to ascertain or measure the relationship among the financial statement items of a single set of statement and changes that have taken place in these items as reflected in successive financial statement. The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. Out of the various techniques, selection of a technique or combination of the techniques depends on the purpose of analysis. Different techniques reveal different facts associated with the business, so some or all of the following major techniques can be used for the analysis depending on the purpose and availability of the materials demanded by the technique.

### **2.1.6.1 Funds Flow Analysis**

The statements of the changes in financial position prepared to determine only the sources and uses of fund between two dates of balance sheets is known as funds flow statement. It is prepared to uncover the information that financial statement fail to describe clearly. It spells out the sources from which funds were derived and uses to which these funds were put. This statement is prepared to summarize the changes in assets & liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to change in owner's equity. It is also aimed to depict the way in which the firm used its financial resources during the period.

Method of preparing Funds flow statement depends essentially upon the sense in which the term 'fund' is used. There are concepts of fund: cash concept, total resources concept & working capital concept. According to cash concept, the word 'fund' is synonymous with cash. Total resources concept represents the total assets and resources as fund. The term 'fund' refers only to working capital on working capital concept. However, the concept of fund as working capital has gained wide acceptance as compared to other concepts. Therefore, any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Transaction that decreases working capital is treated as application. But any transaction that affects current liabilities or current assets without any change in working capital is not taken as source or use.

The utility of this technique stems from the fact that it enables shareholders, creditors and other interested persons to evaluate the use of funds. It also enables them to determine how these uses were financed. In the light of information so supplied by statement, the outsider can decide whether or not to invest in the enterprise. It enables finance manager to detect the imbalances in the use of funds and undertaken remedial actions. It serves as control device to measure the deviation between actual use of fund and the estimated budget. An analyst can evaluate the financed pattern of concern (What portion of the growth was financed internally and what portion externally).

In spite of the great significance of funds flow analysis to various parties associated with the business, it is not free from drawbacks. Its shortcomings can be listed as:

- This is not full proof as it depends on conventional financial statements.
- It cannot introduce any new items, which causes changes in financial status of the business.
- It is not much relevant technique as study of change in cash position is more useful rather than fund position.
- It is historical in nature, so, cannot estimate source and application of fund in near future
- It does not reflect the structure and policy changes.

#### **2.1.6.2 Cash Flow Analysis**

This statement is prepared to know clearly the various items of inflow and outflow of cash. Cash flow analysis is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It summarizes the causes of change in cash position between dates of two balance sheets. While preparing cash flow statement, only cash receipts from debtor against credit sales are recognized as the source of cash. Similarly, cash purchases and cash payment to suppliers for credit purpose is regarded as the use of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

This type of analysis is useful for short-run planning of firm. The firm needs sufficient cash to pay debt maturing in near future, to pay interest and other expenses and to pay dividend to shareholders. The projection of cash flow for near future can be made to determine the availability of cash. This cash balance can be matched with the firm's need for cash during the period and accordingly, arrangement can be made to meet the deficit or invest the surplus cash temporarily.

Though it is more confidential than funds flow analysis for the decisions related to the near future, it is also not free from drawbacks. Its drawbacks can be listed as:

- It is not perfect evident as it depends on conventional statements.
- It is historical in nature.
- It does not reflect structural and policy changes.

### 2.1.6.3 Trend Analysis

In finance analysis the direction of change over a period of years is crucial importance. Trend analysis of the ratio indicates the direction of change. The kind of analysis is particularly applicable to the items of profit and loss account. It is advisable that trend of sale and net income may be studied in the light of two factors. The rate of fixed companion secular trend in the growth of business and general price level; it might be found in practice that a number of firms would show a persistence growth over a period of years. But get a true trend of growth; sales figure should be adjusted by suitable index of general prices. In other words, sales figures should be deflected for raising price level, which the resulting figures are, graphed we will get a trend of growth devoid a price change. Another method of securing trend of growth and one which can use instead of the adjusted sales figures or as check on them is to tabulated and plot the output or physical volume of sale expressed in suitable units of measure. If the general price level is not considered while analyzing trend of growth, it can mislead management. They may because unduly optimistic period of prosperity and pessimistic in dull period.

This method is immensely helpful in making comparatively study of financial statements of several years. This method of analysis involves the computation of percentage relationship that each statement item bears to the same item in the base year. Base year for the purpose of comparison may be earliest year, the latest year or any intervening year under the study. This exhibits the direction to which the concern is proceeding. Trend analysis facilitates the horizontal study of the data. But trend ratios are generally not computed for all of items in the statement, as the fundamental objective is to make comparison between items having same logical relationship to one another.

Trend analyst reveals whether the current financial position of the company has improved over the past years or not. It shows which of the items have moved in a favorable direction and which of them in unfavorable direction. Though it is the important tool of analysis, it is bound by certain limitation. They are:

- Trend for a single balance sheet or income statement is seldom very informative.

- It does not give accurate result if accounting principles followed by the accountants is not consistent over the period of study.
- Price level change adversely affects the comparison
- Selected base year for some of the items in the statement may not be typical.

#### **2.1.7.4 Ratio Analysis**

An arithmetic relationship between two figures is known as ratio. Two number used in the ratio are called the term of ratio. The first term is the antecedent and is the divided; the second is the second is the consequent and is the divider. Ratio is computed by dividing one item of relationship with the other. Ratio simply means the relation of one quantity to another of the same kind is defined to be that pure (abstract) number, integral, or fractional, which express the number of times the later is contained in the former.

Ratio analysis is a technique of analysis and interpretation of financial statement to evaluate the performance of an organization by creating ratios from the figure of different accounts consisting in balance sheet and income statement (P/L Account) is known as ratio analysis (Pandey, 994:436-437).

Financial ratios are the basic tools of financial analysis. The operational and financial problem of a corporation can be ascertained by examining the behavior of these ratios. In financial analysis a ratio is used as an index or yardstick for evaluating the financial position and performance of an enterprise. A financial ratio is a relationship between two financial variables and a process of identifying the financial strength and weakness of an enterprise. The liquidity ratio measures the corporations overall efficiency of operation. Similarly, leverage ratio measures the extent to which the corporation has been finance by debt, and turnover ratios measure the utilization of the corporation's resources. These financial ratios help us to find symptoms of problems. The cause of any problem may be determined only after locating the symptoms. Hence, the study of financial ratios behavior of the corporations assumes great significant.

Ratio Analysis is carried out to develop meaning relationship between individual items or group of items usually shown in the periodical financial statements. An accounting ratio shows the relationship between the two inter-related accounting

figures. Ratios are guides or shortcuts that are useful in evaluating the financial position and operations of a company. When the relationship between two figures in the balance sheet is established, the ratio so calculated is called 'balance sheet ratio'.

Ratio may be expressed in the form of quotient, percentage or proportion.

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

- Comparison of present ratio with past or expected future ratio.
- Comparison of the ratio of the firm with those of similar firms over the period of time or with industry average at the same point of time

With the help of ratio, one can judge financial performance of a business concern over a period of time and against the industry average. The ratio helps the analyst to form the judgment whether the performance of firm is good, questionable or poor. Management of the firm can take strategic decisions on the basis of position revealed by ratio. Investors can decide about the future of their investment. Creditors judge whether the firm is able to meet its obligations and whether the more lending would be beneficial for them or not. In view of the requirement of the various users of ratios, they can be classified into four major categories. They are: - liquidity ratio, leverage ratio, activity ratio and profitability ratio.

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

Through ratio analysis is powerful technique of financial analysis; it should be used with extreme care and considered judgment because it suffers from certain drawbacks.

The drawbacks of the ratio analysis are listed below:

- It is difficult to decide the proper basis of comparison
- It calls interpretation to certain aspects of the business, which need detailed investigation before arriving at any final conclusion
- Unless there is a consistency in adoption of accounting methods, ratios may not prove of greater use in case of inter-firm comparison.

- The price level changes make the interpretation of ratios invalid.
- The ratios are generally calculated from past financial statements and thus, are no indicators of future

### **Ratio Analysis & Its Classification**

In general ratio may be classified on the following base lending to somewhat overlapping categories (Pandey, 1994:502-503).

#### **A) Traditional Classification**

It is classification according to the statement from which ratios are derived. By for the most convenient mode of classification, it has the sanctity of tradition in much as since the advent of ratio analysis. Ratio has grouped in this manner from this angle ratios are classified as:

- Balance sheet ratios or financial ratios: - These ratios deal with relationship between two items or groups of items, which are together to the balance sheet e.g. debt equity ratio.
- Revenue statement ratio: These ratios sometimes also referred as operating ratio establish the relationship between two items or group, which are in the revenue statement e.g. stock turnover.
- Inter statement ratio or combine ratio: - These ratio portray the relationship between items of one of which part of balance sheet and profit & loss account (income statement)

#### **B) Functional Classification**

Ratios are grouped in accordance with certain test which they are intended to sub-serve from the point of view of varies parties having a financial interest in an enterprise test are:

- Test of liquidity
- Test of profitability
- Market test etc.

### **C) Classification According to Nature**

These ratios are classified from the point of view of financial management.

They are:

- 1) Liquidity Ratio
- 2) Activity Ratio
- 3) Leverage Ratio
- 4) Profitability Ratio
- 5) Capital Adequacy Ratio

1) Liquidity Ratio: - A liquidity ratio is assigned to find out the current assets intensifies and financial structure. In other words, liquidity ratio measures the ability of an enterprise to meet its current obligations. A core of liquidity ratio has emerged over the year which, when viewed in their totality and with respect to risk, is expected to yield a rough approximation of the business to pay its current liabilities and when they fall due for payment. Regarding the position of liquidity ratio, a current ratio of 2:1 is considered acceptable for most of firm although it is only rule of thumb standard and it is 1:1 for quick ratio. Though, it depends much on circumstances in case of seasonal business (Pradhan, 1986:17).

#### **a) Current Ratio**

Current ratio is also known as Working capital ratio. It shows the bank's short-term solvency. It is the ratio of current assets and current liabilities. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional rule, a current ratio of 2 to 1 is considered satisfactory. However, this rule should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude-and quick measure of firm's liquidity (Pandey, 1994:115). Higher the current ratio better the liquidity position and otherwise.

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

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

Current assets include cash and assets are just like cash, which can be converted into within a year. These include cash and bank balance, money at call and short notice, loans and advances, overdrafts, bill purchase and discounted bills for collection, investment in government securities, interest receivables and other



miscellaneous current assets. All obligations maturing within a year are included in current liabilities. These consist of current, saving and short-term deposits, fixed deposits maturing in that year, borrowings and accrued expenses, bills payable, bank overdrafts, dividend payable, customer acceptances and miscellaneous current liabilities.

### **b) Quick Ratio**

Quick ratio established a relationship between quick asset and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonable soon without a loss of value cash is the most liquid asset. Other assets which are considered to be relatively liquid are included in quick assets are book debts and marketable securities. This quick ratio can be calculated by dividing the total of liquid assets by total current liabilities.

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

### **c) Cash and Bank Balance to Current Assets Ratio**

This ratio is found out the ability of banks to pay total call made on current deposit. Cash and Bank Balance are highly liquid assets than others in current assets proportions. Higher ratio indicates the bank's ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred as the bank has to pay more interest in deposit and will increase the cost of fund. Lower ratio is also very risky as the bank may not be able to make the payment against the cheque presented by the clients. So, the bank has must be maintain such ratio in such way that it should have sufficient cash for the clients demand against deposits when required and less interest is required to pay against the cash deposit. These ratios not only analyzed the use of total resources of the firm but also the use of resources component of total assets. The formula to obtain this ratio is:

$$\text{Cash \& Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

Cash and Bank balance includes cash in hand, foreign cash in hand, clearing cheque and other cash items, balance with NBR current account, other domestic bank current account and balance held in foreign banks.

**d) Cash and Bank Balance to Current, Saving & Margin Deposit Ratio.**

The ratio measures the ability of bank to meet its immediate obligations. The bank should maintain adequate cash and bank balance to meet the unexpected as well as heavy withdrawal of deposits. High ratio indicates sound liquidity position of the bank. However, too high ratio is not good enough as it reveals the under utilization of fund. The ratio is computed by dividing the total amount of cash and bank balance held in the bank by total deposit (except fixed deposits) collected by the bank.

Cash & Bank Balance to Deposits (Except FD) Ratio

$$= \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit(Except Fixed Deposit)}}$$

Cash and Bank balance comprises cash on hand, foreign cash on hand, cheque and other cash items, balance with domestic bank and balance held in foreign banks. Current and saving deposits consist of all types of deposits excluding fixed deposits.

**e) Cash and Bank Balance to Total Deposits Ratio**

The ratio is employed to measure whether cash & bank balance is sufficient to cover its current call margin including deposits. It shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. But too high ratio is not favorable for the bank because it produces adverse effect n profitability due to idleness of high-interest bearing fund. The ratio is calculated using following formula;

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

Total deposit consists of both interest bearing deposits & non-interest bearing deposits i.e. current deposits, saving deposit, fixed deposit, money at call and short notice and other deposits.

**f) NRB Balance to Current Saving Deposit Ratio**

The ratio shows the percentage of amount deposited by the bank in Nepal Rastra bank (NRB) as compared to current & saving deposits. Commercial banks are required to hold certain portion of current and saving deposits in Nepal Rastra Bank's account. It is to ensure th e smooth functioning and sound liquidity position of the

bank. As per the directive of Nepal Rastra Bank, the required ratio is 8%. Therefore, the ratio measures whether the bank is following the direction of NRB or not. The ratio is computed by dividing the balance held with Nepal Rastra Bank by saving deposits. It express as;

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Current \& Saving Deposit}}$$

#### **g) NRB Balance to Fixed Deposit Ratio**

The ratio shows the percentage of the amount deposited by the bank in Nepal Rastra Bank as compared to fixed deposits. According to the direction of NRB, this ratio should be maintained 6%. Hence the ratio so calculated finds whether the bank has obeyed the direction of central bank or not. The ratio is computed by dividing the balance held with Nepal Rastra Bank by fixed deposits accepted.

$$\text{NRB Balance to Fixed Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Fixed Deposit}}$$

2) Activity Ratios: - Activity ratio also known as turnover ratio, indicate the speed with which assets are being converted or turned over into sales. This ratio is employed to evaluate the sales efficiency or activity and short-term liquidity or activity of an enterprise. These ratios also measure the degree of effectiveness in use of fund by a firm. The common ratios of activity/ turnover ratios are as follows:

- Inventory turnover ratio
- Debtors turnover ratio
- Average assets turnover ratio
- Fixed assets turnover ratio
- Current assets turnover ratio
- Total assets turnover ratio
- Capital employed turnover ratio

#### **a) Loans and Advances to Total Deposit Ratio**

The ratio indicates the proportion of total deposits invested in loans and advances. It is calculated to find out how the banks are successfully utilizing their total deposits for profit generating purpose on loan and advances. High ratio means the greater use of deposit for investing in loans and advances. In other words, Greater

the ratio implies the better utilization of outsiders fund (Total Deposits). But very high ratio shows poor liquidity position and risk in loans. On the contrary, too low ratio may be the cause of idle cash or use of fund in less productive sector. The ratio is computed by dividing total loans and advances by total deposit liabilities.

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

Loan and advanced consist of loans, advances, cash credit, overdrafts, and foreign bills purchased and discounted.

### **b) Loans and Advances to Fixed Deposit Ratio**

The ratio indicates what proportion of fixed deposits has been used for loans and advances. Loans and advances are the major sources of investment to generate income by the commercial banks. Fixed deposits are long-term interest-bearing obligation. It carries high rate of interest. Funds collected are needed to invest in such sectors, which yield at least sufficient return to meet the obligations. The ratio measures the extent to which the fixed deposits are utilized for the income generating purpose. High ratio means utilization of fixed deposit in form of loans. The ratio is calculated by dividing loans and advances by fixed deposits.

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

### **c) Loans and Advances to saving Deposit Ratio**

The ratio indicates how many times the short-term interest bearing deposits are utilized for generating the income. Saving deposits are the short-term interest bearing liabilities. Loans and advances are the major sources of investment to generate income in commercial banks. Loans and advances to saving deposits ratio is measured to find out how many time of fund is used in loan and advances against saving deposit. High ratio indicates greater utilization of the saving deposits in advancing loans. The ratio is calculated dividing the amount of loan and advances by total deposit in saving account. The following formula is used to calculate this ratio as:

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

#### **d) Investment to Total Deposit Ratio**

The ratio shows how efficiency the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds. The ratio is obtained by dividing investment by total deposits collected in the bank.

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

Investment comprises investment its HMG treasury bills, development bonds, company shares and other type of investment.

#### **e) Performing Assets to Total Assets Ratio**

The ratio measures what percentage of assets has been funded for income generation. High ratio indicates greater utilization of assets and hence sound profitability position. It is calculated by dividing performing assets by total assets.

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

Performing assets include those assets, which are invested for income generating purpose. These consist of loans & Advances; bills purchased and discounted investment and money at call or short notice.

### **3) Leverage/Capital Structure/ Solvency Ratios**

Short-term financial positions refer to the liquidity position of the firm. Long-term financial position refers to the capital structure or financial leverage. Long-term financial position of the firm is judged by the capital structure ratio or leverage ratio or structure ratio. The leverage ratio or structural ratio is calculated to measure the financial risk and the firm's ability of the using for debt the benefit for the shareholders.

Leverage refers to the ratio of debt to equity in the equity in the capital structure of the firm. Debt & equity are long-term obligation and remaining parts in the ability side of the balance sheet are termed as short –term obligation. Both types of obligations are required in forming the capital structure of the firm. The long-term financial position of the firm is determined by leverage or capital structure.

Debt is more risky from the firm's point of view. The firm has legal obligation to pay interest to debt holders irrespective of the profit made or losses incurred by the firm. But use of debt is advantageous to shareholders in two ways:

- They can retain control on the firm with a limited stake.
- Their earning is magnified when rate of return of the firm on total capital is higher than the cost of debt.

Following ratios are calculated to test the optimality of capital structure.

#### a) Debt-Equity Ratio

This ratio is calculated to find out the proportion of the outsider's fund to owner's fund to finance the total assets. It is also called the proportion of outsider's claim and insider's claim on total assets of the banks. It is also called debt to net worth ratio. The ratio shows the mix of debt and equity in capital. It measures creditors' claims against owners'. High ratio shows that the creditors' claims are greater than those of owners. Such a situation introduces inflexibility in the firm's operation due to the increasing interference and pressures from creditors. Low ratio implies a greater claim of owners than creditors. In such a situation, shareholders are less benefited if economic activities are good enough. Therefore, the ratio should neither be too high

nor too low. The ratio is calculated by dividing total debt by shareholder's equity.

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

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

#### b) Debt- Asset Ratio

This ratio shows the contribution of creditors in financing the assets of the bank. It is the proportion of debt on the total capital or proportion of outsider's claim on total assets. Greater proportion of the bank's assets has been financing through outsider's funds. High ratio indicates that the greater portion of the bank's assets has

been financed through outsider's fund. The ratio should neither be too high per too low. The ratio can be calculated by dividing total debt by total assets.

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

### c) Interest Coverage Ratio

This ratio is calculated to find out the bank's ability to meet interest obligation. The ratio also known as times interest-earned ratio is used to test the debt servicing capacity of the bank. It shows the number of times the interest charges are covered by funds that are ordinarily available for their payment. It indicates the extent to which the earning may fail without causing any embarrassment to the firm regarding the payment of interest. Higher ratio is desirable, but too high a ratio indicates the firm is very conservative in using debt. A lower ratio indicates excessive use of debt or insufficient operation. The ratio calculated by dividing net profit before deduction of interest and tax by interest charges.

$$\text{Interest Coverage Ratio} = \frac{\text{Earning Before Interest \& Tax (EBIT)}}{\text{Interest Charged}}$$

EBIT or Earnings before Interest and Tax Net Profit Before Interest and Tax (NPBIT) is amount of operating profit before deduction of the amount of interest and tax.

### 4) Profitability Ratio: -

Profitability ratio shows the overall efficiency of the business Concerns corporations. The relation of return of firm to either its sales or its equity or its assets is known as profitability ratios. In other words, we can say that profitability ratios is used to measure the success of an enterprise in terms of its earning on sales or on investment, profitability ratios are of two types.

- Profitability in relation to sales
- Profitability in relation to investment

A company should earn profits to survive & grow over a long period of time. It is a fact that sufficient profit must be earned to sustain the operations of the business; to be able to obtain funds from investors for expansion and growth; and to

contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment (Pandey, 1994:116)

Profitability ratios are calculated to measure the operating efficiency of the company. Various profitability ratios are calculated to measure operating efficiency of business enterprises. Though profitability ratios the lender & investors want to decide whether to invest in particular business or not. To meet the objective of the study, following ratios are calculated in this group.

#### **a) Return on Total Asset**

The ratio is measuring the profitability of funds invested in the bank's assets. In other words, it measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall working fund i.e. total assets. It is also called net profit or loss to working fund i.e. total assets ratio or simply called ROA. The firm has to earn satisfactory return on assets or working funds otherwise its survival is threatened. High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank. It is calculated by dividing net profit after tax (NPAT) by total assets of the bank

$$\text{Return on Assets} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Assets}}$$

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

#### **b) Return on Net Worth**

The ratio is tested to see the profitability of the owner's investment. It reflects the extent to which the objective of business is accomplished. All commercial banks have its main objective to earn the maximum profit, so that they can run smoothly and get the fame. For that they must mobilize resources and its equity capital properly. Equity capital is owned capital of banks. The ratio is also called net profit (or loss) to net worth or net profit (or loss) to shareholder's equity or return on shareholders' equity or simply called *ROSE*. The ratio is of great interest to present as well as prospective shareholders and also of great significance to management, which has the



responsibility of maximizing the owner's welfare. So, higher ratio is desirable. It is computed by dividing net profit after tax by net worth.

$$\text{Return on Net Worth} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Net Worth}}$$

Net worth refers the owner's claim on banks. It can be find out subtracting the total liabilities from total assets. It includes shareholder's reserve and share capital.

### **c) Return on Total Deposit**

Major financial source of a bank is deposit collection. And deposits are mobilized for loan and advances, investment etc. to earn profit. The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. Higher ratio is the index of strong profitability position. The ratio is computed by dividing net profit after tax by total deposit.

$$\text{Return on Total Deposit} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Deposit}}$$

### **d) Total Interest Expenses to Total Interest Income Ratio**

The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favourable from profitability point of view. The ratio is obtained by dividing total interest expenses by total interest income.

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

Total interest expenses consist of interest expenses incurred for deposits, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advances, cash credit, overdrafts, and Government securities, interbank and other investments.

### **e) Interest Earned to Total Assets Ratio.**

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

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

## **5) Capital Adequacy Ratio**

Capital adequacy ratio measures whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequacy or there is the not need of reforms. The ratio is tested to ensure the safety and stability of the firm in long run. Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle. If the capital is insufficient, the firm may not be able to grasp the opportunity from potential profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. Here, capital fund refers to the core capital and supplementary capital. Commercial banks cannot declare and distribute dividend until they meet capital adequacy ratio. Under this group, following ratios are tested.

### **a) Net Worth to Total Deposit Ratio**

This ratio measures the percentage of net worth in relation to the total deposits collected in the bank. The ratio is a yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank. The ratio is calculated by dividing net worth by total deposits.

$$\text{Net Worth to Total Deposit Ratio} = \frac{\text{Net Worth}}{\text{Total Deposit}}$$

### **b) Net Worth to Total Assets Ratio**

The ratio measure what is the percentage of shareholders' fund in relation to the total assets owned by the bank. High ratio means greater contribution of investors' fund and strong capital adequacy position. The ratio is calculated by dividing the net worth by total assets of the bank.

$$\text{Net Worth to Total Assets Ratio} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

### **c) Net Worth to Total Credit Ratio**

It measures the relative proportion of the shareholders fund with respect to the credit. High ratio shows that the firm has adequacy capital, which is the index of safety. Moreover, a bank with higher ratio is less affected by the instability of the

financial market. The ratio is obtained when net worth is divided by the total credit of the bank

$$\text{Net Worth to Total Credit Ratio} = \frac{\text{Net Worth}}{\text{Total Credit}}$$

Total credit refers to the total of loans and advances granted, cash credit, overdrafts, bill purchased and discounted.

## **6) Assets Quality Ratios**

As explained earlier, turnover ratios measure the turnover of economic resource in terms of quality. Only the investment is not of great significance, but the return from them with minimum default in payment by debtors is significant. A firm may be in a state of enough profit and through unable to meet liabilities. Therefore, asset quality ratios are intended to measure the quality of assets contained by the bank. Following ratios are dealt in this group.

### **a) Loan Loss Coverage Ratio**

Nepal Rastra Bank has directed commercial banks to maintain provision for loan loss on the basis of category of loans and risk grade. The ratio, therefore, measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. High ratio indicates that the major portion of loan is risky. The ratio is calculated by dividing provision for loan loss by total risk assets.

$$\text{Loan Loss Coverage Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Risk Assets}}$$

For the study purpose, risk assets constitute loans and advances, bill purchased and discounted.

### **b) Loan Loss Provision to Total Income Ratio**

This ratio shows what portion of total income has been held as safety cushion against the possible bad loan. Higher ratio indicates that the greater portion of loan advanced by the bank is inferior in quality. Low ratio means that the bank has provided most of its loans and advances in secured sector. The ratio is obtained by dividing loan loss provision by total income.

$$\text{Loan Loss Provision to Total Income Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Income}}$$

### **c) Loan Loss Provision to Total Deposit Ratio**

It shows the proportion of bank's income held as loan loss provision in relation to the total deposit collected. Higher ratio means quality of assets contained by the bank in form of loan is not much satisfactory. Low ratio is the index of utilization of resources in healthy sector. The ratio is obtained by dividing the provision for loan loss by total deposit in the bank.

$$\text{Loan Loss Provision to Total Deposit Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Deposits}}$$

### **d) Accrued Interest to Total Interest Income Ratio**

This ratio shows the percentage of accrued interest with respect to total income in form of interest. High ratio indicates the large portion interest remained to be collected. Lower ratio reflects the better quality of assets in the bank. The ratio is obtained by dividing accrued interest by total interest income.

$$\text{Accrued Interest to Total Income Ratio} = \frac{\text{Accrued Interest}}{\text{Total Interest}}$$

Accrued interest refers to the interest that is accrued but not collected. Total interest income includes the interest received from the investment in various sectors.

## **7) Others Indicators**

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

### **a) Earning Per Share (EPS)**

Earnings per Share refer to the income available to the common shareholders on per share basis. It enables us to compare whether the earning based on per share basis has changed over past period or not. The investors favor high EPS. It reflects the sound profitability position of the bank. It is obtained by dividing earning available to common shareholders by number of equity shares outstanding.

$$\text{Earnings Per Share} = \frac{\text{Earning Available Common Shareholder (EAC)}}{\text{No. of Equity Share Outstanding}}$$

Earnings available to common shareholders is the amount of that profit which can be found after deducting the amount of interest to the outsiders' fund, dividend to the preferred shareholders and income tax to the government. For this purpose, it is net profit after tax.

**b) Price -Earning Ratio (P/E ratio)**

P/E Ratio is widely used to evaluate the bank's performance as expected by investors. It represents the investors' judgment or expectation about the growth in the bank's earning. In other words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates greater expectation of the market towards the achievement of firm. It is obtained by dividing market value per share by earning per share.

$$\text{Price-Earning Ratio} = \frac{\text{Market Value Per Share (MVPS)}}{\text{Earning Per Share (EPS)}}$$

**c) Market Value per Share to Book Value per Share (MVPS/BVPS)**

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

$$\text{Market Value per Share to Book Value per Share} = \frac{\text{Market Value Per Share (MVPS)}}{\text{Book Value Per Share (BVPS)}}$$

## **CHAPTER - III**

### **Research Methodology**

#### **3.1 Introduction**

Research methodology deals with the road map of the study. It deals with the way the data are collected, analyzed, figured out and necessary conclusions and recommendations are made. It deals with the researchers planning of the study of the project or research work. It is the bridge, which links the researcher from where s/he is to where s/he wants to be. So, it is the true way of finding of the research work. It can be said that research methodology is the real agent of research findings and destinations.

Stating in other words it is the process of arriving to the solution of research problem in planned and systematic manner through the collection, analysis and interpretation of the facts and figures. It includes the sources of data collected for the research, statistical and financial tools used for the analysis of the data, data collection procedures.

#### **3.2 Research design**

The term research design is employed in the sense of overall framework or plan for the collection and analysis of data. It serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data-collection procedures, research instrument utilization, and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data after identifying;

- What the researcher wants to know; and
- What has to be dealt with in order to obtain the required information?

The research design is an organized approach and not a collection of loose, unrelated parts. It is an integrated system that guides the researcher in formulating, implementing and controlling the study. Useful research design can produce the answers to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research work.

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure [Kothari, 1990, P39].

Current research work entitled *A comparative financial analysis of the NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALAYAN BANK LIMITED* involves the relationship among the various ratios within the conceptual framework. This study is closely related to financial statements. These information and data are presented by analytical method. But the qualities aspects of the research such as effectiveness of financial analysis in the both banks, views of various managers and personnel, and the theoretical prescriptions are explained in words wherever necessary. Therefore, analytical as well as descriptive research has been applied as the research design for the study.

### **3.3 Period Covered**

The period covered by the study is five years for trend analysis, a comparative financial analysis and related aspects. The period covered is from FY 2062/063 to 2066/67.

### **3.4 Population and sampling**

Population in its real sense is the people residing in certain location classified by geographically or politically. There are 29<sup>th</sup> commercial banks functioning in Nepal. These stocks are traded actively in the stock market. In the research, financial performance has been compared each other of NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALAYAN BANK LIMITED, which are selected from population. As per the norms and values of the methodology of the thesis work, minimum five years data has been included in the study.

### **3.5 Source and nature of data**

Nature and source of data of this research is both from primary and secondary source.

#### **Primary source of data**

Primary source of data are the data, which are original in nature collected by direct visit by the researcher himself/herself to the field. These data are not used by other people and are collected by the researcher for the fulfillment of his research work. In

this research work, some of the data are collected through questionnaire as well as interviews with the concerned officers, managers and consultants, by the researcher himself for the special need of this report work.

### **Secondary source of data**

Data already used are the secondary source of data. Following are the main secondary source of data of the both banks used in this study;

- Financial statements especially income statement / profit and loss account published by the banks.
- Annual report published by the both banks.
- News papers, magazines, booklets and related articles of the banks.
- Other related data available in the subject area.

### **3.6 Data analysis tools and techniques**

To satisfy the research questions different statistical as well as accounting tools has been used in this research work. These tools are the real agent of convenient, reliability and authentic of the research work.

#### **3.6.1 Financial tools**

As per the demand of the research topic a comparative financial analysis of the NEPAL SBI BANK LIMITED, EVEREST BANK LIMITED and HIMALAYAN BANK LIMITED. Then different tools of financial analysis are to be used. On the basis of available time constraint, data constraint and other resource constraint different tools viz. liquidity ratio, activity ratios, capital structure ratios, profitability ratios, capital adequacy ratios and cash flow etc. have been used on financial tools in this research work.

#### **3.6.2 Statistical tools**

For the purpose of analysis and presentation of research work in beautiful manner different statistical tools and techniques have been used in this thesis. It is hoped that the tools and techniques will be sufficient to present the analysis and findings of the research work in simple but beautiful manner. Data tabulation, graphic approach, means, standard deviation, correlation etc. have been used for this study.



## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

This Chapter deals with the analysis and interpretation of data following the research methodology dealt in the third chapter. In course of analysis, data gathered from the various sources have been inserted in the tabular form according to their homogeneous nature. The various tables prepared for the analysis purpose have been shown in annexes. Using financial and statistical tools, the data have been analyzed. The result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors while using other tools. Moreover, financial performance of the sampled banks has especially been analyzed in cross sectional manner. Specially, the chapter includes an interpretation of the following:

- Ratio Analysis
- Correlation Analysis
- Trend Analysis

#### **4.1 Ratio Analysis**

Ratio analysis has been adopted to evaluate the financial health, operating result and growth of the sampled banks. In order to analyze and interpret the tabled data, the following ratios have been used.

- Liquidity Ratios
- Efficiency/Activity/Turnover Ratios
- Profitability Ratios
- Capital Adequacy Ratios
- Assets Quality Ratios
- Other indicators

##### **4.1.1 Liquidity Ratios**

Liquidity ratios have been employed to test the ability of the banks to pay immediate liabilities (i.e. short term liabilities). These include current ratio, quick ratio, cash & bank balance to current assets ratio, cash & bank balance to deposit

(expect Fixed Deposits) ratio, cash & bank balance to total deposit ratio, NRB balance to current and saving deposit ratio and NRB balance to Fixed deposits ratio.

#### 4.1.1.1. Current Ratio

Current ratio is also known as working capital ratio. It is computed by dividing the current assets liabilities.

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

Table4.1

| Current Ratio (Times) |         |         |         |         |         |      |       |
|-----------------------|---------|---------|---------|---------|---------|------|-------|
| FY                    | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV    |
| HBL                   | 1.06    | 1.07    | 1.08    | 1.07    | 1.07    | 1.07 | 0.60% |
| EBL                   | 1.08    | 1.07    | 1.07    | 1.07    | 1.08    | 1.07 | 0.52% |
| SBI                   | 1.15    | 1.18    | 1.22    | 1.06    | 1.06    | 1.14 | 5.73% |

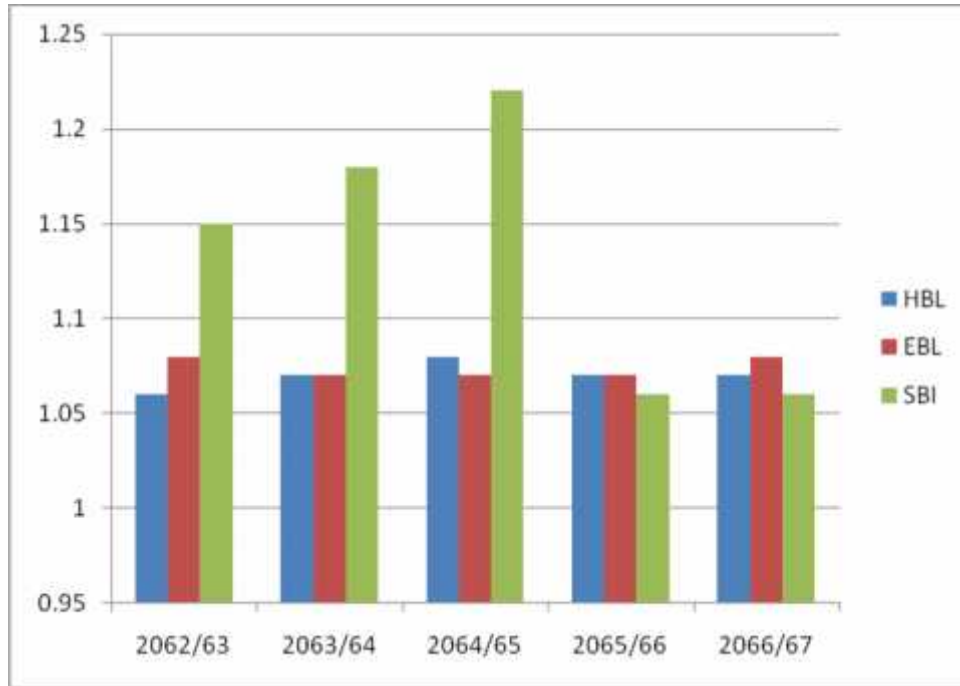
Source; Appendix:-1

Table 4.1 clearly shows that current ratio of HBL for the study period remained 1.06, 1.07, 1.08, 1.07and 1.07 times respectively from the FY 2062/63 to FY 2066/67. Mean of the ratios appeared 1.07times and CV appeared .60%. Similarly, the ratios of EBL for the corresponding period remained 1.08, 1.07, 1.07, 1.07and 1.08 times. Mean of the ratios came 1.07 times whereas CV came 0.52%. Similarly, the ratios of SBI for the corresponding period remained 1.15, 1.18, 1.22, 1.06and 1.06 times. Mean of the ratios came 1.14 times whereas CV came 5.73%.

The ratios of HBL were increasing trend in the beginning of the study. It was highest in FY 2064/65 i.e. 1.08 times & lowest in FY 2062/63 i.e. 1.06 times. After the FY year 2065/66 ratio was constant. The ratios of EBL were decreasing trend. It was highest in the FY 2062/63 & 2066/67 was 1.08 times. In the middle period ratio was constant at 1.07 times. The ratio of SBI was increasing trend in the beginning of the study. It was highest in FY 2064/65 i.e. 1.22. After the FY year 2064/65 the ratio was constant i.e. 1.06times. Mean of the ratios of SIB was greater than HBL and EBL, mean ratio of the banks could not maintain the conventional standard of 2:1. The nature of assets & liabilities of commercial banks, the ratio below the stated standard may be accepted as satisfactory, but it signifies that the banks have the poor liquidity position. The banks may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of liabilities may lead the banks to lose their goodwill.

For commercial banks, it is very important to maintain a good balance between liquidity and profitability. If banks keep large portion of money under its control it affects in profit because idle money earn nothings but other hand the bank should have enough cash balance with it to fulfill the requirement of short-term liabilities . This can be also shown in following figure-1.

FIGURE-1



#### 4.1.1.2 Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets & current liabilities. It is computed by dividing the quick assets by current liabilities.

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

Table4.2

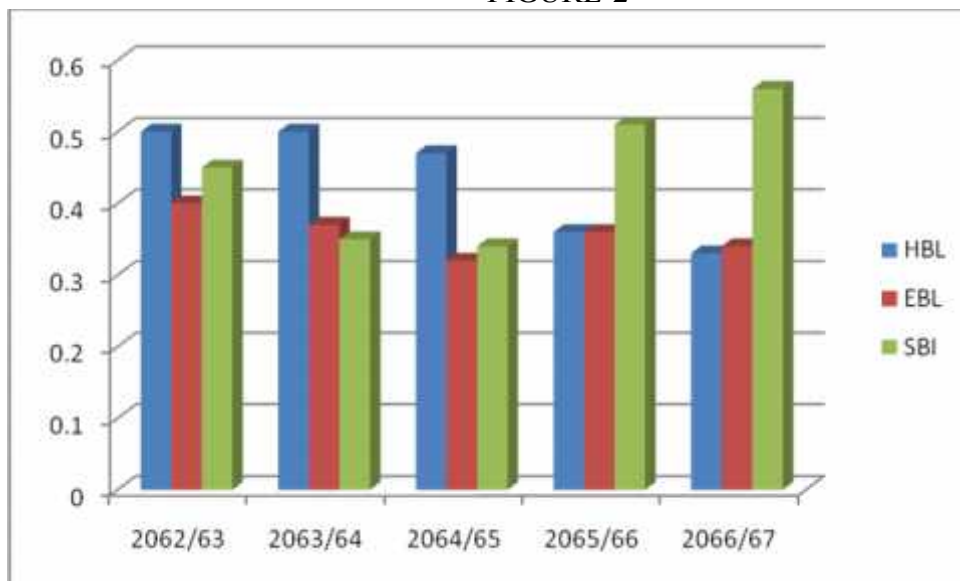
| Quick Ratio(Time) |         |         |         |         |         |      |        |
|-------------------|---------|---------|---------|---------|---------|------|--------|
| FY                | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
| HBL               | 0.5     | 0.5     | 0.47    | 0.36    | 0.33    | 0.43 | 16.75% |
| EBL               | 0.4     | 0.37    | 0.32    | 0.36    | 0.34    | 0.36 | 7.09%  |
| SBI               | 0.45    | 0.35    | 0.34    | 0.51    | 0.56    | 0.44 | 19.41% |

Source; Appendix;-2

Table 4.2 clearly shows that quick ratio of HBL for the study period-remained 0.5, 0.5, 0.47, 0.36 and 0.33 times respectively from the FY 2062/63 to FY 2066/67. Mean& CV were 0.43 times and 16.75% respectively. Similarly, the ratios of EBL were 0.4, 0.37, 0.32, 0.36 and 0.34times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.36 times and whereas CV appeared 7.09%. Similarly, the ratios of SBI were 0.45, 0.35, 0.34, 0.51 and 0.56times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.44 times and whereas CV appeared 19.41%.

The ratios of HBL were fluctuating trend, highest ratio was 0.50times in FY 2062/63 & 2063/64 and lowest ratio in FY 2066/67 i.e.0.33. The ratios of EBL were also in fluctuating trend, highest ratio was 0.40 times in 2062/63 and lowest is 0.32 times in FY 2064/65. The ratios of SBI were also in fluctuating trend, highest ratio was 0.56 times in 2066/67and lowest is 0.34 times in FY 2064/65. The standard quick ratio is 1:1 i.e. quick assets must be equal to current liabilities. Banks showed poor liquidity position because of quick ratios of every year were below than standard form. It indicates that they have very weak position of immediate payment of short-term obligation (i.e. current liabilities) because current liabilities were greater than that of quick assets. From the standard point of view we can here say that though the SBI ratio is higher than that of HBL and EBL. This can be also shown in following figure-2

FIGURE-2



#### 4.1.1.3 Cash and Bank Balance to Total Deposit Ratio

The ratio measures the ability of the banks to meet its immediate obligation. The bank should adequate cash and bank balance to meet the unexpected as well as the heavy withdrawal of deposits. The ratio computed by dividing the cash & bank balance by total deposits.

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

Table4.3

Cash and Bank Balance to Total Deposit Ratio (Times)

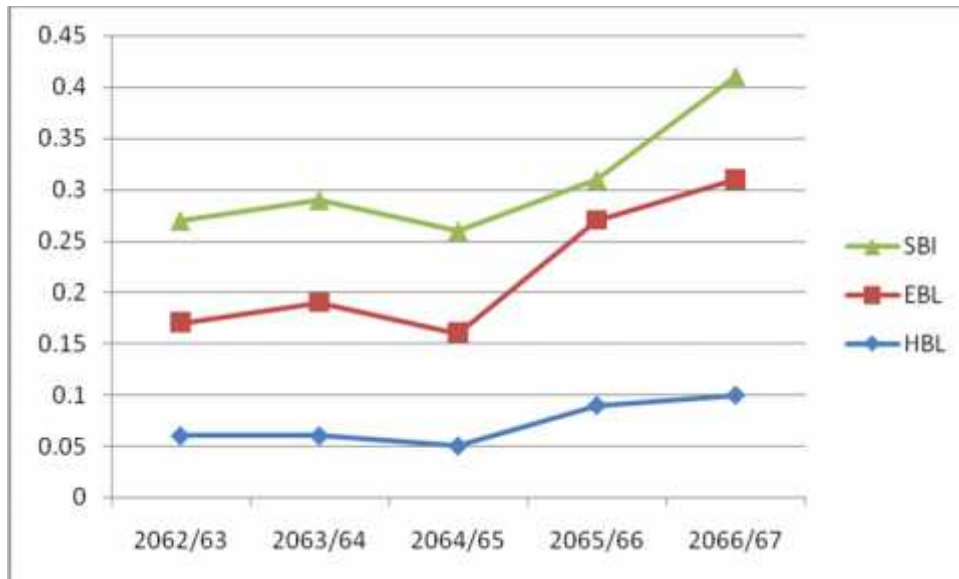
| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
|-----|---------|---------|---------|---------|---------|------|--------|
| HBL | 0.06    | 0.06    | 0.05    | 0.09    | 0.1     | 0.07 | 28.89% |
| EBL | 0.11    | 0.13    | 0.11    | 0.18    | 0.21    | 0.15 | 27.06% |
| SBI | 0.1     | 0.1     | 0.1     | 0.04    | 0.1     | 0.09 | 26.18% |

Source; Appendix;-3

Table 4.3 clearly shows that Cash and Bank Balance to Total Deposit ratio of HBL for the study period-remained 0.06, 0.06, 0.05, 0.09 and 0.1 times respectively from the FY 2062/63 to FY 2066/67. Mean& CV were 0.07 times and 28.89% respectively. Similarly, the ratios of EBL were 0.11, 0.13, 0.11, 0.18 and 0.21times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.15 times and whereas CV appeared 27.06%. Similarly, the ratios of SBI were 0.1, 0.1, 0.1, 0.04 and 0.1times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.09 times and whereas CV appeared 26.18%.

The mean ratio of HBL and SBI appeared lower than EBL, which means that HBL and SBI have not greater ability to repay the deposits i.e. HBL and SBI are not more efficient to serve the customers from liquidity point of view. A high ratio represents the greater ability to meet their all types of deposits. But too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position and also low ratio is unfavorable as capital will be tied up and opportunity cost will be higher. Higher CV of ratios in HBL as compared EBL and SBI signifies greater variation in the ratios. This can be also shown in following figure-3

FIGURE-3



#### 4.1.1.4 Cash and Bank Balance to Deposits (Except Fixed Deposits) Ratio

The ratio measures the ability of the banks to meet its immediate obligation. The bank should adequate cash and bank balance to meet the unexpected as well as the heavy withdrawal of deposits. The ratio is computed by dividing the cash and bank balance to total short-term deposits i.e. Saving Deposits, Current Deposits, Margin Deposits & Call Deposits. It express as;

Cash & Bank Balance to Deposit (except FD) Ratio =

$$\frac{\text{Cash \& Bank Balance}}{\text{Total Deposit(Except Fixed Deposit)}}$$

Table4.4

Calculation of Cash and Bank Balance to Deposits (Except Fixed Deposits) Ratio

| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
|-----|---------|---------|---------|---------|---------|------|--------|
| HBL | 0.09    | 0.11    | 0.06    | 0.11    | 0.15    | 0.1  | 28.52% |
| EBL | 0.16    | 0.19    | 0.15    | 0.23    | 0.3     | 0.2  | 27.82% |
| SBI | 0.23    | 0.19    | 0.2     | 0.11    | 0.27    | 0.2  | 26.46% |

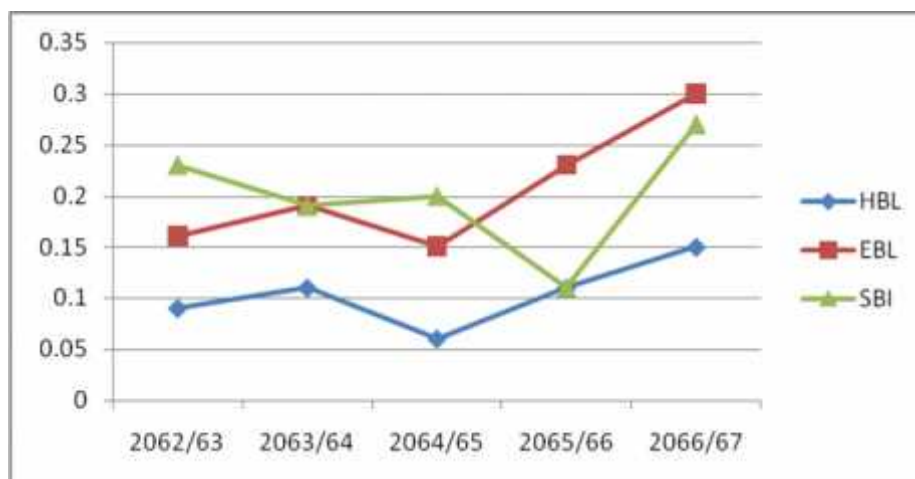
Source; Appendix;-4

Table 4.4 clearly shows that Cash and Bank Balance to Total Deposit (Except Fixed Deposits) Ratio of HBL for the study period-remained 0.09, 0.11, 0.06, 0.11 and 0.15 times respectively from the FY 2062/63 to FY 2066/67. Mean& CV were 0.1 times and 28.52% respectively. Similarly, the ratios of EBL were 0.16, 0.19, 0.15, 0.23 and 0.3 times respectively from FY 2062/63 to FY 2066/67 of corresponding

years. Mean of the ratios appeared 0.2 times and whereas CV appeared 27.82%. Similarly, the ratios of SBI were 0.23, 0.19, 0.2, 0.11 and 0.27 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.2 times and whereas CV appeared 26.46%.

The mean ratio of HBL lowers than EBL &SBI. Which means that EBL and SBI have not greater ability to repay the deposits i.e. EBL and SBI are not more efficient to serve the customers from liquidity point of view. A high ratio represents the greater ability to meet their deposits. But too high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position and also low ratio is unfavorable as capital will be tied up and opportunity cost will be higher. Higher CV of ratios in HBL as compared EBL and SBI signifies greater variation in the ratios. This can be also shown in following figure-4

FIGURE-4



#### 4.1.1.5 Fixed Deposit to Total Deposit Ratio

The ratio measures the position of Fixed Deposit into Total Deposit of the Banks. Fixed Deposit is the main source of the Deposit which Bank invests. Fixed Deposit is the deposit which only returns after the turn off agreed time. It express as;

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

Table4.5

Calculation of Fixed Deposit into Total Deposit Ratio

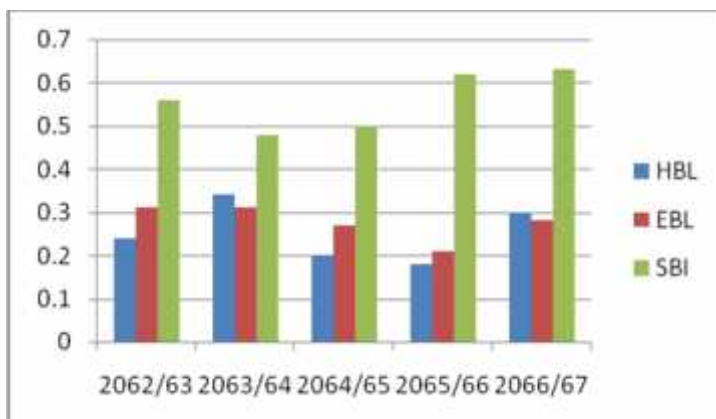
| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
|-----|---------|---------|---------|---------|---------|------|--------|
| HBL | 0.24    | 0.34    | 0.2     | 0.18    | 0.3     | 0.25 | 23.88% |
| EBL | 0.31    | 0.31    | 0.27    | 0.21    | 0.28    | 0.28 | 13.36% |
| SBI | 0.56    | 0.48    | 0.5     | 0.62    | 0.63    | 0.56 | 10.90% |

Source; Appendix;-5

Table 4.5 clearly shows that Fixed Deposit to Total Deposit Ratio of HBL for the study period-remained 0.24, 0.34, 0.2, 0.18, and 0.3 times respectively from the FY 2062/63 to FY 2066/67. Mean& CV were 0.25 times and 23.88% respectively. Similarly, the ratios of EBL were 0.31, 0.31, 0.27, 0.21 and 0.28 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.28 times and whereas CV appeared 13.36%. Similarly, the ratios of SBI were 0.56, 0.48, 0.5, 0.62 and 0.63 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.56 times and whereas CV appeared 10.90%.

The ratio of HBL fluctuated every year during the study period. It was highest in year 2063/64 and lowest in 2065/66. The ratio in EBL was highest in 2062/63 & 2063/64 and then it started to decline. Also the ratio of SBI fluctuated every year during the study period. It was highest in year 2066/67 and lowest in 2063/64. Mean ratio of SBI came higher than HBL and EBL. It suggests that greater portion of total deposit of SBI has been occupied by fixed deposit in contrast to HBL and EBL. It can grasp the opportunity of investing the fund in more profitable sector like long - term loans. C V of HBL is higher than EBL & SBI, it denote that HBL is very risky into liquidity position. This can be also shown in following figure-5.

FIGURE-5





#### 4.1.1.6 NRB Balance to Current and Saving Deposit Ratio

The ratio shows the percentage of amount deposits by the banks in Nepal Rastra Bank (NRB) as compare to the current and saving deposits. Commercial banks required holding certain position of current and saving deposits in NRB account. It is computed by dividing the NRB balance by current and saving deposits.

$$\text{NRB Balance to Current and Saving Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Current \& Saving Deposit}}$$

**Table 4.6**

NRB Balance to Current and Saving Deposit Ratio

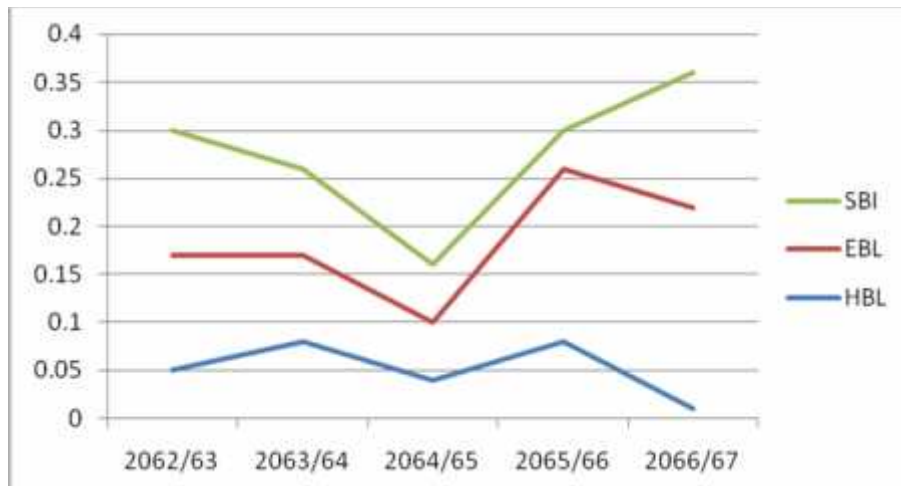
| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
|------------|---------|---------|---------|---------|---------|------|--------|
| <b>HBL</b> | 0.05    | 0.08    | 0.04    | 0.08    | 0.01    | 0.07 | 31.03% |
| <b>EBL</b> | 0.12    | 0.09    | 0.06    | 0.18    | 0.21    | 0.13 | 42.18% |
| <b>SBI</b> | 0.13    | 0.09    | 0.06    | 0.04    | 0.14    | 0.09 | 42.10% |

Source; Appendix;-6

Table 4.6 clearly shows that NRB Balance to Current and Saving Deposit Ratio of HBL for the study period-remained 0.05, 0.08, 0.04, 0.08 and 0.1 times respectively from the FY 2062/63 to FY 2066/67. Mean& CV were 0.07 times and 31.03% respectively. Similarly, the ratios of EBL were 0.12, 0.09, 0.06, 0.18 and 0.21 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.13 times and whereas CV appeared 42.18%. Similarly, the ratios of SBI were 0.13, 0.09, 0.06, 0.04 and 0.14 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.09 times and whereas CV appeared 42.10%.

The ratios of Banks are fluctuated every year during the study period. EBL have higher mean and higher CV in the NRB Balance to Current and Saving Deposit Ratio than HBL and SBI. It shows that EBL deposited more percentage of its deposit into Nepal Rastra Bank's account, but data are less equitable than other. HBL have less CV than EBL and SBI, it mean's HBL has more equitable. This can be also shown in following figure-6.

FIGURE-6



#### 4.1.2 Efficiency /Activity/ Turnover Ratios

Turnover ratios have been used to evaluate the efficiency with which the banks have managed and utilized their assets. So, it is also called Efficiency ratio. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratios moreover help in measuring the bank's ability to utilize their available resources. In this study these ratios include; loans and advances to total deposit ratio, loans and advances to saving deposit ratio, loans and advances to fixed deposit ratio, investment total deposit ratio and performing assets to total assets ratio.

##### 4.1.2.1 Loans and Advances to Total Deposit Ratio

This ratio is calculated to find out how the banks are successful utilizing the outsiders' fund i.e. total deposits for profit generating purpose in the form of extending loan and advances. It is calculated as;

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

Table4.7

Calculation of Loans and Advances to Total Deposit Ratio

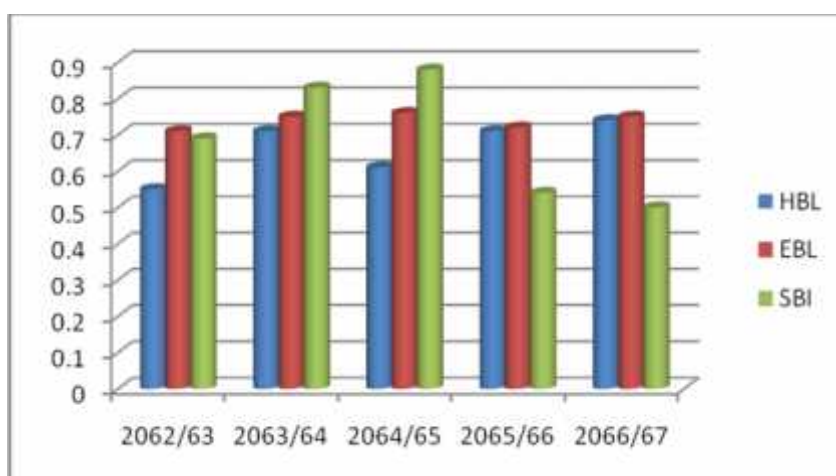
| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
|-----|---------|---------|---------|---------|---------|------|--------|
| HBL | 0.55    | 0.71    | 0.61    | 0.71    | 0.74    | 0.66 | 10.86% |
| EBL | 0.71    | 0.75    | 0.76    | 0.72    | 0.75    | 0.74 | 2.64%  |
| SBI | 0.69    | 0.83    | 0.88    | 0.54    | 0.5     | 0.69 | 21.98% |

Source; Appendix;-7

Table 4.7 clearly shows Loans and Advances to Total Deposit Ratio of HBL for the study period-remained 0.55, 0.71, 0.61, 0.71 and 0.74 times respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 0.66 times and 10.86% respectively. Similarly, the ratios of EBL were 0.71, 0.75, 0.76, 0.72 and 0.75 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.74 times and whereas CV appeared 2.64%. Similarly, the ratios of SBI were 0.69, 0.83, 0.88, 0.54 and 0.5 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.69 times and whereas CV appeared 21.98%.

Mean ratio of EBL appeared considerably higher than that of HBL and SBI, which signifies that EBL is more successful in utilizing the resource in profitable sectors than HBL and SBI. Main source of income of the bank's are generated from providing loan. CV of EBL is less than SBI and HBL; it means EBL more equitable than other in Loans and Advances to Total Deposit. This can be also shown in following figure-4.7.

FIGURE-7



#### 4.1.2.2 Loans and Advances to Saving Deposit Ratio

Saving deposits are interest-bearing obligation for short-term purpose where as loan and advances are long-term investment for generating income. So the ratio indicates how money time's short-term interest-bearing deposits are utilized for income generating purpose. It is calculated as;

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

Table4.8

Loans and Advances to Saving Deposit Ratio

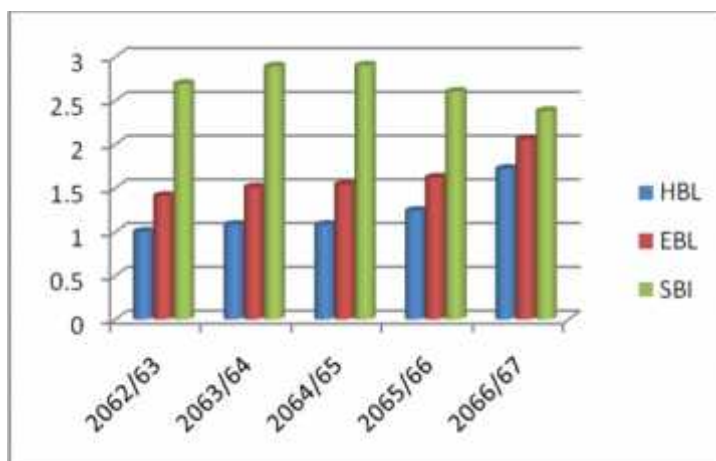
| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
|-----|---------|---------|---------|---------|---------|------|--------|
| HBL | 1       | 1.08    | 1.08    | 1.24    | 1.72    | 1.22 | 21.24% |
| EBL | 1.41    | 1.51    | 1.54    | 1.62    | 2.06    | 1.63 | 13.90% |
| SBI | 2.69    | 2.89    | 2.9     | 2.6     | 2.38    | 2.69 | 7.21%  |

Source; Appendix;-8

Table 4.8 clearly shows Loans and Advances to saving Deposit Ratio of HBL for the study period-remained 1, 1.08, 1.08, 1.24 and 1.72 times respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 1.22 times and 21.24% respectively. Similarly, the ratios of EBL were 1.41, 1.51, 1.54, 1.62 and 2.06 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 1.63 times and whereas CV appeared 13.90%. Similarly, the ratios of SBI were 2.69, 2.89, 2.90, 2.6 and 2.38 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 2.69 times and whereas CV appeared 7.21%.

The ratio of HBL and EBL is in increasing trend but the ratio of SBI is in increasing trend up to third year and then it began to decrease. Mean ratio of SBI appeared considerably higher than that of HBL and EBL, which indicates that SBI has more successfully utilized the interest bearing deposit in terms of loans and advances. But weak in liquidity position because SBI invest over than saving deposit. The consistency in the ratio was found higher in SBI from the CV analysis. This can be also shown in following figure-4.8;-

FIGURE-8



#### 4.1.2.3 Loans and Advances to Fixed Deposits Ratio

The ratio examines that how many the fund is used in loans and advance against fixed deposits. They are interest bearing long-term obligation where as loans and advance are the major sources of investment in generating income for commercial banks. It is calculated as;

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

Table 4.9

Loans and Advances to Fixed Deposits Ratio

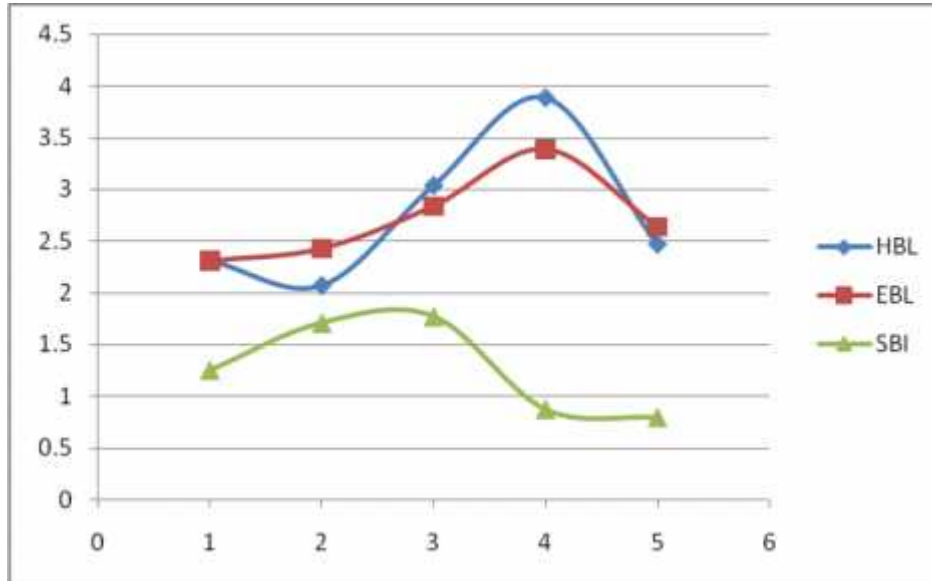
| <b>FY</b>  | <b>2062/63</b> | <b>2063/64</b> | <b>2064/65</b> | <b>2065/66</b> | <b>2066/67</b> | <b>Mean</b> | <b>CV</b> |
|------------|----------------|----------------|----------------|----------------|----------------|-------------|-----------|
| <b>HBL</b> | 2.31           | 2.07           | 3.04           | 3.89           | 2.47           | 2.76        | 23.62%    |
| <b>EBL</b> | 2.31           | 2.43           | 2.84           | 3.39           | 2.64           | 2.72        | 13.96%    |
| <b>SBI</b> | 1.25           | 1.71           | 1.77           | 0.87           | 0.79           | 1.28        | 31.96%    |

Source; Appendix;-9

Table 4.9 clearly shows Loans and Advances to fixed Deposit Ratio of HBL for the study period-remained 2.31, 2.07, 3.04, 3.89 and 2.47 times respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 2.76 times and 23.62% respectively. Similarly, the ratios of EBL were 2.31, 2.43, 2.84, 3.39 and 2.64 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 2.72 times and whereas CV appeared 13.96%. Similarly, the ratios of SBI were 1.25, 1.71, 1.77, 0.87 and 0.79 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 1.28 times and whereas CV appeared 31.96%.

The ratios of Banks are fluctuated every year during the study period. HBL have higher mean and EBL have lower CV in the Loans and Advances to Fixed Deposits Ratio, but SBI have lower mean and higher CV. HBL have higher mean ratio, which means it utilized the high interest bearing fixed deposits in yielding sector satisfactory return or utilizes its fixed deposits more efficiently. For the Stable point of view EBL is better because EBL have lower CV. This can be also shown in following figure-4.9;-

FIGURE-9



#### 4.1.2.4 Investment to Total Deposit Ratio

Investment is the other main source of the income for the commercial banks. Total investment includes its HMG treasury bills, development bonds, other company's share and other types of investment. The ratio shows how efficiently the major sources of bank have been mobilized. It is calculated as;

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

Table4.10

Investment to Total Deposit Ratio

| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
|------------|---------|---------|---------|---------|---------|------|--------|
| <b>HBL</b> | 0.41    | 0.49    | 0.42    | 0.25    | 0.22    | 0.36 | 29.22% |
| <b>EBL</b> | 0.3     | 0.27    | 0.21    | 0.18    | 0.14    | 0.22 | 26.50% |
| <b>SBI</b> | 0.33    | 0.23    | 0.23    | 0.48    | 0.47    | 0.35 | 31.61% |

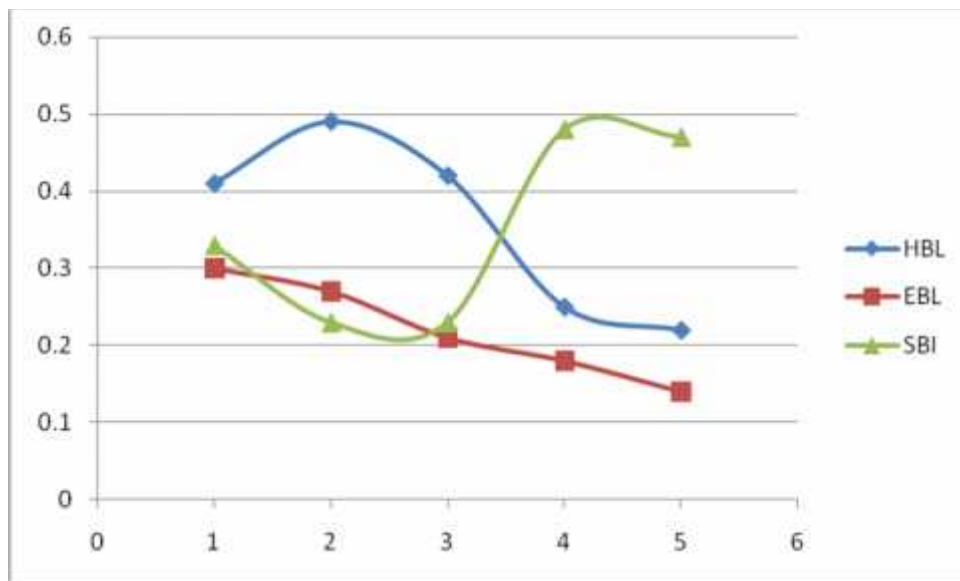
Source; Appendix;-10

Table 4.10 clearly shows Investment to Total Deposit Ratio of HBL for the study period-remained 0.41, 0.49, 0.42, 0.25 and 0.22 times respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 0.36 times and 29.22% respectively. Similarly, the ratios of EBL were 0.3, 0.27, 0.21, 0.18 and 0.14 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.22 times and whereas CV appeared 26.50%. Similarly, the ratios of SBI were 0.3,

0.23, 0.23, 0.48 and 0.47 times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 0.35 times and whereas CV appeared 31.61%.

The ratio of HBL is decreasing trend after FY 2064/65, but the ratio of EBL is decreasing trend begging of the study period. The ratio of SBI is fluctuating during the study period. HBL was invested more percentage of deposit in Investment compare than SBI & EBL, but more variable than EBL. This can be also shown in following figure-4.10;-

FIGURE-10



#### 4.1.3 Profitability Ratios

Profit is an important factor that determines the firm's expansion & diversification. A required level of profit is necessary for the firm's growth and survives in the competitive environment. Profitability ratios have been employed to measure the operating efficiency of the sampled banks. For the purpose, return on assets, return on net worth, return on total deposit, total interest expenses to total interest income ratio and interest earned to total asset ratio have been analyzed and interpreted.

#### 4.1.3.1 Return on Assets (ROA)

The ratio is useful in measuring the profitability of all financial resources invested the firm's assets. It is also called net profit or loss to total assets or working fund ratio and denoted by ROA. It is calculated as:

$$\text{Return on Assets} = \frac{\text{Net Profit After Tax(NPAT)}}{\text{Total Assets}}$$

Table 4.11

Return on Assets  
(ROA)

| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean  | CV     |
|-----|---------|---------|---------|---------|---------|-------|--------|
| HBL | 1.55%   | 1.47%   | 1.76%   | 1.91%   | 1.19%   | 1.58% | 43.95% |
| EBL | 0.57%   | 1.39%   | 1.36%   | 1.73%   | 2.01%   | 1.47% | 48.41% |
| SBI | 0.90%   | 1.83%   | 1.44%   | 1.05%   | 1.03%   | 1.25% | 37.27% |

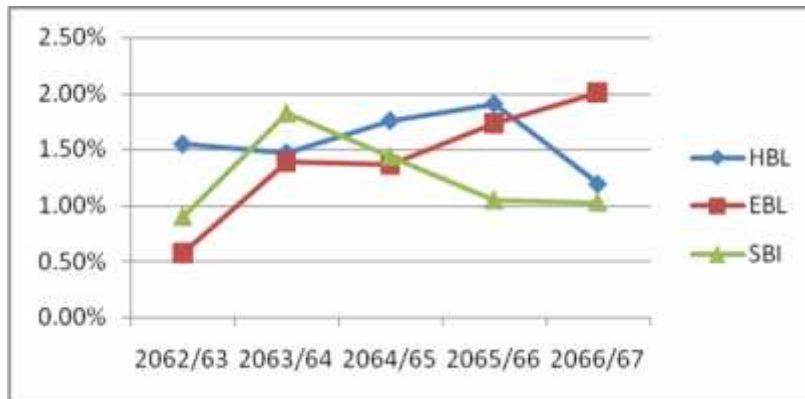
Source; Appendix;-11

Table 4.11 clearly shows Return on Assets Ratio of HBL for the study period-remained 1.55%, 1.47%, 1.76%, 1.91%and 1.19% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 1.58% and 43.95% respectively. Similarly, the ratios of EBL were 0.57%, 1.39%, 1.36%, 1.73% and 2.01% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 1.47% and whereas CV appeared 48.41%. Similarly, the ratios of SBI were 0.90%, 1.83%, 1.44%, 1.05% and 1.03% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 1.25% and whereas CV appeared 37.27%.

The Return on Assets ratio of HBL and EBL are fluctuating during the study period. The Return on Assets ratio of SBI is decreasing trend after the FY 2063/64. The higher mean ratio of HBL is represented higher profitability position compare than EBL and SBI. If bank earns high profit, it will increase its goodwill in competitive market at it can gives attractive bonus and dividend to staffs and shareholders respectively. But the point of view CV of the ratio SBI is better because it is more equitable and less variable. This can be also shown in following figure-4.11;-



FIGURE-11



#### 4.1.3.2 Return on Net Worth / Shareholders' Equity (ROSE)

The ratio is tested to see the profitability of owners' investment. It reflects the extent to which the objective of business is accomplished. The ratio is of great interest to present as prospective shareholders' and also of great significance to management, which has the responsibility maximizing the owners' welfare. It is also called net profit to shareholders equity ratio on shareholder equity simply denoted by ROSE. It is calculated as;

$$\text{Return on Net Worth} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Net Worth}}$$

Table 4.12

Return on Net Worth / Shareholders' Equity (ROSE)

| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean   | CV     |
|------------|---------|---------|---------|---------|---------|--------|--------|
| <b>HBL</b> | 22.82%  | 21.60%  | 22.91%  | 22.94%  | 14.02%  | 20.86% | 16.77% |
| <b>EBL</b> | 22.02%  | 23.47%  | 21.88%  | 26.38%  | 27.40%  | 24.23% | 8.74%  |
| <b>SBI</b> | 11.50%  | 20.32%  | 17.36%  | 18.28%  | 15.46%  | 16.58% | 16.81% |

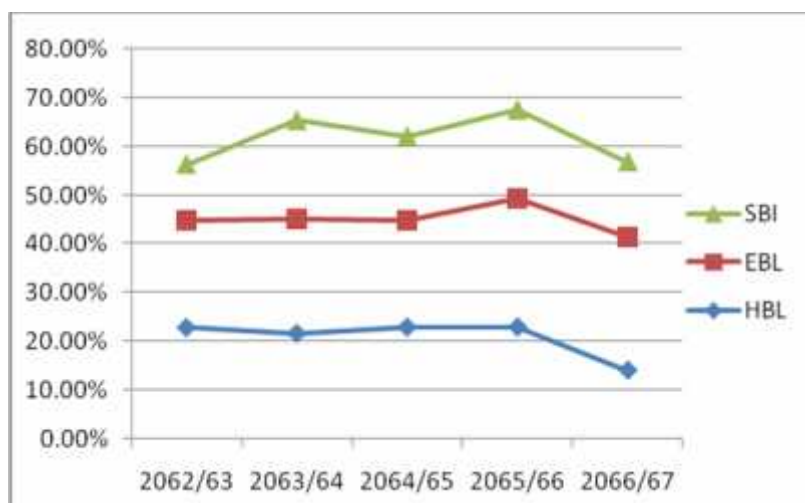
Source; Appendix;-12

Table 4.12 clearly shows Return on Net worth of HBL for the study period-remained 22.82%, 21.60%, 22.91%, 22.94% and 14.02% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 20.86% and 16.77% respectively. Similarly, the ratios of EBL were 22.02%, 23.47%, 21.88%, 26.38% and 27.40% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 24.23% and whereas CV appeared 8.74%. Similarly, the ratios of SBI

were 11.50%, 20.32%, 17.36%, 18.28% and 15.46% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 16.58% and whereas CV appeared 16.81%.

The Return on Net worth of the banks is fluctuating during the study period. The higher mean ratio of EBL indicates that EBL has effectively utilized the owners' capital and able to give regular & significant return to them. Higher CV of the ratios in SBI signifies that the lesser uniformity in the ratio or the ratios were far from the mean ratios. If bank earns high profit, it will increase its goodwill in competitive market and it can give attractive dividend to shareholders. This can be also shown in following figure-4.12;-

FIGURE-12



#### 4.1.3.3 Return on Total Deposits

Return on Total Deposits shows the relation of net profit earned by bank with the total deposits accomplished. It is calculated as:

$$\text{Return on Total Deposit} = \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Deposit}}$$

Table 4.13

Return on Total Deposits

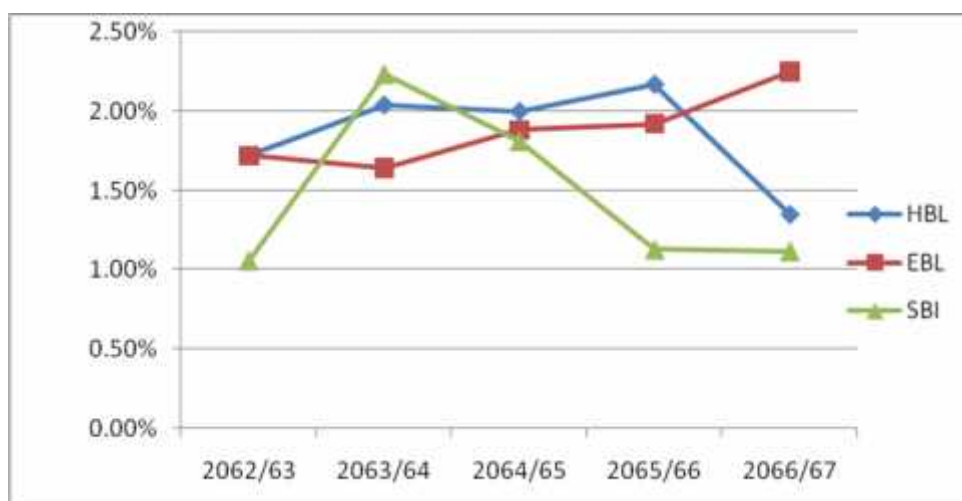
| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean  | CV     |
|-----|---------|---------|---------|---------|---------|-------|--------|
| HBL | 1.72%   | 2.04%   | 2.00%   | 2.17%   | 1.35%   | 1.86% | 24.85% |
| EBL | 1.72%   | 1.64%   | 1.88%   | 1.92%   | 2.25%   | 1.88% | 0.00%  |
| SBI | 1.06%   | 2.23%   | 1.81%   | 1.13%   | 1.12%   | 1.47% | 45.18% |

Source; Appendix;-13

Table 4.13 clearly shows Return on Total deposits of HBL for the study period-remained 1.72%, 2.04%, 2.00%, 2.17%and 1.35% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 1.86% and 24.85% respectively. Similarly, the ratios of EBL were 1.72%, 1.64%, 1.88%, 1.92% and 2.25% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 1.88% and whereas CV appeared 0.00%. Similarly, the ratios of SBI were 1.06%, 2.23%, 1.81%, 1.13% and 1.12% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 1.47% and whereas CV appeared 37.27%.

The Return on total deposit ratio of HBL and EBL are fluctuating during the study period. The Return on total deposit ratio of SBI is decreasing trend after the FY 2063/64. The higher mean ratio of EBL is represented higher profitability position or (return on deposit) compare than HBL and SBI. If bank earns high percentage of profit on deposit, it will increase its goodwill in competitive market. EBL is also better from the Point of view CV of the ratio because it is more equitable and less variable. This can be also shown in following figure-4.13;-

FIGURE-13



#### 4.1.4 Capital Structure/ Leverage/ Solvency Ratios

The leverage ratios are calculated to judge the long term financial position of a firm. These ratios measure the enterprise's ability to pay the

interest regularly and to repay the principal on maturity. Leverage refers to the ratio of debt to total equity in the capital structure of the firm. Debt and equity are long-term obligation and remaining part of the liabilities side of Balance Sheet are term as short-term obligation. Both types of obligations are required in forming capital structure of firm. The appropriate mixed of all types of structure in capital structure result sound position of firm. Therefore a firm has strong short-term liabilities as well as long-term financial position. Long-term financial position of the firm is determined by leverage or capital structure. So, leverage ratios have been analyzed and interpreted to judge the long-term financial health of the sampled banks. These include debt-equity ratio, debt-assets ratio, debt to total capital ratio and interest coverage ratio.

#### 4.1.4.1 Debt-Equity Ratio

The relationship between long term debt and owner's equity is known as Debt-Equity Ratio. It is a popular measure of the long term financial solvency of a firm. It is calculated as follows:

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

Table 4.14

Debt-Equity Ratio

| FY         | 2062/63      | 2063/64      | 2064/65     | 2065/66      | 2066/67      | Mean         | CV         |
|------------|--------------|--------------|-------------|--------------|--------------|--------------|------------|
| <b>HBL</b> | 1092.40<br>% | 1105.07<br>% | 934.19<br>% | 846.86%      | 801.96%      | 956.10%      | 12.96<br>% |
| <b>EBL</b> | 1137.00<br>% | 1308.80<br>% | 940.82<br>% | 949.08%      | 830.75%      | 1033.29<br>% | 16.38<br>% |
| <b>SBI</b> | 963.55%      | 785.80%      | 906.08<br>% | 1358.95<br>% | 1175.00<br>% | 1037.88<br>% | 19.66<br>% |

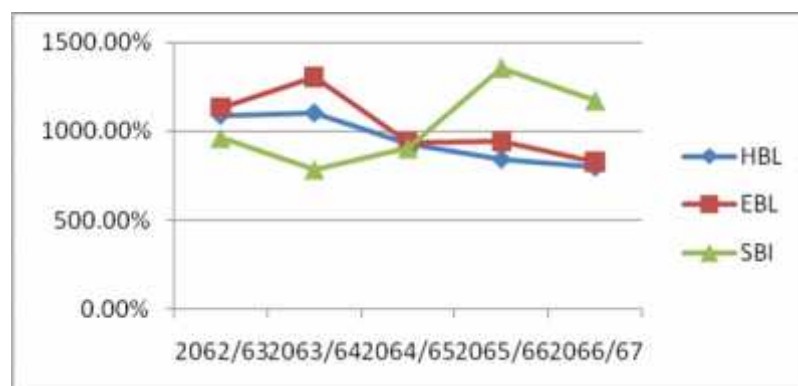
Source; Appendix;-14

Table 4.14 clearly shows Debt-Equity Ratio of HBL for the study period-remained 1092.40%, 1105.07 %, 934.19%, 846.86%and 801.96% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 956.01% and 12.96% respectively. Similarly, the ratios of EBL were 1137.00%, 1308.80%, 940.82%, 949.08% and 830.75% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 1033.29% and whereas CV appeared 16.38%. Similarly, the ratios of SBI were 963.55%, 785.80%, 906.08%, 1358.95% and 1175.00% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 1037.88% and whereas CV appeared 19.66%.

SBI have higher mean ratio of Debt-Equity ratio, compare than HBL and EBL. A high ratio shows the large share of financing by the creditors as compared to that of owners. High ratio is more risky than low ratio. Higher ratio shows that more of the funds invested in the business are provided by the outsider. So in compare

HBL is better than EBL and SBI. Because HBL have low Debt-Equity ratio and CV of the ratio. This can be also shown in following figure-4.14;-

FIGURE-14



#### 4.1.4.2 Debt Assets Ratio

The ratio shows the contribution of creditors in financing the assets of the bank. It is calculated as;

$$\text{Debt-Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Table4.15

Debt-Assets Ratio

| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean   | CV     |
|------------|---------|---------|---------|---------|---------|--------|--------|
| <b>HBL</b> | 74.33%  | 75.08%  | 71.69%  | 70.67%  | 68.12%  | 71.98% | 3.40%  |
| <b>EBL</b> | 29.60%  | 77.53%  | 71.46%  | 62.26%  | 60.93%  | 60.36% | 27.20% |
| <b>SBI</b> | 75.23%  | 70.90%  | 75.22%  | 77.98%  | 78.24%  | 75.52% | 3.46%  |

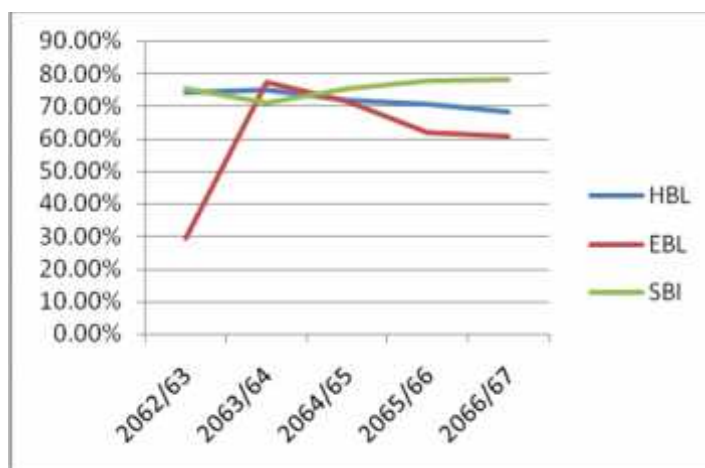
Source; Appendix;-15

Table 4.15 clearly shows Debt-Assets Ratio of HBL for the study period-remained 74.33%, 75.08 %, 71.69%, 70.67%and 68.12% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 71.98% and 3.40% respectively. Similarly, the ratios of EBL were 29.60.%, 77.53%, 71.46%, 62.26% and 60.93% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 60.36% and whereas CV appeared 27.20%. Similarly, the ratios of SBI were 75.23%, 70.90%, 75.22%, 77.98% and 78.24% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 75.52% and whereas CV appeared 3.46%.

The Debt-Assets Ratio of HBL and EBL were decreasing trend after FY 2063/64 during the study period. But Debt-Assets Ratio of SBI was increasing trend after FY 2063/64 during the study period. Higher mean Debt-Equity ratio of SBI

indicates that the greater portion of the bank's assets has been financed through outsider's fund. From the CV analysis, it can be noticed that the ratios of HBL varied considerably throughout the review period. This can be also shown in following figure-4.15;-

FIGURE-15



#### 4.1.4.3 Interest Coverage Ratio

This ratio indicates the ability of a firm to pay interest charges on its borrowed capital. It is also called “Debt service ratio” or “Time interest earned ratio”. It shows the number of times the interest charged are covered by fund that ordinary available for their payment. It is calculated by dividing the EBIT by interest charged.

$$\text{Interest Coverage Ratio} = \frac{\text{Earning Before Interest \& Tax (EBIT)}}{\text{Interest Charged}}$$

Table 4.16

#### Interest Coverage Ratio

| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean    | CV     |
|------------|---------|---------|---------|---------|---------|---------|--------|
| <b>HBL</b> | 203.63% | 193.48% | 215.19% | 214.10% | 148.65% | 195.01% | 12.48% |
| <b>EBL</b> | 186.10% | 188.23% | 204.12% | 243.28% | 175.53% | 199.45% | 11.83% |
| <b>SBI</b> | 159.67% | 183.59% | 176.50% | 153.72% | 137.29% | 162.15% | 10.31% |

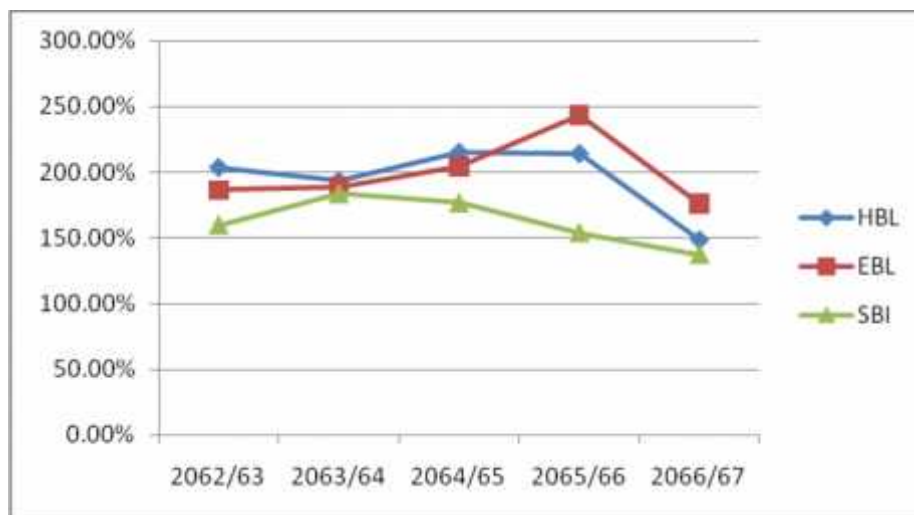
Source; Appendix;-16

Table 4.16 clearly shows Interest Coverage Ratio of HBL for the study period-remained 203.63%, 193.48%, 215.19%, 214.10% and 148.65% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 195.01% and 12.48% respectively. Similarly, the ratios of EBL were 186.10%, 188.23%, 204.12%, 243.28% and

175.53% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 199.45% and whereas CV appeared 11.83%. Similarly, the ratios of SBI were 159.67%, 183.59%, 176.50%, 153.72% and 138.29% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 162.15% and whereas CV appeared 10.31%.

Interest Coverage Ratio of HBL for the study period was fluctuating trend. Interest Coverage Ratio of EBL for the study period was in increasing trend. Interest Coverage Ratio of SBI for the study period was in decreasing trend after the FY2063/64. A high ratio is a sign of low burden of borrowing capacity. So creditors are interested to invest who have high ratio of Interest Coverage. So EBL is better than HBL and SBI, because EBL have greater Interest Coverage Ratio. From the CV analysis, it can be noticed that the ratios of SBI varied considerably throughout the review period. This can be also shown in following figure-4.16;-

Figure-4.16



#### 4.1.5 Capital Adequacy Ratios

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

Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle. If the capital is insufficient, the firm may not be able to grasp the opportunity from potential

profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. As per the directive, this ratio should be 8 % of their total risk weighted assets and total off balance sheet transitions. Here, capital fund refers to the core capital and supplementary capital. Commercial banks cannot declare and distribute dividend until they meet capital adequacy ratio.

#### 4.1.5.1 Net Worth to Total Deposits Ratio

The ratio measures the percentage of shareholders' fund in relation to the total deposits collected in the bank. It is the yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank. It is calculated as;

$$\text{Net worth to Total Deposit} = \frac{\text{Net Worth}}{\text{Total Deposit}}$$

Table 4.17

NetWorth to Total DepositsRatio

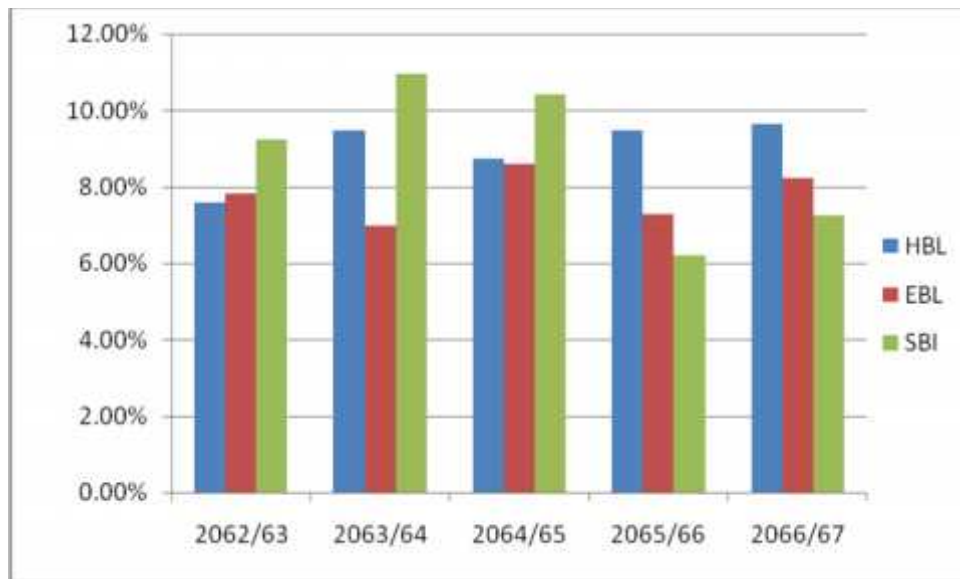
| <b>FY</b>  | <b>2062/63</b> | <b>2063/64</b> | <b>2064/65</b> | <b>2065/66</b> | <b>2066/67</b> | <b>Mean</b> | <b>CV</b> |
|------------|----------------|----------------|----------------|----------------|----------------|-------------|-----------|
| <b>HBL</b> | 7.57%          | 9.46%          | 8.72%          | 9.46%          | 9.65%          | 8.97%       | 62.46%    |
| <b>EBL</b> | 7.81%          | 6.98%          | 8.60%          | 7.27%          | 8.22%          | 7.77%       | 9.93%     |
| <b>SBI</b> | 9.25%          | 10.96%         | 10.40%         | 6.19%          | 7.26%          | 8.81%       | 22.06%    |

Source; Appendix;-17

Table 4.17 clearly shows Net worth to Total Deposit Ratio of HBL for the study period-remained 7.57%, 9.46%, 8.72%, 9.46% and 9.65% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 8.97% and 62.46% respectively. Similarly, the ratios of EBL were 7.81%, 6.98%, 8.60%, 7.27% and 8.22% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 7.77% and whereas CV appeared 9.93%. Similarly, the ratios of SBI were 9.25%, 10.96%, 10.40%, 6.19% and 7.26% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 8.81% and whereas CV appeared 22.06%. The ratios of both banks showed fluctuating trend in the period of review. This can be also shown in following figure-4.17;-



Figure-4.17



#### 4.1.5.2 Net Worth to Total Assets Ratio

The ratio measures the percentage of net worth in relation to the total assets owned by the banks. It is calculated as:

$$\text{Net Worth to Total Assets Ratio} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

Table4.18

Net Worth to Total Assets Ratio

| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean  | CV     |
|------------|---------|---------|---------|---------|---------|-------|--------|
| <b>HBL</b> | 6.80%   | 6.79%   | 7.67%   | 8.34%   | 8.49%   | 7.62% | 8.32.% |
| <b>EBL</b> | 2.60%   | 5.92%   | 7.60%   | 6.56%   | 7.33%   | 6.00% | 27.94% |
| <b>SBI</b> | 7.81%   | 9.02%   | 8.30%   | 5.74%   | 6.66%   | 7.51% | 14.41% |

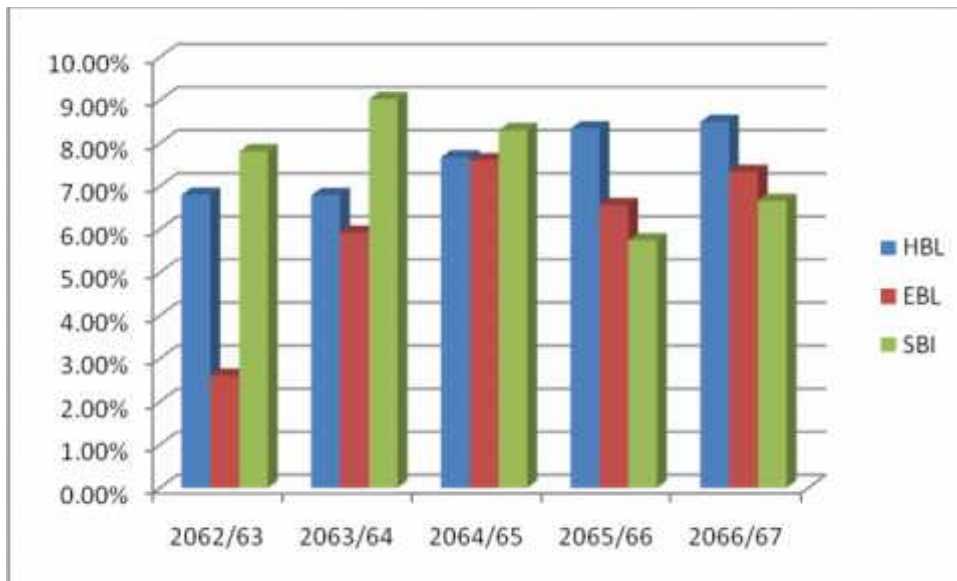
Source; Appendix;-18

Table 4.18 clearly shows Net Worth to Total Assets Ratio of HBL for the study period-remained 6.80%, 6.79%, 7.67%, 8.34%and 8.49% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 7.62% and 8.32% respectively. Similarly, the ratios of EBL were 2.60%, 5.92%, 7.60%, 6.56% and 7.33% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 6.00% and whereas CV appeared 27.94%. Similarly, the ratios of SBI were 7.81%, 9.02%, 8.30%, 5.74% and 6.66% respectively from FY 2062/63 to FY

2066/67 of corresponding years. Mean of the ratios appeared 7.51% and whereas CV appeared 14.41%.

Mean ratio SBI seemed higher than that of HBL and EBL, which indicates that net worth in it has covered comparatively greater portion of total assets. In other words, SBI is superior to HBL and EBL to check the possible risk that might arise due to high leverage. This can be also shown in following figure-4.18;-

Figure-4.18



#### 4.1.5.3 Net Worth to Total Credit Ratio

The ratio is obtained when net worth is divided by the total credit of the bank. It measures the relative proportion of the shareholders fund with respect to the credit. High ratio shows that the firm has adequate capital, which is the index of safety. Moreover, a bank with higher ratio is less affected by the instability of the financial market.

$$\text{Net Worth to Total Credit Ratio} = \frac{\text{Net Worth}}{\text{Total Credit}}$$

Table;-19  
Net Worth to Total Credits Ratio

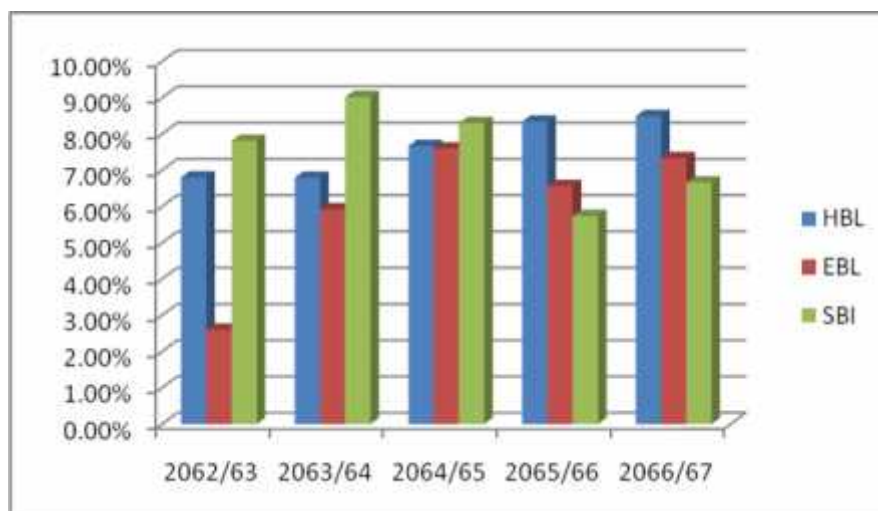
| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean   | CV     |
|-----|---------|---------|---------|---------|---------|--------|--------|
| HBL | 9.15%   | 9.05%   | 10.70%  | 11.81%  | 12.47%  | 10.64% | 13.34% |
| EBL | 8.80%   | 7.64%   | 10.63%  | 10.54%  | 12.04%  | 9.93%  | 14.54% |
| SBI | 10.38%  | 12.73%  | 11.04%  | 7.36%   | 8.51%   | 10.00% | 20.00% |

Source; Appendix;-19

Table 4.19 clearly shows Net Worth to Total Credit Ratio of HBL for the study period-remained 9.15%, 9.05%, 10.70%, 11.81%and 12.47% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 10.64% and 13.34% respectively. Similarly, the ratios of EBL were 8.80%, 7.64%, 10.63%, 10.54% and 12.04% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 9.93% and whereas CV appeared 14.54%. Similarly, the ratios of SBI were 10.38%, 12.73%, 11.04%, 7.36% and 8.51% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 10.00% and whereas CV appeared 20.00%.

The ratio of EBL and SBI fluctuated every year through the review period. The ratio of HBL was increasing trend after the FY 2063/64. Mean ratio is also slightly difference in banks. Banks are equal in capital adequacy position. But uniformity in maintaining the ratio different year seems higher in HBL as per lower CV. This can be also shown in following figure-19;

Figure-4.19



In totality, capital adequacy position of EBL appeared stronger than that of HBL and SBI. In this sense, EBL BANK is successful to reassure creditors and depositors about its soundness. Similarly, the banks differ significantly with respect to capital adequacy position.

#### 4.1.6 Assets quality ratios

Assets quality ratios intend to measure the quality of assets owned by the banks, these include loan loss coverage ratio, loan loss provision to total income ratio, loan loss provision to total deposit ratio and accrued interest to total interest income ratio.

##### 4.1.6.1 Loan Loss Coverage Ratio

Nepal Rastra Bank has directed Commercial banks to maintain provision for loan loss on the basis of category of loan & risk grade. The ratio therefore measures whether the provision is sufficient to meet the possible loss created by defaulted in payment of loan or not. It is computed by dividing loan loss provision by total risk assets.

$$\text{Loan loss coverage ratio} = \frac{\text{Loan loss provision}}{\text{Total risk assets}}$$

Table 4.20

Loan Loss Coverage Ratio

| FY  | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean  | CV     |
|-----|---------|---------|---------|---------|---------|-------|--------|
| HBL | 7.10%   | 4.68%   | 3.50%   | 2.93%   | 4.09%   | 4.46% | 35.21% |
| EBL | 3.42%   | 3.06%   | 2.71%   | 2.45%   | 2.18%   | 2.76% | 24.33% |
| SBI | 8.06%   | 6.39%   | 5.22%   | 3.17%   | 2.76%   | 5.12% | 37.95% |

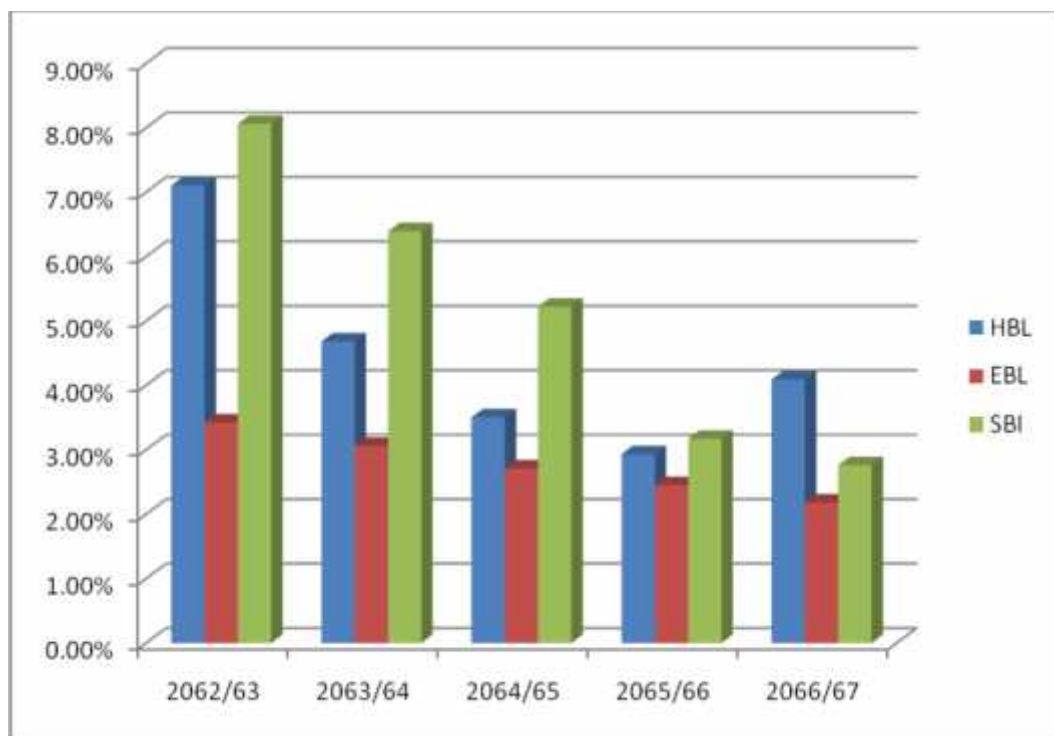
Source; Appendix;-20

Table 4.20 clearly shows Loan Loss Coverage Ratio of HBL for the study period-remained 7.10%, 4.68%, 3.50%, 2.93% and 4.09% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 4.46% and 35.21% respectively. Similarly, the ratios of EBL were 3.42%, 3.06%, 2.71%, 2.45% and 2.18% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 2.76% and whereas CV appeared 24.33%. Similarly, the ratios of SBI were 8.06%, 6.39%, 5.22%, 3.17% and 2.76% respectively from FY 2062/63 to FY 2066/67 of

corresponding years. Mean of the ratios appeared 5.12% and whereas CV appeared 39.95%.

The ratio of the banks was in decreasing trend. Mean ratio of EBL was lower than HBL and SBI. It indicates that EBL has been more successful to foresee the quality of loans lent. Conversely, the assets possessed by HBL and SBI have higher degree of risk as compared to that of EBL. That's why, the former bank has maintained comparatively higher ratio to prevent itself from possible default in payment by borrowers. CV of the ratios seemed less in EBL, which reveals that consistency in the ratios greater in EBL. This can be also shown in following figure-20;

Figure-4.20



#### 4.1.6.2 Loan Loss Provision to Total Income Ratio

The ratio shows that portion of total income has been held as safety cushion against the possible bad loan. It is calculated as;

$$\text{Loan Loss Provision to Total Income Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Income}}$$

Table4.21

Loan Loss Provision to Total Income Ratio

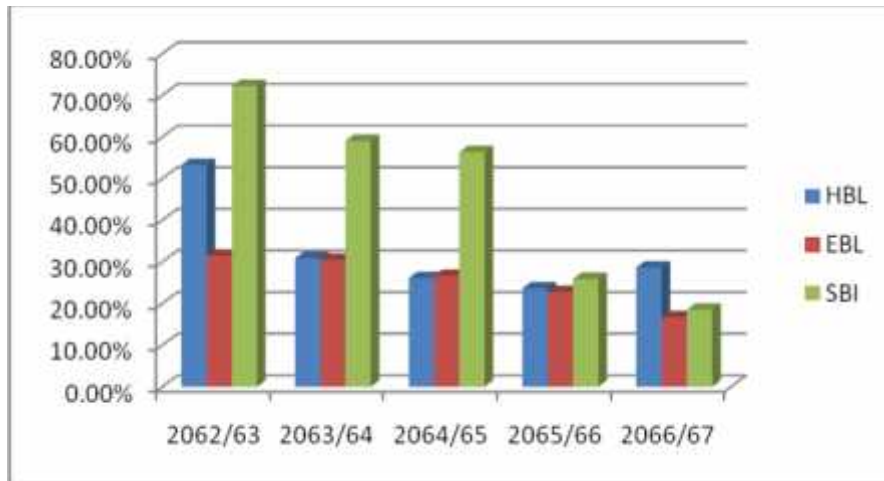
| <b>FY</b>  | <b>2062/63</b> | <b>2063/64</b> | <b>2064/65</b> | <b>2065/66</b> | <b>2066/67</b> | <b>Mean</b> | <b>CV</b> |
|------------|----------------|----------------|----------------|----------------|----------------|-------------|-----------|
| <b>HBL</b> | 53.28%         | 30.88%         | 26.08%         | 23.61%         | 28.65%         | 32.50%      | 32.17%    |
| <b>EBL</b> | 31.41%         | 30.52%         | 26.64%         | 22.75%         | 16.68%         | 25.60%      | 20.58%    |
| <b>SBI</b> | 72.24%         | 59.04%         | 56.35%         | 25.90%         | 18.51%         | 46.41%      | 43.89%    |

Source; Appendix;-21

Table 4.21 clearly shows Loan Loss Provision to Total Income Ratio of HBL for the study period-remained 53.28%, 30.88%, 26.08%, 23.61%and 28.65% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 32.50% and 32.17% respectively. Similarly, the ratios of EBL were 31.41%, 30.52%, 26.64%, 22.75% and 16.68% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 25.60% and whereas CV appeared 20.58%. Similarly, the ratios of SBI were 72.24%, 59.04%, 56.35%, 25.90% and 18.51% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 46.41% and whereas CV appeared 43.89%.

Mean ratio of SBI was higher than HBL and EBL, which indicates that SBI held comparatively greater position of risky assets. Moreover, SBI has been forced to retain greater portion of its income idle as the cushion against loans of inferior quality. CV analysis signifies that the ratios of EBL remained less uniform through the period of study. This can be also shown in following figure-21.

Figure-4.21



#### 4.1.6.3 Loan Loss Provision to Total Deposit Ratio

The ratio shows the proportion of banks income held as loan loss provision in relation to total deposits collected. It is calculated as;

$$\text{Loan Loss Provision to Total Deposits Ratio} = \frac{\text{Loan Loss Provision}}{\text{Total Deposits}}$$

Table4.22

Loan Loss Provision to Total Deposit Ratio

| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean  | CV     |
|------------|---------|---------|---------|---------|---------|-------|--------|
| <b>HBL</b> | 4.23%   | 3.30%   | 2.14%   | 2.09%   | 3.04%   | 2.96% | 27.66% |
| <b>EBL</b> | 2.43%   | 2.30%   | 2.07%   | 1.76%   | 1.62%   | 2.04% | 00.00% |
| <b>SBI</b> | 5.59%   | 5.28%   | 4.61%   | 1.72%   | 1.38%   | 3.72% | 49.69% |

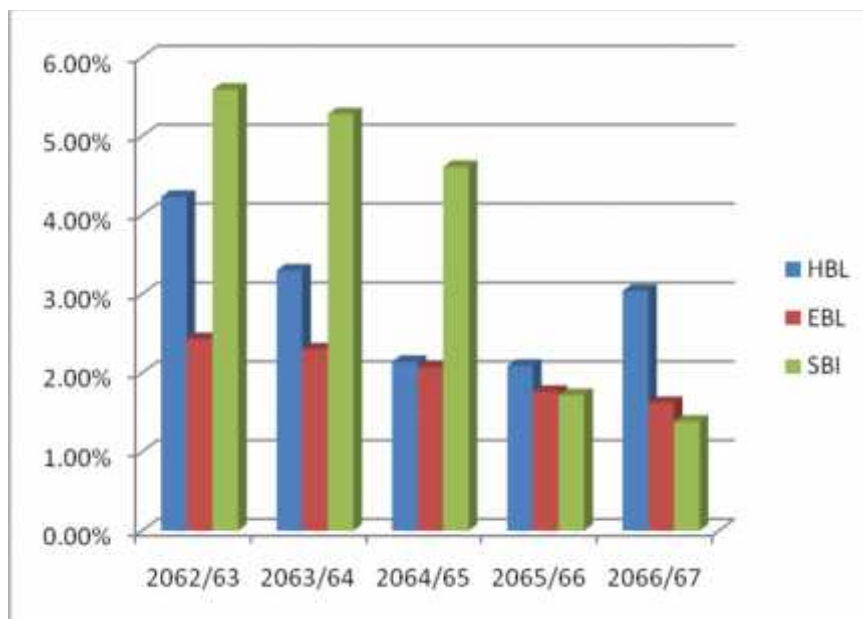
Source; Appendix;-22

Table 4.22 clearly shows Loan Loss Provision to Total Deposit Ratio of HBL for the study period-remained 4.23%, 3.30%, 2.14%, 2.09%and 3.04% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 2.96% and 27.66% respectively. Similarly, the ratios of EBL were 2.43%, 2.30%, 2.07%, 1.76% and 1.62% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 2.04% and whereas CV appeared 00.00%. Similarly, the ratios of SBI were 5.59%, 5.28%, 4.61%, 1.72% and 1.38% respectively from FY 2062/63 to

FY 2066/67 of corresponding years. Mean of the ratios appeared 3.72% and whereas CV appeared 49.69%.

Average ratio in SBI exceeded that in HBL and EBL, which means assets owned by HBL and EBL, are superior to that of SBI. In other words, SBI has lent greater portion of its loans in riskier sector. Lower CV of EBL means that the consistency in the loan loss provision with respect to the deposits was higher in EBL. This can be also shown in following figure-4.22:

Figure-4.22



### 1.7 Other Indicators

Above stated ratio shows light on various aspect of the banks management, investment & creditors can get information regarding their investment. Besides the above-analyzed ratios, some indicators have been tested to have the boarder knowledge of financial performance of the banks. For this, EPS, P/E ratio and MVPS to BVPS have been analyzed.

#### 4.1.7.1 Earning Per Share (EPS)

EPS refers to the income available to the common shareholder on per share basis. It is computed as;

$$\text{Earnings per Share} = \frac{\text{Earning Available Common Shareholder (EAC)}}{\text{No. of Equity Share Outstanding}}$$



Table4.23

**Earnings Per Share (EPS)**

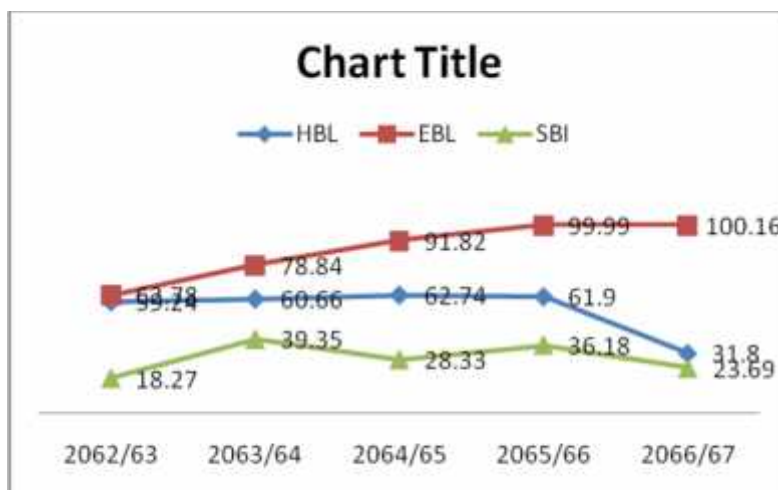
| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean  | CV         |
|------------|---------|---------|---------|---------|---------|-------|------------|
| <b>HBL</b> | 59.24   | 60.66   | 62.74   | 61.9    | 31.8    | 55.27 | 21.34<br>% |
| <b>EBL</b> | 62.78   | 78.84   | 91.82   | 99.99   | 100.16  | 86.72 | 20.10<br>% |
| <b>SBI</b> | 18.27   | 39.35   | 28.33   | 36.18   | 23.69   | 29.16 | 26.65<br>% |

Source; Appendix;-23

Table 4.23 clearly shows Earning per Share (EPS) of HBL for the study period-remained 59.24, 60.66, 62.74, 61.90 and 31.80times respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 55.27times and 21.34% respectively. Similarly, the ratios of EBL were 62.78, 78.84, 91.82, 99.99 and 100.16times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 86.72times and whereas CV appeared 20.10%. Similarly, the ratios of SBI were 18.27, 39.35, 28.33, 36.18 and 23.69times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 29.16times and whereas CV appeared 26.65%.

The ratio of SBI fluctuated every year through the review period. The ratio of EBL was increasing trend. The ratio of HBL was increasing trend for 1<sup>st</sup> two FY of the study period after that in decreasing trend. Mean ratio is also highly difference in banks. EBL have high mean ratio, EBL seems more successful to attract the investors But uniformity in maintaining the ratio different year seems higher in SBI as per lower CV. This can be also shown in following figure-23;

Figure-4.23



#### 4.1.7.2 Price-Earnings Ratio (P/E ratio)

P/E ratio is widely used to evaluate the banks performance as expected by investors. It represents the investor's judgment or expectation about the growth in banks earning. In other words, it measures how the market is responding toward the earning performance of the concerned banks.

It is obtained as;

$$\text{Price-Earnings Ratio} = \frac{\text{Market Value Per Share (MVPS)}}{\text{Earning Per Share (EPS)}}$$

Table 4.24

#### Price-Earnings Ratio (P/E ratio)

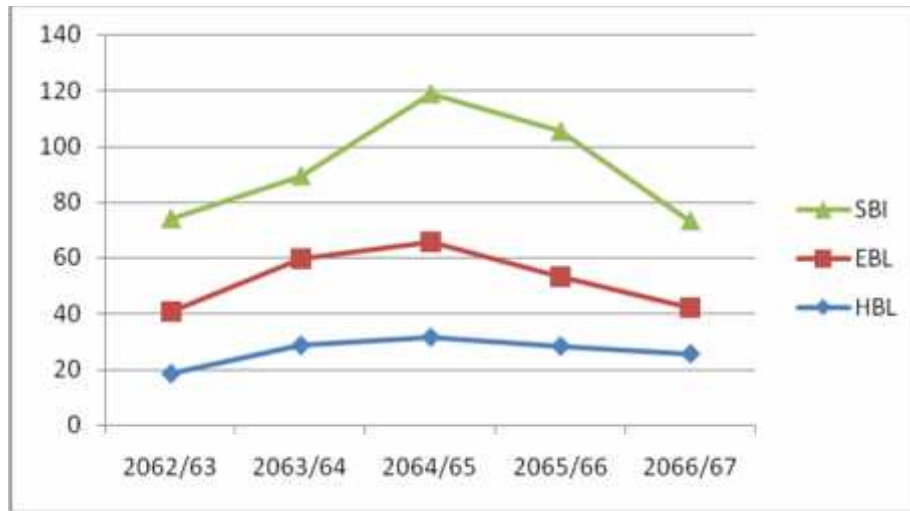
| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean  | CV     |
|------------|---------|---------|---------|---------|---------|-------|--------|
| <b>HBL</b> | 18.57   | 28.69   | 31.56   | 28.43   | 25.66   | 26.58 | 16.33% |
| <b>EBL</b> | 21.96   | 30.82   | 34.11   | 24.55   | 16.27   | 25.55 | 24.84% |
| <b>SBI</b> | 33.49   | 29.89   | 53.33   | 52.52   | 31.28   | 40.1  | 26.28% |

Source; Appendix;-24

Table 4.24 clearly shows Price-Earnings Ratio (P/E ratio) of HBL for the study period-remained 18.57, 28.69, 31.56, 28.43 and 25.66times respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 26.58 times and 16.33% respectively. Similarly, the ratios of EBL were 21.96, 30.82, 34.11, 24.55, and 16.27times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 25.55times and whereas CV appeared 24.84%. Similarly, the ratios of SBI were 33.49, 29.89, 53.33, 52.52 and 31.28times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 40.10times and whereas CV appeared 26.28%.

The ratio of HBL and EBL were increasing trend for 1<sup>st</sup> three FY of the study period after that in decreasing trend. SBI have high mean ratio it indicates that the investors are well satisfied with the performance of the bank or market has positively judged the performance of SBI BANK. But uniformity in maintaining the ratio different year seems higher in HBL as per lower CV. This can be also shown in following figure-24;

Figure-4.24



#### 4.1.7.3 Market Value per Share to Book Value per Share (MVPS/BVPS)

The ratio measures the value that the financial market attaches to the management and organization of the banks as a growing concern. It is calculated as;

$$\frac{\text{Market Value Per Share (MVPS)}}{\text{Book Value Per Share (BVPS)}} = \text{Share to Book Value per Share}$$

Table4.25

#### Market Value per Share to Book Value per Share (MVPS/BVPS)

| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean | CV     |
|------------|---------|---------|---------|---------|---------|------|--------|
| <b>HBL</b> | 4.81    | 6.57    | 7.99    | 6.86    | 3.6     | 5.97 | 26.18% |
| <b>EBL</b> | 6.33    | 8.65    | 9.73    | 7.12    | 4.91    | 7.35 | 23.10% |
| <b>SBI</b> | 4.03    | 6.61    | 9.41    | 9.76    | 5.02    | 6.97 | 32.93% |

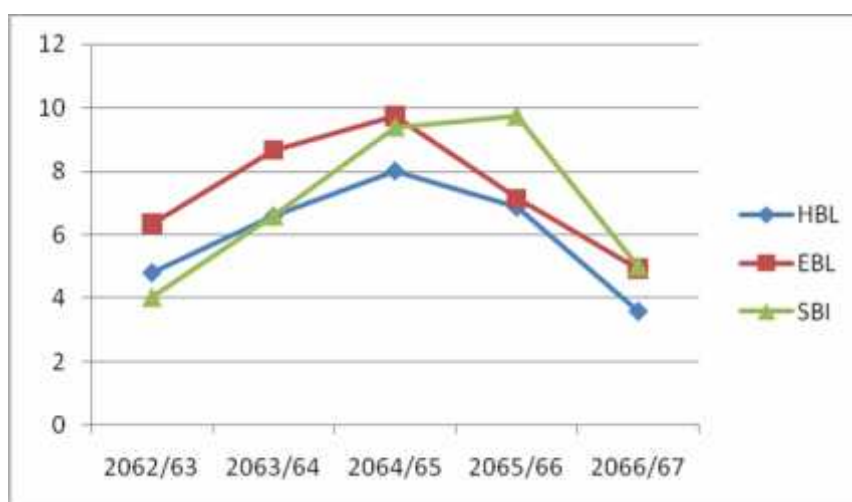
Source; Appendix;-25

Table 4.25 clearly shows Market Value per Share to Book Value per Share (MVPS/BVPS) of HBL for the study period-remained 4.81, 6.57, 7.99, 6.86 and 3.6times respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 5.97times and 26.18% respectively. Similarly, the ratios of EBL were 6.33, 8.65, 9.73, 7.12, and 4.91times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 7.35times and whereas CV appeared 23.10%.

Similarly, the ratios of SBI were 4.03, 6.61, 9.41, 9.76 and 5.02times respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 6.97times and whereas CV appeared 32.93%.

The ratio of HBL and EBL was increasing trend for 1<sup>st</sup> two FY of the study period after that in decreasing trend. The ratio of SBI was increasing trend but decrease in last year of the study period. EBL have higher mean ratio, which indicates comparatively stronger management and organization EBL than HBL and SBI. CV of the indicators came less in EBL, which means the indicators, varied less over the period of study. This can be also shown in following figure-25;

Figure-4.25



#### 4.1.7.4 Total Interest Expenses to Total Interest Income Ratio

The ratio shows the percentage of interest expenses incurred in relation to the interest income incurred. In other words, it indicates the how much percent of interest income is used as interest paid and expressed as;

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

Table4.26

#### Total Interest Expenses to Total Interest Income Ratio

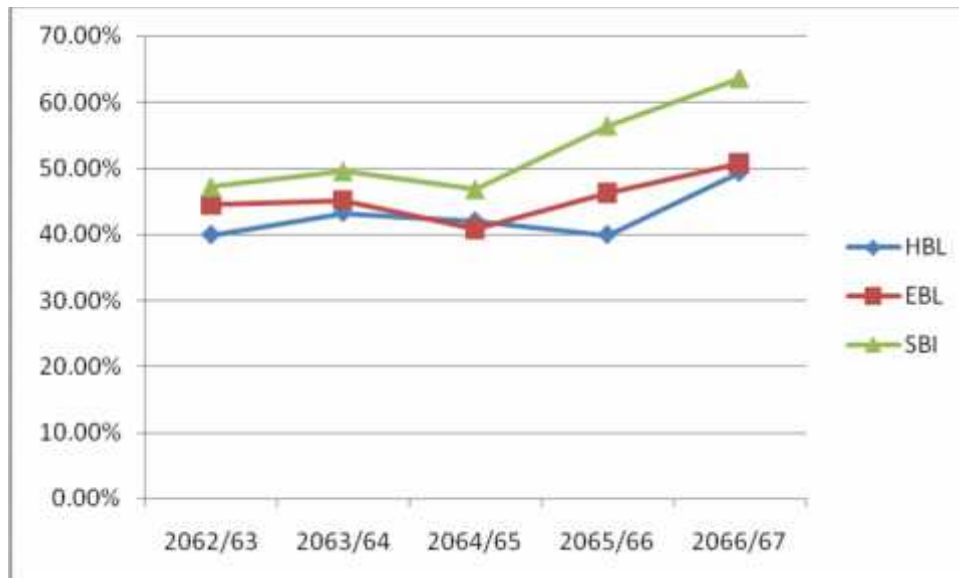
| FY         | 2062/63 | 2063/64 | 2064/65 | 2065/66 | 2066/67 | Mean   | CV     |
|------------|---------|---------|---------|---------|---------|--------|--------|
| <b>HBL</b> | 39.89%  | 43.22%  | 41.95%  | 39.91%  | 49.34%  | 42.86% | 7.75%  |
| <b>EBL</b> | 44.43%  | 45.19%  | 40.85%  | 46.32%  | 50.70%  | 45.50% | 7.24%  |
| <b>SBI</b> | 47.24%  | 49.60%  | 46.87%  | 56.47%  | 63.61%  | 52.75% | 12.30% |

Source; Appendix;-26

Table 4.26 clearly shows Total Interest Expenses to Total Interest Income Ratio of HBL for the study period-remained 39.89%, 43.22%, 41.95%, 39.91% and 49.34% respectively from the FY 2062/63 to FY 2066/67. Mean & CV were 42.86% and 7.75% respectively. Similarly, the ratios of EBL were 44.43%, 45.19%, 40.85%, 46.32% and 50.72% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 45.50% and whereas CV appeared 7.24%. Similarly, the ratios of SBI were 47.24%, 49.60%, 46.87%, 56.47% and 63.61% respectively from FY 2062/63 to FY 2066/67 of corresponding years. Mean of the ratios appeared 52.75% and whereas CV appeared 12.30%.

Lower average mean ratio in HBL indicates better profitability position as compared to EBL and SBI. Overall picture shows that HBL is more successful in allocating the interest bearing debt in profitable sectors. CV of the ratios appeared greater in SBI, which means that its ratios were less uniform throughout the review period. This can be also shown in following figure-26;

Figure-4.26



#### 4.2. Correlation Analysis

Correlation coefficient is the statistical tools that can be describe to which one variable is linearly related to another the coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's Method is applied in the study. It is the most common and useful tool to measure the relationship between two variables

in the bank. The correlation coefficient(r) between two variables X and Y can be obtained by using following formula:

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

Where,

n = number of observation in series X and Y

X= Sum of observations in series X

Y= Sum of observation in series Y

X<sub>2</sub>= Sum of squared observations in series X

Y<sub>2</sub>= Sum of squared observations in series Y

XY= Sum of the product of observations in series X and Y

Here,

r =1 implies that two variables are positively and perfectly correlated.

r = -1 implies that two variables are negatively perfectly correlated.

r = 0, does not necessarily mean that the variables are independent. They may, however be related in some other form such as quadratic, logarithm or exponential.

Under the correlation analysis, the intensity of linear relation between the following variables has been measured:

- Total Deposit and Loans and Advances
- Total Deposit and Net Profit
- Loans and Advances and Net Profit
- Total Deposit and Investment

#### **4.2.1 Correlation Analysis between Total Deposit and Loans and Advances**

The correlation coefficient between total deposits and loan and advances to measure the relationship between major financial sources i.e. total deposits and major component of income generating assets i.e. loans and advances. In Correlation Analysis, deposit is the independent variable (X) and loan and advances is dependent variable (Y). The purpose of computing the coefficient of correlation is to justify

whether the deposits are significant used in loan and advances or not and whether there is any relationship between these two variables.

Table4.27

**Correlation Analysis between Total Deposit and Loans and Advances**

| <b>Banks</b> | <b>r<sub>xy</sub></b> | <b>PE®</b> | <b>6PE®</b> | <b>Condition</b>      |
|--------------|-----------------------|------------|-------------|-----------------------|
| <b>HBL</b>   | 0.92978               | 0.04087    | 0.24524     | r <sub>xy</sub> >6PEr |
| <b>EBL</b>   | 0.997111              | 0.00174    | 0.010441    | r <sub>xy</sub> >6PEr |
| <b>SBI</b>   | 0.943158              | 0.033318   | 0.199907    | r <sub>xy</sub> >6PEr |

Source; Appendix;-27

Table 4.27 depicts that the coefficient of correlation between the total deposits and loans and advances in HBL remained 0.92978 whereas the probable error of coefficient remained 0.04087. Correlation coefficient appeared greater than six times the probable error i.e.  $r_{xy} > 6PE(r)$ :  $0.92978 > 0.24524$ . It implies that the correlation between deposits and loans and advances of the bank is highly positively and significant. Loans and advances seem to rise with the rise in the volume of total deposit.

On the other hand, coefficient of correlation between the total deposits and loans and advances in EBL remained 0.9971 whereas the probable error of coefficient remained 0.00174. Correlation coefficient appeared greater than six times the probable error i.e.  $r_{xy} > 6PE(r)$ :  $0.9971 > 0.010441$ . It signifies that deposits and loans and advances of the bank are positively correlated at significant. The bank may raise the volume of loans and advances with rise in the volume of total deposit.

On the other hand, coefficient of correlation between the total deposits and loans and advances in SBI remained 0.943158 whereas the probable error of coefficient remained 0.199907. Correlation coefficient appeared less than six times the probable error i.e.  $r_{xy} > 6PE(r)$ :  $0.943158 > 0.199907$ . It signifies that deposits and loans and advances of the bank are positively correlated at significant. The bank may raise the volume of loans and advances with rise in the volume of total deposit.

From above table analysis, high degree of correlation seems to occur between loans and advances and total deposit in banks. Banks seems to increase or decrease the investment in loans and advances portfolio with the increase or decrease in the deposit. In other words, banks have utilized its total deposits on loan and advances

effectively. But higher value of  $r$  in EBL shows better relationship as well as utilization of deposits on loans and advances than HBL and SBI.

#### 4.2.2 Correlation Analysis between Total Deposit and Net Profit

Coefficient of correlation between total deposits and net profit measures the degree of relationship between total deposits and net profit. In Correlation Analysis deposit is the independent variable (X) and net profit is dependent variable (Y). The purpose of computing the coefficient of correlation is to justify whether the banks significantly utilization of deposits for income generating purpose or not and whether there is any relationship between these two variables. To find out the correlation ( $r$ ) various calculations are done.

Table4.28

##### Correlation Analysis between Total Deposit and Net Profit

| Banks | $r_{xy}$ | PE®      | 6PE®     | Condition       |
|-------|----------|----------|----------|-----------------|
| HBL   | 0.49754  | 0.22697  | 1.36185  | $r_{xy} < 6PEr$ |
| EBL   | 0.986114 | 0.008319 | 0.049913 | $r_{xy} > 6PEr$ |
| SBI   | 0.769471 | 0.123046 | 0.738274 | $r_{xy} > 6PEr$ |

Source; Appendix;-28

Table 4.28 shows the coefficient of correlation and probable error of the correlation coefficient between total deposit and net profit in HBL remained 0.49754 and 1.36185 in the review of period respectively. Correlation coefficient came less than six times the probable error i.e.  $0.49754 < 1.36185$ . It implies that the total deposits and net profit in the bank are low degree of correlation at not significant. In other words, net profit of the bank increases not same degree with increase in the amount of deposit.

Similarly, depicts that the coefficient of correlation and probable error of the coefficient between the same variables in EBL were 0.986114 and 0.008319 respectively. Correlation coefficient came greater than six times the probable error i.e.  $0.986114 > 0.049913$ . It implies that total deposits and net profit in the bank are highly positively correlated at significant. In other words, net profit of the bank increases almost to the same degree with increase in the amount of deposit

Similarly, depicts that the coefficient of correlation and probable error of the coefficient between the same variables in SBI were 0.769471 and 0.123046 respectively. Correlation coefficient came greater than six times the probable error i.e.



0.769471>0.738274. It implies that total deposits and net profit in the bank are highly positively correlated at significant. In other words, net profit of the bank increases almost to the same degree with increase in the amount of deposit

Between the banks, EBL seems more efficient regarding the utilization of the deposit for income generating purpose as reveals by greater coefficient of correlation in EBL. In the review of period, net profit of EBL seemed increase in the line with increase in deposit. That's why; it retains the potentiality of increasing net profit by accumulating more deposits.

#### 4.2.3 Correlation Analysis between Loans and Advances and Net Profit

The basis function of commercial banks to collect deposits and used these funds on loan and advances to generate higher profit. Large amount of Loan and advances generate higher profit. Correlation coefficient between loans and net profit measures the degree of relationship between loan and advances and net profit. In Correlation Analysis, loans and advances is the independent variable (X) and net profit is dependent variable (Y). The purpose of computing the coefficient of correlation is to justify whether the banks loans and advances are significantly generate profit or not and whether there is any relationship between two variables. To find out the correlation (r) various calculations are done.

Table4.29

#### Correlation Analysis between Loans and Advances and Net Profit

| Banks | rx <sub>xy</sub> | PE®      | 6PE®     | Condition                          |
|-------|------------------|----------|----------|------------------------------------|
| HBL   | 0.44139          | 0.24288  | 1.45726  | rx <sub>xy</sub> <6PE <sub>r</sub> |
| EBL   | 0.987644         | 0.007408 | 0.044449 | rx <sub>xy</sub> >6PE <sub>r</sub> |
| SBI   | 0.935989         | 0.037381 | 0.224289 | rx <sub>xy</sub> >6PE <sub>r</sub> |

Source; Appendix;-29

Table 4.29 highlights that the coefficient of correlation and probable error of the coefficient between Loan and advances and net profit of HBL were remained 0.44139 and 0.24288 respectively. Correlation coefficient came less than six times the probable error i.e. 0.44139>1.45726. The result indicates that the correlation between loans and advances and net profit in the bank low degree of correlation at not significant. In other words, net profit of the bank increases not same degree with increase in the amount of loan.

Similarly, Table 4.29 depicts that the coefficient of correlation and probable error of the coefficient between Loan and advances and net profit in EBL were 0.987644 and 0.007408 respectively. Correlation coefficient came greater than six times the probable error i.e.  $0.987644 > 0.044449$ . The result indicates that the correlation between loans and advances and net profit in the bank highly positively correlated and significant.

Similarly, Table 4.29 depicts that the coefficient of correlation and probable error of the coefficient between Loan and advances and net profit in SBI were 0.935989 and 0.037381 respectively. Correlation coefficient came greater than six times the probable error i.e.  $0.935989 > 0.224289$ . The result indicates that the correlation between loans and advances and net profit in the bank highly positively correlated and significant.

Between the banks, EBL seems more efficient regarding the utilization of the Loan and advances for income generating purpose as reveals by greater coefficient of correlation in EBL. In the review of period, net profit of EBL seemed increase in the line with increase in deposit. That's why; it retains the potentiality of increasing net profit by accumulating more Loan and advances.

#### 4.2.4 Correlation Analysis between Total Deposit and Investment

The correlation coefficient between total deposits and Investment measure the relationship between total deposits and Investment. In Correlation Analysis, deposit is the independent variable (X) and Investment is dependent variable (Y). The purpose of computing the coefficient of correlation is to justify whether the deposits are significant used in loan and advances or not and whether there is any relationship between these two variables.

Table4.30

#### Correlation Analysis between Total Deposit and Investment

| Banks | rx <sub>xy</sub> | PE®      | 6PE®     | Condition                           |
|-------|------------------|----------|----------|-------------------------------------|
| HBL   | -0.6133          | 0.18817  | 1.12905  | rx <sub>xy</sub> < 6PE <sub>r</sub> |
| EBL   | 0.697743         | 0.154791 | 0.928744 | rx <sub>xy</sub> < 6PE <sub>r</sub> |
| SBI   | 0.8702           | 0.073225 | 0.439349 | rx <sub>xy</sub> > 6PE <sub>r</sub> |

Source; Appendix30

Table 4.30 depicts that the coefficient of correlation between the total deposits and investment in HBL remained -.6133 whereas the probable error of coefficient

remained 0.18817. Correlation coefficient appeared less than six times the probable error i.e.  $r_{xy} > 6PE(r)$ :  $-0.6133 < 1.12905$ . It implies that the correlation between deposits and investment of the bank is moderated negative correlation and not significant. The relationship between Deposit and Investment is just opposite.

On the other hand, coefficient of correlation between the total deposits and investment in EBL remained 0.697743 whereas the probable error of coefficient remained 0.154791. Correlation coefficient appeared less than six times the probable error i.e.  $r_{xy} > 6PE(r)$ :  $0.697743 < 0.928744$ . It signifies that deposits and investment of the bank are positively correlated at not significant. The bank may raise the volume of investment with rise in the volume of total deposit.

On the other hand, coefficient of correlation between the total deposits and investment in SBI remained 0.8702 whereas the probable error of coefficient remained 0.073225. Correlation coefficient appeared greater than six times the probable error i.e.  $r_{xy} > 6PE(r)$ :  $0.8702 > 0.439349$ . It signifies that deposits and investment of the bank are highly positively correlated at significant. The bank may raise the volume of investment with rise in the volume of total deposit.

From above table analysis, mixed correlation seems to occur between investment and total deposit in banks. HBL have moderated negative correlation, where EBL have positively correlated and SBI have highly positively correlated. But higher value of  $r$  in SBI shows better relationship as well as utilization of deposits on investment than HBL and EBL.

### 4.3 Trend Analysis

Trend analysis is very useful to predict the future events on the basis of the past tendencies. This method is based on the assumption that past tendency continues in the future. The future trend of any variable is forecasted using the equation,

$$Y_c = a + bX$$

Where,

$Y_c$  = The dependent variable

$a$  = Y-intercept

$b$  = The slope of the trend line

$X$  = Year-2064/65 (with regard to the data used in the study)

The normal equations on fitting the trend equation are:

$$Y = Na + bX$$

$$\sum XY = a\sum X + b\sum X^2 \quad \text{since } \sum X = 0 \quad a = \frac{\sum Y}{N}, \quad b = \frac{\sum XY}{\sum X^2}$$

With the help of the trend equation, future values of the following variables for coming five years have been predicted:

- Total Deposits
- Loan and Advances
- Net Profit
- Net Worth

#### 4.3.1 Trend Analysis of Total Deposits;-

Table 4.31

Forecasted value of Total Deposit (in '000')

| Banks      | a             | b         | y = a + bx              |
|------------|---------------|-----------|-------------------------|
| <b>HBL</b> | 30,941,999.80 | 3283823.4 | 30941999.8 + 3283823.4x |
| <b>EBL</b> | 25244050.8    | 6139642.2 | 25244050.8 + 6139642.2x |
| <b>SBI</b> | 19803273.4    | 6430070.1 | 19803273.4 + 6430070.1x |

Source; Appendix;-31

Table 30 shows the trend value formula of Total deposit of the banks. Expected Total Deposit of the banks are in increasing trend for following five FY (2067/68 to 2071/72). Expected Total Deposit of the banks are as follow;-

Forecasted value of Total Deposit (in '000')

| FY      | HBL           | EBL           | SBI           |
|---------|---------------|---------------|---------------|
| 2067/68 | 40,793,470.00 | 43,662,977.40 | 39,093,483.70 |
| 2068/69 | 44,077,293.40 | 49,802,619.60 | 45,523,553.80 |
| 2069/70 | 47,361,116.80 | 55,942,261.80 | 51,953,623.90 |
| 2070/71 | 50,644,940.20 | 62,081,904.00 | 58,383,694.00 |
| 2071/72 | 53,928,763.60 | 68,221,546.20 | 64,813,764.10 |

#### 4.3.2 Trend Analysis of Loans and Advances;-

Table4.32

Forecasted value of Loan And Advanced (in '000')

| Banks | a          | b         | y= a+bx               |
|-------|------------|-----------|-----------------------|
| HBL   | 20782372.2 | 3447129.6 | 20782372.2+3117129.6x |
| EBL   | 18649101.2 | 4573068.8 | 18649101.2+4573068.8x |
| SBI   | 12362636.2 | 2537892.1 | 12362636.2+2537892.1x |

Source; Appendix;-32

Table 31 shows the trend value formula of Loan and Advance of the banks. Expected Total Deposit of the banks are in increasing trend for following five FY (2067/68 to 2071/72). Expected Loan and Advance of the banks are as follow;-

Forecasted value of Loan And Advanced (in '000')

| FY      | HBL           | EBL           | SBI           |
|---------|---------------|---------------|---------------|
| 2067/68 | 31,123,761.00 | 32,368,307.60 | 19,976,312.50 |
| 2068/69 | 34,570,890.60 | 36,941,376.40 | 22,514,204.60 |
| 2069/70 | 38,018,020.20 | 41,514,445.20 | 25,052,096.70 |
| 2070/71 | 41,465,149.80 | 46,087,514.00 | 27,589,988.80 |
| 2071/72 | 44,912,279.40 | 50,660,582.80 | 30,127,880.90 |

#### 4.3.3 Trend Analysis of Net Profit

Table4.33

Forecasted value of Net profit (in '000')

| Banks | a        | b        | y= a+bx            |
|-------|----------|----------|--------------------|
| HBL   | 569356.6 | 36369.2  | 569356.6+36369.2x  |
| EBL   | 491401.8 | 152968.3 | 491401.8+152968.3x |
| SBI   | 265559.6 | 61094.5  | 265559.6+61094.5x  |

Source; Appendix;-33

Table 32 shows the trend value formula of Net Profit of the banks. Expected Total Deposit of the banks are in increasing trend for following five FY (2067/68 to 2071/72). Expected Net Profit of the banks are as follow;-

Forecasted value of Net profit (in '000')

| FY      | HBL        | EBL          | SBI        |
|---------|------------|--------------|------------|
| 2067/68 | 678,464.20 | 950,306.70   | 448,843.10 |
| 2068/69 | 714,833.40 | 1,103,275.00 | 509,937.60 |
| 2069/70 | 751,202.60 | 1,256,243.30 | 571,032.10 |
| 2070/71 | 787,571.80 | 1,409,211.60 | 632,126.60 |
| 2071/72 | 823,941.00 | 1,562,179.90 | 693,221.10 |

#### 4.3.4 Trend Analysis of Net Worth

Table 4.34

Forecasted value of Net Worth (in '000')

| Banks      | a         | b        | y= a+bx             |
|------------|-----------|----------|---------------------|
| <b>HBL</b> | 2793750   | 425272.6 | 2793750+425272.6x   |
| <b>EBL</b> | 1973251.8 | 506787.4 | 1973251.8+506787.4x |
| <b>SBI</b> | 1592736.8 | 350828.4 | 1592736.8+350828.4x |

Source; Appendix;-34

Table 34 shows the trend value formula of Net Worth of the banks. Expected Total Deposit of the banks are in increasing trend for following five FY (2067/68 to 2071/72). Expected Net Profit of the banks are as follow;-

Forecasted value of Net Worth (in '000')

| FY      | HBL          | EBL          | SBI          |
|---------|--------------|--------------|--------------|
| 2067/68 | 4,069,567.80 | 3,493,614.00 | 2,645,222.00 |
| 2068/69 | 4,494,840.40 | 4,000,401.40 | 2,996,050.40 |
| 2069/70 | 4,920,113.00 | 4,507,188.80 | 3,346,878.80 |
| 2070/71 | 5,345,385.60 | 5,013,976.20 | 3,697,707.20 |
| 2071/72 | 5,770,658.20 | 5,520,763.60 | 4,048,535.60 |

## CHAPTER V

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.2 Summary**

Joint venture banks have played significant role in the economic development of the country. They have introduced new technology in the banking system mobilized the saving of community. They have focused their services on the commerce trade and industry along with general public. But the internal competition and lack of sufficient Deposit have created threats to the banks. Therefore, the study has been conducted to evaluate the performance of joint venture banks especially, that of Nepal SBI, HBL and EBL in order to find out their strengths and weakness. Null hypothesis for the purpose of study is "there is no significant difference between the financial performance of HBL, EBL and SBI bank ". To avoid the chances of duplication in the study and confirm whether the study is in accordance with the principles and doctrines, supportive text and the previous dissertation have been reviewed for analyzing the financial data of the sampled banks, the financial tools- ratio analysis, and the statistical tools- mean, Correlation and CV have been used from the analysis and interpretation of the data. The following major Findings have been derived from the analysis and interpretation of the data;-

- ❖ Current ratio of the banks showed slightly fluctuating trend. Banks could not maintain the conventional standard on 2:1 However, the average of the ratios appeared higher in SBI. This signifies that SBI is more capable of meeting immediate liabilities in contrast to HBL and EBL The ratio was found more consistent in EBL.
- ❖ Average cash and bank balance to Total Deposits ratio of EBL appeared greater than that of HBL and SBI. It indicates that the solvency position of EBL is better than that of HBL and SBI. Conversely, EBL seems less successful to utilize the

fund raised from the Total Deposits that may ultimately affect the profitability adversely. The ratio appeared more uniform in SBI.

- ❖ Average cash and bank balance to current and saving deposits ratio of EBL appeared greater than that of HBL and SBI. It indicates that the solvency position of EBL is better than that of HBL and SBI. Conversely, EBL seems less successful to utilize the fund raised from the current and saving deposits that may ultimately affect the profitability adversely. The ratio appeared more uniform in SBI.
- ❖ Average Fixed Deposit into Total Deposit Ratio of SBI appeared greater than that of HBL and EBL. Greater portion of total deposit of SBI has been occupied by fixed deposit in contrast to HBL and EBL. It can grasp the opportunity of investing the fund in more profitable sector like long - term loans. The ratio appeared more uniform in SBI.
- ❖ NRB balance to current and saving deposit ratio is in fluctuating trend standard set by NRB i.e. 8% in each year of the review period of the banks. Average mean ratio of HBL under the standard set by NRB. Where EBL and SBI maintained the standard.
- ❖ Average mean Loans and advance to Total Deposit ratio was higher in EBL which indicates that turnover of Total Deposit in form of loans and advances is better in EBL. The ratio varied less in the same bank.
- ❖ Average mean Loans and advances to saving ratio were higher in SBI, which indicates that turnover of Saving Deposit in form of loans and advances is better in SBI. SBI was utilized its Deposit better than HBL and EBL. The ratio varied less in the same bank.
- ❖ Average mean Loans and advances to Fixed Deposit ratio were higher in HBL, which indicates that turnover of Fixed Deposit in form of loans and advances is better in HBL. HBL was utilized its Deposit better than EBL and SBI. The ratio varied less in the EBL.
- ❖ Average mean Investment to Total Deposit ratio was higher in HBL which indicates that turnover of Total Deposit in form of Investment is better in HBL. The ratio varied less in the EBL.
- ❖ Average return on assets in HBL was higher than in EBL and SBI. It implies that the profitability position of HBL in the study period proved to be stronger.



- ❖ Return on net worth of EBL was better as compared to NSBIBL. The ratio varied less in the same bank.
- ❖ Return as total deposit was considerably higher in EBL which signifies that EBL is more successful to utilize deposit for making profit.
- ❖ Debt equity ratio of the banks depicted the employment of debt to the greater extent in their capital. Comparatively capital structure of SBI seemed more levered i.e. more risky.
- ❖ Interest coverage ratio in the banks is satisfactory it is good in EBL. Ratio is slightly difference in each year in each bank.
- ❖ Net worth to total asset ratio was greater in HBL than in EBL SBI. It means that HBL is more successful to build up confidence among creditors. But the ratio remained more consistent in SBI.
- ❖ Net worth to total credit ratio appeared slightly higher in HBL, which signifies that HBL, has used significantly larger extent of net worth for credit creation.
- ❖ Loan loss coverage ratio of EBL over the period remained lesser which indicates those assets financed by the bank are superior in contrast to HBL and SBI. The consistency in maintaining the quality of asset appeared better in EBL
- ❖ With respect to loan loss provision to total income ratio, EBL seems more aware in quality while advancing loans as the ratio is less in the bank. Portion of loan loss provision in total income varied less in the same bank.
- ❖ Loan loss provision to total deposit ratio came to be less in EBL and hence it can be concluded that loan loss advances granted by the bank are less risky. In the consistency of the ratios, EBL came to be better.
- ❖ With respect to Earnings per Share (EPS) EBL seems more aware than HBL and SBI. Earnings per Share of EBL high than HBL and SBI.
- ❖ Average mean ratio was higher in SBI than HBL and EBL. But the ratio remained more consistent in HBL.
- ❖ High degree of correlation seems to occur between loans and advances and total deposit in the banks.
- ❖ Utilization of the deposit for income generating purpose as reveals by greater coefficient of correlation in EBL.

- ❖ EBL seems more efficient regarding the utilization of the Loan and advances for income generating purpose as reveals by greater coefficient of correlation in EBL.
- ❖ Correlation between deposits and investment of the HBL is moderated negative correlated and not significant. The relationship between Deposit and Investment is just opposite.
- ❖ Correlation between deposits and investment of the bank (SBI) are highly positively correlated at significant.
- ❖ Total Deposit, Net Profit, Loan and Advance and Net Worth of the banks are in increasing trend for following five FY (2067/68 to 2071/72).

### 5.3 Conclusion

1. The current ratios of both banks could not maintain the conventional standard of 2:1. The banks may face the problem of working capital if they need to pay the current liabilities at demand.
2. The quick ratios of both banks showed poor liquidity position because of quick ratios of every year were below than standard form. It indicates that they have weak position of immediate payment of short-term obligation (i.e. current liabilities) because current liabilities were greater than that of quick assets.
3. The mean ratio of Cash and Bank Balance to Total Deposit ratio of EBL appeared greater than HBL and SBI, which means that EBL has greater ability to repay the deposits i.e. EBL is more efficient to serve the customers from liquidity point of view.
4. As per direction of Nepal Rastra Bank, cash and bank balance to total deposit required ratio is 8%. Mean ratio of EBL came higher than that of HBL and SBI, which means that EBL has greater ability to repay the current & saving deposits i.e. EBL is more efficient to serve the customers from liquidity point of view.
5. Loans and Advances to Total Deposit Ratio Mean ratio of EBL appeared considerably higher than that of HBL and SBI, which signifies that EBL is more successful in utilizing the resource in profitable sectors than HBL and SBI
6. The Loans and Advances to Fixed Deposit Ratio of HBL varied to greater than that of EBL and SBI. In comparing the saving deposits turnover ratio the fixed deposits turnover gives good performance of the banks.

7. Average mean ratio of Investment to Total Deposit Ratio have greater in SBI than EBL and HBL, which indicate that SBI utilized more part of total deposit in Investment than HBL and SBI.
8. Overall profitability of EBL is better than HBL and SBI.
9. Return on Net Worth Mean ratio of EBL appeared more than that of HBL and SBI, which indicates that EBL has effectively utilized the owners' capital and able to give regular & significant return to them.
10. Total Interest Expenses to Total Interest Income Ratio of banks were in satisfactory, but better in HBL.
11. SBI have higher mean ratio of Debt-Equity ratio, compare than HBL and EBL. A high ratio shows the large share of financing by the creditors as compared to that of owners. High ratio is more risky than low ratio. Higher ratio shows that more of the funds invested in the business are provided by the outsider.
12. Higher Debt-Assets Ratio in SBI indicates that the greater portion of the bank's assets has been financed through outsider's fund.
13. The Mean Loan Loss Coverage ratio of SBI was greater than HBL and EBL. It indicates that HBL and EBL have been more successful to foresee the quality of loans lent.
14. Mean of the EPS was much higher in EBL in contrast to HBL and EBL; which indicates that the profitability position of the former is far better than that of the latter. In this sense, EBL seems more successful to attract the investors.
15. Price-Earnings Ratio (P/E ratio) responding toward the earning performance of the concerned banks. Average mean ratio was higher in SBI than HBL and EBL. But the ratio remained more consistent in HBL.
16. Higher mean ratio of MVPS to BVPS ratio in EBL signifies strong management in EBL than HBL and SBI.
17. After trend analysis, Total Deposit, Net Profit, Loan and Advance and Net Worth of the banks are in increasing trend for following five FY (2067/68 to 2071/72).
18. Correlation between deposits and investment of the HBL is moderated negative correlated and not significant. The relationship between Deposit and Investment is just opposite.

19. Correlation between deposits and investment of the bank (SBI) are highly positively correlated at significant.

#### **5.4 Recommendations**

In the light of above facts and figures, the objective of present study is to find out to what extent these banks have succeeded in realizing the stated objectives. Such in depth study will provide the basis for evaluating financial success or failure and also suggest suitable measures to improve their operating financial performance of HBL, EBL and SBI are listed below.

- The banks could not maintain the conventional standard of liquidity and quick ratios. It indicates the poor liquidity position in these banks. It may create the problem of working capital if they need to pay the short-term obligation at demand. With the delay in payment of liabilities of banks may lose their goodwill and may have the problem in winning the confidence of current depositors and short term lenders. So, banks are recommended to maintain the adequate net working capital.
- In average EBL and SBI bank have maintained NRB Balance to total deposit ratio, but in average EBL remarkable higher than standard prescribed by NRB. In average HBL bank has not maintained NRB Balance to Current and Saving Deposit Ratio. But maintain in FY 2063/64 and 2065/66. The fund tied in NRB balance cannot yield a good return. So the EBL is suggested to lower this ratio and invest the surplus fund in other current assets such as loans and advances, bill purchase discount & money at call and short notice. HBL is suggested to maintain the ratio as per NRB directives.
- SBI have higher mean ratio of Debt-Equity ratio, compare than HBL and EBL. A high ratio shows the large share of financing by the creditors as compared to that of owners. High ratio is more risky than low ratio. Higher ratio shows that more of the funds invested in the business are provided by the outsider. So SBI is suggested to increase Equity capital.
- Mean ratio of SBI seemed higher than that of HBL and EBL, which indicates that net worth in it has covered comparatively greater portion of total assets. In

other words, SBI is superior to HBL and EBL to check the possible risk that might arise due to high leverage.

- The imbalance between the operating income and operating expenses has made banks less profitable. In our analysis, the operating income and operating expenses of SBI is higher than HBL and EBL. So from the view of operating profit in the SBI better than HBL and EBL in average. So every commercial bank should increase the operating income and cut down the unnecessary expenses by using modern banking technology, computer networking, expert and well trained personnel.
- Introducing the latest and sophisticated banking system, developing the high motivational strength in management and increasing turnovers etc are some of techniques to improve and increase the gap between income and expenses.
- The bank must collect more funds from current deposits, compared to other interest bearing deposits. The banks must located and explore new technique and facilities for collection.
- There should be continuous flow of financial information among various groups of employees. The goal and objective of the banks should be carefully communicated to lower level of management.
- A systematic approach of financial performance analysis should be made annually. This would considerably contribute to increase the financial strength of banks. The banks should have debt analysis of their financial strength and weakness. It should try to come out its weakness by using its strength aspect the financial performance of these sampled banks is at the satisfactory level. The best is yet to come.
- HBL and SBI should be more serious to improve the efficiency in utilizing its deposit in Loan and Advance for generating the profit.
- For commercial banks, it is very important to maintain a good balance between liquidity and profitability. If banks keep large portion of money under its control it affects in profit because idle money earn nothings but other hand the bank should have enough cash balance with it to fulfill the requirement of short-term liabilities .
- Mean of the EPS was much higher in EBL in contrast to HBL and EBL; which indicates that the profitability position of the former is far better than that of the latter.

- Market Value per Share to Book Value per Share (MVPS/BVPS) ratio of HBL and EBL was increasing trend for 1<sup>st</sup> two FY of the study period after that in decreasing trend. The ratio of SBI was increasing trend but decrease in last year of the study period. EBL have higher mean ratio, which indicates comparatively stronger management and organization EBL than HBL and SBI
- A high Interest Coverage ratio is a sign of low burden of borrowing capacity. So creditors are interested to invest who have high ratio of Interest Coverage. So EBL is better than HBL and SBI, because EBL have greater Interest Coverage Ratio.

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