CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries in the world. The Nepalese economy is dominated by agricultural sector. Industrialization is the most essence for rapid economic development for a developing country like Nepal. As Nepal is an agricultural as well as land locked country, it has to be faced several difficulties for industrialization. Economic status of Nepal is not satisfactory. So, speedy development of the country is possible when it reinforces in upgrading its economic condition. For this, development in agriculture sector alone is not sufficient, Industrial sector also should be promoted. The major problem of an underdeveloped economy is an inadequate degree of capital formation, which is the result of insufficient saving made by the community.

Therefore, to strengthen the Nepalese economy the agricultural as well as industrial sector should be promoted in balance. Although Nepal is an agricultural country the industrial sector should be given priority because economic prosperity cannot be possible without industrialization. Import substituting industries are essential for reducing Nepal's adverse trade balance. All manufacturing industries help toward import substituting industries have attracted foreign direct investment. Their contribution to employment generation in the manufacturing sector is significant. They have saved precious foreign exchange by reducing the need for imports. They have a lion's share in the contribution of manufacturing sector to GDP. So for the rapid economic development of Nepal, development in agriculture sector alone is not sufficient, it is essential to develop industrial sector also. This will also helps to minimize the problem of unemployment.

Capital formation also affects the economy of any nation. It is important to accelerate the economic growth of a country. This depends on the saving and investment propensity of the people. But in the developing country like Nepal the saving capacity is very low and thus investment. Inadequate degree of capital formation is an important feature of developing countries. Insufficient saving made by the community is the main cause of inadequate capital. In this situation the financial institutions like bank can be the best medium to collect the scattered saving and utilize it to in a productive manner.

The study of performance of listed commercial banks and returns to investors occupies an important role in the development of capital market. Development and expansion of capital market are essential for the rapid economic growth of the country. Capital market helps economic development by mobilizing long term capital needed for productive sector. It is vital to long term growth and prosperity of the economy since it provides the channel through which needed funds can be raised (Shrestha, 1993).

Bank is a financial institution, which plays significant role in the development of the country. It helps the growth of agriculture, trade, commerce and industry of the national economy. The business in banking is one of collecting funds from the community and extending credit for useful purpose. Banks have plays pivotal role in moving money from lenders to for useful purpose. Banking is a profit seeking business not a community charity. As a profit seeker, it is expected to pay dividends and otherwise add to the wealth of its shareholders.

Banking institutions are inevitable for the resource mobilization and the all-round development of the country. They have resources for economic development and they maintain economic confidence of various segments and extend credit to people.

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

Financial sector reform plays a crucial role in the economic growth of a country. It works as the lubricator for the economic engine. As the apex financial intuition of the country, Nepal Rastra Bank (NRB) has the biggest role to play and the commercial banks need to have correct diagnosis and surgical operation.

In this domain, security market is the base whereby financial transaction relating to share takes place. The history of security market is not that long. In Nepalese context, the concept of security market began with the setup of "Nepal Stock Exchange (NEPSE)" former known as "Securities Exchange Centre" in 1976. This is the only stock market in Nepal. Inspite of considerable development of stock market there is lot more to be done for the development of stock market in Nepal. Many investors are still afraid to invest in securities because of inadequate knowledge in this field and most investors are exploited form market intermediaries. For this purpose potential investors must be able to analyze risk and return of individual stock to increase market efficiency and consequently speed of the economic development. NEPSE has adopted 'open – outcry' system for trading. Transactions of securities are conducted on the open auction principle
on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the training starts on the stock exchange floor. Once the bid and offer price matches, contracts between the buying and selling brokers, or between the brokers and market makers, are concluded on the floor (Sharpe, Alexander & Bailey, 1999).

Financial performance and stock market are interrelated to each other. Rationally speaking, financial performance of the company should govern the stock price of any company. Say, a company doing good in financial indicators ought to do well in the stock market. Hence, in a simpler language, financial performance and stock market are interlinked and positively correlated.

Analyzing the present scenario of Nepal Stock Exchange, we find that the substantial portion of stock trading is of commercial banks. It is normally seen that the investors feel comfortable in investing in commercial banks stocks rather than stocks of other manufacturing companies and sectors. This may be because of the higher credibility that the bank posses in the economy. Further, the overall economy is affected adversely by the existing insurgency leading to lack of economic activities thereby decreasing the business volume and increasing a sense of insecurity amidst investors. This is reflected in stock market. Practically and realistically, stock market is said to be mirror of the economy. However, the concept does not follow literally in the Nepalese market as coincident in developed economy. This is because of relatively less informative and awareness of individual in the stock market. It can be inferred herein that the Nepalese stock market is inherent asymmetrical stock where the information prevailing in the environment effect minuscule to the share prices.

The index of Nepal Stock Exchange is fluctuating. This means that the momentum of stock price is fluctuating. As a matter of common fact, Nepalese Stock Market is composite market consisting of every single sock operating either in the primary market or in the secondary market. The methodology used to calculate the stock exchange index is value weighted. This is to say that Nepal stock index is calculated taking in the account the number of shares traded in the market. In the context, the fluctuation in the index implies the fluctuation of the price and its capital gain provided that the investors hold the stock in the same proportion as existing in the market. Based on the aforementioned proposition, in the stock price and the index calculated provided the capital gain insight to the individuals. Generally speaking, Nepal Stock Exchange and the index of commercial banking sector are highly

correlated. This means that as the sector index of commercial banks goes on increasing, the NEPSE also increases simultaneously. This is due to the large number of trading of stocks of banking sector. Thus, banking sector is the dominating sector in Nepal Stock Exchange.

1.1.1 Profile of the Concerned Banks

Himalayan Bank Limited (HBL)

Himalayan Bank Limited (HBL) was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited. It is one of the largest commercial banks operation which was commenced from January, 1993. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sectors. Besides commercial activities, the Bank also offers industrial and merchant banking.

HBL has always been committed to providing a quality service to its valued customers. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor and facilities of its clients, based on the unique needs and requirement of different clients. To further extend the reliable and efficient services to its valued customers.

Everest Bank Limited (EBL)

Everest Bank Limited (EBL: A joint venture with Punjab National Bank India) has been established with objective of expending professionals banking services to various sections of society in the kingdom of Nepal and thereby contributes in the economic development of the country. The bank had come into formal operation from 18th October 1994. EBL is joint venture with "Punjab National Bank (PNB)", one of the largest commercial bank in India. PNB has a century old tradition of successful banking and is known for its financial strength and has laid down modern banking system procedure. PNB is providing the top management service to EBL under technical services agreement signed between the two institutions. EBL operated with

the objectives of providing the full range of quality banking services to both the business community and the common man.

1.2 Focus of the Study

Investors do not make investments without knowing what the company is doing and performing in terms of various fundamental indicators like earning, dividends, growth, sales, size of assets etc. Investigation before investment is the starting point of financial analysis regarding performance of common stock. Investors have to be careful enough before making investment otherwise the wrong investment in share is possible. However, in the context of Nepalese Capital Market, there are often irrational investors undertaking investment activities without proper investigation of pros and cons of securities. Hence, the thesis understudies the importance of financial performance and its relevancy in the stock market.

The analysis of securities is to make good investment decisions in the selection and valuation of assets portfolio. The scope and depth of analysis will depend on a number of factors such as investment objectives, the quality of the securities, the degree of risk the investors is willing to assume, the procedures taken to avoid risk, types of information available and investor's ability to analyze and select profitable securities.

Investors have to make decisions for which financial analysis is a must. Financial analysis provides insight about what company has done in terms of liquidity, profitability, turnover, assets growth, capital structure, dividend payments and so on. As such, any investors while taking investment decision has to be fully informed about the financial performance of the company. Therefore, this study is focused on the financial analysis of company, which helps investors to understand a company's current situation, where it may be going, what factors affect it, and how those factors affect it. Analysis has focused to determine certain characteristics of securities, identify mispriced securities and movement of market. Thus, this research gives a

feedback to the interested investors regarding the investment in common stocks of joint venture banks.

1.3 Statement of the Problem

In the context of Nepal, current state of political, economic and social turmoil every little aspect of these three external environments should be closely monitored. Banks role towards the economic development has already been considered as indispensable moreover, being the intermediary in collection of numerous scattered funds from different parts of the country; commercial banks have contributed a great deal in economic upliftment so far. As the caterer of the country's capital requirement, commercial banks has made it possible for the government and private sector to launch different commercial and development projects as well as for investors to invest in securities. Unfortunately, unstable political situation has adversely impacted on economic bases. Due to instable political scenarios back by unclear policies and catalyzed by unrest and turmoil, people are resistant to invest their fund in their own investment. The situation has further worsened since the insurgency started last decade. With respect to this situation it is very important that the investors should invest their resources in the best possible ways.

Commercial banks shares are highly traded in Nepal Stock Exchange. The commercial banks occupy a lion's share of the stock trading any fluctuation in their price is directly reflected in the index. Sometimes investors feel due to lack of information on any key financial parameters on the basis of which investment decision is to be made. Taking the case of securities market in Nepal, stock exchange history shows how some investors fail because of their lack of power to make financial analysis. Success or failure of public limited companies depends much on their investment performance. Failure is the example of investment in Necon Air and Indreyani Soyabean while success example is the investment in share of most joint venture bank like Standard Chartered Bank, Himalayan Bank, Everest Bank, NABIL Bank etc.

Due to many internal or external factors, share market shows bearish trend and sometimes bullish. In the time of bullish, investors would be happy and at bearish time they become more skeptical. Due to this, the investors hold shares at the time of selling and vice-versa. Most of the investors are least familiar with the financial activities. They do not have the idea of financial analysis. Awareness regarding the financial activities, investment policy, making portfolio, etc is very little. Some of the investors having neither theoretical knowledge of risk and return nor they take services of expert which has made the securities market unbalanced and unfair. If any bank or financial institution issues primary shares, it is observed that the demand of initial public offering is very high. Rational decision making to invest in common stock is lacking in the investors, this has led them to bear huge losses. Therefore, it has become necessary for the investors to acquire knowledge regarding financial performance of the company before investing.

Despite the rational reasoning that the financial performance governs the stock price in the market, the practical figure is somewhat different. In case of Nepal, the investors normally invest in the common stock in an adhoc bases, without even analyzing the actual situation. The rumor about the company also affects the stock price movements.

The problem specially relates to financial performance and stock price of commercial banks in Nepal have been presented briefly as under:

- What are the existing situations of financial position of joint venture banks in Nepal?
- How the stock price is affected by the financial performance?

These are the burning issues that has influenced researcher to carry out the study. For this there is great need of such institutions, which can give valuable information that accelerates the stock investment and market efficiency.

Moreover, in context of Nepal the information regarding the financial activities of the listed companies does not reflect at the share price movement. In this regard, the market is tilted towards asymmetrical market.

1.4 Objective of the Study

The main objective of the study is to analyze financial performance of the company and examine its relationship with stock price in making decision about investment on securities of the selected listed commercial joint venture banks. The specific objectives of the study are:

- To analyze the financial performance of Himalayan Bank Limited and Everest Bank Limited.
- To examine effect of financial performance on share price of Himalayan Bank Limited and Everest Bank Limited.
- To compare HBL& EBL in terms of major financial indicators.
- To provide suggestions on the major findings of the study.

1.5 Significance of the Study

The people's participation in security investment and stock trading is increasing unexpectedly. The recent trend and people's attitude towards common stock investment shows that there is a high potentiality in stock investment. It is important to increase financial and economic activities of the nation. The analysis of financial performance of the joint venture commercial banks is significant managerial decision from the viewpoint of investors. It influences the shareholders to gain full information on the performance of the company, make sound judgment and helps in significant forecasts of investment decisions. Consequently, financial analysis enables investors to select the right kind of security for investment depending upon the comparative analysis of which company doing the best. Investors can form a correct opinion on predicting the riskiness of securities and likely the investors can take full advantage by buying them at low price and selling them when the price rises.

Thus, this study has tried to fulfill the aforementioned analytical need before purchasing or selling stock in the secondary share market. The study may also help for interested researchers in the area of investment on common stock.

Apart from above, this study will be a matter of interest for academicians, students and practioners.

1.6 Limitation of the Study

Despite ample efforts on the part of the researcher, this study is also not free from limitations. The present study is subject to following limitations.

- Only two commercial banks are taken as the sample of the study among 32 commercial banks of Nepal.
- Only six years data are covered by the study.
- Due to constraint of time, limited books, thesis, annual reports of these banks, magazine and articles are reviewed.
- Websites of NEPSE and commercial banks are taken as basic sources of data.

1.7 Organization of the Study

The present researcher has been organized into the following chapters.

Chapter 1: Introduction

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

Chapter II: Review of Literature

This chapter throws the light on theoretical framework, review of empirical studies, review of journals and thesis and finally research gap.

Chapter III: Research Methodology

This chapter introduces the research methodology used in the present research and explains the nature of research, nature and sources of data, population and sample, data gathering procedure, tools for analysis.

Chapter IV: Presentation and Analysis of Data

This is the main part of the research and in this part data have been systematically presented, analyzed and interpreted the data.

Chapter V: Summary, Conclusion and Recommendation

This is the final chapter of the present study that summarizes and conclusion. At the end of the study, bibliography and appendices have also been incorporated.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. The purpose of reviewing the literature is to develop some expertise in one's area to see what new contribution can be made to receive some idea for developing a research design. Their relevant findings, issues, argument, logic and suggestions which will give a glimpse, guidelines to go further depth for the study. In other words, there has to be continuity in research. This continuity in research is insured by linking the present study with the previous research studies. Useful and relevant books, journals, browsers etc. will be reviewed in this research.

"A critical review of the literature helps the researcher to develop a through a understanding and insight into previous research works that relates to the previous study. It is also a way to avoid investigating problems that have already been definitely answered." (Wolf and Pant, 2007)

2.1 Conceptual Framework

2.1.1 Concept of Financial Performance

Profit is a lifeline of an organization. Every organization which is established as a commercial view point, aims to earn maximum profit for its survival and growth. Profit is an indicator of sound financial performance of any organization, but it is not the sole indicator. A financial performance of an organization also refers to its earning capacity, generating and mobilization of its capital funds, utilization of its overall physical facilities. In other words, financial performance is that managerial activity which has concern with the planning, organizing, controlling and administrating of financial resources of an organization (Pandey, 1995). Moreover, it is basically

concerned with analysis of various items of financial statement of an organization to ensure its comparative strength and weakness by using different tools and techniques.

Financial performance is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of balance sheet and the profit and loss statements. It is also a study of relationship among various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements. By establishing a strategic relationship between the items of a balance sheet and other operative data, the financial analysis unveils the meaning and significance of such items. Thus, financial performance analysis is required to take managerial and financial decisions. (Van Horne, 1977)

Unlike other non bank financial companies, commercial banks do not produce any physical goods they produce loans and financial innovations to facilitate trade and industries. Their nature of assets and liabilities are different than other companies. That is why analysis of financial statement of commercial banks differs from that of other companies.

Balance sheet, profit and loss account and accompanying notes are the most widely used financial statement of banks. The major components of assets side of the balance sheet are loans, advances and investments, commission earned, exchange income, interest paid on deposits and borrowings are the major components of the profit and loss account. Because of the structure of balance sheet and profit and loss account of the commercial banks relevant, reliable and comparative information is needed to evaluate the financial performance (Panday, 2004).

2.1.2 Review of Accounting Statements

The analysis of a company's accounting statements is not an end in itself. Instead, it is a means to identify financial health of the company that has direct relevance to

understanding the intrinsic values and risks of the company's securities. The analyst will want to obtain access to a wide range of financial information about the company under reviews. Much of that information is found in the three primary accounting statements issued by the company in its annual report: the balance sheet, the income statement and the statement of cash flows.

Balance Sheet

As the name implies, the balance sheet list balances that is, it has the characteristics that

Total Asset = Total liabilities + Capital

Hence, the balance sheet is a statement of the financial position at a specific point in time regarding assets, liabilities and stockholder's equity to balance debt and ownership position. The Balance Sheet is a statement of resources at the disposal of the firm and how they are put to use. In other words, the acquired assets at the disposal of the firm and liabilities that the firm has incurred and remains indebted to others.

Furthermore, a Bank's balance sheet lists sources of Bank funds (liabilities) and uses to which they are put (assets) Bank obtain funds by borrowing and by issuing other liabilities such as securities and loans. Banks make profits by charging an interest rate in their holdings of securities and loans that is higher than the expenses on their liabilities (Rana, 2004)

Balance sheet has two sides:

a. Assets:

An asset of the firm refers to the economic resources owned by the firm. Assets represent the company's economic resources. An asset is an item that has potential to generate economic benefits (that is, cash inflows) for the company in the future. For example, plant and equipment can produce goods and services that can be sold to customers for cash. Other assets in the bank's balance sheet consist of items such as premises and fixed assets, other real estate owned (collateral seized on defaulted

loans), investments in unconsolidated subsidiaries, intangible assets (i.e. goodwill and mortgage servicing rights) and other (i.e. deferred taxes, prepaid expenses, and mortgage servicing fees receivable). These accounts generally a small part of the bank's overall assets.

Loans are the major items in a bank's balance sheet and generate the largest flow of revenue income. Howe ever, loans are also the least liquid asset item and the major source of credit and liquidity risk for most banks. Loans are categorized as commercial and industrial loans, loans secured by real estate, individual or consumer loans, and other loans (Rana,2006)

b. Liabilities:

A bank's liabilities consists of various types of deposit accounts and other borrowing used to fund the investments and loans on the asset side of the balance sheet. Liabilities vary in terms of their maturity, interest payments, check-writing privileges, and deposit insurance coverage. A bank acquires funds by issuing (selling) liabilities, which are consequently also referred to as sources of funds. The funds obtained from issuing liabilities are used to purchase income-earning assets.

Current accounts are transaction accounts held by individuals, business firms, corporations, and other institutions that pay no explicit interest. Saving deposits are all saving accounts other than current accounts. In saving accounts and current accounts some minimum balance should be kept. The major categories of time deposits are fixed deposit. Fixed deposits are fixed maturity instruments. Although the size, maturity, and rates on these FDs are negotiable, most banks issue standardized FDs (Rana, 2006).

Deposits can be separated as foreign from domestic deposits on the balance sheet but it is not generally practiced in Nepal. Foreign deposits are generally large and held by corporations with a high level of international transactions activities. The liabilities described above are all deposit liabilities, reflecting deposit contracts issued by banks

in return for cash. However, banks not only fund their assets by issuing deposits but borrow in various markets for purchased funds, since the funds generated from these purchases are not deposits; they are subject to neither reserve requirements nor deposit insurance premium payments. The banks can also borrow funds from other bank for certain period; generally short term of 2/4 days and these transactions can be rolled over each day if the contemporary is willing. Some banks in search of stable sources of funds with low withdrawal risk have begun to issue subordinated notes and debentures, often in the five-to seven years range. These notes are especially attractive because they are subject to neither reserve requirements nor deposit insurance premiums, and some can serve capital for the bank to satisfy NRB regulations regarding minimum capital requirements. Banks facing temporary liquidity crunches can borrow from the central Bank's discount window at the discount rate. Since this rate is not market determined and usually lay below government security rates, it offers a very attractive borrowing opportunity of a Bank with deficient reserve as the reserve maintenance period comes to an end (Maharajan, 2005).

Some Bank separate core deposits from purchased funds on their balance sheets. The stable deposits of the bank referred to as core deposits. These deposits are not expected to be withdrawn over short periods of time and are therefore a permanent source of funding or the Bank. Core deposits generally are defined as demand deposits, current accounts, and saving accounts. Purchased funds are more expensive and/or volatile sources of funds are more likely to be immediately withdrawn or replaced as rates on interest to be paid. These items consists of accrued interest, deferred taxes, dividends payable, and minority interest in consolidated subsidies and other miscellaneous claims (Maharajan,2005)

Income Statement or Profit & Loss Account

Profit and loss account is a statement that shows the results of operation for a period of time. It is also called income statement. It is a summary of revenues, expenses and net income (loss) of an organization for a particular period time. So, it reflects the earning capacity and profitability of an organization.

The determination of the net income of a business enterprise for a certain period of time is the central feature of accounting. Business is primarily conducted for the purpose of earning income and therefore the net income is the most significant figure produced by the accounting process to measure the degree of attainment of the objective. (Pandey, 1995)

The income statement provides a review of the factors directly concerned with the determination of the net income; the revenue realized from the sales of goods or services and the cost incurred in the process of producing the revenue. These costs are cost of sales and selling, general and administrative expenses. They are deducted from the revenue to determine the income from regular operations. In addition, they may be income from other sources and other deductions from income. (Mayer, 1974)

In this statement, revenue of a certain period are compared with the expenses, the differences being either net profit or net loss for the period. Hence, it can be say that income statement is the "Score Board" of the firm's performance during the particular period of time. The generally accepted convention is to show one year's events in the profit and loss account. Analysis of profit and loss for several years may reveal desirable or undesirable trends in the profit earning capacity of an organization.

As income statement shows the net result of the business operations, banks have to be efficient to prove their viability depending upon their income generating power and cost minimizing strategy. The income statement reflects the earning capacity of the bank. The success or failure of bank largely depends on the differences between income and expenditures. The major determining factor of bank's soundness is supposed to be a net income though there are other factors too are equally important. The success is the measure of the excess of income over expenditure while failure is the cause of the excess of income over expenditures over income. Interest income by nature should be sufficient to cover interest expenses plus other overhead costs of the bank's revenues and expenses. Revenues are the interest received from loan values

supplied to the customers. Expenses are the paying interest to depositors. Generally, commercial banks earn profit by mobilizing deposits of the customers (Pandey, 1995)

The major sources of bank income are interest earning assets held by the bank such as loans which generate interest income. Besides, commission and discount, exchange fluctuations gain, investment in securities, shares and debentures and other operating incomes and are sources of bank's income. Expenditures on the other hand are produced by interest bearing liabilities such as deposit liability. Moreover, staff expenses, exchange fluctuation loss, other expenses, interest on debentures and borrowings from other banks are sources of expenditures (Pandey, 1995)

Statement of Cash Flows

Analysts are concerned with the amount of cash that a company generates. In the long run, a company can afford to make payments to its security holders only if it produces surplus cash flow from its operations. Even profitable companies may find themselves facing cash shortage that, in the extreme, can lead to bankruptcy. In the short run, decreasing cash balance may be recharged by borrowing or through the sales of assets. However, those strategies may adversely affect the company's future profitability.

The statement of cash flows shows how a company's cash balance changed from one year to next. It assists the analyst in evaluating the company's ability to meet its obligations for cash, its needs for future external financing, and the effectiveness of its financing and investing strategies. The statement of cash flows is divided into three parts:

- Cash flow from operating activities
- Cash flow from investing activities
- Cash flow from financing activities

Construction of the statement of cash flows begins with a comparison of balance sheets from one period to another. Each activity of the corporation is classified into operating, investing or financing categories and identified as either an inflow or an

outflow. For example, an increase in inventory constitutes an operating outflow of cash, whereas an increase in long-term debt represents an inflow of financing cash.

Cash flows from operating activities are obtained by adding the company's operating cash inflows to net income and subtracting the operating cash outflows from it. Cash from investing activities are primarily calculated from changes in the property, plant and equipment accounts. Cash flows from financing are associated with raising or reducing capital through debt or refinancing and the payment of dividends.

Closely related to these measures of cash flows is a company's free cash flow, which takes two forms. First there is free cash flow to the firm, determined as:

> After-tax operating income
>
> \+ Depreciation, amortization and deferred taxes
>
> \- Increase in working capital
>
> \- Investments in fixed assets
>
> ───────────────────────────────
>
> = Free cash flow to the firm

After-tax operating earnings are equal to operating earnings times the quantity (1 – tax rate), EBIT (1-t), or equivalently EAT + tI. The increase in working capital represents an increase in the amount of current assets relative to current liabilities and hence is short-term in nature. Investment in fixed assets is long-term because it involves spending on items such as property, plant, and equipment. Thus, free cash flow to the firm is the cash generated by the company's debt and equity holders. Note that it is equivalent to the sum of cash flows from operating activities, cash flow from investing activities, and the after-tax cost of any interest and preferred stock dividend payments. The second type of free cash flow is free cash flow to equity, defined as:

> Net Income
>
> \+ Depreciation, amortization and deferred taxes
>
> \- Increase in working capital
>
> \- Investments in fixed assets

- Principal repayments

+ New debt issued

_____

= Free cash flow to the firm

Free cash flow to equity represents cash flow generated by the company's operations that remains after the company has covered all its financial obligations; working capital needs, and fixed asset needs. It is what is left for the company to pay out as dividends, although most companies do not use the entire amount for this purpose. Note that it is equal to the sum of cash flow from operations, cash flow from investing, cash flow from financing, and dividends. It is equal to free cash flow to the firm less principal repayments plus new debt issued (Srivastav,1993).

2.1.3 Additional Financial Statement Information

The balance sheet, income statement, and statement of cash flows contain much of the financial statement information required by the analyst. However, considerable detail about the financial performance of the company also can be found in other parts of a company's annual report. Thus, as part of her research, the analyst will want to examine;

• Notes to the financial statements

• Management discussion and analysis

• Auditor's report

The notes to the financial statements contain supplement information regarding particular accounts, such as the company's method of valuing inventory and a list of its long-term debts outstanding. They present information regarding major acquisitions or divestiture, officer and employee retirement and stock option plan, leasing arrangements, legal proceedings, and changes in accounting procedures, among other issues.

Management discussion and analysis provide as interpretation by the company's senior officers of financial trends and significant events affecting the company, particularly as they affect the company's liquidity, financial resources, and result of operations. In preparing this report, corporate management of some firms are more forthcoming than others. Consequently, the value of the report to the analyst varies widely among companies (Sigdel,2002)

The auditor's report presents the opinion of the company's independent auditor regarding the "fairness" of the company's financial statements. In the vast majority of cases, the auditor issues an unqualified opinion, stating that during the accounting period the company's financial statements fairly present, in all material respects, the financial position, results of operations, and the cash flows in conformance with Generally Accepted Accounting Principles (GAAP). A qualified opinion, indicating material departures from GAAP, is a rarity and may signal serious problem with the company's disclosures. The mere threat that the auditor might issue a qualified opinion is usually sufficient to prevent a company from releasing intentionally incorrect reports. Note, however, that an unqualified opinion is related merely to the fairness of the disclosures; it does not imply any endorsement on the part of the auditor as to the quality of the company's business operations of the value of the company's securities. (Alexander and Sharpe, 2002)

2.1.4 Importance of Financial Performance

Financial performance provides insight about what company has done in terms of liquidity, profitability, turnover, asset growth, capital structure, dividend payments and so on. As such, any investors while taking investment decision has to be fully informed about the company for the following reasons (www.investopedia.com).

a. Gain Full Information on the Performance of the Company

Investor makes financial analysis to have strong backing of useful financial information necessary for making meaningful financial decision. Sometimes investors

fail due to lack of information decisions is to be made. Taking the case of securities market in Nepal, stock exchange history shows how some investors fail because of their lack of power to make financial analysis. Success or failure of public limited companies depends much on their investment performance. Failure is the example of investment in Necon Air and Indreyani Soyabean while success example is the investment in shares of most joint venture banks like Standard Chartered Bank, Nabil Bank, Himalayan Bank etc.

b. Make Sound Judgment

Investors can form correct opinion with the help of analysis to make investment decision as correctly as possible. The power to make proper judgment is not possible without strong backing of financial analysis. At present, some investors are very conscious to make investment analysis even in our growing stock market. Investors gradually know when to beat the market. The rational investors have been successful enough to make a line of demarcation between returns from good securities compared to other portfolios not providing return for a long period.

c. Help in Sound Forecasting

Investors can project results as correctly as possible with the help of financial analysis. They can know about how the company can do in the future becomes of their analytical power supported by financial information. At present, investors in Nepal have been able to make forecast of investment decisions. Sometimes, investors fail because they are not able to make right kind of prediction in the selection of best securities.

d. Selection of Good Security

Financial analysis enables investors to select the right kind of security for investment depending upon the comparative analysis of which company doing the best various comparative parameters should be considered to make distinction between what constitutes sound investment and what constitute not sound investment decision. Investable funds are limited so investors have to select best securities that provide promising return.

e. Help in Risk Analysis

Investors can form a correct opinion on predicting the risky securities. According to analysis of risk, investors can determine the rate of return with the help of financial analysis. Power to forecast rise and fall of security price is necessary to manage risk according to the needs of investors.

2.1.5 Measurement Technique of Financial Performance

Ratio Analysis

The term ratio refers to the numerical or quantitative relationship between two items/variables. Ratio analysis is the major tool of financial analysis. A ratio analysis helps to study the bank's financial position and performance. In other words, a ratio shows the relationship between two figures in the balance sheet. This enables to determine the efficiency and performance of the firm. A ratio analysis helps to study the bank's financial position and performance.

The relationship between two accounting figures, expressed mathematically, is known as a financial ratio (if simply as a ratio). Ratio is used as an index of yardstick for evaluating the financial position and performance of the firm. It helps in making decision as it helps establishing relationship between various figures and variables.

The absolute accounting figures presented in the financial statements do not provide meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. Therefore, the relationship between two accounting figures must be expressed mathematically which is known as financial ratio. In other hand, a single ratio by itself does not indicate favorable or unfavorable condition of a firm until and unless it is compared to some appropriate standard. So, ratio by itself is not a conclusion, as they are only means and not an end (Shrestha, Poudel and Bhandari, 2005).

Similarly, another simple and most widely used tool is percentage. The term "percent" means out of hundred or per hundred. Percentage also establishes the relationship between two figures but it establishes the relationship in terms of hundred. By calculating percentage of different figures of concerned banks we can easily make qualitative judgement about their financial performance and meaningful conclusions and recommendations can be drawn on that basis. In this study work, ratio and percentage are frequently used to analyze the data. On the basis of these tools liquidity position, deposit utilization, deposit structure, investment structure, fund structure, income and expenditure structure etc. of the two selected banks are analyzed.

Earnings per Share (EPS)

To know the earning capacity and to make comparison between concerned banks earning per share is calculated. EPS is defined as the result received by dividing the earning available to common shareholders by the total number of common stock outstanding.

$$Earnings\ per\ Share = \frac{Earnings\ Available\ to\ Common\ Shareholder's}{Number\ of\ Common\ Shares\ Outstanding}$$

Dividend Yield (DY)

Dividend yield reflects percentage relationship between dividend per share and market value per share. It is calculated by:

$$Dividend\ Yield = \frac{Dividend\ per\ Share}{Price\ of\ Stock}$$

Price Earnings Ratio (P/E ratio)

Price earnings ratio reflects the price currently paid by the market for each rupee of currently reported earnings per share. It is calculated by:

$$Price\ Earning\ Ratio = \frac{Price\ of\ Stock}{Earnings\ per\ Share}$$

Market Value Ratios

One final group of detail ratios that warrants some attention is Market Value Ratios. These ratios attempt to measure the economic status of the organization within the market place. Investors use these ratios to evaluate and monitor the progress of their investments.

Book Value per Share

Book Value per Share expresses the total net assets of a business on a per share basis. This allows us to compare the book values of a business to the stock price and measure differences in valuations. Net Assets available to shareholders can be calculated as Total Equity less Preferred Equity. Book Value per Share is calculated by:

$$Book\ Value\ per\ Share = \frac{Net\ Assets\ Available\ to\ Common\ Shareholders}{Outstanding\ Common\ Shares}$$

Liquidity Ratios

Liquidity is a prerequisite for the very survival of a firm. The liquidity ratios measure the ability of a firm to meet its short-term obligation and reflect the short-term financial strength/solvency of a firm. Liquidity Ratios help us to understand if we can meet our obligations over the short-run. The liquidity position neither should be high nor low for maintain sound financial position for the firm. A high degree of liquidity is bad, as idle assets cannot earn profit. Whereas lack of sufficient liquidity can make the firm failure to meet its short-term obligation, which creates bad credit image, loss of creditor's confidence, or even in lawsuits resulting in the closure of the company (Brigham,1996)

Current Ratio

Current ratio is the ratio of current assets to current liabilities. Current assets refer to cash and other nearness to cash "assets which can be converted into cash within and accounting period such as cash and bank balance, investment in treasury bills, money

at call or placement, loans and advances, bills purchased and discount, inter-branch account, other short-term loans, receivable and prepaid expenses etc. Whereas current liabilities are those short-term obligations which should be pay within a year, which refers to tax provisions, bank overdrafts, deposit liabilities, bills payable, staff bonus, inter-branch reconciliation, provisions and accrued expenses etc. The ratio is calculated by:

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

Acid Test or Quick Ratio

Since certain current assets (such as Inventories) may be difficult to convert into cash, we may want to modify the Current Ratio. Also if we use the LIFO (Last In First Out) Method for inventory accounting, our current ratio will be understated. Therefore, we will remove certain current assets from our previous calculation. This new ratio is called the Acid Test or Quick Ratio; i.e. assets that are quickly converted into cash will be compared to current liabilities. The Acid Test Ratio measures our ability to meet current obligations based on the most liquid assets. Liquid assets include cash, marketable securities, and accounts receivable. The Acid Test Ratio is calculated by:

$$Acid\ Test\ or\ Quick\ Ratio = \frac{Liquid\ Assets\ (i.e.\,Current\ Assets - Stocks)}{Current\ Liabilities}$$

Leverage Capital Structure Ratio

a. Total Debt Ratio

This ratio measures the portion of total debt used in financing total assets. Total debt refers to short and long term borrowings, debenture/bonds, bank borrowing, deferred payment arrangement for buying capital equipments, and public deposits and other interest bearing loan. This ratio is calculated by:

$$Return\ on\ Equity\ =\frac{Net\ Income}{Average\ Shareholders\ Equity}$$

b. Total Shareholder's Equity to Total Assets Ratio

This ratio exhibits the relationship between shareholder's equity and total assets. The ratio shows the proportion of used in financing total assets. Here, shareholders equity or net worth refer to paid up capital, reserves, share premium, P/L balance and general loan loss provision. This ratio is calculated by:

$$Total\ Shareholder's\ Equity\ to\ Total\ Assets\ Ratio =\frac{Total\ Shareholder's\ Equity}{Total\ Assets}$$

c. Debt Equity Ratio

This ratio shows the percentage of debt in compare to equity (net worth). This ratio indicates the lenders contribution for each rupee of the owners' contribution. A high ratio shows that claims of creditors are greater than those of owners and vice-versa. There is a need to strike a proper balance between the use of debt and equity. The most appropriate debt-n-equity combination would involve would involve a trade-off between return and risk. This ratio can be calculated by:

$$Debt\ Equity\ Ratio =\frac{Total\ Debt}{Net\ Worth}$$

Profitability Ratios

Earning profit is the major business of any commercial banks and to earn profit is essential for very survival of any firm. Without making sustainable profit the firm cannot stand in the market in the long run. So, making sufficient profit is the most for the commercial banks too. The profitability of the company should be evaluated in terms of the firm's investment in assets and in terms of capital contributed by creditors and owners.

The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also

interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get reasonable return on their investment. This is possible only when the company earns enough profits.

Return on Equity

Return on equity is a measure of how well management has used the capital invested by shareholders. Return on Equity tells us the percent for each dollar (or other monetary unit) by shareholders. Return on Equity is one of the most widely used ratios for publicly traded companies. It measures how much return management was able to generate for the shareholders. Return on Equity is calculated by:

$$Return\ on\ Equity\ = \frac{Net\ Income}{Average\ Shareholders\ Equity}$$

Components of Return on Equity

Return on Equity has three ratio components. The three ratios that make up Return on Equity are:

a. Profit margin:

Profit Margin measures the percent of profits you generate for each dollar of sales. Profit Margin reflects your ability to control costs and make a return on your sales. Management is interested in having high profit margins. Profit Margin is calculated by:

$$Profit\ Margin\ = \frac{Net\ Income}{Sales}$$

b. Assets Turnover

Assets Turnover measures the percent of sales you are able to generate from your our assets. Asset Turnover reflects the level of capital we have tied-up in assets and how much sales we can squeeze out of our assets. A high asset turnover rate implies that we can generate strong sales from a relatively low level of capital. Low turnover would imply a very capital-intensive organization. Asset Turnover is calculated by:

$$Assets\ Turnover = \frac{Sales}{Average\ Assets}$$

c. Financial Leverage

Financial Leverage is the third and final component of Return on Equity. Financial Leverage is a measure of how much we use equity and debt to finance our assets. As debt increases, financial leverage increases. Generally, management tends to prefer equity financing over debt since it carries less risk. The financial Leverage Ratio is calculated by:

$$Financial\ Leverage = \frac{Assets}{Shareholder\ Equity}$$

Return on Assets

Return on Assets measures the net income returned on each dollar of assets. This ratio measures overall profitability from our investment in assets. Higher rates of return are desirable. Return on Assets is calculated by:

$$Return\ on\ Assets = \frac{Net\ Income}{Average\ Total\ Assets}$$

Return on assets is often modified to ensure accurate measurement of returns. For example, we may want to deduct out preferred dividends from Net Income or maybe we should include operating assets only and exclude intangibles, investments, and other assets not managed for an overall rate of return.

Turnover Ratios

Turnover ratios indicate the speed with which assets are being converted or turned over into sales. Turnover ratios are employed to evaluate the efficiency with which the firm manage and utilize its assets. A proper balance between sales and assets generally reflects that assets are managed well (Brigham, 1996).

a. Total Assets Turnover

Assets turnover is the relationship between sales and assets. The firm should manage its assets efficiently to maximize sales. The firm should total assets turnover indicates the efficiency with which the firm uses all its assets to generate sales generally, the higher the firm's total asset turnover, the more efficiently its assets have been utilized. It is calculated by:

$$Total\ Assets\ Turnover = \frac{Sales}{Total\ Assets}$$

b. Fixed Assets Turnover

The fixed assets turnover ratio measures the efficiency with which the firm has been using its fixed assets to generate sales. Generally, high fixed assets turnover are preferred since they indicate a better efficiency in fixed assets utilization. It is calculated by:

$$Fixed\ Assets\ Turnover = \frac{Sales}{Net\ Fixed\ Assets}$$

2.1.6 Role of Financial Performance in Securities

a. It Helps to Determine Security Characteristics

Financial analysis helps to estimate a security's future sensitivity to major factor and unique risk to determine the risk of portfolio. Analysis of dividend policy and likely future earnings and cash flows may lead to better estimates that can be obtained by simply extrapolating last year's values.

b. It Helps to Identify Mispriced Securities

This process entails identifying situations in which the financial analysts estimate of such things as a firm's future earnings and dividends:

- Differ substantially from consensus (i.e. average) estimates of others.
- Are viewed as being closer to the correct values then the consensus estimates.
- Are not yet currently reflected in the market price of the firm's estimates.

Two different approaches may be taken in the search for mispriced securities using fundamental analysis. The first approach involves valuation, wherein the "intrinsic" or "true" value of security is determined by discounting the cash flows the investors to receive from owing the asset. After this determination has been made, the intrinsic value is compared with the securities current market price. If the market price is substantially greater than the intrinsic value, then the security is overpriced or overvalued. It the market price is substantially less than the intrinsic value, the analyst sometimes estimates a securities expected return over a specific period given its current market price and intrinsic value. The estimate is then compared with the "normal" or "fair" return for securities with similar attributes.

A security intrinsic value may be determined in great detail using estimates of all major factors that influence security returns (for example, gross domestic product of the economy, industry sales, firm sales and expenses and capitalization rates). Shortcuts may be taken whereby for example, an estimate of earnings per share is multiplied by a "justified" or "normal" P/E ratio to determine the intrinsic value of a share of common stock.

A second approach involves estimating only one or two financial variables and comparing these estimates directly with consensus estimates. For example, next year's earnings per share for stock may be estimated. If the analysts estimate substantially exceeds the consensus of other analysts estimates, the stock may be an attractive investment because the analyst expects the actual earnings to provide a pleasant surprise for the market when announced. At the time, the stock's price is expected to increase; resulting in the investor's receiving a greater- than-normal return. Conversely, when an analyst' estimates of earnings per share is substantially below that of the other analyst, the analyst expects the market to receive an unpleasant surprise. The resulting decrease in the stock's price will lead to a smaller-than-normal return.

At an aggregate level, an analyst may be more optimistic about the economy than the consensus of other analysts. This view would suggest that a larger-than-normal investment in stocks be taken; offsets perhaps by a smaller-than-normal investment in stocks should be taken, offset perhaps by a smaller-than-normal investment in fixed income securities. Conversely, a relatively pessimistic view would suggest a smaller-than-normal investment in stocks; offset perhaps by a larger-than-normal investment in fixed-income securities. The analyst might agree with the consensus view on both the economy and the individual characteristics of specific but feel that the consensus view of the prospects for a certain group of securities in a particular industry is in error. In this case, a larger-than-normal investment may be made in stocks from an industry that the analyst thinks has strong prospects. Conversely, a smaller- than-normal investment would be made in stocks from an industry that the analyst thinks has weak prospects.

Whenever the analyst feels a mispriced security has been identified, he or she should recognize that it is possible that the security is correctly priced and that something has been overlooked in the analysis. Indeed, in an efficient market, this is precisely what will have happened.

c. Conveying Advice on Beating the Market

Financial analysis can be used to "beat the market" that means they help to show how to make abnormally high returns by investing in the stock market. It seems logical that any such prescription in print for long is unlikely to allow the investors to continue to beat the market consistently. Just because someone asserts that an approach worked in the past does not mean, in fact, that it has worked. Moreover, even if it did work in the past, as more and more investors apply it, prices will be driven to levels at which the approach will not work in the future. Although individuals should be skeptical when others tell them how to use financial analysis to beat the market, individuals can try to understand the market using financial analysis.

To understand and estimate the risk and return of individual securities as well as groups of securities (such as industries), one must understand financial markets and the principles of valuation (www.investopedia.com).

2.1.7 Relation between Stock Price and Financial Performance

Financial performances carefully evaluate the prospects for companies, industries, and the economy in the search for mispriced securities. Financial performance is widely used to evaluate the banks performance as expected by investors. It represents the investor's judgment or expectations about the growth in the bank's performance. In other words, it measures how the market is responding towards the earning performance of the concerned banks. Most commercial banks have able to satisfy investors to take their position in the market, while a few have negative performance, which depicts that, they are unable to create an impact in the market. This has led the market price of such banks share to decline significantly.

If an undervalued security is found, then it will be purchased. However, the act of purchasing the security tends to push its price up toward intrinsic value, thereby making it no longer undervalued. Consequently, financial analysis tends to result in security prices that reflect intrinsic values and hence it tends to make markets efficient. Financial analysis is not conducted on all securities all the time. As result, not all the prices of all securities reflect the intrinsic values all the time.

Pockets of opportunities may arise from time to time leading to the possibility of added benefits from financial analysis. The implication is that investors should engage in financial analysis only the most skillful analyst to search for mispriced securities because the market would be nearly, but not perfectly, efficient. Skilled investors can earn abnormally high gross returns, but after the costs of gathering and processing information and making the requisite trades are taken into consideration, their net return will not be abnormal.

Financial analysis helps to determine relevant characteristics of securities. This reason is appropriate even in a perfectly efficient market. Because investors differ in their circumstances portfolios should be tailored to accommodate such differences. Success in this task generally requires estimation of certain securities characteristics, thereby justifying the use of financial analysis.

2.2 Review of Related Studies

2.2.1 Review of Journals and Articles

After the conceptual and theoretical reviewing, certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation are studied nationally and internationally.

A number of studies have been conducted to answer the straight forward question of whether the financial performance affects the trading activity and the price movements in securities market or not. But such studies differ in their area of emphasis and conclude in their own manner. However, this section of this chapter aims to present the crucial part and theme of the some research works conducted previously.

Pettit's (1972), in his article entitled, "*Dividend Announcements, Security Performance and Capital Market Efficiency*", Pettit has attempted to offer evidence about the validity of the efficient market's hypothesis by estimating the speed and accuracy with which market prices react to announcements of changes in the level of dividend payments. In addition, the nature of his investigation is such that it provides evidence on the hypothesis that changes in dividend levels convey important information to market participation.

For the analysis purpose Petit collected approximately 1000 dividend announcement dates of dividend changes, investments relatives, dividend data, quarterly earning information and daily price from different sources. Six hundred twenty-five were

taken and categorized accordingly on the basis of their earnings and dividend performance. The research covered a period of four and a half years i.e. from January 1964 to June 1968. After that, performance value and performance index were calculated for each dividend earning class for a period surrounding the dividend announcement date.

The results of the research support that substantial formation is conveyed by announcements of dividend changes. Moreover, the results imply that the dividend announcement of dividend changes. Moreover, the results imply that the dividend announcement, when forthcoming, may convey significantly more information than the information than the information implicit in an earnings announcement.

Dr. Manohar Krishna Shrestha (1991), in the article, "Commercial Bank's Comparative Performance Evaluation" Karmachari Sanchaya Kosh, Kosh Samachar, has concluded about Joint Venture Banks are new, operationally more efficient and having superior performance while comparing with local banks. Better performance of Joint Venture Bank is due to their sophisticated technology, modern banking method and skill. Their better performance is also due to burden the local banks are facing due to government banking policy in rural areas and financing public enterprises. Local banks have to face growing constraints of socio-economic and political system on one spectrum and that of issues and challenges of Joint Venture Bank commanding significant banking business on the other spectrum. He has further said that the government's liberalization policy also encourages the traditionally run domestic banks to enhance their efficiency and competitiveness through modernization, mechanization via computerization and prompt customer service by setting them to the exposure of Joint Venture Bank.

Baral (2005), using the annual reports data set of joint venture banks and NRB supervision reports, published his paper abstract in the journal of Nepalese Business Studies with the title *"Health check up of Nepalese Commercial banks: A case study*

of Joint Venture Banks in Nepal". The paper explained the financial health of Nepalese Joint Venture Banks in CAMEL framework for the period ranging from FY 2001 to FY 2004. The health check up, which was conducted based on publicly available financial data, concludes that the   financial health of joint venture banks is better than that of other commercial banks. The study further indicates that the CAMELS component indicators of the joint venture banks are not much encouraging for managing the possible shocks. However, the study concludes that the regular financial health check up is necessary to build up public confidence in the financial system and protect the interest of depositors and investors.

2.2.2 Review of Past Thesis

Poudel (2002), in the thesis entitled "Financial Performance Analysis of EBL" has focused on the objectives as to examine the financial statement of the bank and analyze them to see the financial soundness of the bank to observe the return over the equity to highlight the relationship between different variables, to provide suggestions and recommendation for the improvement of the future performance of EBL based on the findings of the analysis. It is found that the liquidity position of the bank to meet the daily cash requirement is sound. There is strong position regarding the mobilization of total deposit on loan and advances, normal position and decreasing trend of regarding the mobilization of total deposit as investment and bank has average position towards the utilization of working fund. Analysis of EPS reveals that the bank has very good increasing trend regarding EPS even though first two years shows the negative figure. The trend analysis of deposit, net profit, loan and advances and EPS shows the increasing trend even though the value shows in the beginning of studying period.

Subedi (2002), in his thesis entitled "A Comparative Study of Financial Performance between HBL and EBL" has concluded that the current ratio of EBL is greater than that of HBL. The variability of the ratios of HBL is more uniform than that of EBL. The liquidity of bank may be affected by external and internal factors such as interest rates, supply and demand position of loans and saving to investment situation. HBL

has maintained the ratio of cash and bank balance to total deposit considerably lower than that of EBL. Comparatively HBL's profitability position is better than that of EBL. Profitability ratios like return on total assets, returns on total deposits are not satisfactory in the both banks. HBL has lower capital adequacy ratio in comparison to directive issued by NRB. HBL's loan and advances to total deposit ratio are significantly lower than that of EBL.

Neupane (2006), she studied on topic, "*A Study of Financial Performance Analysis of Himalayan Bank Limited*". The objective of this study is to depict the financial status of Himalayan Bank Limited. She used secondary data for analysis. Major finding of the study is that liquidity position is strong enough to meet daily requirement. ROA is in decreasing trend which shows the banks inefficiency in utilizing its assets to generate more operating profit. ROE decreasing each year, Debt ratio of the bank is high. The bank seems to be successful in making investment in profitable sectors like loan and advances. Lastly the conclusion of the study is that financial position of the HBL from the year 1999 to the year 2004 the collection and loan investment are increasing satisfactory and there also improvement in the operating profit.

Maharjan (2007), a thesis entitled "A Comparative Study of Financial Performance of HBL, NIBL and EBL" shows that EBL found to be comparatively better than sample bank because HBL and NIBL have aggressive working policy from the liquidity point of view. All sample banks are comparatively successful in assets management. Among sample banks, EBL found to be comparatively best in mobilizing its assets and deposits in profitable sectors in form of loan and advances, investment in government securities and shares & debentures. From the profitability point of view, NIBL found to be better among the sample banks because it pay lower interest rate for debt fund and earn higher interest by mobilizing it deposits and assets to different productive and profitable sectors. NIBL is also found to be best on the basis of leverage ratio because HBL and EBL use a high debt fund rather than equity fund and assets. The capital base of bank is strong in NIBL, since it has higher capital adequacy ratio. NIBL also has more assets from its shareholder's fund which shows they are strong from point of view of shareholder's fund.

EBL has highest positive growth rate of net profit among sample banks. The growth rate of earning per share is negative in HBL and positive in NIBL and EBL. Among them, EBL has highest positive growth in EPS since it has highest growth of net profit. EBL and NIBL have perfect positive correlation between the investment and net profit than HBL. EBL and NIBL are able to earn a net profit from investment and loan & advances. NIBL has highest deposit among sample banks in past. Since HBL, NIBL and EBL have less mobilization of deposits, it is recommended that HBL, NIBL and EBL to increase loan and advances to different productive or profitable sectors.

Mainali (2009), has conducted his study on "Financial Analysis of Nepalese Commercial Banks" with the objectives of finding the comparative financial strengths and weakness of various commercial banks, return rate and expected return to the shareholders, systematic and unsystematic risk of the banks and providing recommendation on the basis of research findings. By using financial ratios, it is concluded that lending condition of banks is in decreasing trend. Banks in strong condition are holding good customers and discoursing low rated and less amounted loans. Instead of that, they are initiated towards remittance, bank guarantees and other commission generating activities, while other banks are showing aggressive and are spontaneously increasing loan loss provision. Deposits in the banks are also decreasing while some banks are holding enough funds. Its recommendation for SCBNL was utilizing the maximum of the outsider's funds towards the credit sector because return on credit sector is higher than on investment sector. Loan loss provision of SCBNL is comparatively higher. It is recommended to control while sanctioning loan outflows. So, the bank should improve its credit management.

Rai (2010) conducted a research study on "A Study of CAMEL Analysis of Commercial Banks (Reference to EBL, BOK and NIC)" with the main objective of examining financial performance of selected commercial banks through CAMEL test and comparing each other. She selected EBL, BOK and NIC as her sample and used secondary data available in the annual reports of these banks. The study period covered FY 2004/05-2008/09. From the study, she concluded that the banks have been

able to maintain sufficient capital above NRB capital, Non performing loan is on decreasing trend, banks are using appropriate recovery measures, human resources of the banks are well managed and the earning of the bank is increasing. Further, she found out the EBL has been able to maintain higher liquidity among other sample banks under study.

Manandhar (2011), a research work on "A Study on Financial Performance of NABIL Bank Limited" performed by concludes that the liquidity position of the bank is good enough to meet the short-term obligations. The study shows that the bank is mobilizing its loan and advances adequately. The bank has better mobilization of its saving deposits in loans and advances for income generating purpose but it has not nicely mobilized its fixed deposits in loans and advances to generate the income. So it is suggested investing more in loan and advances as well as less in government securities efficiently for generating profit. Interest earned by the bank is inadequate in comparison to the assets. So it has drawn the attention of the bank toward the sense of significant EBIT. Since, the net profit of the bank in comparison to the total deposit is relatively low; it focused on earning operational profit either by increasing their operational efficiency, or by decreasing their operational expenses as far as possible. The bank is also suggested to formulate and implement some sound and effective financial and non financial strategies to meet required level of profitability as well as the social responsibility.

Bhattarai (2012) has conducted a research study on "Performance Analysis of Nepalese Commercial banks in the framework of CAMEL" with an objective of assessing financial performance of Nepalese commercial banks in the framework of CAMEL. The study has attempted to compare the performance of joint venture commercial banks and non joint venture commercial banks. Various research materials were reviewed during the research period regarding the origin and the development of commercial banks in Nepal, need of banking supervision, NRB and its supervision policy, measuring the components of CAMELS, hypothesis formulation

etc. Beside these, various journals, books, articles, unpublished dissertation, and related reports have been reviewed.

The research study was conducted within the framework of descriptive, analytical and comparative descriptive design. Thirty three commercial banks of Nepal have been categorized into seven joint venture and twenty six non joint venture banks and sample consisting of two banks from each group has been selected using the simple judgemental technique being SCB, EBL, SBL and Laxmi Bank as the sample banks. The study covers the data from FY 2063/64 to FY 2067/68.

The study shows that generally all the banks are fulfilling NRB compliance like maintenance of capital adequacy such as core capital of 6% and total capital ratio of 10% and non performing loan below 5%. It shows that the commercial banks are aware of maintaining the capital adequacy for the long term survival of the banks. In addition, capital adequacy of joint venture banks is significantly higher than that of non joint venture banks. Assets quality of bank is under acceptable level. However, the quality of assets in joint venture banks is in increasing trend and vice versa in the case of non joint venture banks. Management efficiency is somewhat qualitative in nature. It is found that operating expenses ratio is lower and earning per employee is increasing. Earning is the crucial factor for the long term survival of the banks. It is found that earning capabilities of the banks are at satisfactory level and is increasing. Liquidity is the utmost component for the regular and smooth operation of any business. It is found that Nepalese commercial banks have maintained sufficient liquidity as per requirement. It has been concluded that joint venture banks are better in earning capacity and in maintaining liquidity at the same time.

2.2.3 Research Gap

As stated earlier, various studies have been conducted previously for the purpose of analyzing the financial performance of banks and financial institutions of Nepal. Further, many studies have been carried out concerning different aspects of the banks such as investment policy, capital structure, deposit mobilization, interest rate

structures and so on. Researchers have used various financial tools for the analysis proposes. Further, there is less study which compares the financial health and its impact on share price of BFIs. In this study, an attempt has been made to examine the effect of financial performance on the company's stock price. Since the financial performance includes the various aspects of operation, it cannot be measured in term of a single attribute. Therefore, the performance is evaluated by analyzing the well tested tools; Ratio Analysis. Many articles, case studies and dissertations have assessed. Further, the study has used recent data, which provides fresher findings.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The prime objective of the study is to analyze the financial performance and stock price of two selected commercial banks i.e. HBL and EBL comparatively. To achieve the objective of the study an appropriate research methodology has to be followed. Hence, the detailed research methodology used in this study is highlighted in this chapter.

Research Methodology is a research method used to meet the specified objectives. It is a systematic way to find out the probable solution. It refers to the various sequential steps (along with the rational of each steps) to be adopted by a researcher in studying the problem with certain objectives in view. Thus the research method designed to achieve the objectives of this thesis contains research design, population and sample, data collection procedure, tools for analysis and methods of analysis and presentations. So, this chapter deals with the methodology used by the researcher to analyze and interpret the relevant data.

3.2 Research Design

Research design is the overall scheme or program of research which guides the researcher in formulating, implementing and controlling of the study. It includes an outline of what the researcher will do from writing the hypothesis and their operational implications to the final analysis of data. Hence, research design helps to carry out the research work smoothly.

The study aims at portraying accurately upon the financial performance and stock price of two commercial banks viz. HBL and EBL. Keeping in this mind descriptive cum analytical research design will be followed. "Descriptive research includes survey and fact finding inquiries of different kinds. The main purpose of descriptive research is description of the states of affairs as it exists at present. This method

assumes that the researcher has no control over the variables; he/she only report what has happened or what is happening. On the other hand, in analytical research, the researcher has to use facts or information already available and analyze these to make a critical evaluation of the materials".

3.3 Nature and Sources of Data

The present study is mainly conducted on the basis of secondary data but primary data is also forwarded for attaining the goal of the study when-ever needed. The study is basically based on secondary data. All the data required for the research is collected from the secondary source, mainly from the financial statement of the listed companies and trading report published by NEPSE. The other supplementary data and information have been obtained from the annual reports published by the concerned Banks to their shareholders. The data of different financial variables related to study is collected from:

- Annual Reports
- Publications of the concerned companies
- Nepal Stock Exchange Ltd.
- Newspapers and Magazines
- Security Board of Nepal
- Publication of Finance Ministry
- Central Library T.U., Shanker Dev Campus Library

3.4 Population and Sample

The collection or the aggregate of objects or the set of results of an operation is called population. A representative part of population which we select for the purpose of investigation is called a sample. At present there are thirty two commercial banks operating in Nepal. Among of them two commercial banks Himalayan Bank Limited and Everest Bank Limited are selected for the purpose of this study.

Out of various method of selecting a sample judgment sampling was followed in order to choose HBL and EBL among the available commercial banks in Nepal. Moreover the selection of these banks is also based on the advice of experts of relevant field, guide and my own interest.

3.5 Methods of Data Analysis

Presentation and analysis of the data is the core of each research work. This study requires some financial and statistical tools to accomplish the objective of the study. The financial and statistical tools are most reliable. These tools make the analysis more effective, convenient and authentic. The various results obtained with the help of financial and statistical tools are tabulated under different headings and they are compared with each other to interpret the results.

Various financial and statistical tools such as ratio analysis, mean, standard deviation, correlation etc. For presentation purpose, different types of tables, charts, figures and graphs are used when necessary.

3.5.1 Financial Tools

Financial analysis is the process of identifying the financial strengths and weaknesses of the organization by properly establishing relationships between the items of the balance sheet and the income statement.

The study tries to analyze the performance of Nepalese Commercial banks. As a financial tool, researcher is using different component of Balance Sheet and Income Statement in order to analyze the indicator adequately. There are various ratios calculated under study, which has been described below;

Earnings per Share (EPS)

To know the earning capacity and to make comparison between concerned banks earning per share is calculated. EPS is defined as the result received by dividing the earning available to common shareholders by the total number of common stock outstanding.

$$Earnings\ per\ Share = \frac{Earnings\ Available\ to\ Common\ Shareholder's}{Number\ of\ Common\ Shares\ Outstanding}$$

Dividend Yield (DY)

Dividend yield reflects percentage relationship between dividend per share and market value per share. It is calculated by:

$$Dividend\ Yield = \frac{Dividend\ per\ Share}{Price\ of\ Stock}$$

Price Earnings Ratio (P/E ratio)

Price earnings ratio reflects the price currently paid by the market for each rupee of currently reported earnings per share. It is calculated by:

$$Price\ Earning\ Ratio = \frac{Price\ of\ Stock}{Earnings\ per\ Share}$$

Market Value Ratios

One final group of detail ratios that warrants some attention is Market Value Ratios. These ratios attempt to measure the economic status of the organization within the market place. Investors use these ratios to evaluate and monitor the progress of their investments.

Book Value per Share

Book Value per Share expresses the total net assets of a business on a per share basis. This allows us to compare the book values of a business to the stock price and measure differences in valuations. Net Assets available to shareholders can be calculated as Total Equity less Preferred Equity. (Thapa, koirala 2064:2.7). Book Value per Share is calculated by:

$$Book\ Value\ per\ Share = \frac{Net\ Assets\ Available\ to\ Common\ Shareholders}{Outstanding\ Common\ Shares}$$

Liquidity Ratios

Liquidity is a prerequisite for the very survival of a firm. The liquidity ratios measure the ability of a firm to meet its short-term obligation and reflect the short-term financial strength/solvency of a firm. Liquidity Ratios help us to understand if we can meet our obligations over the short-run. The liquidity position neither should be high nor low for maintain sound financial position for the firm. A high degree of liquidity is bad, as idle assets cannot earn profit. Whereas lack of sufficient liquidity can make the firm failure to meet its short-term obligation, which creates bad credit image, loss of creditor's confidence, or even in lawsuits resulting in the closure of the company.(Western,Besley,Brigham,1996:94)

Current Ratio

Current ratio is the ratio of current assets to current liabilities. Current assets refer to cash and other nearness to cash "assets which can be converted into cash within and accounting period such as cash and bank balance, investment in treasury bills, money at call or placement, loans and advances, bills purchased and discount, inter-branch account, other short-term loans, receivable and prepaid expenses etc. Whereas current liabilities are those short-term obligations which should be pay within a year, which refers to tax provisions, bank overdrafts, deposit liabilities, bills payable, staff bonus, inter-branch reconciliation, provisions and accrued expenses etc. The ratio is calculated by:

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

Acid Test or Quick Ratio

Since certain current assets (such as Inventories) may be difficult to convert into cash, we may want to modify the Current Ratio. Also if we use the LIFO (Last In First Out) Method for inventory accounting, our current ratio will be understated. Therefore, we will remove certain current assets from our previous calculation. This new ratio is called the Acid Test or Quick Ratio; i.e. assets that are quickly converted into cash will be compared to current liabilities. The Acid Test Ratio measures our ability to

meet current obligations based on the most liquid assets. Liquid assets include cash, marketable securities, and accounts receivable. The Acid Test Ratio is calculated by:

$$Acid\ Test\ or\ Quick\ Ratio = \frac{Liquid\ Assets\ (i.e.Current\ Assets - Stocks)}{Current\ Liabilities}$$

Leverage Capital Structure Ratio

d. Total Debt Ratio

This ratio measures the portion of total debt used in financing total assets. Total debt refers to short and long term borrowings, debenture/bonds, bank borrowing, deferred payment arrangement for buying capital equipments, and public deposits and other interest bearing loan. This ratio is calculated by:

$$Return\ on\ Equity = \frac{Net\ Income}{Average\ Shareholders\ Equity}$$

e. Total Shareholder's Equity to Total Assets Ratio

This ratio exhibits the relationship between shareholder's equity and total assets. The ratio shows the proportion of used in financing total assets. Here, shareholders equity or net worth refer to paid up capital, reserves, share premium, P/L balance and general loan loss provision. This ratio is calculated by:

$$Total\ Shareholder's\ Equity\ to\ Total\ Assets\ Ratio = \frac{Total\ Shareholder's\ Equity}{Total\ Assets}$$

f. Debt Equity Ratio

This ratio shows the percentage of debt in compare to equity (net worth). This ratio indicates the lenders contribution for each rupee of the owners' contribution. A high ratio shows that claims of creditors are greater than those of owners and vice-versa. There is a need to strike a proper balance between the use of debt and equity. The most appropriate debt-n-equity combination would involve would involve a trade-off between return and risk. This ratio can be calculated by:

$$Debt\ Equity\ Ratio = \frac{Total\ Debt}{Net\ Worth}$$

Profitability Ratios

Earning profit is the major business of any commercial banks and to earn profit is essential for very survival of any firm. Without making sustainable profit the firm cannot stand in the market in the long run. So, making sufficient profit is the most for the commercial banks too. The profitability of the company should be evaluated in terms of the firm's investment in assets and in terms of capital contributed by creditors and owners.

The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get reasonable return on their investment. This is possible only when the company earns enough profits.

Return on Equity

Return on equity is a measure of how well management has used the capital invested by shareholders. Return on Equity tells us the percent for each dollar (or other monetary unit) by shareholders. Return on Equity is one of the most widely used ratios for publicly traded companies. It measures how much return management was able to generate for the shareholders. Return on Equity is calculated by:

$$Return\ on\ Equity = \frac{Net\ Income}{Average\ Shareholders\ Equity}$$

Components of Return on Equity

Return on Equity has three ratio components. The three ratios that make up Return on Equity are:

d. Profit margin:

Profit Margin measures the percent of profits you generate for each dollar of sales. Profit Margin reflects your ability to control costs and make a return on your sales. Management is interested in having high profit margins. Profit Margin is calculated by:

$$Profit\ Margin = \frac{Net\ Income}{Sales}$$

e. Assets Turnover

Assets Turnover measures the percent of sales you are able to generate from your our assets. Asset Turnover reflects the level of capital we have tied-up in assets and how much sales we can squeeze out of our assets. A high asset turnover rate implies that we can generate strong sales from a relatively low level of capital. Low turnover would imply a very capital-intensive organization. Asset Turnover is calculated by:

$$Assets\ Turnover = \frac{Sales}{Average\ Assets}$$

f. Financial Leverage

Financial Leverage is the third and final component of Return on Equity. Financial Leverage is a measure of how much we use equity and debt to finance our assets. As debt increases, financial leverage increases. Generally, management tends to prefer equity financing over debt since it carries less risk. The financial Leverage Ratio is calculated by:

$$Financial\ Leverage = \frac{Assets}{Shareholder\ Equity}$$

Return on Assets

Return on Assets measures the net income returned on each dollar of assets. This ratio measures overall profitability from our investment in assets. Higher rates of return are desirable. Return on Assets is calculated by:

$$Return\ on\ Assets\ = \frac{Net\ Income}{Average\ Total\ Assets}$$

Return on assets is often modified to ensure accurate measurement of returns. For example, we may want to deduct out preferred dividends from Net Income or maybe we should include operating assets only and exclude intangibles, investments, and other assets not managed for an overall rate of return.

Turnover Ratios

Turnover ratios indicate the speed with which assets are being converted or turned over into sales. Turnover ratios are employed to evaluate the efficiency with which the firm manage and utilize its assets. A proper balance between sales and assets generally reflects that assets are managed well (Brigham, 1996).

c. Total Assets Turnover

Assets turnover is the relationship between sales and assets. The firm should manage its assets efficiently to maximize sales. The firm should total assets turnover indicates the efficiency with which the firm uses all its assets to generate sales generally, the higher the firm's total asset turnover, the more efficiently its assets have been utilized. It is calculated by:

$$Total\ Assets\ Turnover = \frac{Sales}{Total\ Assets}$$

d. Fixed Assets Turnover

The fixed assets turnover ratio measures the efficiency with which the firm has been using its fixed assets to generate sales. Generally, high fixed assets turnover are preferred since they indicate a better efficiency in fixed assets utilization. It is calculated by:

$$\text{Fixed Assets Turnover} = \frac{Sales}{Net\ Fixed\ Assets}$$

3.5.2 Statistical Methods

Statistical methods are the mathematical techniques used to facilitate the analysis and interpretation of numerical data secured from groups of individual or groups of observation from a single individual. The deliberations provide detail descriptions and tabulation as well as objective analysis.

3.5.2.1 Arithmetic Mean

The arithmetic mean or average is the sum of total values to the number of observations in the sample. It represents the entire data which lies almost between the two extremes (Gupta, 1997: 75). For this reason an average is frequently referred to as measure of central tendency. In this study it is used in data related to dividend of sample companies over different years. It is calculated as:

$$\text{Mean (X)} = \frac{Sum\ of\ Total\ Values}{No.of\ Values\ (N)}$$

3.5.2.2 Standard Deviation (S. D)

The measurement of the scatterness of the mass of figures in a series about an average is known as dispersion. The standard deviation is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. It is calculated for selected dependent and independent variables specified. It is the positive square root of mean squared deviation from the arithmetic mean. It is calculated as:

$$\text{Standard Déviation } (\sigma) = \sqrt{\frac{\sum (X - \overline{X})^2}{N-1}}$$

3.5.2.3 Coefficient of Variation (C.V)

The coefficient of variations reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviation is known as coefficient of standard deviation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the C.V. It is used for comparing variability of two distributions. Lower value of coefficient of variation is preferable since it denotes the lower degree of dispersion. It is calculated as:

Coefficient of Variation (C.V.) $= \dfrac{S.D. \times 100}{\overline{X}}$

$$\text{Or, C.V.} = \dfrac{\sigma \times 100}{\overline{X}}$$

Where,

σ = Standard Deviation

$\overline{X}$ = Mean

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Introduction, review of literature and research methodology are presented in the previous chapters provide the basic inputs to analyze and interpret the data. This chapter deals with presentation and analysis of data collected from annual reports of the bank. The raw data collected has been organized and processed using various tools discussed in the previous chapter- "Research Methodology". In this chapter data and information are presented and analyzed using different financial and statistical tools in order to achieve the objectives of the study.

4.1. Analysis of Overall Performance of Companies

Performance of companies is a broad subject, which can be examined in various ways. The current owners of the company, the potential investors, employees, creditors, government, customers etc. analyze the performance in their own ways based on their own interest. Although it is not possible to fulfill the interest of all the stakeholders about the performance of the companies, this study tries to help more or less all of them by examining the performance of the joint venture banks listed in NEPSE Ltd. This study specifically provides higher attention to the investors to know about stock price and the analysis is also directed in the best of the stock price.

For the analysis of the performance of joint venture banks, market price per share, net worth per share, earning per share, dividend per share, return on total assets, return on equity and liquidity ratio are analyzed.

4.1.1. Market Price per Share (MPS)

Market price per share is the price at which shares are traded in the stock market. Those shares are transacted in the secondary markets, which are already issued to the public. Organized stock exchange centers are known as secondary market where

trading of the stocks are conducted. Market value in the secondary market is determined by supply and demand factors and reflects the consensus opinion of investors and traders concerning the value of the stock. In an efficient market a set of information is fully and immediately reflected in market price. Market price per share of a company reflects the performance of the company. Performance evaluation thus could be defined as analysis of common stock. The demand of the stocks of better companies will be higher and market price per share of those companies also will be higher in the stock market.

The market price per share of listed companies is a good measure of performance. A higher market price per share indicates the better performance of the company and vice versa. Whether a market price per share is high or low is difficult to determine. For this, the financial analysis has to compare it with the book value per share and also with the market price share of other companies.

The market price per share of selected joint venture banks is presented in Table no. 4.1: the table shows,

Table 4.1

Market Price per Share of Sample Banks

| Year	HBL	EBL
2006/07	748	1560
2007/08	836	1630
2008/09	1760	2455
2009/10	816	1630
2010/11	565	1094
2011/12	653	1033
Mean	**896.33**	**1567.00**
S.D.	**397.28**	**466.44**
C.V.	**44.32%**	**29.77%**

Source: Appendix II

The average closing MPS of HBL during the period of study is Rs. 896.33 with standard deviation of 397.28 and a coefficient of variation of 44.32%. This implies that the share price of HBL is highly fluctuating in nature.

EBL has the closing MPS range between Rs. 2455 and Rs. 1033 during the period of study. An average closing MPS of Rs. 1567 is noted during this period. The standard deviation of the closing MPS is 466.44. The C.V. of 29.77% fluctuation in the closing MPS of EBL during the period of the study, which is high.

From the table 4.1, it can be seen that the average closing MPS of EBL is the highest than that of HBL. Similarly, the standard deviation of EBL is highest and HBL is lowest. The coefficient of variation of these two banks shows that fluctuations in the MPS of HBL is higher than EBL.

Figure 4.1

Market Price per Share of Sample Banks
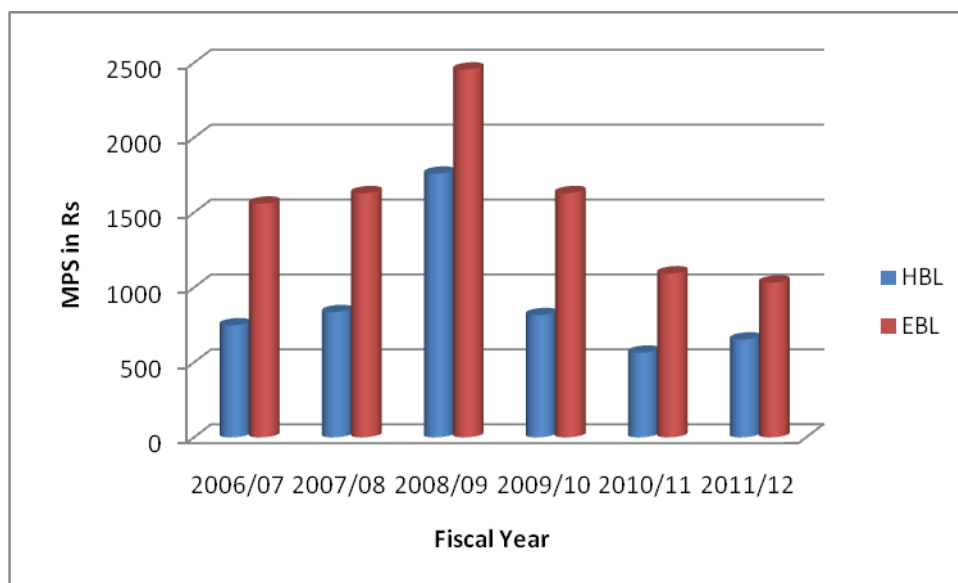
4.1.2. Net Worth per Share (NWPS)

Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computed by dividing the amount of total shareholder's equity, which is called net worth, by the number of shares outstanding (Weston and Brigham, 1996). This figure represents the asset value per share after deducting liabilities and preferred stock (Cheney and Moses, 1993). Book value is a

historical cost amount. It represents the real or actual value of the common stock. Generally, market price of stock is greater than book value of the stock. This clearly indicates that higher net worth per share is the signal of better companies. Therefore, the net worth per share is a good measure of performance of joint venture banks. The net worth per share of the banks under study is presented in table and graph as follows:

Table 4.2

Net Worth Per Share of Sample Banks

Fiscal Year	HBL	EBL
2006/07	825	423
2007/08	836	445
2008/09	840	680
2009/10	920	870
2010/11	1100	1379
2011/12	1740	2430
Mean	1043.5	1037.83
S.D.	325.52	700.02
C.V.	31.20%	67.45%

Source: Appendix - III

The average NWPS of HBL during the period of the study is Rs. 1043.50 with standard deviation of 325.52 and a coefficient of variation of 31.20%.

EBL within the period of study had an average NWPS of Rs. 1037.83, ranging between Rs.445 and Rs. 2430. The standard deviation is 700.02 and the coefficient of variation shows that there is fluctuation of 67.45% in the NWPS of EBL during the period of study.

From the table 4.2, it can be seen that NWPS of HBL is the highest and that of EBL is the lowest. Similarly, the standard deviation of EBL is highest and HBL is the lowest.

The coefficient of variation of these two banks shows that there is an above moderate level of fluctuations in the NWPS.

Figure 4.2

Net Worth per Share of Sample Banks
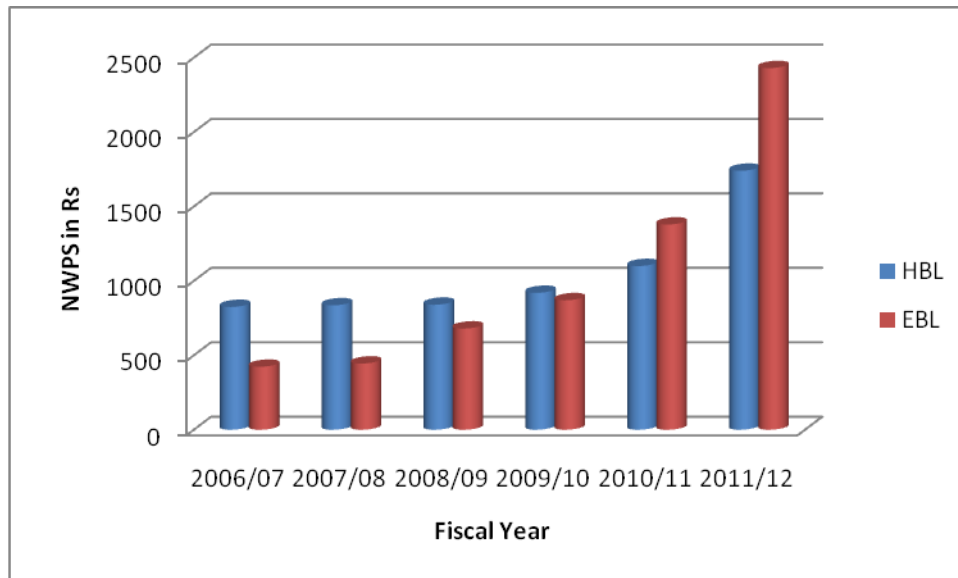
4.1.3. Earnings per Share (EPS)

Profit is the lifeblood of any company. Although the company can run without profit in short period, it cannot run and exist over the long period. Therefore, sufficient earning is necessary for the company to satisfy its owners. Earnings of the shareholders are the residual amount that remains after deducting all the expenses, interest, taxes and dividends to preferred shareholders from the revenue. Earnings per share are the amount available to the holders of each share. It is calculated by dividing the total earnings available to common shareholders by the total number of shares outstanding.

EPS is a good measure of performance because it integrates all the major financial ratios and provides holistic information. Overall financial model states EPS as follows:

EPS= Asset Turnover × Margin on Sales × Financial Leverage × Book Value per Share

$$= \frac{Sales}{Total\ Assets} \times \frac{Net\ Income}{Sales} \times \frac{Total\ Assets}{Equity} \times \frac{Equity}{No.\ of\ Shares}$$

EPS is the overall result of turnover, profitability, leverage and book value per share. It provides combined result of total assets turnover, return on sales debt and equity position in the capital structure, and the book value per share of the company. Higher EPS shows the better earning capacity of the company. The EPS is thus a good measure of performance of companies. A company with higher earnings per share not only can satisfy its existing shareholders and attract potential investors but also contribute to government, society and ultimately to the nation. The EPS of the banks under study are presented in table and graph as follows:

Table 4.3

Earnings per Share of Sample Banks

| Year	HBL	EBL
2006/07	48.8	35.34
2007/08	49.45	29.9
2008/09	49.05	45.58
2009/10	47.91	54.22
2010/11	59.24	62.8
2011/12	60.66	78.4
Mean	52.52	51.04
S.D.	5.29	40.25
C.V.	10.07%	78.86%

Source: Appendix - IV

The average EPS of HBL during the period of study is Rs. 52.52 with standard deviation of Rs. 5.29 and the coefficient of variation shows that there is fluctuation of 10.07%.

EBL has the EPS range between Rs. 78.4 and Rs. 29.9 during the period of study. An average EPS of Rs. 51.04 is noted during this period. The standard deviation of the

EPS is Rs. 40.25. The coefficient of variation shows that there is fluctuation of 78.86% in the EPS of EBL during the period of study.

From the table 4.3, it can be seen that average EPS of EBL is the highest than that of HBL. Similarly, the standard deviation of EBL is highest and HBL is the lowest. The coefficient of variation of these banks shows that there is an above moderate level of fluctuations in the EPS.

Figure 4.3

Earnings Per Share of Sample Banks
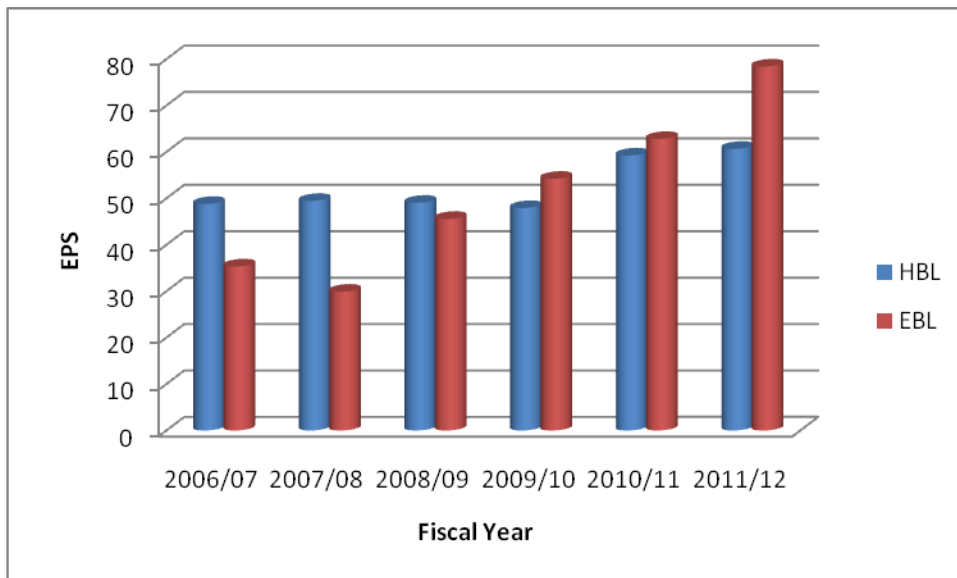
4.1.4. Dividend per Share (DPS)

Investors on the common stocks are attracted to the dividends because it is the return on their investment. Not all companies can provide higher dividends to the common stockholders. For this, they need larger amount of profit. From the total earnings available to common stockholders, the company may retain some earnings for planned investment and distribute remaining amount to common stockholders, or the company may distribute dividends at fixed amount or constant payout ratio as per its dividend policy.

Dividend per share is the regular amount available to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure, which shows the company's earnings and dividend paying capacity.

DPS is the result of various ratios as follows:

$$DPS= = \frac{Sales}{Total\ Assets} \times \frac{Net\ Income}{Sales} \times \frac{Total\ Assets}{Equity} \times \frac{Equity}{No.\ of\ Shares} \times \frac{Dividend}{Net\ Income}$$

DPS includes dividend decision in earnings per share. Although the behavior of companies towards dividend payment is disappointing in Nepal, the joint venture banks, other financial institutions, and some other companies have brought greater revolution in this trend. They are competing for paying larger amount of dividends in recent years. The DPS of the banks under study are presented in table and graph as follows:

Table 4.4

Dividend per Share of Sample Banks

| Year	HBL	EBL
2006/07	8.8	10
2007/08	1.32	20
2008/09	0	20
2009/10	11.58	0
2010/11	30	25
2011/12	15	10
Mean	11.12	14.17
S.D.	9.97	8.37
C.V.	89.69%	59.08%

Source: Appendix V

HBL has an average DPS of Rs. 11.12. The highest DPS is Rs. 30 whereas it has not paid dividend in the years 2007/08. The standard deviation is 9.97 and coefficient of variation is 89.69%. The C.V indicates that the DPS of HBL is quite fluctuating.

EBL paid the highest DPS of Rs. 25. No dividend was paid in the year's 2008/09. An average DPS of Rs. 14.17 has been noted during the study period. The standard

deviation of the DPS is 8.37. The coefficient of variation is 59.08% which indicates that there is a moderate fluctuation during the period.

From the table 4.4, it can be seen that the EBL has the highest DPS and HBL has the lowest. The standard deviation of HBL is highest than that of EBL whereas, the coefficient of variation indicates that among these two banks under study during the period DPS of HBL is highly fluctuating in comparison of EBL.

Figure 4.4

Dividend per Share of Sample Banks
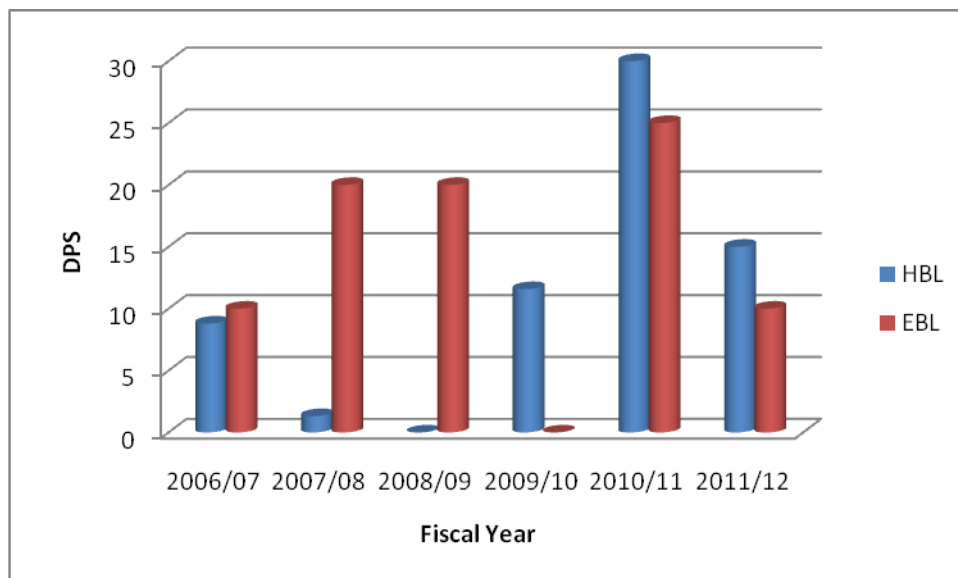
4.1.5. Price Earning Ratio (P/E Ratio)

The price earning ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investor's expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines.

P/E ratio reflects investor's expectations about the growth in the firm's earnings. Industries differ in their growth prospects accordingly; the P/E ratios for industries vary widely.

Price earning ratio is the ratio between market price per share and earning per share. It is also called earning multiplier. The price earning ratios of the banks under study are presented in table and graph as follows:

Table 4.5

Price Earning Ratio of Sample Banks

| Year	HBL	EBL
2006/07	15.33	44.14
2007/08	16.5	54.51
2008/09	35.88	53.86
2009/10	17.03	30.06
2010/11	9.53	17.42
2011/12	10.76	13.17
Mean	17.51	35.53
S.D.	8.69	16.47
C.V.	49.64%	46.36%

Source: Appendix VI

HBL has an average P/E Ratio of 17.51 ranging between 35.88 and 9.53 during the period of study. The standard deviation is 8.69 and the fluctuation of 49.64% in the P/E Ratio is seen during this period.

The average P/E ratio of EBL is 35.53 ranging between 54.51 and 13.17 during the period of study. The standard deviation is 16.47 whereas coefficient of variation is 46.36% which shows indicates that the bank has an average fluctuation in P/E Ratio during the period.

From the table 4.5, it can be seen that the HBL has the highest average P/E Ratio and HBL has the lowest. Similarly, the standard deviation of EBL is highest than that of HBL. The correlation of variation indicates that among the banks under study during period, both EBL and HBL has moderate fluctuation of P/E Ratio.

Figure 4.5

Price Earning Ratio of Sample Banks
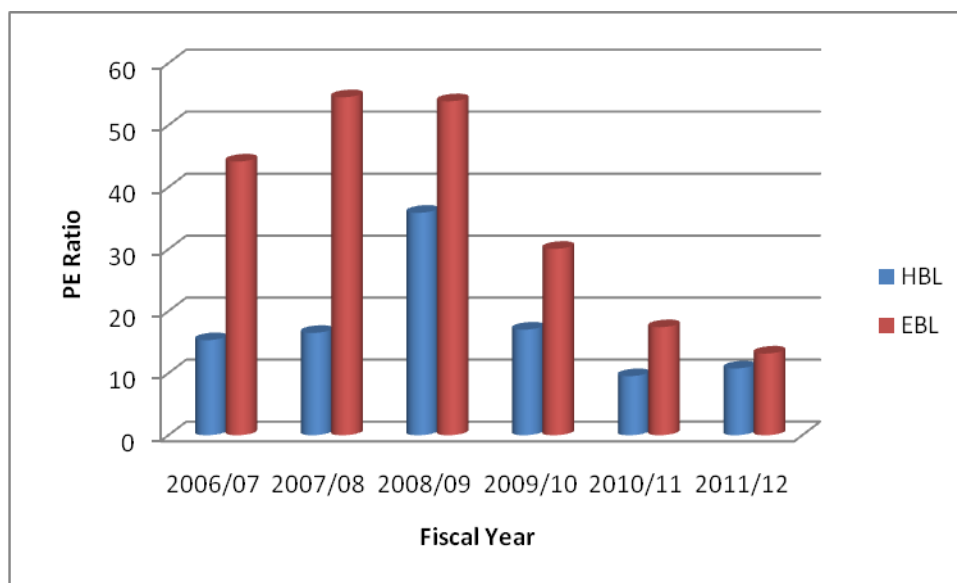
4.1.6 Dividend Yield

Dividend yield is the rate of return on the form of dividends. It is relative term, which is calculated by dividing dividend per share by market price per share. Only higher dividends or lower dividends do not matter to investors. So, it is essential to determine the rate of return on their investment. Dividend yield is an appropriate measure which helps to decide whether to make investment or not in a common stock. Sometimes, lower dividends also produce higher yield and higher dividends also produce lower yield. Therefore, dividend yield helps to investors to know the rate of return in the form of dividends. The Dividend Yield of the banks under study is presented in table and graph as follows:

Table 4.6

Dividend Yield of Sample Banks

Year	HBL	EBL
2006/07	1.12	2.02
2007/08	0.16	4.49
2008/09	0	2.49
2009/10	1.26	0

2010/11	2.73	1.81
2011/12	0.86	0.41
Mean	1.02	1.87
S.D.	0.89	1.47
C.V.	87.11%	78.61%

Source: Appendix VII

During the period of study, HBL has an average Dividend Yield of 1.02 with standard deviation of 0.89. The DY range between 2.73% and 0% and the coefficient of variation shows that there is a fluctuation of 87.11%.

EBL has the DY range between 4.49% and 0% during the period of study. An average DY of 1.87% is noted during the period of study. The standard deviation of the DY is 1.47. The coefficient of variation 78.61 indicates that there is a fluctuation of 78.61% in the DY of EBL, during the period of study.

From the table 4.6, it can be seen that the average DY of EBL is the highest than that of HBL. The DY range of these two banks under study during the period is between 4.49% and 0%. The coefficient of variation of these banks shows a high level of fluctuation in the DY.

Figure 4.6

Dividend Yield of Sample Banks
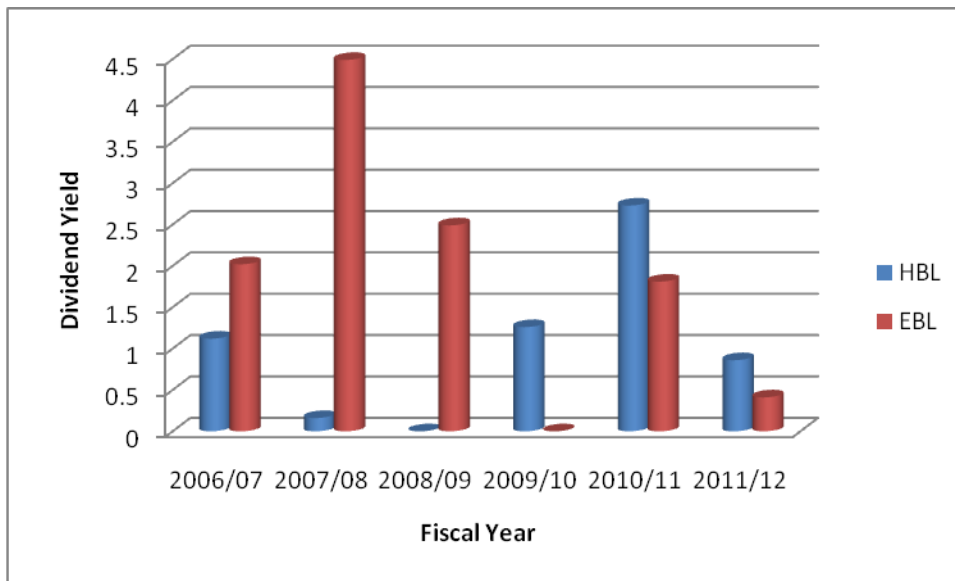
4.2. Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it, data have been analyzed. Various financial ratios related to the financial performance and stock price of commercial banks are presented and discussed to evaluate and analyze the performance of HBL and EBL. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned banks. The important and needed financial ratios, which are to be calculated for the purpose of this study, are mentioned below:

4.2.1. Liquidity Ratios

Liquidity ratios measure the firm's ability to meet current obligations. The failure of a company to meet its obligations due to the lack of sufficient liquidity may result in bad credit image and loss of creditors. An improved liquidity position is an indicator of better performance. Firm should always maintain an appropriate level of liquidity.

The most common ratios, which indicate the extent of liquidity or lack of it, are current ratio. Current ratio is calculated by dividing current assets by current liabilities. As conventional rule, a current ratio of 2 o 1 or more is considered satisfactory. Howe ever, an arbitrary standard of 2 to 1 should not be blindly followed. Firms with less than 2 to 1 current ratio may be doing well, while firms with 2 to 1 or even higher current ratios may be struggling to meet their obligation. This is so because the current ratio is a test of quantity, not quality.

These ratios are presented in the table and graph as follows:

Table 4.7

Current Ratio of Sample Banks

| Year	HBL	EBL
2006/07	1.03	1.08
2007/08	1.01	1.07
2008/09	1.04	1.06
2009/10	1.04	1.06
2010/11	1.05	1.05
2011/12	1.05	1.04
Mean	1.04	1.06
S.D.	0.014	0.013
C.V.	1.35%	1.23%

Source: Appendix VIII

HBL has an average current ratio of Rs. 1.04. The highest current ratio is 1.05. The standard deviation is 0.014 and coefficient of variation is 1.35% which indicates that the current ratio of HBL is moderate.

The average current ratio of EBL is 1.06 with the standard deviation of 0.013. The coefficient of variation is 1.23%, which indicates that there is low fluctuation than that CR of HBL.

From the table 4.7, it can be seen that the HBL has the highest current ratio than that of EBL during the time period of study. The coefficient of variation indicates that among these two banks under study during the period no banks have the highest fluctuation.

Figure 4.7

Current Ratio of Sample Banks
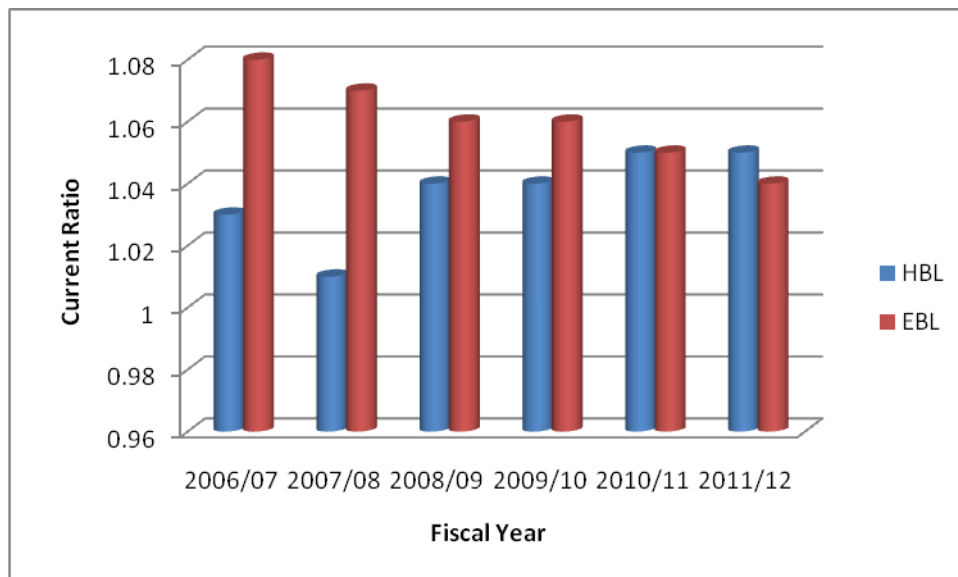
4.2.2. Return on Total Assets (ROTA)

The term investment may refer to total asset. Return on total assets helps to identify what percent of the total asset is earned within a specified period. The companies having higher ROTA is regarded as best performers. The ROTA of the banks under study is presented in table and graph as follows:

Table 4.8

Return on Total Assets of Sample Banks

| Year	HBL	EBL
2006/07	0.88	1.10
2007/08	0.91	1.17
2008/09	1.06	1.50
2009/10	1.11	1.40
2010/11	1.55	1.50
2011/12	1.47	1.40
Mean	1.16	1.35
S.D.	0.26	0.15
C.V.	22.35%	11.15%

Source: Appendix IX

HBL has an average of ROTA of 1.16 ranging between 0.91 and 1.55 during the period of study. The standard deviation is 0.26 and the fluctuation of 22.35% in the ROTA is seen during this, period, which is low.

The average ROTA of EBL, during this period of study is 1.35. It is within the range of 1.17 and 1.50. The standard deviation of ROTA is 0.15 whereas; coefficient of variation is 11.15% indicates the high fluctuating nature of ROTA in EBL.

From the table 4.8, it can be seen that the EBL has the highest average ROTA than that of HBL. The coefficient of variation indicates that among these two banks under study during period, EBL has the highest consistency in ROTA whereas the ROTA ratio of HBL is highly fluctuating.

Figure 4.8

Return on Total Assets of Sample Banks
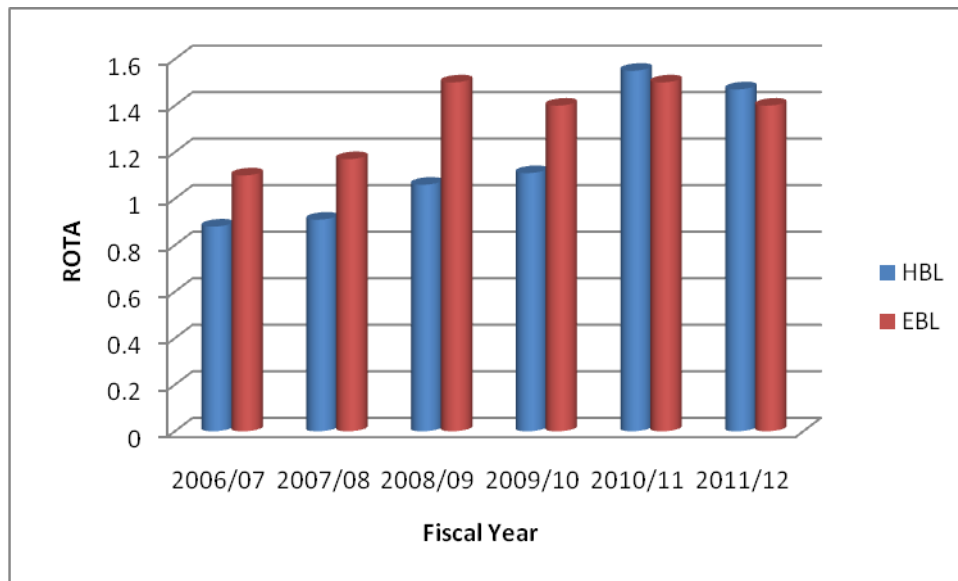
4.2.3. Return on Equity (ROE)

Return on Equity indicates how well the firm used the resources of owners. The earning of a satisfactory return is the most desirable objective of a business. The ratio of net profit to owner's equity of company should be compared with the ratios for other similar companies and the industry average. This will reveal the relative performance and strength of the company in attracting future investments. The return on equity is net profit after taxes divided by shareholder's equity.

The ROE of the banks under study is presented in table and graph as follows:

Table 4.9

Return on Equity of Sample Banks

Year	HBL	EBL
2006/07	10.56	18.83
2007/08	11.13	26.18
2008/09	11.48	21.31

|		
2009/10	12.00	22.19
2010/11	15.85	24.64
2011/12	16.75	24.67
Mean	12.96	22.97
S.D.	2.41	2.47
C.V.	18.59%	10.75%

Source: Appendix X

HBL has an average ROE of 12.96 ranging between 10.56 and 16.75 during the period of study. The standard deviation is 2.41 and the fluctuation of 18.59% in the ROE is seen during this, period, which is moderate.

The average ROE of EBL, during this period of study is 22.97. It is within the range of 18.83 and 26.18. The standard deviation of ROE is 2.47 whereas; coefficient of variation is 10.75% indicates that the bank has the low fluctuation in ROE during the period.

From the table 4.9, it can be seen that the EBL has the highest average ROE than that of HBL. The coefficient of variation indicates that among these two banks under study during period, HBL has the highest consistency in ROE whereas the ROE ratio of EBL is highly fluctuating.

Figure 4.9

Return on Total Assets of Sample Banks
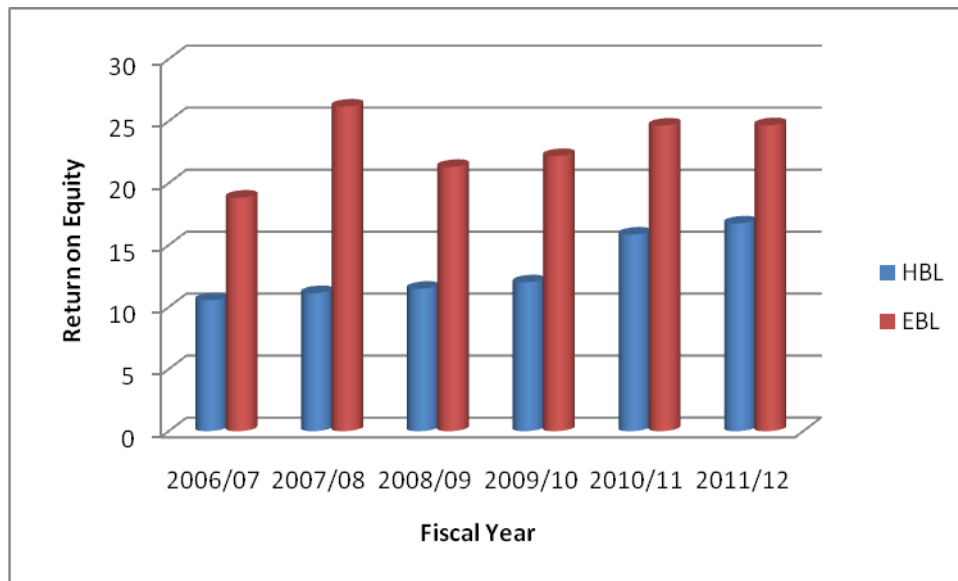
4.3. Turnover Ratios

Turnover ratios are employed to evaluate the efficiency with which the firm manages and utilize its assets. These ratios indicate the speed with which assets are being converted or turned over into sales. It involves a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed well.

4.3.1. Fixed Assets Turnover Ratio

Fixed Asset Turnover shows its efficiency of utilizing fixed assets. It is calculated by net income divided by Net Fixed Assets.

Table 4.10

Fixed Asset Turnover of Sample Banks

Year	HBL	EBL
2006/07	5.85	5.92
2007/08	6.33	5.81
2008/09	5.07	6.63
2009/10	5.95	6.41
2010/11	3.88	7.01
2011/12	4.49	8.06
Mean	5.26	6.64
S.D.	0.87	0.75
C.V.	16.53%	11.30%

Source: Appendix - XI

HBL within the period of study had an average Fixed Assets Turnover of Rs.5.26 ranging between Rs. 6.33 and Rs. 3.88. The standard deviation is 0.87 and the fluctuation of 16.53% in the Fixed Assets Turnover is seen during the period of study.

EBL has the Fixed Assets Turnover range between Rs. 5.81 and Rs. 8.06 during the period of study. An average Fixed Assets Turnover is Rs. 6.64. The standard deviation of the Fixed Assets Turnover is Rs. 0.75. The coefficient of variation of 11.30 indicates that there is a fluctuation of 11.30% in the Fixed Assets Turnover of EBL.

From the table 4.10, it can be seen that average Fixed Assets Turnover if EBL is highest than that of HBL. Similarly, the standard deviation of HBL is the highest and EBL is the lowest. The coefficient of variation of these banks shows that there is an above low level of fluctuations in the Fixed Assets Turnover.

Figure 4.10

Fixed Assets Turnover of Sample Banks
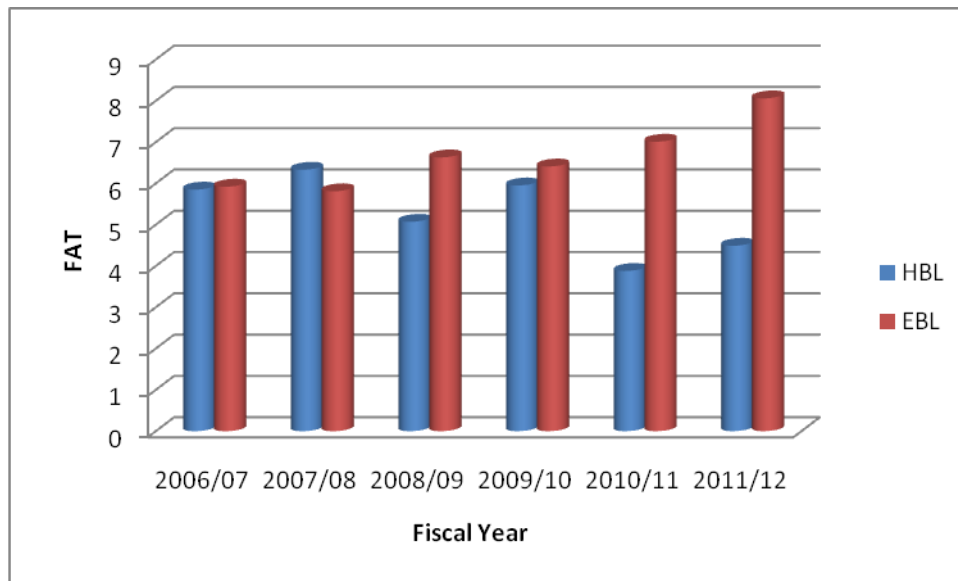
4.3.2 Total Assets Turnover

Total assets turnover shows the firm's ability in generating sales from all financial resources committed to total assets. Total assets turnover is calculated by dividing the net income by total assets. The total assets turnover table is tabulated below:

Table 4.11

Total Assets Turnover of Sample Banks

| Year	HBL	EBL
2006/07	0.065	0.079
2007/08	0.06	0.08
2008/09	0.07	0.08
2009/10	0.06	0.07
2010/11	0.07	0.07
2011/12	0.07	0.06
Mean	0.07	0.07
S.D.	0.0045	0.0073
C.V.	6.84%	9.98%

Source: Appendix - XII

The average Total Assets Turnover of HBL during the period of study is Rs. 0.07 with standard deviation of Rs. 0.0045. The coefficient of variation shows that there is fluctuation of 6.84% in Total Assets Turnover of HBL.

EBL has the Total Assets Turnover range between Rs. 0.06 and Rs. 0.08 during the period of study and the average of Total Assets Turnover of EBL is 0.07. The standard deviation of the Total Assets Turnover is Rs.0.0073. The coefficient of variation of 9.98 indicates that there is a fluctuation of 9.98% in the Total Assets Turnover of EBL.

From the table 4.11, it can be seen that average Total Assets Turnover of EBL is the highest than that of HBL. Similarly, the standard deviation of EBL is the highest and HBL has the lowest. The coefficient of variation of these two banks shows that there is a low level of fluctuations in the Fixed Asset Turnover.

Figure 4.11

Total Assets Turnover of Sample Banks
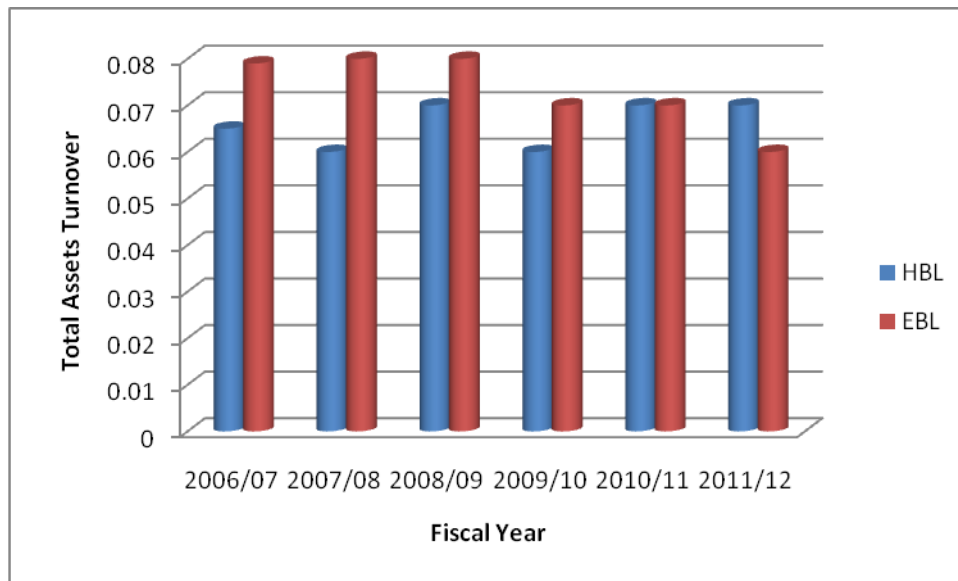
4.4 Major Findings

- Among the two sample banks, the MPS of HBL and EBL are fluctuating in nature. As during the period of study, HBL has the lowest average closing MPS of Rs. 896.33 then that of EBL with Rs. 1567. And a coefficient of variation of HBL is the highest relative variation by 44.32%, whereas EBL has the low variation in MPS, signified by C.V of 29.77%.

- Among two sample banks, the average net worth per share of EBL is the highest and that of HBL is the lowest that is Rs. 1043.50 and Rs. 1037.83 respectively and the fluctuation in the net worth is highest in case of EBL and lowest in case of HBL which coefficient of variation is 31.20% and 67.45% respectively.

- The average EPS of the HBL is highest of Rs. 52.52 and EBL has the lowest EPS of Rs. 51.04 among these two banks. The highest fluctuation of the EPS is of EBL, the CV being 78.86%.

- Among these two sample banks, the average dividend per share (DPS) of EBL is the highest and that of HBL is the lowest which is Rs. 14.17 and Rs. 11.12 respectively, but the fluctuation in the DPS is highest in case of HBL which have C.V of 89.69% and the lowest in case of EBL which C.V is 59.08%.

- EBL has the highest average P/E Ratio of 35.53; on the other hand HBL has the lowest average P/E Ratio of 17.91. The standard deviation of EBL is the highest then that of HBL which is 16.47 and 8.69 respectively. And coefficient of variation in case of EBL is the lowest and HBL has the highest which is 46.36% and 49.64% respectively.

- The average Dividend Yield (DY) of EBL is the highest and that of HBL is the lowest which is Rs. 1.87 and Rs. 1.02 respectively but the fluctuation in the DY is highest in case of HBL which is 87.11% and the lowest in case of EBL which CV is 78.61%.

- EBL has the highest average Current Ratio of Rs. 1.06. On the other hand HBL has the lowest average C.R, which is 1.04. Relatively highest variation of the C.R is of HBL, which C.V is 1.35% and the lowest of the C.R is of EBL that is 1.23%.

- Among these two banks, the average Return on Total Assets (ROTA) of EBL is the highest and that of HBL is the lowest which is Rs. 1.35 and Rs. 1.16 respectively. And coefficient of variation in case of EBL is the lowest and HBL has the highest which is 22.35% and 11.15% respectively.

- EBL has the highest average ROE of Rs. 22.97. On the other hand HBL has the lowest average ROE, which is 12.96. Relatively highest variation of the ROE is of HBL, which C.V is 18.59% and the lowest of the ROE is of EBL that is 10.75%.

- EBL has the highest average Fixed Assets Turnover of Rs. 6.64 and HBL has the lowest average of Rs. 5.26. On the other hand EBL has the lowest relative variation of 11.30% whereas HBL has the highest variation which is 16.53%.

- Among these banks, the Total Asset Turnover of EBL and HBL is equal i.e; 0.07. The relative variation of Total Assets Turnover is highest in EBL and lowest in HBL respectively, which CVs are 9.98% and 6.84% respectively.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter consists of summary, conclusion and recommendation. After completion of analysis chapter one should have to enlist his/her finding and should

make necessary suggestions on the basis of the study. The entire study has no meaning until and unless the researcher summarizes, concludes and provides his/her recommendation in the respective field.

5.1 Summary

The Nepalese economy is dominated by agricultural sector. Economic status of Nepal is not satisfactory. So, speedy development of the country is possible when it reinforces in upgrading its economic condition. The major problem of an underdeveloped economy is an inadequate degree of capital formation, which is the result of insufficient saving made by the community. The financial sector should be capable to push the economic status of the country. Mobilization of fund in to different profitable and development sector is possible only with the development of competent financial institutions in the country. Commercial banks are the most important financial institutions which accept deposits from general public and mobilize that fund in form of loan and advance and other investment. An efficient banking system plays an important role for resource mobilization and development of the country. Banks are the medium through which scattered saving transferred into productive areas that ultimately helps the economic development and industrialization of nation. In the modern economy, one cannot imagine trade and business in absence of a bank. In order to collect the scattered saving and put them into productive channels, financial institutions like banks are necessity.

Banks are the most important financial institution in an economy. They represent an effective medium for mobilization of financial resources. For the economic development, they create the strong and efficient market for capital. In the context of

Nepal, the financial system is dominated by the banking system in which commercial banks constitute an important part.

Securities market in recent years has become an integral part of economic development. Examples from the developed countries have proved that "securities market is the cause and economic development is the effect". Securities market serves as a direct link between the suppliers and users of capital fund. It channelizes the hoarded saving of general public towards the productive investments. Therefore, a healthy and efficient securities market is essential for the economic development.

Nepalese securities market is small in size as compared to developed securities markets. Its competitive position in the global market is very poor. One of the prominent reasons behind its slow growth is lack of research and development. Pertinent studies on Nepalese securities market are still lacking. Furthermore, the country's macro economic status and its dependency on the agri-output phenomenon is also one of the vital reasons. In absence of things stated ahead, the policy making body has been suffering the lack of information inputs.

This study mainly aims to examine the financial performance of the company and its relationship with stock price in making decision about investment on securities of the listed commercial joint venture banks. The specific objectives of this study are: to analyze the financial performance of Himalayan Bank Limited and Everest Bank Limited; to examine effect of financial performance on share price of Himalayan Bank Limited and Everest Bank Limited and; to provide appropriate suggestions based on the major findings.

Although many studies are already conducted in Nepal to examine the performance of a company or some companies, this study is based on small sample and examines the performance of sampled listed commercial banks whose financial statements are available. Besides, the study on financial performance of the company and its relationship with stock price is perhaps the first in Nepal. The data taken for the study is of secondary nature. The required secondary data are collected mainly from the

annual reports of listed companies and the web-page of NEPSE: www.nepalstock.com. The other sources of secondary data are the various publications of securities Board, Nepal; Nepal Stock Exchange Limited and Nepal Rastra Bank.

Among the 32 commercial banks, only two banks namely HBL and EBL have been taken as the sampled commercial banks to analyze the financial performance and their effect on share price.

Various statistical and financial analyses have been performed to satisfy the aforementioned objectives. Individual financial performance reflectors as MPS, EPS, DPS, DY, CR, ROTA, NWPS, ROE, NI/FA, NI/TA, P/E, etc have been analyzed. Similarly, simple regression amongst the individual explanatory variables has also been incorporated in the paper understudy accompanied by multiple regressions along with the relevant hypothesis testing. In short, the paper understudy analyzes the MPS of the captioned commercial banks and its relationship with different indicators.

5.2 Conclusion

The shares of commercial banks of Nepal are heavily traded in the stock market and therefore, these shares play a key role in determination of stock exchange indicators. This study tries getting the empirical result of the investment on shares of the commercial banks.

From the analysis it is found that common stock of sample banks are dependent mainly on the financial performance. However, the analyses are not exactly reflected in the share price. This may be due to lack of analysis in the movement and relationship of the MPS with reference to various variables. It can be inferred that the investors are still investing in the shares based on the rumor rather than financing on a realistic picture. The regression analysis suggests that EPS, DY, NI/FA, NI/TA and P/E are some of the prominent financial indicators which hold positive relationship with the share prices of the sampled banks. Likely, the indicators as DPS, ROTA and

ROE hold negative relationship. It can be concluded that the share investors herein Nepal do not care much about the Dividend Yield. Since the total returns signifies the accumulation of dividend yield and capital gain yield. It can be inferred that the investors of commercial banks focus mainly in the capital gain yield rather than dividend declaration of the sampled commercial banks. However, the line of best fit also states that there are problems of correlation and such implies that the investment in sampled banks do not have overall analytical and informative assessment before the investment are made.

The analysis further depicts that the share price of the sampled commercial banks do shows the impact caused by their financial performance. However, the extent of such impact is not to the mark.

The concluding remark is that investing in shares of commercial bank is risky in the sense that the fluctuation is seen in the dividend declaration and the MPS of the shares of the sampled commercial banks. Both these scenarios shall reduce the return on investment. Though lots of investors are attracted in trading these stocks, shares of banking sector has a key role in fluctuation of stock exchange index. The results of this study shows investment in common stock of sampled commercial banks lack analytical ability and the assessment of the financial performance is yet short in the investors. Last but not the least, efficient market hypothesis and true analysis are some of the key areas that the Nepalese investors are to think about.

5.3. Recommendations

The recommendation is based on the empirical findings of the study and observation of the MPS of sampled commercial banks and the empirical view of its impact by the financial performance. The following recommendations are made:
- It is recommended to carry out further research study on financial performance and its impact in the stock price furthermore to educate the investors regarding the relevancy of financial performance. There is a crying need of a separate body

made up of financial experts and chartist to provide financial suggestions to public investors.

- The regulatory bodies are recommended to make effective control mechanism to stop excessive price fluctuation in the stock market. Furthermore, the regulatory bodies are also recommended to publish disclosure notice addressing the potential investors for proper information flow.

- Investors are recommended not to invest too much, too fast without doing the necessary study and preparation on acquiring the essential methods and skills of investment.

- Before making investment decisions in securities, it is recommended to analyze the following technical indicators:
  - Financial Performance of the companies.
  - Volume of Trading.
  - Analytical review of the securities.
  - Analysis of market information.
  - Assessment of quality of loan assets prevalent in the concerned banks.
  - Estimation techniques to forecast the most likely market share price.

- There is a limit to what can realistically be paid for the common stock. The investors are recommended to determine a value of share based on the fundamental earnings, dividend position and risks inherent in the company.

BIBLIOGRAPHY

Books and Journals:

Alexander, G.J, Sharpe, W.F. & Baily, J.V. (2002). "*Investments*". New Delhi: Prentice - Hall of India Pvt. Ltd.

Baral, K. L. (2005). "*Health Check up of Commercial Banks in the framework of CAMEL: A Case study of Joint Venture Banks in Nepal*". Journal of Nepalese Business Studies.

Cheney, J.M. and Moses, E.A. (1993). *Fundamentals of Investment*. USA: West Publishing Company.

Pandey, I.M. (1995). "*Financial Management*". New Delhi: Vikash Publishing House Pvt. Ltd.

Pandey, I.M. (2004). *Financial Management. (9th edition)*. New Delhi: Vikas Publishing House Pvt. Ltd.

Pettit, R.R. (December 1972). "Dividend *Announcement Security Performance and Capital Market Efficiency*". Journal of Finance. Vol. XXVII. No. 5, PP. 993-1007.

Shrestha, B. (1993). *Corporate Financial Management. (1st edition)*. Kathmandu: Taleju Prakashan.

Shrestha, Dr. M. K. (1991), "*Commercial Bank's Comparative Performance Evaluation*" Karmachari Sanchaya Kosh Samachar.

Srivastav, R. (1993). *Commercial Banking*. New Jersey: Prentice Hall Inc. Eaglewood Cliffs.

Weston J.F., Besley S. & Brigham, E.F. (1996). *Essential Managerial Finance*. USA: The Dryden Press. Hardcourt Brace College Publishers.

Wolf, H. K. & Pant, P.R. (2007). "Social Science Research and Thesis Writing". Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Vanhorne, J. C. (1977). "*Financial Management & Policy*". New Delhi: Prentice Hall of India Pvt. Ltd.

Thesis

Poudel, R. (2002). "*Financial Performance Analysis of EBL*". An Unpublished Master's Degree Thesis, Shanker Dev Campus, Kathmandu: T.U.

Subedi, P. (2002). "*A Comparative Study of Financial Performance between HBL and EBL*". An Unpublished Master's Degree Thesis, Shanker Dev Campus, Kathmandu: T.U.

Neupane, R. (2006). "*A Study of Financial Performance Analysis of Himalayan Bank Limited*". Kathmandu: An Unpublished Master Degree Thesis ,Submitted to Faculty of Management, T.U.

Maharjan, A. (2007). "*A Comparative Study of Financial Performance of HBL, NIBL and EBL*". An Unpublished Master's Degree Thesis, Shanker Dev Campus. Kathmandu: T.U.

Mainali, S. (2009). "*Financial Analysis of Nepalese Commercial Banks*". An Unpublished Master's Degree Thesis, Kathmandu: T.U.

Rai. E. (2010). "*A Study of CAMEL Analysis of Commercial banks reference to EBL, BOK and NIC*". An unpublished Master's Thesis, Central Department of Management. TU.

Manandhar. N. (2011). "*A Study on Financial Performance of NABIL Bank Limited*". An Unpublished Master's Degree Thesis, Shanker Dev Campus. Kathmandu: T.U.

Bhattarai. D. (2012). "*Performance Analysis of Nepalese Commercial Banks in the framework of CAMEL*". An Unpublished Master's Degree Thesis, Global College of Management Kathmandu: T.U.

Websites:

www.himalayanbank.com.np/Introduction

www.himalayanbank.com.np/annual report

www.ebl.com.np/about us

www.ebl.com.np/annual report

www.nepalstock.com/yearly closing price

www.investopedia.com/financial performance