CHAPTER 1
INTRODUCTION

1.1 Background of the Study

Bank is an institution that provides a great variety of financial services. It is an institution which collects scattered finance resources from the masses and invests them among those engaged in economic and commercial activities of country. Bank plays an important role in upgrading the developing country like Nepal and mobilizing their financial resources. Hence, money is a subject to manage, and banks are the manager. Banks play an important role in the economic growth of a country. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development. Therefore, a bank is also an institution that deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. That mobilized deposits contribute to the development of economic infrastructure of the nation. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving. So, the economic activities of the country can be hardly being carried forward without the assistance of financial institutions.

In Nepal, the growth of banking sector is not so developed as compared with other banks of the world. In comparison with other developing country the institutional development in banking system is far behind. Nepal had to wait for the period to enter the present banking position. The origin and growth of bank in Nepal is controversial. Banking system in Nepal came in existence only in 19th century with establishment of Nepal Bank Ltd (NBL) on 30th of Kartik 1994 BS, which authorized capital contributed by government was 51%.The NBL dominated the financial sector of the development of the banking sector, Nepal Rastra Bank (NRB) was established on 14th Baishak 2013 under NRB act 2012 as the central bank of Nepal to regulate the control banking management system of country. As the monetary transaction got more and more complicated, NRB finally suggested the government to establish another commercial bank. With the growing activities in the country, the necessity of an additional commercial bank was realized in the country. Consequently, another

commercial bank fully owned by the government, named as Rastriya Banijya Bank was established in 2022 B.S. under the Commercial Bank Act 2021B.S with 100% government ownership. The former Industrial Development Center was established in 2013 B.S. and was converted into NIDC in 2016 B.S. to finance equity and loan capital to industries that are going to be established in the country. Agricultural Development Bank Nepal was established in 2004 to finance agricultural sector as well as agro-based industries within the country. The joint venture bank was introduced in Nepal in 2041 BS (12th July 1984) with establishment of Nepal Arab Bank Ltd. (Nabil Bank Ltd.).Nepalese government kept on liberalizing the economic policies and improving the infrastructure, as a result Nepal Indosuez Bank Ltd. and Nepal Grindlays Bank Ltd was established in 6th Magh 2042 BS and 16th Marga 2043 respectively. Nepal Grindlays Bank Ltd is now being operated with new ownership and name as Standard Charter Bank of Nepal Ltd .after the democratically elected government adopted the liberal and market oriented economic policy, joint venture commercial banks are established one after another, at present 17 commercial banks are operating their banking activities.

Commercial banks are major financial institution which accepts deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. So, commercial banks are those that accept deposits and finance to the business and finance to the business and project. They provide short tem and long- term finance. As per Commercial Bank Act 2031 B.S, "*A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions."*

Commercial banks help the process of saving and of the holding of saving in a socially describe form. Though their advances bank also help the creation of the

incomes which further saving by the community and further growth potentials emerge for the good of economy. All employment income distribution and other objectives of plan are as far as possible subsumed into production plan which banks finance. The importance of commercial banks is directing the economic activities in the system is indeed overwhelming with the establishment of commercial banks the flood gates of development promising great hopes for people in the life open. Although, commercial banks are truly inspired with the objective of gaining profit, they provide welfare and facility to make available loan to the agriculture, industry and commerce and provide the banking services to the public and the state. In the present situation, Nepal banking system is evaluating itself as a powerful instrument of planning and economic growth of all the developed and underdeveloped countries. The encouragement by Nepalese Government for the Joint Venture Operations made possible for different joint venture commercial banks establishment. We know, in Nepal, different joint Venture Banks are established but we cannot say which bank is best among them, without doing any financial analysis.

Financial analysis is the process of determining the significant operation and financial characteristics of a firm from accounting data. It shows the relationship between the various components which can be found in balance sheet and profit and loss statement. The analyze statement contain those information which is useful for management, shareholder, creditors, investors, depositors etc. It refers to an assessment of the viability, stability and profitability of a business, sub-business or project.It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions. It also refers to the assessment of a business to deal with the planning, budgeting, monitoring, forecasting, and improving of all financial. Another important aspect of analyzing a case study and writing a case study analysis is the role and use of financial information. For financial performance analysis ratio analysis is the most widely used technique. The systematic use of the ratio interprets the financial statements so that the strengths and weaknesses of the firm as well as its historical performance and current financial condition can be determined.

As there has been number of commercial banks established the present aims to analyze the financial performance of Everest Bank Ltd (EBL), Nepal Investment bank Ltd (NIBL) and Himalayan Bank Ltd (HBL).

1.2 Profile of Sample Banks

1.2.1 Everest Bank Limited (EBL)

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. Currently EBL has thirty seven branches all over the Nepal. All the branches of the bank are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K. Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Everest Bank Limited has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind. It has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society and also it is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

Its share capital distribution is as follows:
Authorized Capital (10000000 shares @ Rs 100) Rs 1,000,000,000.00
Issued Capital (8,406,200 shares @ Rs 100) Rs 840,620,000.00
Paid up Capital (8,388,210 shares @ Rs 100) Rs 838,821,000.00

Table no.1

Share subscription and Capital Structure of EBL

Subscription	% Holding
Promoter Share holders	50
Punjab National Bank	20
Nepalese Public Share Holders	30
Total	100

Board of Directors of Everest Bank Limited

Mr.B.K Shrestha	Chairman
Mr.Ved Kumar Shrestha	Director
Mr.Arun Man Sherchan	Director
Dr.Bal Gopal Vaidya	Director
Mr.R.K Umat	Director
Mr.Shivasharan K.C	Director
Mr.Muskan Shrestha	Director
Mr.Jagat Ram	Director

1.2.2 Nepal Investment Bank Limited (NIBL)

Nepal Investment Bank Limited (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1980 as a joint venture between Nepalese and French partners which was the second private commercial bank of Nepal. The French partners (holding 50 % of the capital of NIBL) were Credit Agricole Indosuez, a subsidiary of one of the largest banking group in the world. NIBL has Head office in Durbar Marg, Kathmandu and has 30 branches in Nepal. NIBL, which is managed by a group of experienced bankers and professionals having proven track record, are offering customers what they are looking for.

The mission of Nepal Investment bank is to be the leading Nepali Bank, delivering world class service through the blending of state of the art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. The main focus of NIBL is to become most preferred provision of financial services. It is operating with a motto: “Truly a Nepali Bank”.

Nepal Investment Bank at present has fourty branches namely Durbar Marg Kathmandu (Headoffice), Seepadole Branch, Birgung Branch, Pulchowk Branch, Banepa Branch, Jeetpur Branch, Newroad Branch, Biratnagar Branch,Butwal Branch, Bhairahawa Branch, Pokhara Branch, Putalisadak Branch, Narayangarh Branch, Janakpur Branch, Nepalgunj Branch, Thamel Branch, Kalimati Branch, Birtanod Branch, Battisputali Branch, Dhangadi Branch, Gongabu Branch, Surkhet Branch, Jumla Branch, Boudha Branch , Hetauda Branch, Palpa Branch, Lukla

Branch, Dhumbarahi Branch, Naya Baneshwor Branch, Bhotahiti Branch, Tulsipur Branch, Tripureshwor Branch, Damauli Branch, Krishnanagar Branch, Gaighat Branch, Lazimpat Branch, Parsa Branch, Maharajgung Branch & Lalbandhi Branch .

Its share capital distribution is as follows:
Authorized Capital (10000000 shares @ Rs 100) Rs 1,000,000,000
Issued Capital (8,013,526 shares@ Rs 100) Rs 801,352,600
Paid up Capital (8,013,526 shares @ Rs 100) Rs 801,352,600

Table no.2

Share subscription and Capital Structure of NIBL

Subscription	% Holding
A group of companies	50
Rastriya Banijya Bank	15
Rastriya Beema Sansthan	15
The general public	20
Total	100

Strategic Objectives

- To develop a customer oriented services culture with special emphasis on customer care and convenience.
- To increase market share by following a disciplined growth strategy.
- To leverage our technology platform and open scalable systems to achieves cost effective operations efficient MIS, improved delivery capability and high services standards.
- To develop innovate products and services that attract our targeted customers and market segments.
- To continue to develop products and services that reduces our cost of funds.
- To maintain a high quality asset portfolio to achieve strong and sustainable returns and to continuously build shareholder's value.
- To explore new avenues for growth and profitability.

Board of Directors of NIBL

Mr.Prithivi B Pande	Chairman and Chief Executive Director
Mr.Prajanya Rajbhandari	Director
Mr.Deepak Man Sherchan	Director
Mr.Kridhna Prasad Sharma	Director
Mr.Shiva Hari Shrestha	Director
Mr.Surendra Bahadur Singh	Public Director
Mr.Damodar Prasad Sharma Pandey	Professional Director

1.2.3 Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities-Loans and Deposits. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking.

Himalayan Bank at present has total of thirty-three branch scattered all over the Nepal. The bank is also operating a counter in the premise of the Royal Palace. The Bank has a very aggressive plan of establishing more branches in different parts of the Kingdom in near future.

Its share capital distribution is as follows:

Authorized Capital (20,000,000 shares @ Rs 100) Rs 2000,000,000
Issued Capital (10,135,125 shares@ Rs 100) Rs 1,013,512,500
Paid up Capital (10,135,125 shares @ Rs 100) Rs 1,013,512,500

Table no.3

Share subscription and Capital Structure of HBL

Subscription	% Holding
Promoter Share Holder Habib Bank Ltd, Pakistan Financial Institution(Employees Provident Fund) Nepalese Public Share holder	51 20 14 15
Total	100

Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The Bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adaptation of new technology.
Himalayan Bank is committed to be a "BANKING WITH A DIFFERENCE"

Board of Directors of Himalayan Bank Limited

Mr. Manoj B. Shrestha	Chairman
Mr. Ashraf M. Wathra	First Vice Chairman
Mr. Prem P.Khetan	Second Vice Chairman
Mr. Prachanda B. Shrestha	Director
Mr. Bijaya B. Shrestha	Director
Mr. Ramesh K. Bhattarai	Director
Mr. Amar S. Rana	Director
Mr. Upendra Keshari Poudyal	Professional Director
Mr. Himalayan S.Rana	Chief Advisor to the Board
Mrs. Ranjana Shrestha	Alternate Director
Mr. Surendra Silwal	Alternate Director
Ms. Menuka Shrestha	Alternate Director
Mr. Sushil Bikram Thapa	Alternate Director
Mr. Rajendra Kafle	Alternate Director
Mr. Bipin Hada	Alternate Director

1.3 Focus of the study

This study is focused on the comparative analysis of the financial performance of EBL, NIBL and HBL. Financial analysis covers analysis and other portfolios of JVBs. Financial analysis is the process of determining the significant operating and financial characteristic of a firm from accounting data and financial statements.

Financial ratios analysis is a widely used tool of financial analysis and its performance. The goal of such analysis is to determine the efficiency and the performance of the firm's management as reflected in the financial records and reports. Besides financial analysis emphasizing profitability the study is focus on financial position analysis, income and expenditure analysis, correlation analysis and trend analysis of EBL, NIBL and HBL. Financial ratio identifies the financial strength and weaknesses of sample banks with the help of basis financial statement namely balance sheet and P/L accounts. It measures the Bank's liquidity, leverage, activity and profitability in rational way.

1.4 Statement of the Problem

As we know Nepal is developing country and its economy is much depends on the agriculture. Most of the industries are based on the agriculture which provide employment opportunities and assist in improving national economy. Poverty has been a main problem in the country. Therefore, public enterprises are established but most of the public enterprises are not able to run in profit. Even though the government has given the subsidy to run public enterprises, they are not able to contribute to society at desirable rate.

This research will highlight the problems relating with banking sector with respect to three sample commercial banks they are EBL, NIBL and HBL. The sample banks which are choosing for the studies have achieved success in terms of market share and profitability. However it cannot always predict that these banks will continue to maintain profitability and stability of earning. Thus the management of bank should evaluate financial performance of the banks to prepare the sound financial policies.

Ratio analysis is powerful tools for evaluating the financial analysis. It is also a process of determining and interpreting numerical relationship with the help of financial statement. Management use effective strategies through financial tools and analysis for achieving optimal goal. Financial analysis satisfies the interest of common stock holders, equity investors, creditor and management of the banks.

Although all sample banks are able to earn profit and dividend to shareholders, they are facing throat cut competition between them or with other commercial banks. Therefore some question of problem arises in these sample banks, which are as follows:

- How far have EBL,NIBL and HBL been able to convert the mobilized resources into investment,
- To what extents these banks have been able to raise their profitability,
- How efficiently these banks are managing their liquidity, assets, capital structure, etc,
- Based on the above questions which banks have faced more financial risks.

1.5 Objectives of the Study

The main objectives of this study are to analysis, examine and interpret the financial position of EBL, NIBL and HBL in the comparative analysis using different ratios.

The specific objective of the study will be pointed out as follows:

- To measure the liquidity, profitability, leverage, efficiency of capital adequacy position of EBL, NIBL & HBL.
- To evaluate trend in the growth of total deposit, Loan and Advances, Investment and Net Profit of these three selected banks and make a projection of these for next five years.
- To calculate the soundness of profitability and operating efficiency of these three banks.
- To find out the relationship of financial performance of three commercial banks in terms of total deposit to total Investment, total deposit to total net profit of these three banks.
- To make suggestions for the improvements of financial performance of these three banks for the future.

1.6 Significance of the Study

Economic development and financial development go side by side and the need of financial institutions availing varieties of banking services to fulfill commerce, trade, industry and agriculture needs of their country is of crucial important in Nepal.

In banking world, Nepal is still in its infant stage although the numbers of financial institution have been increasing. Many commercial banks, finance and insurance

companies have opened up within a few years. The competition in the financial sector in banking industry is ever increasing. However, there have been few commercial banks creating to banking need of the country. The success and failure of such financial institutions would be responsible for disparity of the economy.

Financial analysis play vital role in the management decision. Every organization has to analyze its financial performance. In this way this study is very useable and valuable to major parties interested in the reference to the policy making bodies. This study is important for the following groups and individuals.

- Further researcher
- University students who are new generation
- Financial managers
- Government
- NGO's and INGO's
- Shareholders and creditors
- Stockbrokers

1.7 Limitations of the Study

This study is simply for partial fulfillment of the requirement of Master in Business Studies (MBS). However there are some limitations, which narrowed the generalization. This study will be limited by following factors:

- The study deals with only three banks but it may not applicable to other banks.
- The whole study is based on secondary data collected from the respective companies and web sites on internet. As far as the output concerned, any research based on secondary data is not far from limitations due to inherent character.
- The study concerns only a period of 5 years i.e. from 2004/05 A.D. to 2008/09 A.D. therefore the conclusion is concern with only above period.
- Time and budget constraints.

1.8 Chapter Scheme

The study has been divided into five chapters. They are as follows:

Chapter 1: Introduction

This chapter covers background of the study, introduction of EBL, NIBL and HBL, statement of the problem, objectives of the Study, limitations and structure of the Study.

Chapter 2: Review of Literature

This chapter includes the theoretical analysis and brief review to related literature available. It includes a discussion of the conceptual framework and review of the major studies.

Chapter 3: Research Methodology

This chapter is concern with research question, research design, sources of data, population and sampling, data collection procedures and data analysis procedures. In data analysis there are two parts. One is financial analysis where different ratio analysis concern with financial performance is study. Another is statistical analysis where different statistical tools like trend line analysis, correlation analysis and simple regression analysis are mention.

Chapter 4: Presentation and Analysis

This chapter deals with presentation and analysis of data through definite course of research methodology. The main working of this chapter is to analyze different financial ratios related to the financial performance and fund mobilization of three banks i.e. Everest bank Ltd, Nepal Investment Bank Ltd and Himalayan Bank Ltd.

Chapter 5: Summary, Conclusion and Recommendation

This is the last chapter that consist the summary of whole chapter and different results find in data analysis and recommendation to bank for nation development. It also provides suggestions for further improvement. Beside these, bibliography and appendices are also included.

CHAPTER 2

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that the past studies, their conclusion and deficiencies may be known and further research can be conducted. This chapter will help to check the chances of duplication in the present study. Thus the gap between the previous research and current research can fill out.

2.1 Conceptual Review of the Study

2.1.1 Concept of Banking

Bank is the financial institution, which plays a significant role in the development of the country. It is also considered as the backbone of the development of the national economy which facilitates the growth of trade and industry and other sectors of the n economy. However, bank is the resource for economic development, which maintains the self-confidence of various segments of society and extends credit to the people. In common sense, an institution that is involved in monetary transaction is called as Bank.

The bank plays an important role in financial markets and offer services such as investment funds and loans. It is a business organization that receives and holds deposits of funds from others makes loans or extends credits and transfers funds by written orders of depositors. So, among the various function to provide loan to the investors in the major function- through the loan, there will be increased in the environment of the investment and the bank has the major role in creating such an environment.

A financial institution is the lifeblood of the economic development of the country. Financial institution acts as catalyst in the process of the economic growth of the country. A bank is a financial institution, which can play a significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue economic growth rapidly, developing the banking habit among the people by collecting the small scattered resources by one bulk, using them in the further productive purposes, and rendering other valuable service to the country. Thus, this gives the individual an opportunity to borrow funds against future income, which may improve the economic well being of

the borrower. A bank deal with the offer of collected deposited and provides the loan for commercial purpose.

2.1.2 Concept of Commercial Bank

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through their lending and investing activities to borrowers, individuals, business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of the exchange and they are medial through which monetary policy is affected. These facts show that the commercial banking system of the nation is important to the functioning of the economy.

Commercial bank is one, which exchange money deposits money, accept deposits grants loans and performs commercial banking functions and which is not a bank meant for co-operation, agriculture and industries or for such specific purpose.

The American Institute of the Banking has down the four major functions of Commercial Bank such as receiving and handling deposits, handling payments for its clients making loan and investments and creating money by extension of credit.

Commercial banks are the important type of financial institution for the nation in terms of the aggregate assets. The business of banking is very broad in modern business age. The number and variety of services provided by commercial bank will probably expand. Recent innovation in banking includes the introduction of credit cards, accounting services for business firms, factoring, leasing participation in the Eurodollar market and lock-box banking.

The major functions of the commercial banks are explained in brief below:

a. Creating Money
b. Payment Mechanism
c. Pooling of the Nation is Saving
d. Extension of credit
e. Facilities for the financing of foreign Trade
f. Trust Service
g. Safekeeping of Valuables

2.1.3 General Concept of Financial Analysis

Profit is one of the indicators of sound performance, which indicates the result of sound business management. “Profit earned by the firm is the main financial performance indicators of the business enterprise”. So, every business organization is established with view of earning profit. Bank is also established with the objectives of maximizing the profit. Profit is necessary of long term existing of business. An Investor always invests in that area where profit is maximum. Financial statement is the indicator of business performance that whether business is profitable or not.

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern. Financial statement analysis is important not only for the firm’s managers but also for the firm’s investors and creditors. Internally, financial managers use the information provided by financial analysis to help make financing and investments decisions to maximize the firm’s value. Externally, stockholders and creditors use financial statement analysis to evaluate the attractive of the firm as an investment by examining its ability to meet its current and expected financial obligations. Financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characteristics of a firm.

Financial analysis also includes consideration of the strategies and economic development. Financial analysis is the main indicator of success or failure of the company. The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements, by making comparison of various components and by examining their content. This can be used by financial managers as the basis to plan future financial requirement by means of forecasting and budgeting procedures.

According to the Pandey I.M “Financial analysis is the process of determining financial strengths and weakness of company by establishing strategic relationship between the components of analysis balance sheet and other operative data.”

According to the Weston, Besley and Brigham E.F. 1996, p78 have stated,” Financial statement analysis involves a comparison of analysis firm’s performance with that of other firms in the same line of business which often is identified by the firm’s industry classification. Generally speaking, the analysis is used to determine the firm’s

financial position in order to identify its current strength and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness.

According to the Vanhorn, J.C. Watchowlcz, J.M. 1997, p120" Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshot of the firm's financial position analysis at moment in time and next, income statement, that depots analysis summary of the firm's profitability overtime. "

2.1.4 Objectives of Financial Analysis

Financial analysis enables us to explore various facts related to the past performance of business and predict about the potential for achieving expected results. Major objective of analysis of financial statement is to assess various factors in relation to the business firm.

a. To analysis the present and future earning capacity or profitability of the concern
b. To find out the operational efficiency of the concern as a whole and of its various parts or department.
c. To find short term and long term solvency of the concern.
d. To make comparative study regarding to one form with another firm.
e. To evaluate possibility of developments in the future making, future forecasts and preparing budgets.
f. To analysis financial stability of business concerns the real meaning and significance of financial data.
g. To find long term liquidity of its fund.

2.1.5 Needs of Financial Analysis

The need for the analysis of financial statement arises in order to address the following question:

a. How was the firm doing in past? Was there any problem? If so in what areas?

b. How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?

c. What about the future? Is there any likely problem on the way in the future? What will its position be in the future?

d. What are the expected results of recommendations? Are there improvements?

2.1.6 Limitations of Financial Analysis

Financial Analysis is of great significance for investor, creditors, management, economist and other parties having interest in business. It helps managements to evaluate its efficiency in past performance and take decisions relating to the future. However, it is not free from drawbacks. Its limitations are listed below:

a. Historical nature:

The basic nature of financial analysis is historical. Past can never be a precise and infallible index of the future and can never be perfectly helpful for the future forecast and planning.

b. No substitute for judgment:

Analysis of financial analysis is a tool to be used by expert analyst to evaluate the financial performance of a firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

c. Reliability of figures:

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

d. Result may have different interpretation:

Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the index of insufficiency of the management due to under- utilization of fund.

e. Change in accounting methods

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods, the figures of current period may have no comparable base and then the whole exercise of analysis will useless.

f. Selection of appropriate tool

There are different tool of analysis available to the analysis. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tools used, it may give misleading results and may lead to wrong conclusion, which may be harmful to the interest of business.

2.1.7 Technique of Financial Analysis

The Fundamental of the analytical technique is to simply or reduce the data under review to the understandable terms. There are various tools and technique of financial statement analysis, each of which is used according to purpose for which the analysis is carried out. The widely technique used is as follows:

- Ratio Analysis
- Statement of changes in financial position
- Cash flow statement

Among them ratio analysis is used by most companies. Therefore in this study we will discuss only about ratio analysis.

2.1.6.1Ratio Analysis

Ratio analysis is one of the important and mostly used financial analysis tools. Ratio analysis is analysis of numerical relationship between financial factors of financial statements Ratios express a logical relationship between financial elements. It is computed by dividing one element/item/variable by another. Financial ratio analysis is designed to determine the relative strengths and weakness of business operations. It also provides framework for financial planning and control. Financial managers need the information provided by analysis both to evaluate the firm's past performance and to map future plans. Ratio analysis is widely used but no one ratio gives exact picture.

Ratio analysis is a technique of analysis and interpretation of financial statement evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis. [Dangol R.M.]

Ratio analysis is a powerful tool of financial analysis, which helps in identifying strength and weakness of business concerns. It is a important way to state meaningful relationships between components of financial statements. The primary purpose of ratio is to point out area for further investigation. Ratio analysis has been a major tools used in the interpretation and evaluation of financial statements since late 1800.

Ratio analysis involves basic understands of comparison to a useful interpretation of the financial statements. A single ratio by itself does not indicate favorable or unfavorable condition of a firm unless it is compared to some appropriate standard. Selection of a proper standard of comparison is a most important element of the ratio analysis. Ratio analysis provides guides specially in spotting trends toward better or poor performance and in finding out significant deviation from any average or relatively applicable standard.

Ratio analysis is widely used but no one ratio gives exact picture. In other hand ratio by them is not conclusion, as they are only means and not and end. Ratio analysis is in conceivable that accounting into ratio.

A single ratio it self does not indicate favorable or unfavorable condition. It should be compared with some standard. As

- Time serious analysis
- Cross- sectional analysis
- Industry analysis
- Perform analysis [Pandey I.M.]

Among the large number of financial ratio existing they have been categorized into following groups:

- Liquidity Ratio

- Current Ratio
- Cash and Bank Balance to Total Deposit Ratio
- Cash and Bank Balance to Current Assets Ratio

❖ Activity Ratio
- Loan and Advances to Total Deposit Ratio
- Loan and Advances to Fixed Deposit Ratio
- Loan and Advances to Total Working Fund Ratio
- Investment on Government Securities to Total Working Fund Ratio
- Investment on Government Securities to Total Working Fund Ratio

❖ Profitability Ratio
- Net Profit to Total Assets Ratio
- Net Profit to Total Deposit Ratio
- Net Profit to Net Worth Ratio
- Total Interest Earned to Total Working Fund Ratio
- Total Interest Paid to Total Working Fund Ratio

❖ Leverage Ratio
- Debt-Asset Ratio
- Debt-Equity Ratio

❖ Capital Adequacy Ratio
- Shareholders Fund to Total Deposit Ratio
- Shareholders Fund to Total Assets Ratio

2.2 Review of Related Studies

2.2.1 Review of Journals and Books

The bank are such types of institution, which deal in money and substitute for money. They deal with credit and credit instruments. Good circulation of credit is very much important for the Bank. Unsteady and unevenly flow of credit with ad-hoc decisions harm the economy and the bank as well. Thus, to collect fund and utilize it in a good investment, is not a joke for such organization. An investment of the fund may be the question of life and death for the bank.

In the words of **Gitman & Joehnk** (1990), Investment is any vehicle into which fund can be placed with the expectation that will preserve or increase in value and generate positive returns."

LV. Chandler (1973) says in this regard, "A banker seeks optimum combination of earning, liquidity and safety, while formulating investing policy."

Emphasizing the importance of investment policy, **H.D. Cross** puts in this way, "Lending is the essence of Commercial banking, and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management.

Frank K. Relly defines investment in this words,"An investment may be defined as the current commitment of funds for a period of time to derive a future flow of funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for the uncertainty involved in the future flow of the funds."

Mr. N.P. Poudel, in the journal entitled," Financial Statement Analysis: An Approach to Evaluate Bank's Performance" which was published NRB Samachar (An annual publication -2053) is reviews as follows:

According to Mr. Poudel, Balance sheet, Profit and loss a/c and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of bank's balance sheet and profit and loss a/c. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off- balance sheet item.

According to Mr. Poudel, the principle objectives of analyzing financial statement are to identifying Liquidity, Profitability and Solvency. Most of users of the financial statements are interest in assessing the bank's overall performance which is affected by the following factors:

- The structure of Balance Sheet and Profit and Loss Account.
- Operating efficiency and internal management system.
- Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.
- Environmental changes (Technology, government, Competition and Economy.)

The other factors to be considered in analyzing the financial statement of bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy of bank is assessed on the basis of risk weighted assets, It indicates a bank's strength and solvency. Bank facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in other to maintain the desired level of capital base. Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Dr. M.K. Shrestha, in the journal entitled," commercial Bank's Comparative Performance Evaluation", which was published in Karmachari Sanchay Kosh Publicaiton,2047 is review as follows:

The journal stresses on a proper risk management with appropriate classification of loans under performing and non performing category. Researcher further clarify that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to be treated as unearned income. Regarding risk management of banks Dr. Shrestha's other suggestion are as follows:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.

- Strong provisioning or reservation is required in restructuring portfolio relating to overdue loans.
- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

Dr. Shrestha's suggestions are focused towards proper risk management. Whatsoever , aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

Fama's study (1965), on the random walk model was one of the best definitive and comprehensive every study conducted. He observed the daily proportionate crises of 30 individual stocks of the Dow Jones industrial average index (DJIAI) for the period 1975-1962. He employed the statistical tools such as serial correlation and runs test to draw inference to about depend of the price series. He calculated auto – correlation, coefficient for daily changes in log prices for lag from 1-30 and found that the coefficient where most close to zero in overall. The correlation coefficient for daily changes in average was +0.03, which is near to 0. But on the daily price changes, 11 out of 30 stocks had correlation coefficient more than twice their computed standard errors. The coefficient ranged from smallest 0.06 to largest 0.123.

Fama concluded, "Dependence as such a small order of magnitude is, from a particle point of view, probably unimproved for both the statistician and the investor." Fama also concluded serial correlation for lag from 1 to 10 for no- overlapping differencing intervals of four, nine and sixteen days to examine the possibility if price change across longer interval shows dependence. All the results are again not significantly different from 0.

2.2.2 Review of Article

In this section, effort has been made to examine and review of some related articles in different economic journals, World Bank discussion papers, magazines, newspapers and other related books.

Mr. Raj Kumar K.C (June 6,2003),in his article, "Financial Sector Reforms-Still a Long Way To Go" published in "The Rising Nepal "concluded that the financial sector has a direct impact in the national economy. It is oblivious that any slight change in the financial sector triggers a significant impact in the economy. Following the implementation of the financial sector reform policy, the country's economy has experienced a sea change.

Another articles "**Psychological pressure for willful Defaulters**" published in "Business is international" of January 2005 said that maintaining the health of the financial sector is the first priority of the government, as the crises in the sector will push the country decade back the increase property. It has been said that the central bank would stand strong, against willful defaulters who cite circumstantial reasons for their failure in settling loans, but doesn't compromise on other aspects of business and livelihood. The bad practice of top Nepali business firms for not repaying loans to the bank has created hurdles in the healthy and free growth of financial sector. It is the responsibility of the government to strictly discourage such unhealthy practices to safeguard the entire financial sector from any mishaps.

Dr. Sunity Shrestha (2055), in her article," Lending operation of commercial banks of Nepal and its impact on GDP "has presented with the objectives to make an analysis of contribution of commercial banks' lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial banks to the GDP. In research methodology, she has considered GDP as the dependent variable and various sectors of lending viz. Agriculture, Industrial, Commercial service and general and Social sectors as independent variables. A multiple regression technique has been applied to analysis the contribution.

The multiple analysis have shown that all the variables expect service sector lending have positive impact on GDP. Thus, in conclusion she has accepted the hypothesis i.e. there has been positive impact on GDP by the lending of commercial banks in various sectors of economy, except service sector investment.

Mr. Manohar Krishna Shrestha (2047), in his article," Commercial banks comparative performance evaluation", concludes that JVB's are new, operational more efficient, having superior performance comprisals with local banks. Due to their sophisticated technology, modern banking method and skill JVB's is known to be better performed then other. Their better performance is also due to the government branching policy in rural areas and financing pees. Local banks are efficient in rural section. Despite having number of deficiencies, local bank has to face growing constraints of socio-economic political system on one hand spectrum and that of issues and challenges of JVBs commanding significant banking business of other spectrum.

Mr. Bodhi B. Bajracharya (2047), in his article" Monetary policy and deposit mobilization in Nepal" has concluded that mobilization of domestic saving is one of the prime objectives of the monetary policy in Nepal and commercial banks and the more active financial intermediary for generating resources in the form of deposit of private sector and providing credit to the investor in different sectors of the economy.

Mr. Govinda Bahadur Thapa (1994).in his article he has expressed his view that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Like wise, loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors.

2.2.3 Review of Past Thesis

Before this, various students regarding the various aspect of commercial banks such as lending policy, financial performance, investment policy, interest rate structure, resources mobilization and capital structure have been conducted several thesis works. Some of them are supposed to be relevant for the studies are present below:

Mr. Dinesh Kumar Paudel (2002), On his thesis entitled, 'A Comparative Study of Financial Performance of Nepal Bangladesh Bank Ltd.(NBBL) & Everest Bank Ltd.(EBL)". The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greater fluctuations in the ratio over the period. EBL found to be weaker in utilizing the banks assets for the profit generation. EBL

holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current assets ratio. Total deposits, loans and advances, total investment, net worth, net profit, EPS and MVPS showed the increasing trend over the study period in both banks. Loans and advances to total deposits ratio appeared considerably higher in NBBL. Provision for possible losses to loan and advances ratio in NBBL exceeded than in EBL, which indicate that loan and advances granted by the banks are inferior in contrast to EBL. But NBBL has maintained the consistency in the ratios than that of EBL over the period.

Mr. Samir Adhikari (2005), on her thesis entitled," A Comparative study performed for an analysis of portfolio on common stock investment with special reference to banking industry." This study is closely related with the current study in the sense that both studies are related with financial analysis of commercial banks. The study wrote," The main objective of the study is to analyze the risk and return of the common stock of commercial banks". The study stats that," Banking industry is the biggest one in terms of market capitalization and turnover. Expected return on the common stock of Nepal Bank ltd is maximum, i.e 66.99% and common stock of Nepal SBI Bank ltd is found minimum. In this regard common stock of Nepal is most risky and common stock of NSB is least risky. In the context of industries, expected return of finance and industry is found highest i.e 60.83%".At the end of this study he has concluded that common stock of Nepal Bangladesh Bank(NBB) is the best one for investment. He further added that," In other hand ,portfolio between the common stock of NGB and NBB is 0.2666,but portfolio standard deviation ,hence, the portfolio approach of investment is better way to win stock market investment.

Ms. Reenu Maharjan (2008), on her thesis entitled," A Comparative Study of The Financial Performance of Everest Bank Ltd.(EBL) & Himalayan Bank Ltd.(HBL)". It was found that the performance of HBL seems to be better than EBL with respect total investment to total deposit ratio. Both banks are highly leveraged. PE ratio of EBL was found to be raising trend which increase the confidence of investors towards the bank. It is concluded that EBL is more successful to earn high profit through the efficient utilization of its owned capital. Securities to total deposit and cash and bank balance to total deposit ratio of EBL as higher in composition to HBL. The overall financial performance of EBL is slightly better than the comparison of HBL.

Ms. Riju Shakya (2008), on her thesis entitled," A Comparative Study of The Financial Performance of all Commercial Banks (with reference to Nabil Bank Limited, Nepal Investment Bank Limited and Himalayan Bank Limited)". NBL has lowest mean ratio which mean it may invest the more fund in the productive sector. NBL has a highest liquidity ratio among sample banks.

The loan and advances to total deposit ratio of all banks found to be at satisfactory level and maintain the good consistency in ratio, however NIBL has a highest mean ratio which it shows that NIBL's liquidity position with respect to this ratio is more satisfactory than other sample banks. Among sample banks NBL is successful in mobilizing the deposit in invest on government securities, since it has a higher mean ratio. But NIBL has a lower mean ratio; they are less successful to utilize the deposit in investment on government securities in compare with sample banks. Similarly, HBL is also successful in mobilizing the deposit in investment on Government securities. At last we can conclude that NBL has loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposit as against the fixed deposit.

Mr. Narendra Maharjan (2008), on his thesis entitled, "Financial performance of commercial banks in Nepal: A Comparative Study of Nepal Bank Ltd. and Nabil Bank Ltd". The result of analysis of activity ratio shows that Nabil is efficiently utilizing its outsider funds by extending loans & advances and investment to generate profit, whereas NBL cannot utilize totally its outsider fund but holding the fund. It shows NBL is discouraging the investment of its resources. Nabil is utilizing its assets on generating satisfactory profit but NBL cannot generate satisfactory profit because of not utilizing its assets on loan & advances and investment. While analyzing of valuation ratio of this two banks, it is concluded that the NABIL has higher ratio than NBL. So, the market judges Nabil bank's performance and prospect is better than those banks.

Ms. Sumitra Thapa (2009), on her thesis entitles, "A Comparative analysis of financial performance of Standard Chartered Bank and Himalayan Bank Ltd." In this analysis, the study reveals that the current ratio of HBL is greater than 1 and SCBNL current ratio is less than 1, which should be considered satisfactory for HBL but not satisfactory for SCBNL. The liquidity position of HBL is better than SCBNL. The cash and bank balance of HBL with respect to deposit is greater than SCBNL this puts, HBL in a better position with respect to meeting customer requirement than SCBNL.

The cash and bank balance of HBL with respect to current assets is higher than SCBNL. This shows greater capacity of HBL to meet its customer's cash requirement but that doesn't mean SCBNL cannot meet its daily customer cash requirement. Both the banks have successfully managed their assets.

Ms. Namrata Shakya (2009) on her thesis entitled," A Comparative Study on the Financial Performance of Nepal Investment Bank Ltd (NIBL) and Laxmi Bank Ltd (LXBL)" has found that both banks under the study have been able to earn positive profit but not the satisfactory level. Among the various profitability ratios, return on net worth ratio, return on capital employed ratio, return on total assets, return on total deposit ratio and interest earned to total assets ratio of NIBL are greater than that of LXBL .These ratio shows that NIBL is more successful in generating profit than LXBL with inconsistency on those ratios. It concludes that NIBL has efficiently operated its long term fund, deposit and assets to generate more profits. Where as price earning ratio of LXBL is on average higher with inconsistency than of NIBL, which reflect that LXBL bank has better performance for in earning that of NIBL

From the review of various books, articles, journals and thesis, this study is different from previous studies. In this study, researcher has taken three banks for financial analysis. They are EBL, NIBL & HBL. This study will be fruitful to those interested person, researchers, students, teacher, businessmen and government for academically as well as policy perspectives.

CHAPTER 3

RESEARCH METHODOLOGY

Research methodology is necessary for each research work. Research methodology is the way to solve the research problems systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted. This is the most sensitive part of the research and the base on which our conclusion was drawn is include.

3.1 Research Design

Research design is a plan structure and strategy of investigation conceived so as to obtain answer to research questions and to control variance. It is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. To achieve the objective of the study, descriptive and analytical research designs will be used. Some statistical and accounting tools will be applied to evaluate financial performance of the three Banks.

3.2 Natures and Sources of Data

Mainly, the study is conducted on the basis of the secondary data. The data relating to investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss account of the concerned bank's annual reports published in their respective annual general meetings and website www.nepalstockexchange.com and relevant bank's website. In addition to that some of the relevant data will also collect from the non bank financial statistics published by the non bank regulation department of Nepal Rastra Bank.

All the secondary data are compiled, processed and tabulated in the time series as per the need and objectives. Formal and informal talks with the concerned authorities of the bank were also helpful to obtain the additional information of the related problem.

Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.3 Population and Sampling Design

It is not possible to study all the data related with all bank of Nepal. There are many Commercial Banks in our country and their stocks are traded actively in stock market. Due to the limitation of time and unavailable of the relevant data has forced to take research on the few commercial banks. So the financial analysis of listed three banks is being compared with that average of the same, which are selected from population. From the above listed commercial banks are considered as population.

The selected samples are as follows:

a) Everest Bank Limited (EBL)
b) Nepal Investment Bank Limited (NIBL)
c) Himalayan Bank Limited (HBL)

3.4 Data Analysis Procedure

In this study, various accounting, statistical and financial tools have been used to achieve the objective of the study. The analysis of data is done according to pattern of data available. With the available tools and resources statistical tools such as Karl Pearson's coefficient of correlation, simple and multiple regressions analysis as well as corresponding hypothesis etc is use in the study. Similarly some strong accounting and financial tools such as ratio analysis and trend line analysis are also apply in this study.

The various calculated results obtained through financial and statistic tools are tabulated under different headings. Then they are compared with each other to interpret the results.

3.4.1 Financial Tools

There are various financial tools and technique each of which is used according to their purpose carried out. Among them ratio analysis is used by most companies. Therefore in this study we discuss about ratio analysis.

Ratio Analysis

Financial ratio is the mathematical relation between two accounting figures. Ratio analysis is the part of the whole process of analysis of financial statements of any

business or industrial concern especially to take output and credit decisions. It is the powerful tool of financial analysis, which helps in identifying financial strengths and weakness of business concerns, compare a firm's financial performance and status. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

A. Liquidity Ratios

Liquidity ratios are used to judge the ability of banks to meet its short-term liabilities that are likely to mature in the short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

i. Current Ratio

The current ratio is the ratio of total current assets to total current liabilities. It shows the relationship between current assets and current liabilities, which is presented as follows:

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

Where,

Current assets include cash and bank balance within analysis accounting period such as cash bank balance, investment in Treasury bill, money at call or placement, loans, receivable and prepaid expenses etc.

Current Liabilities refers to the short- term maturing obligations. This includes all deposit liabilities, intra bank reconciliations account, bills payable, tax provision, staff bonus, dividend payable overdrafts, provisions and accrued expenses.

ii. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balances by total deposit. This can be presented as follows:

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

Where,

Total deposits consist of deposits on current account, saving account, fixed account, money at call and other deposits.

iii. Cash and Bank Balance to Current Assets Ratio

This ratio shows the percentage of liquid assets i.e cash and bank balance among the current assets of the firm. Higher ratio shows the higher capacity of firms to meet the cash demand. The formula is as follows:

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

Hence, cash and banks balance includes cash in hand, foreign cash and foreign banks.

iv. Investment on Government Securities to Current Assets Ratio

This ratio is used to find the percentage of the current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows:

$$\text{Investment of Government Securities to Current Assets Ratio} = \frac{\text{Investment on government securities}}{\text{Current Assets}}$$

v. Loan and Advances to current Assets Ratio

Banks measured earning source is loan. Loan are also taken as currents assets as most of them are maturing within the period of one year and represents short term disbursement .A bank should not allocate all funds in loan and advance so, it must maintain in an appropriate level. In other to calculate the proportion of loan and advance to total current assets, the ratio is obtained by dividing loan and advance by current assets.

$$\text{Loan and Advance to Current assets ratio} = \frac{\text{Total loan \& Advance}}{\text{Current Assets}}$$

B. Assets Management Ratios (Activity Ratios)

Assets management ratio is used to measure how effectively the firm utilized the investments and the economic resources at its command. Investments are made in

order to produce profitable sales. Achieving profitable sales, therefore involves making sound investments. At the practical level, this involves comparisons between the sales and the investment in various assets accounts. The methodology postulates an optimal relationship between sales and the various types of asset investment.

The following financial ratios related to investment policy are calculated under asset management ratio and interpretations are made by these calculations.

i. Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how successfully the selected banks and finance companies are utilizing their total collections/deposits on loan and advances for the purpose of earning profit. It can be calculated by dividing the amount of loans and advances by the amount of total deposits, which is given below:

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

Where,

Loan and advances refers to total of loan, advances and overdraft and total deposits refer to total of all kinds of deposits.

ii. Loan and Advances to Fixed Deposit Ratio

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

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

iii. Loan and Advances to Total Working Fund Ratio

Loan and advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loan and advances on the working fund ratio for the purpose of the income generation.

This ratio is computed by dividing loans and advances by total working fund .This are stated as below:

$$\text{Loan and Advances to Total Working Fund Ratio} = \frac{\textit{Loan and Advances}}{\textit{Total Working Fund}}$$

Here Total working fund includes all assets of on balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bonds and other investment in share, debenture and other etc. A high ratio indicates a better mobilization of fund as loan and advances and vice - versa.

iv. Investment on Government Securities to Total Deposit Ratio

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

$$\text{Investment on Government Securities to Total Deposit Ratio} = \frac{\textit{Investment on Government Securities}}{\textit{Total Deposit}}$$

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

v. Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio shows how much part of investment is there on government securities in percentage. It can be obtained by;

$$\text{Investment on Govt. Securities to Total Working Fund Ratio} = \frac{\textit{Investment on Government Securities}}{\textit{Total Working Fund}}$$

vi. Investment on Shares and debentures to Total Working Fund Ratio

Investment on Shares and debentures to total working fund ratio shows the investment of banks and finance companies on the shares and debentures of obtained dividing on shares and debentures by total working fund. It can be obtained by;

$$\text{Investment on Shares and debentures to Total Working Fund Ratio} = \frac{\textit{Investment on share \&debenture}}{\textit{Total Working Fund}}$$

C. Profitability Ratios

Profit is the different between total revenue and total expenses over a period of time. Profit is the ultimate out put of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment. Higher the profitability ratio, better the financial performance of the banks and vice- versa. Profitability ratio can be calculated by following different ratio:

i. Net Profit to Total Assets

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

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

ii. Net Profit to Total Deposit Ratio

Net profit to total deposit ratio evaluated whether management has been capable to mobilizes and utilize the deposit. It also helps to known the overall performance and generation of profit of Bank. This ratio is most important to identify whether the organization well efficient or not in mobilizing its total deposits. So that corrective

action could be taken. Higher ratio indicates better utilization of deposit and vice-versa. Here net profit is profit after taxes and total deposit means total amount of deposit in various account i.e. saving, current, fixed and other .The return on total deposit ratio can be computed by dividing net profit by total deposit. This can be express as follows:

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

iii. Net Profit to Net worth Ratio

Net worth or shareholders equity refers to the owners claim on the assets of the bank. It can be found by deducting total liabilities from total assets (excluding intangible assets and accumulated losses.) This ratio measures the profit earned by the commercial banks by utilizing owner's equity and there by generating return to satisfy the owners. This ratio indicates sound management and efficiency and wealth maximization of the banks, which in turn is the wealth maximization of the banks. It is calculated by dividing net profit by net worth, which is express as follows.

$$\text{Net Profit to Net worth Ratio} = \frac{\textit{Net Profit}}{\textit{Net Worth}}$$

iv. Total Interest Earned to Total Working Fund Ratio

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

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\textit{Total Interest Earned}}{\textit{Total Working Fund}}$$

v. Total Interest Paid to Total Working Fund Ratio

The ratio is used to measure the percentage of total interest expenses against the total assets. Higher the ratio, higher will be the indication of interest expenses on total assets and vice- versa. Total interest expenses consists the expenses on the

deposits, loan and advances, borrowing and other deposits. The ratio is calculated as follows.

$$\text{Total Interest Paid To Total Working Fund Ratio} = \frac{\textit{Total Interest Paid}}{\textit{Total Working Fund}}$$

D. Leverage Ratios

Leverage ratios have a number of implications. First, creditors look at equity, or owner supplied funds, as a cushion or base for the use of debt. If owners provide only a small proportion of total financing, the risk of the enterprise are borne mainly by the creditors. Second, by raising funds through debt the owners gain the benefits of achieving control of the firm with a limited commitment. Third, the use of debt with a fixed interest rate magnifies both the gains and losses to the owners. Fourth, the uses of debt with a fixed interest cost and with a specified maturity increase the risk that the firm may both be able to meet its obligations.

In practice, leverage is approached in two ways. One approach examines balance sheet ratios and determines the extent to which borrowed funds have been used to finance the firm. The other approach measures the risks of debt by income statement ratios designed to determine the number of times fixed charges are covered by operating profits. These sets of ratios are complementary, and most analysts examine both.

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

i. Debt Assets Ratio

This ratio exhibits the relationships between creditors fund and owners capital. This ratio shows the proportion of outside fund used in financial total assets. It also

provides security / financial safety to the outsider's i.e. potential shareholders, depositor or investors. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and lower ratio indicates lower financial risk as well as decreasing claims of outsiders over the total assets of the firm. Generally 1:2 ratios are considered good but however no hard and fast rule is prescribed. This implies a finance company success in exploiting debt to more profitable areas. This ratio is represents as follows.

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

ii. Debt Equity Ratio

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

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

E. Capital Adequacy Ratios

The capital adequacy ratio is used to measure the strength of the capital adequacy of the available capital .It is measured by the capital (Paid up capital + free reserves) to the total assets explain the strength of the capital base of commercial banks. A high or low capital adequacy ratio is undesirable items of lower return or lowered solvency respectively. Therefore appropriate capital adequacy is needed but it is a controversial matter. According to NRB's prescription bank has to keep capital adequacy ratio. NRB's standard of capital adequacy ratio is changing over the time period. The capital adequacy is measured by analyzing following ratio:

i. Shareholder's Fund to Total Deposit Ratio

Shareholder's fund to total deposit ratio shows how well bank are maintain sufficient amount as shareholder's fund is comparison to the amount of the total deposit. This raito is calculated by shareholder's fund divided by total deposit, which is presented as follows:

$$\text{Shareholder's Fund to Total Deposit Ratio} = \frac{\textit{Shareholder's Fund}}{\textit{Total Deposit}}$$

ii. Shareholder's Fund to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund, i.e. capital fund. Generally this ratio measures the relative claims of owners of the bank over its assets. .A high ratio indicates that out of total assets shareholders have more controlled, owner command and vice -versa. This ratio is calculated by dividing shareholder's fund by total assets which is presented as follows:

$$\text{Shareholders Fund to Total Assets Ratio} = \frac{\textit{Shareholder's Fund}}{\textit{Total Assets}}$$

F. Market Value Ratio / Growth Ratio

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

$FV = PV (1+ r)^{n}$

Where,

FV = Future Value

PV= Present Value

r = rate interest

n= no. of year

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

i. Net Profit

Net Profit is the main indicator of financial position of any business organization. Net profit is essential for its survival and growth and to maintain capital adequacy through profit retention. This indicator is computed by subtracting total expenditure including tax from operating income and interest. It is also called net profit after tax and interest.

Net Profit. = Operating Income – (Total Expenditure + Interest Paid +Taxes)

ii. Earning per share (EPS)

It is calculated by dividing the net profit after tax less preference dividend by the total no. of common shares It is calculated by using following formula.

$$\text{Earning Per Share} = \frac{\text{Net Profit after Interest and Taxes-Preference Dividend}}{\text{Number of Equity Shares}}$$

iii. Dividend Per Share (DPS)

Bank pay certain amount of net profit as dividend to its shareholders under its' policy. The term dividend refers to distributed earning to the shareholders of the bank in return to their investment. Generally, dividend implies that portion of net profit, which is allocated to shareholders as their return in term of cash or share. The difference fund between EPS and DPS is retaining in the company as retain earning. It is calculated total dividend by number of share.

$$\text{Dividend per share} = \frac{\text{Total Distributed Dividend}}{\text{Number of Common Share Outstanding}}$$

3.5.2 Statistical Tools

Various statistical tools related to this study will draw out to make the conclusion more reliable according to the available financial data. For this study following statistical tools are used.

i. Arithmetic Mean or Average

The average value is a single value with in the range of the data that is used to represent all of the values in the series. Since an average is somewhere with in the range of that data, it is also called a measure of central value. Since average represents the entire data, its value lies somewhere in between the two average. Among them is use the arithmetic mean which is more popular to denote particular type of average. It is obtain dividing sum of obtain observations by the number of items which is presented as follows.

$$\bar{X} \text{ X} \frac{x}{N}$$

Where, $\bar{X}$ = Arithmetic Mean

x = Summation for Total Values of the Variable / Observation

N = Number of Items

ii. Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is also known as root mean square deviation for the reason that the square root of the mean of the standard deviation from the arithmetic mean. It is also denoted by the small Greek letter ± (Sigma). The standard deviation measures the absolute dispersion or variability of a distribution. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a serious, a large standard deviation means just the opposite. Hence, standard deviation is extremely useful in judging the representative of the mean.

Symbolically,

$$\pm \text{ X}\sqrt{\frac{d^2}{n}}$$

Where,

± = Standard Deviation

d^2 = Sum of Squares of the Deviation Measured from the Arithmetic Average

n = Numbers of Item

iii. Co-efficient of Variation (C.V)

The co-efficient of variation is the corresponding relative measure of dispersion, comparable across distribution, which is defines as the ratio of the standard deviation to the mean expressed in percentage. It is used in such problems where we want to compare the variability of two or more than two series. The series for which the co-efficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the other hand, the series for which co- efficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogenous. We can denotes this by following formula,

$$CV \text{ X}\frac{\pm}{x} \mid 100$$

Where,

CV = Co-efficient of Variation

± = Standard Deviation

$\overline{X}$ = Mean / Average

iv. Co-efficient of Correlation (r)

Correlation is the statistical tool that we can use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the degree of relationship between two sets of figures. Among the various methods of finding out coefficient of correlation, Karl Pearson's method is applied in the study. The result of coefficient of correlation is always between +1 and –1. When r =+1, it means there is perfect relationship between two variables and vice-versa. When r=0, it means there is no relationship between two variables. The Pearson's1 formula is as follows:

$$r = \frac{N \sum xy - \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2}\sqrt{N \sum y^2 - (\sum y)^2}}$$

Where, r = Co-efficient of Correlation

x = Independent Variable

y = Dependent Variable

N = Number of Periods

v. Probable Error of the Co-efficient of Correlation

After the calculation of co-efficient of correlation the next thing is to find out extent to which it is dependable. For this purpose the probable error of the coefficient of correlation is calculated. If the probable error is added to and subtracted from the co-efficient of correlation it would give two such limits with in which we can reasonably accept the value of co- efficient of correlation to vary. The formula for finding out the probable of error of the Karl Pearson's co-efficient of correlation is:

$$P.E.r = 0.6745\frac{1 - r^2}{\sqrt{N}}$$

Where, P.E.r = Probable Error of Co-efficient of Correlation

r = Co-efficient of Correlation

n = Number of Pairs of Observations

In other to conclude whether co-efficient of correlation is significant or not. The following points should be kept in mind.

- If the co-efficient of correlations is less than its probable error, it is not at all significant.
- If the co-efficient of correlations is more than six times of probable error, it is definitely significant.

- If the probable error is not much and if the coefficient of correlation is 0.5 or more it is generally to be significant.

vi. Co-efficient of Determination (R^2)

The Co-efficient of determination is the measure of the degree of linear association or correlation between two variables, one of which happens to be independent and other being dependent variable. In other words, co-efficient of determination measures the percentage of total variation in dependent variable explained by independent variable. The co-efficient of determination can have value ranging from zero which simply means that all the data points in the scatter diagram fall exactly o the regression line. Co- efficient of determination is the square of the co-efficient of correlation.

Symbolically,

$R^2 = (r)^2$

Where,

R^2= Co-efficient of Determination

r=Co-efficient of Correlation

vii. Simple Regression Analysis

Regression is one of statistical tool, which is used to determine the statistical relationship between two or more variables and to make estimation (or prediction) of one variable on the basis of the other variable. In other word, it is that tools with the helps of which unknown value of one variable can be estimated on the basis of known value of the variable

Sometimes, the correlation between two variables may be insufficient to determine a reliable estimation equation. Yet, if we add the data from more independent variables, we may be able to determine an estimating equation that describes the relationship with greater accuracy. In regression analysis, we use independent variables utilizing more of the information available to us to estimate the dependent variable. . In this study the researcher uses simple regression equation.

viii. Test of Hypothesis

The method of statistics which help in arriving at the criterion for such decision is called test of hypothesis or statistical decision making. A hypothesis is analysis assumption that make about the population parameter. Alternatively, a hypothesis is

a conjectural statement of the relationship between two or more variables. Hypothesis statement should be able to show the relationship between variables.

The Test of hypothesis is a process of testing of significance regarding the parameter of the population on the basis of the sample drawn from the population. The computed value of the statistics may differ from the hypothetical value of parameter due to sampling fluctuation. If the difference is small, it has arisen due to sampling fluctuations. Hence the difference is considered to be insignificant and the hypothesis is accepted. If the difference is large, it has not arisen due to sampling fluctuations but it is due to some other reasons. Hence the difference is considered to be significant but it is due to some other reasons. Hence the difference is considered to be significant and the hypothesis is rejected. Thus the test of hypothesis discloses whether the difference between the computed statistic and hypothetical parameter is significant or not.

There are different types of hypothesis, among them t-test is to test the validity of our assumption, if sample size is less than 30, t-test is used. For applying t-test in the context of small sample, the 't' value is calculated first and compared with the table value of 't' at a certain level of significance for value of 't' exceeds the table value (say 0.05) we infer that the difference is significant at 5% level. But if 't' is less than the concerning table value of the 't' the difference is not treated as significant.
The t – statistic id calculated by following formula under Ho:

$$T = \frac{r}{\sqrt{1 - r^2}}\sqrt{n - 2}$$

ix. Trend Line Analysis

Trend line analysis describes the average relationship between series where the one series related to time and other series to the value of the variable. It is generally shows that the line of the best fit or straight line is obtained or not. The line of the best fit describes the changes in a given series accompanying a unit change in time. Another word, it gives the best possible mean values of dependent variable for a given value of independent variable.
For calculation of the "Line of the best fit ", following equation should be kept in mind.
$Y_c = a + bx$
Where, Y_c = the estimated value of Y for given value of x obtained from the line of regression of Y on X

a = "Y- intercept "/ mean of Y value

b = "slope of line "/ rate of change

x = the variable in time series analysis represent time

In order to determine the value of the constants a and b the following two normal equations are to be solved.

$Y = Na + b X$ and $XY = a X + b X^2$

Where;

N= Number of Years for with the date are given

Here, X stands for the time variations and Y for the variables related to time. Naturally, if we take the middle year or the mid – point of the two years as the starting point, X will be equal to 0 and the two equations will then be

$Y = N a$ and $XY = b x^2$

By transformation, we; can write

$a = \frac{Y}{N}$ and $b = \frac{XY}{X^2}$

The term best fit is interpreted in accordance with the principle of least squares which consists in minimizing the sum of squares of the residual of the errors of estimates i.e. the deviation between the given observed value of the variable and their corresponding estimated values as given by the line of best fit.

This topic will be used to forecast the ratios of Total deposit, Total Loan and Advances, Total Investment and Net Profit of the banks for next five years on the base of past five years. The analysis is done under limited factors which are as follows:

- The economy will remain unchanged as of present the stage.
- Banks will run as of present position.
- The guidelines by NRB for Banks will remain unchanged.
- The forecast will be true only when the limitations of least square method are carried out.
- The main assumption is that other factors are constant.

CHAPTER 4

PRESENTATION AND ANALYSIS OF DATA

In this chapter data, facts figures relating to three banks EBL, NIBL & HBL are presented according to the objectives set in the introduction chapter. These data are translated, analyzed and interpreted so that financial forecast of banks can be done easily. To make a data more realistic and complete qualitative and quantitative analysis is done through different financial ratio and statistical analysis. However there are many ratios but due to some sort coming and constraints, only selected ratios have been taken for analyzing the strength and weakness of the sample banks.

In other to find out the strength and weakness and financial performance of the sample banks various ratios and variable have been calculated that are as follows:

4.1 Presentation and Analysis of Data

4.1.1 Ratios Analysis

Ratio analysis is a powerful tool of financial analysis, which helps in identifying strength and weakness of business concerns. The term ratio refers to the numerical or quantities relationships between two variables. Important ratios can be calculated from the balance sheet and profit & loss account and thus calculated financial ratios can be useful for analyzing and assessing the performance and position of the bank, which reflect the relative strength and weakness of any particular bank over others. Ratio analysis has been a major tools used in the interpretation and evaluation of financial statements.

There are various types of financial ratio which are used by different field for different purpose, such as creditors, investors, financial institutions and management of the firm. In this analysis following ratio are analysis and interpret for the past five year 2004\05 AD to 2008\09 AD for different banks.

4.1.1.1 Liquidity Ratios

As name denotes the liquidity refers to the ratio between liquid assets and liability. Liquidity ratio measures the ability of firm to meet its current obligations Banks should maintain it's satisfactory liquidity position to satisfy the short-term credit needs of the community , to meet demands for deposits, withdraws, pay maturity obligation in

time an convert non cash assets into cash to satisfy immediate needs without loss to bank consequent impact in long run profit. Liquidity ratio measures the short-run solvency of the firm.

The liquidity positions of the banks are comparatively studied through following ratios:

4.1.1.1.1 Current Ratio

Current ratio indicates the ability of the company to meet its current obligation. This is the board measure of liquidity position of the banks. In another words, it is measures the availability for current assets for meeting current liabilities. This ratio is also known as working capital. Following table shows the comparative current ratio for five years.

Table 1: Current Ratio

(Rs. in million)

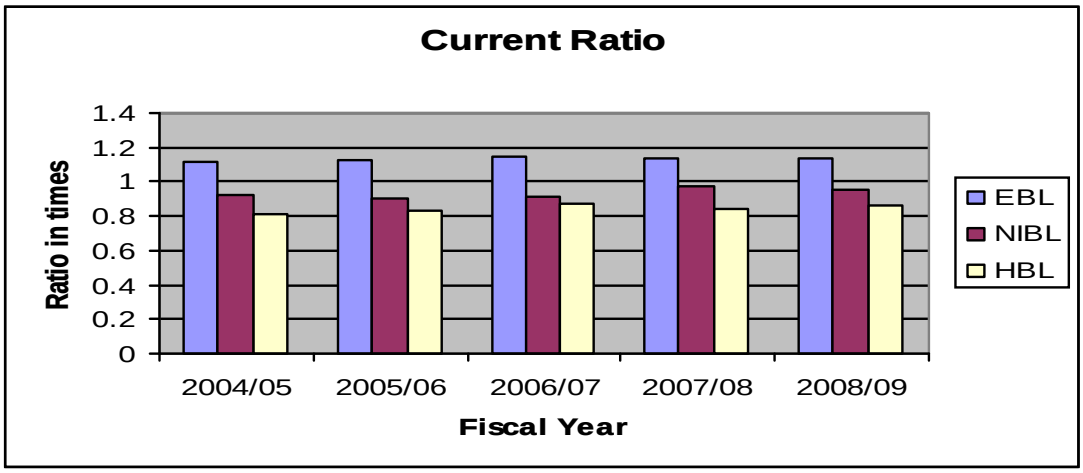
Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan I Bank Limited		
Fiscal Year	Current Assets	Current Liabilities	Ratio (in times)	Current Assets	Current Liabilities	Ratio (in times)	Current Assets	Current Liabilities	Ratio (in times)
2004/05	11367.59	10142.31	1.1208	13936.94	15078.84	0.9243	21228.89	26302.94	0.8071
2005/06	15621.75	13932.92	1.1212	17889.28	19900.84	0.8989	23153.11	27694.21	0.8360
2006/07	21039.82	18296.45	1.1499	23555.96	25699.13	0.9166	27446.52	31372.64	0.8749
2007/08	25256.32	22326.50	1.1312	28576.09	29249.23	0.9770	30125.76	35726.77	0.8432
2008/09	29278.44	25656.32	1.1412	32765.09	34256.22	0.9565	34256.32	39789.66	0.8609
Mean			**1.1329**			**0.9347**			**0.8444**
S.D.			**0.0100**			**0.0283**			**0.0806**
C.V.(%)			**0.8827**			**3.0260**			**9.5452**

Table 1 indicates the current ratios of the sampled banks. The ratio of EBL is in fluctuating order. From fiscal year 2004/05 to 2006/07 it is in increasing order thereafter ratio is decreasing in fiscal year 2007/08 and increasing in 2008/2009. The highest ratio is registered in 2006/07 which is 1.1499 and lowest ratio is registered in 2004/05 which is 1.1208. Similarly ratio of NIBL is in fluctuating order through out the study period. The highest ratio of NIBL is 0.9770 in fiscal year 2007/08 and lowest ratio is registered in 2005/06 which is 0.8989. In the same way HBL's ratio is in increasing order. In 2004/05 it has lowest ratio 0.8071 and 2006/07 it has highest ratio 0.8749.Since mean ratios of EBL found to be highest than NIBL and HBL from which we can conclude that EBL is successful to meet their current obligation. Even though NIBL and HBL have failed to maintain the current obligation they are not

failed in earning the profit. From point of view of working policy they have taken the aggressive policy.

As concern with liquidity and consistency EBL seems to be in better position than NIBL & HBL which shows by the lowest C.V. (0.8827 %) among the sample banks NIBL and HBL are failed to maintain the consistency in the liquidity.

Figure - 1



4.1.1.1.2 Cash and Bank Balance to Total Deposit Ratio.

This ratio measures the percentage of liquid fund with the bank to make immediate payment to the depositors. The main purpose of this ratio is to examine the bank's liquidity capacity on the basis of cash and bank balance. The following table shows the cash and bank balance to total deposit ratio of selected sample banks.

Table 2: Cash and Bank Balance to Total Deposit Ratio

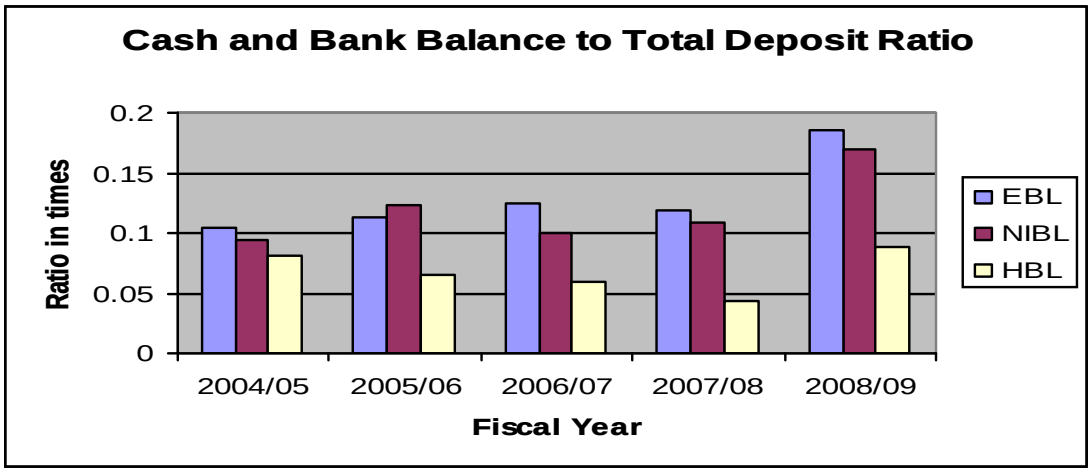
(Rs. in million)

Banks									
	Everest Bank Ltd.			Nepal Investment Bank Ltd.			Himalayan Bank Limited		
Fiscal Year	Cash & Bank Bal.	Total Deposit	Ratio (in times)	Cash & Bank Bal.	Total Deposit	Ratio (in times)	Cash & Bank Bal.	Total Deposit	Ratio (in times)
2004/05	1049.99	10097.69	0.1040	1340.48	14254.57	0.0940	2014.47	24814.01	0.0811
2005/06	1552.96	13802.44	0.1125	2336.52	18927.31	0.1234	1717.35	26490.85	0.0648
2006/07	2391.42	19097.7	0.1252	2441.51	24488.84	0.0997	1757.34	29905.8	0.0589
2007/08	2852.40	23976.3	0.1189	3755.00	34451.8	0.1089	1396.70	31805.3	0.0439
2008/09	6164.40	33322.9	0.1850	7918.00	46697.9	0.1695	3048.60	34681.0	0.0879
Mean			**0.1291**			**0.1191**			**0.0673**
S.D.			**0.0283**			**0.0265**			**0.0141**
C.V. (%)			**21.910**			**22.210**			**21.0136**

Table 2 shows the fluctuation on cash and bank balance to total deposit ratio of EBL and NIBL but HBL is in decreasing order from 2004/05 to 2007/08 but increasing in 2008/09. During study of five years period, the ratio of EBL is highest in 2008/09 which is 0.0850 and lowest in 2004/05 which is 0.1040. Similarly NIBL has highest ratio in 2008/09 and lowest in 2004/05 which is 0.1695 and 0.0940 receptively. HBL is ranged between 0.0439 in 2007/08 and 0.0879 in 2008/09. It is found that EBL has maintained the highest mean ratio which is 0.1291 than other NIBL and HBL. Which shows that EBL has successful in maintains the higher cash and bank balance to total deposit ratio. But it does not mean that it has invested in profitable sector. It actually means that EBL are successful in meeting the daily cash requirement.

EBL has maintains the higher cash and bank balance to total deposit ratio whereas HBL has better position in consistency which is shown by lowest C.V. (0.2191%), they have a consistency in utilizing the cash balance among the other sample banks .Holding cash and bank balance can have a negative impact on the goodwill and reputation of the bank to fulfill the demand of the profit holder and lower cash balance can have a negative impact on the customer. Therefore banks should maintain the enough liquidity.

Figure -2



4.1.1.1.3 Cash and Bank Balance to Current Assets Ratio.

Cash and bank balance to total deposit ratio shows the percents of readily available fund within the banks. A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice versa.

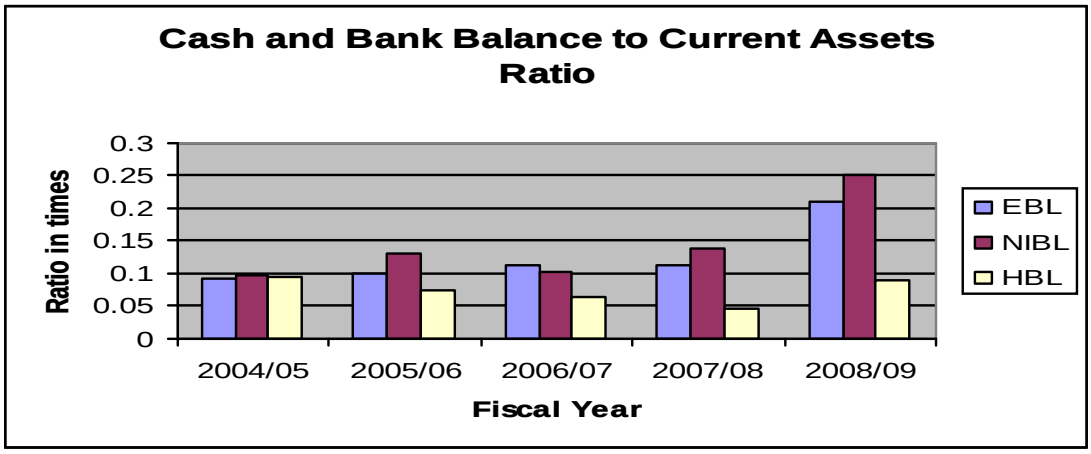
Table 3: Cash and Bank Balance to Current Assets Ratio

(Rs. in million)

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Cash & Bank Bal.	Current Assets	Ratio (in times)	Cash & Bank Bal.	Current Assets	Ratio (in times)	Cash & Bank Bal.	Current Assets	Ratio (in times)
2004/05	1049.99	11367.59	0.0924	1340.48	13936.94	0.0962	2014.47	21228.89	0.0949
2005/06	1552.96	15621.75	0.0994	2336.52	17889.28	0.1306	1717.35	23153.11	0.0742
2006/07	2391.42	21039.82	0.1137	2441.51	23555.96	0.1036	1757.34	27446.52	0.0640
2007/08	2852.40	25256.32	0.1129	3755.00	27256.23	0.1378	1396.70	30125.76	0.0463
2008/09	6164.40	29278.44	0.2102	7918.00	31569.89	0.2508	3048.60	34256.32	0.0889
Mean			**0.1257**			**0.1438**			**0.0737**
S.D.			**0.0424**			**0.0557**			**0.0173**
C.V. (%)			**33.7521**			**38.734**			**23.47**

Table 3 shows that the cash and bank balance to current assets ratio of EBL is in increasing order from 2004/05 to 2008/2009 which is between 0.0924 to 0.2102 with mean ratio of 0.1257, NIBL is ranged between the 0.0962 in 2004/05 and 0.2508 in 2008/09 with mean ratio of 0.1438 and HBL is ranged between 0.04630 in 2006/07 and 0.0949 in 2004/05 with mean ratio of 0.0737. Since, the mean ratio of NIBL is higher than the average of all sample banks. It supports the conclusion is that, NIBL has been successful in maintaining its higher cash and bank balance to current assets ratio, but it doesn't mean that it has mobilized its more funds in profitable sectors. It actually means that NIBL can meet its daily cash requirement. In contrast HBL has a lowest mean ratio because it may have invested their fund in more productive sectors and has lowest C.V. (23.470%) which means they are successful in maintaining a stability of cash and bank balance in comparison to other sample banks.

Figure -3



4.1.1. 2 Activity Ratio/ Assets Management Ratios

Activity Ratio/ Assets Management Ratios indicate the speed with which assets are being converted or turned over. Thus these ratios are used to measure the banks ability to utilize their available resources. Asset management ratio predicts how efficiently banks manage the resources at its command. The following asset management ratios are used in this study for comparison of the banks.

4.1.1.2.1 Loan and Advance to Total Deposit Ratio

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

Table 4: Loan and Advances to Total Deposit Ratio

(Rs. In millions)

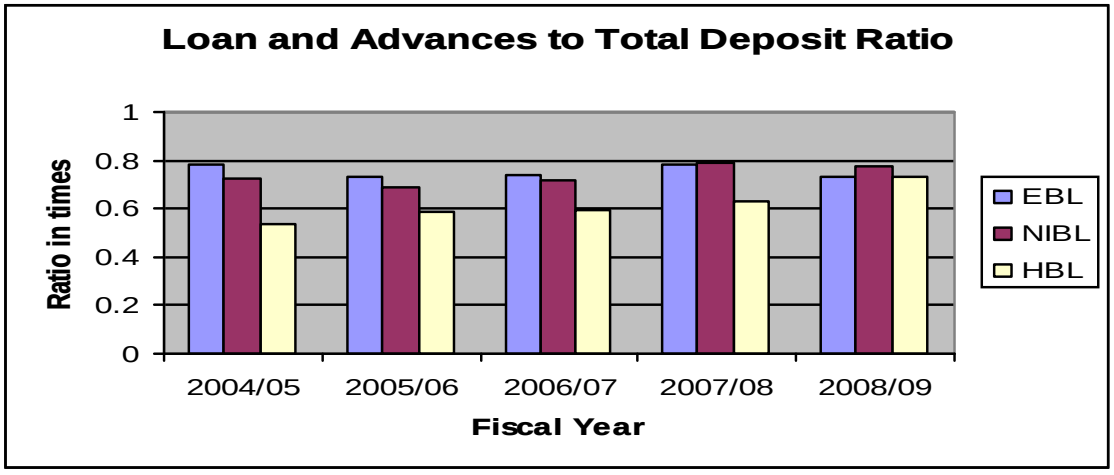
	Banks								
	Everest Bank Ltd.			Nepal Investment Bank Ltd.			Himalayan Bank Limited		
Fiscal Year	Loan & Advances	Total Deposit	Ratio (in times)	Loan & Advances	Total Deposit	Ratio (in times)	Loan & Advances	Total Deposit	Ratio (in times)
2004/05	7914.4	10097.69	0.7839	10295.4	14254.57	0.7224	13245	24814.01	0.5338
2005/06	10124.2	13802.44	0.7335	13007.2	18927.31	0.6872	15515.7	26490.85	0.5857
2006/07	14059.2	19097.7	0.7362	17482.0	24488.84	0.7139	17672.0	29905.8	0.5909
2007/08	18814.3	23976.3	0.7847	27145.5	34451.8	0.7879	19985.2	31805.3	0.6284
2008/09	24366.2	33322.9	0.7312	36250.4	46697.9	0.7763	25292.1	34681.0	0.7293
Mean			**0.7539**			**0.7375**			**0.6136**
S.D.			**0.0278**			**0.0429**			**0.0729**
C.V. (%)			**3.6886**			**5.8165**			**11.8834**

Table 4 shows the ratio during the study period of five years of three banks. In fiscal year 2008/09 and 2007/08 EBL has registered the lowest ratio (0.7312) and highest ratio (0.7847) respectively with mean ratio of 0.7539 which is the highest mean ratio among other two banks.. Similarly, NIBL has registered the highest ratio (0.7879) in year (2007/09) and lowest ratio (0.6872) in year 2005/06 with mean ratio of 0.7375.Also, HBL has registered the lowest (0.5338) and highest (0.7293) ratio in fiscal year 2004/05 and 2008/09 respectively with lowest mean ratio 0.6136, among the other two banks.

As concerned with the consistency of EBL is successful to maintain the consistency in comparison to NIBL and HBL because they have a lower C.V. of 3.2491%. HBL

has a highest C.V. of 10.6868 %, thus they are not able to maintain the consistency. In case of NIBL they have a C.V. of 502515% which shows that they are able to maintain the stability in investing through loan and advance to some extent.

Figure – 4



4.1.1.2.2 Investment on Government Securities to Total Deposit Ratio

The main purpose of this ratio is to measure successfulness in mobilizing the deposit in investment on government securities. The investment on government securities to total deposit ratio of different banks in the study period are mentioned in the following table:

Table 5: Investment on Govt. Securities to Total Deposit Ratio

(Rs. In million)

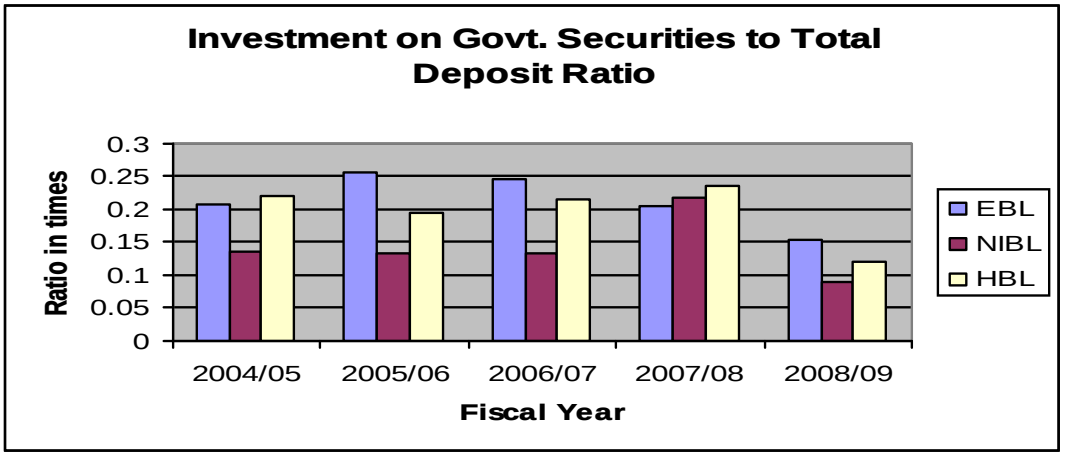
Banks									
	Everest Bank Ltd.			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Invest. On Govt. Sec.	Total Deposit	Ratio (in times)	Invest. On Govt. Sec.	Total Deposit	Ratio (in times)	Invest. On Govt. Sec.	Total Deposit	Ratio (in times)
2004/05	2100.29	10097.691	0.2079	1948.50	14254.57	0.1367	5469.73	24814.01	0.2204
2005/06	3548.62	13802.445	0.2571	2522.30	18927.31	0.1333	5144.31	26490.85	0.1942
2006/07	4704.63	19097.7	0.2463	3256.40	24488.84	0.1329	6454.87	29905.8	0.2158
2007/08	4906.5	23976.3	0.2046	7471.7	34451.8	0.2169	7471.7	31805.3	0.2349
2008/09	5146.0	33322.9	0.1544	4212.3	46697.9	0.0902	4212.3	34681.0	0.1214
Mean			**0.2141**			**0.1420**			**0.1973**
S.D			**0.0405**			**0.0460**			**0.0449**
C.V.(%)			**18.9417**			**32.4246**			**22.7515**

Table 7 reflects that the ratio of EBL is fluctuating in between the range of (0.1544) in2008/09 and (0.2571) in 2005/06 with average being 0.2141 which is the highest among other banks .Similarly, the ratio of NIBL is decreasing till 2006/07 then

increase in 2007/08 and then decreasing in 2008/09. Highest ratio (0.2169) registered by NIBL is in 2007/08 and lowest ratio (0.0902) is in 2008/09 with mean ratio of 0.1420 which is lowest among other sample banks. The ratio of HBL is in fluctuating order which is ranged from 0.1214 in fiscal year 2008/09 and 0. 2349 in year 2007/08 with mean of 0.1973.Among sample banks HBL is successful in mobilizing the deposit, since it has a higher mean ratio. But NIBL has a lower mean ratio; they are less successful to utilize the deposit in investment on government securities in compare with sample banks. Similarly, HBL is also successful in mobilizing the deposit in investment on government securities.

As concern with liquidity and consistency EBL seems to be in better position than NIBL & HBL which shows by the lowest C.V. 18.9417 (%) among the sample banks NIBL and HBL are failed to maintain the consistency in the liquidity.

Figure5



4.1.1.3 Profitability Ratios

The main objective of a bank is to make profit providing different types of services to its customers. Profit is the different between total revenue and total expenses over a period of time. Profit is necessary to survive in any business field for its successful operation and further expansion. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. To meet those objectives likewise a good liquidity position, meet fixed interest obligation, overcome the future contingencies, grab the investment opportunities, business expansions

etc., they must earn sufficient profit. It is an obvious that profitability ratios are the best indicators of overall efficiency. In this study, mainly those ratios are presented which are related with profit as well as fund mobilization.

Profit measures management's overall effectiveness as shown by the return generated on sales and investment. The relation of the return of the firm to either its sales or equity of its assets is known as profitability ratio. Higher the profitability ratio betters the financial performance of the banks and vice- versa. The following are profitability ratios those are relevant in this study.

4.1.1.3.1 Net Profit to Total Assets Ratio

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

Table 6: Net Profit to Total Assets Ratio

(Rs. in million)

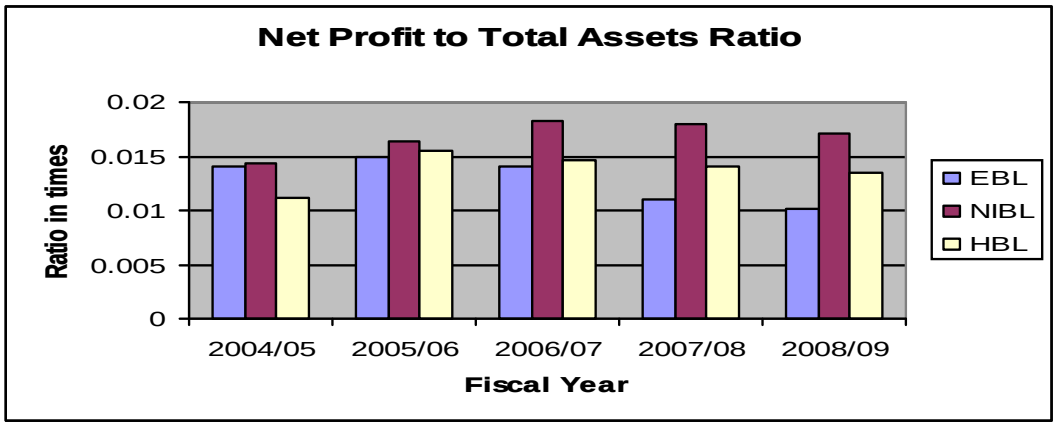
	Banks								
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Net Profit	Total Assets	Ratio (in times)	Net Profit	Total Assets	Ratio (in times)	Net Profit	Total Assets	Ratio (in times)
2004/05	170.8	11792.126	0.014	232.15	16274.06	0.0143	308.28	27844.69	0.0111
2005/06	237.3	15959.285	0.015	350.54	21330.14	0.0164	457.46	29460.39	0.0155
2006/07	296.4	21432.574	0.014	501.39	27590.84	0.0182	491.82	33519.14	0.0147
2007/08	311.4	27325.65	0.011	696.73	38873.31	0.0180	512.23	36526.8	0.0140
2008/09	367.2	36002.63	0.0102	900.62	53010.80	0.0171	537.95	39790.23	0.0135
Mean			**0.0128**			**0.0167**			**0.0138**
S.D			**0.0021**			**0.0015**			**0.0016**
C.V. (%)			**16.4434**			**9.4442**			**12.0821**

Table 6 shows that all banks have fluctuating ratio. The ratio of EBL is ranged between (0.0102) and (0.015) in year 2008/09 and 2005/06 respectively with the lowest mean ratio (0.0128). It is less successful in utilizing the total assets for earning the net profit in compare to sample banks. Similarly NIBL has recorded a highest ratio in 2006/07 which is (0.0182) and lowest ratio is (0.0143) in year 2005/05 with a highest mean ratio with (0.0167) which determined that NIBL are successful in earning the net profit with efficient utilization of total assets with compare to EBL and

HBL. Lastly, HBL has ratio (0.0138) with ranged between (0.0111) to (0.0155) in 2004/05 and 2005/06.

But as concern with consistency, NIBL are able to maintain the consistency in profit which is shown by lowest CV 9.4442 (%) among the sample banks. EBL and HBL have a greater variation in earning the profit on total working fund. The CV of these banks is 16.4434 % and 12.0821%.

Figure – 6



4.1.1.3.2 Net profit to Total Deposit Ratio.

This ratio is the mirror for banks overall financial performance as well as its success in profit generating, the reason being that the deposits made by its customer's is the major sources of earning of the joint venture banks as the earning is made by the efficiency and effective utilization of these deposits. The following table reveals the percentage of net profit to total deposit of sample banks.

Table 7 : Net Profit to Total Deposit Ratio

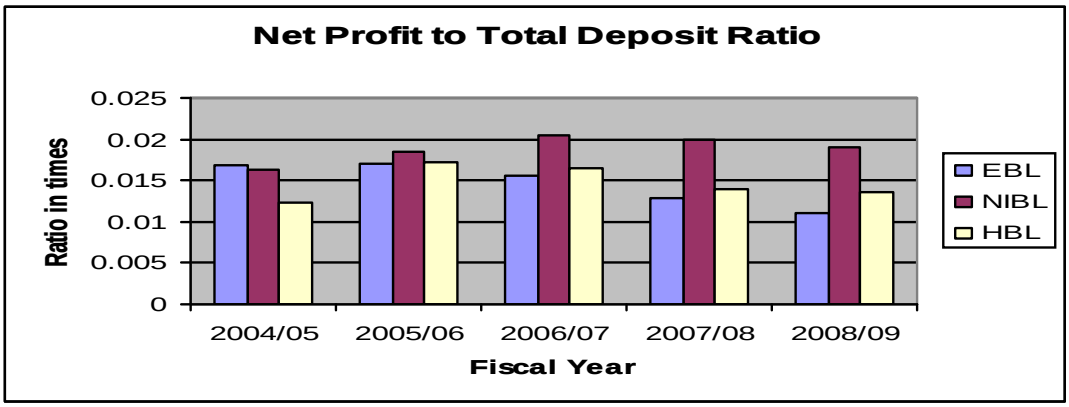
(Rs. in million)

	Banks								
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Net Profit	Total Deposit	Ratio (in times)	Net Profit	Total Deposit	Ratio (in times)	Net Profit	Total Deposit	Ratio (in times)
2004/05	170.8	11792.126	0.0169	232.15	14254.57	0.0163	308.28	27844.69	0.0124
2005/06	237.3	15959.285	0.0170	350.54	18927.31	0.0185	457.46	29460.39	0.0173
2006/07	296.4	21432.574	0.0155	501.39	24488.84	0.0205	491.82	33519.14	0.0164
2007/08	311.4	27325.65	0.0129	696.73	34451.80	0.0200	512.23	36526.8	0.0140
2008/09	367.2	36002.63	0.0110	900.62	46697.90	0.0190	537.95	39790.23	0.0135
Mean			**0.01466**			**0.01886**			**0.0147**
S.D			**0.0026**			**0.0016**			**0.0020**
C.V. (%)			**17.9478**			**8.6687**			**13.9704**

Table 7 reveals the net profit to total deposit ratio is in fluctuating situation of all sample banks. The ratio of EBL has ranged between (0.0110) in 2008/09 to (0.0170) in 2005/06 with mean ratio of (0.0733). The highest and lowest ratios recorded by NIBL are (0.0205) and (0.0163) in year 2006/07 and 2004/05 respectively with mean ratio (0.0943) which is highest ratio among the sample banks. Similarly, highest ratio for HBL has recorded in year 2005/06 (0.0173) and lowest ratio in year 2004/05 (0.0124) with mean ratio of (0.0147) which is lowest mean ratio among the sample banks. The above statement indicates that NIBL has better performance in utilizing of total deposit to earn a higher profit than other sample banks. Similarly, HBL has not better performance in comparison to EBL and NIBL since they has low mean ratio i.e. 0.0147.

As far as consistency level NIBL is successful in maintaining consistency in mobilizing total deposit to earn the profit. This is shown by lowest CV of NIBL i.e. 8.6687 % than EBL (17.9478%) and HBL (13.9704%).

Figure - 7



4.1.1.3.3 Total Interest Earned to Total Working Fund Ratio

The ratio shows the earning capacity of a Bank on its total assets (working fund). This ratio exhibits the extent on which banks are successful in mobilizing their working funds to generate income as much as possible.

The higher ratio will indicate the high earning power of the banks on its total assets and lower ratio will indicate the low earning power of the banks.The following table shows the comparative ratios of Banks for the different periods.

Table 8 : Total Interest Earned to Total Working Fund Ratio

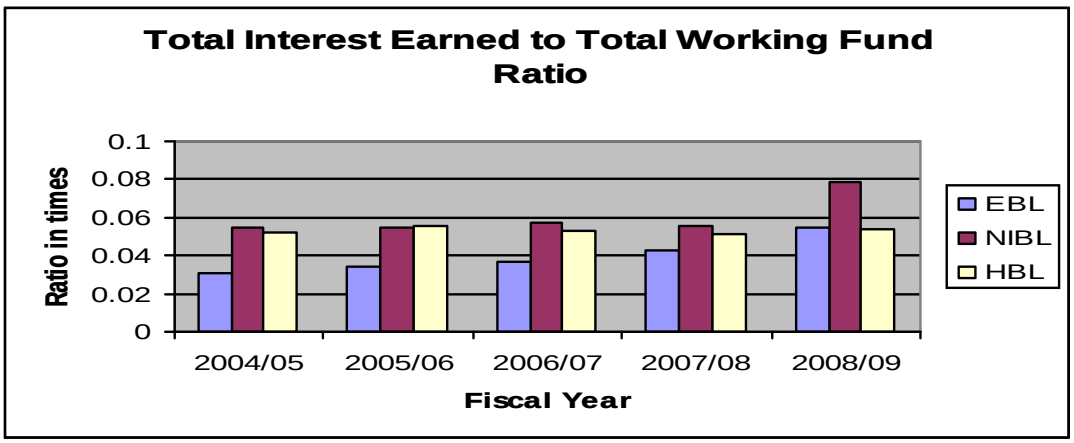
(Rs. In million)

Banks									
	Everest Bank Ltd.			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Interest Earned	Working Fund	Ratio (in times)	Interest Earned	Working Fund	Ratio (in times)	Interest Earned	Working Fund	Ratio (in times)
2004/05	720.7	23586.63	0.0306	886.80	16274.06	0.0545	1446.47	27844.69	0.0519
2005/06	907.3	26582.32	0.0341	1172.75	21330.14	0.0550	1626.47	29460.39	0.0552
2006/07	1158.0	31256.23	0.0370	1584.99	27590.84	0.0574	1775.58	33519.14	0.0530
2007/08	1548.7	36352.56	0.0426	2194.28	39562.25	0.0554	1970.9	38652.12	0.0509
2008/09	2186.8	40256.30	0.0543	3267.94	41526.65	0.0786	2330.5	43256.33	0.0538
Mean			**0.0404**			**0.0602**			**0.0529**
S.D			**0.0093**			**0.0103**			**0.0016**
C.V. (%)			**22.9991**			**17.2023**			**3.1443**

Table 8 reveals the total interest earned to total working fund ratio. The ratio of EBL is in increasing every year from (0.0306) in year 2004/05 to (0.0543) in year 2008/09 with mean ratio of 0.0404. The ratio of NIBL has ranged between (0.0545) in year 2004/05 to (0.0786) in year 2008/09 with highest mean ratio of 0.0602. Similarly, HBL has a fluctuating trend as the ratio is ranged between (0.0509) to (0.0552) in year 2007/08 to 2005/06 respectively with lowest mean ratio 0.0304.

The mean ratio shows that all sample banks are successful in earning the interest on total working fund. Among them NIBL found to be a leader in earning a interest with compare to EBL and HBL. Since HBL has a lowest C.V. (3.1443%) they have a consistency in earning a interest by mobilizing a total working fund effectively. The highest C.V. is found in EBL with 22.9991% which shows a greater variability in earning an interest.

Figure – 8



4.1.1.3.4 Total Interest Paid to Total Working Fund Ratio

Interest earning is the major source of a commercial bank. The ratio is used to measure the percentage of total interest expenses against the total assets. The following are the comparative ratio figures of Banks recorded in different periods.

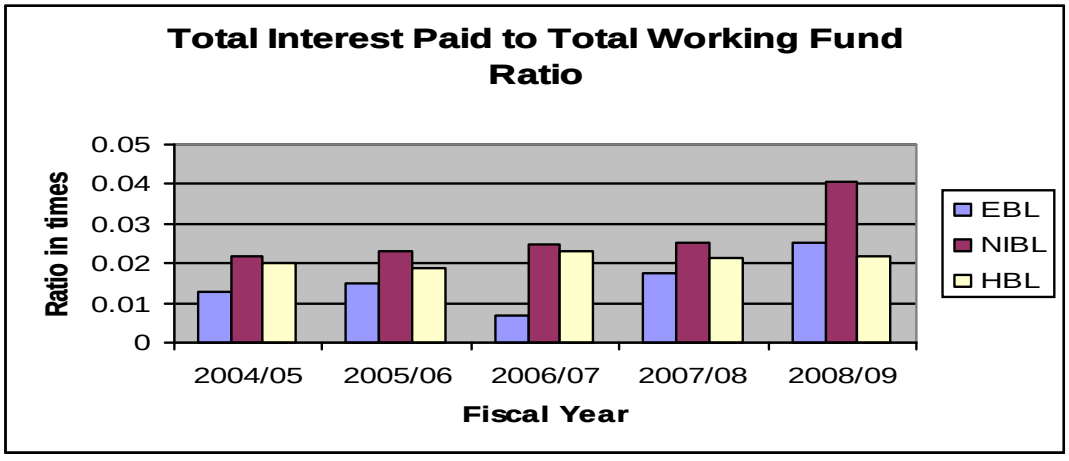
Table 9 : Total Interest Paid to Total Working Fund Ratio

(Rs. in million)

Fiscal Year	Banks								
	Everest Bank Ltd.			Nepal Investment Bank Limited			Himalayan Bank Limited		
	Interest Paid	Working Fund	Ratio (in times)	Interest Paid	Working Fund	Ratio (in times)	Interest Paid	Working Fund	Ratio (in times)
2004/05	299.5	23586.63	0.0127	354.5	16274.06	0.0218	561.96	27844.69	0.0202
2005/06	401.4	26582.32	0.0151	490.9	21330.14	0.0230	648.84	29460.39	0.0186
2006/07	517.2	31256.23	0.0069	685.5	27590.84	0.0248	766.5	33519.14	0.0229
2007/08	632.6	36352.56	0.0174	992.1	39562.25	0.0251	824.0	38652.12	0.0213
2008/09	1012.9	40256.30	0.0252	1686.9	41526.65	0.0406	934.8	43256.33	0.0216
Mean			**0.0155**			**0.0271**			**0.0209**
S.D			**0.0067**			**0.0076**			**0.0016**
C.V(%)			**43.2387**			**28.3701**			**7.7261**

Table 9 shows the comparative analysis of total interest paid to total working fund. All the ratios of EBL and HBL are in fluctuating trend but NIBL are in increasing trend. The highest and lowest ratio of EBL are 0.0252 and 0.0069 in fiscal year 2008/09 and 2006/07 respectively with mean ratio of 0.0155 which is lowest mean ratio among sample banks. The highest and lowest ratios of NIBL are 0.0406 and 0.0218 with mean ratio of 0.0271. Similarly, HBL has a fluctuating ratio which is ranged between 0.0186 and 0.0229. The above definition determined that NIBL has paid a higher interest on working fund in compare to EBL and HBL which is shown by highest mean ratio.HBL has consistency in interest paid because C.V of HBL is lowest among sample banks which is 7.7261%.

Figure – 9



4.1.1.4 Leverage Ratios

A firm should have strong short- term as well as long –term financial position. Like other ratios, leverage ratio is also very necessarily important tool in measuring financial performance of any institution. This ratio reveals the proportion of funds used by the institution either from the creditor's side or form owner side. In order to maintain healthy financial position any institutions need to maintain proper proportion of debt & equity. These ratios indicate the situation of the capital structure, which is calculated to measure the company's ability of using debt for benefit of shareholders. Long- term creditors like debenture holders, financial institutions etc. are more interested to the firm's long term financial health, debt serving capacity and strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary debt ratio tell us the relative proportions of capital of contribution by creditors and by owners.

Leverage ratio is also called solvency ratio or capital structure ratio. There are various tools in order to measure leverage of the institution among them. Debt Asset ratio & Debt Equity ratio has been used.

4.1.1.4.1 Debt-Asset Ratio

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

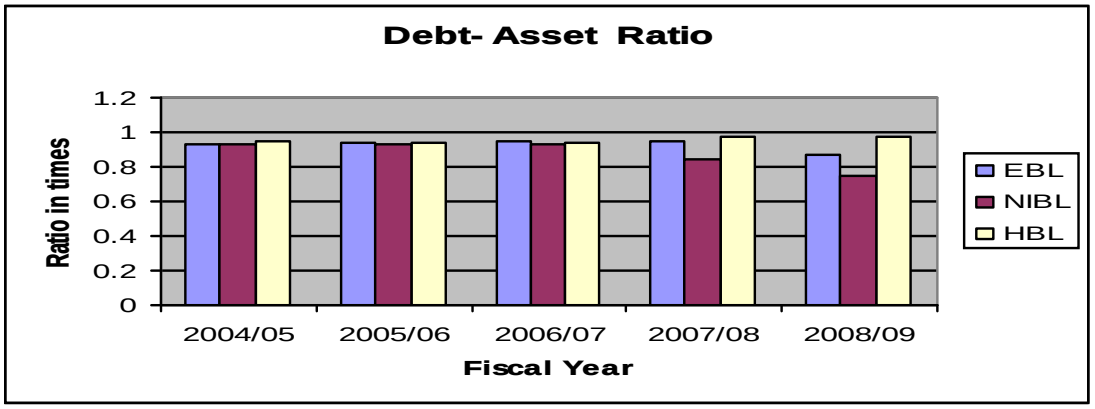
Table 10 : Debt- Asset Ratio

(Rs. In million)

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Total Debt	Total Assets	Ratio (in times)	Total Debt	Total Assets	Ratio (in times)	Total Debt	Total Assets	Ratio (in times)
2004/05	11022.51	11792.126	0.9347	15093.89	16274.06	0.9275	26302.94	27844.69	0.9446
2005/06	14996.477	15959.285	0.9397	19914.71	21330.14	0.9336	27694.21	29460.39	0.9400
2006/07	20231.059	21432.574	0.9439	25712.73	27590.84	0.9319	31372.64	33519.14	0.9360
2007/08	25856.25	27325.65	0.9462	32888.26	38873.31	0.8460	35623.06	36526.8	0.9753
2008/09	31256.36	36002.63	0.8682	39562.88	53010.80	0.7463	38523.45	39790.23	0.9764
Mean			**0.9265**			**0.8771**			**0.9545**
S.D			**0.0329**			**0.0818**			**0.0197**
C.V(%)			**3.5516**			**9.3342**			**2.0708**

Table 10 shows that debt financing ratio of all sample banks are high. The ratios of all banks are fluctuating trend. The highest ratio of EBL is 0.9462 in 2007/08 and lowest is 0.8682 with mean ratio of 0.9265. The ratio of NIBL is ranged between 0.7463 and 0.9336 in year 2008/09 and 2005/06 with lowest mean ratio 0.8771 respectively. Similarly, HBL have highest ratio in year 0.9764 in year 2008/09 and lowest ratio in year 0.9360 in year 2006/07 with mean ratio of 0.9545 which is the highest ratio among order sample banks. Above statement conclude that the debt financing of NIBL in assets is lowest and highest in HBL. Therefore, HBL is utilizing a highest debt among the sample banks .Also, HBL is successful in maintaining a consistency which is shown by lowest C.V. (2.0708%) among sample banks.

Figure – 10



4.1.1.4.2 Debt-Equity Ratio

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

Table 11 : Debt- Equity Ratio

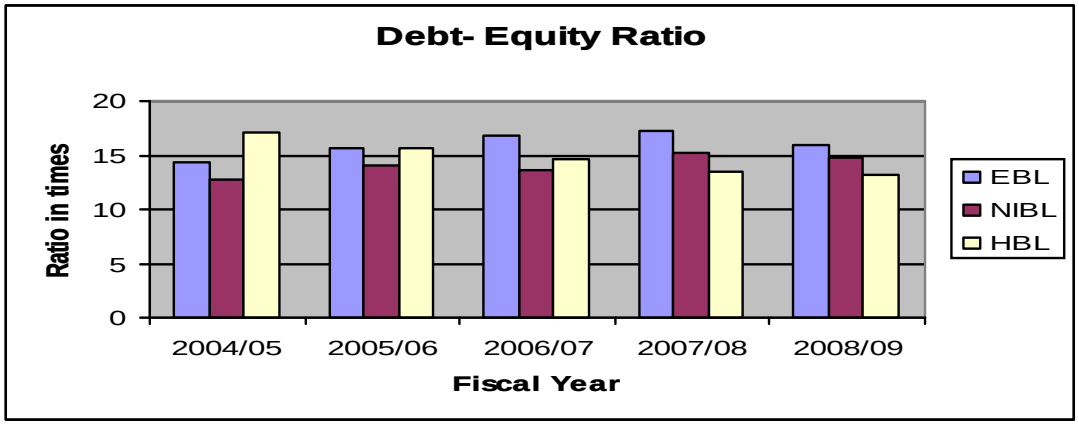
(Rs. In million)

	Banks								
	Everest Bank Ltd.			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Total Debt	Total Equity	Ratio (in times)	Total Debt	Total Equity	Ratio (in times)	Total Debt	Total Equity	Ratio (in times)
2004/05	11022.51	769.617	14.32	15093.89	1180.17	12.7896	26302.94	1541.75	17.0604
2005/06	14996.477	962.808	15.58	19914.71	1415.43	14.0697	27694.21	1766.18	15.6803
2006/07	20231.059	1201.515	16.84	25712.73	1878.11	13.6907	31372.64	2146.5	14.6157
2007/08	25856.25	1501.23	17.22	32888.26	2156.25	15.2525	35623.06	2655.98	13.4124
2008/09	31256.36	1951.88	16.01	39562.88	2665.33	14.8435	38523.45	2922.98	13.1795
Mean			**15.99**			**14.13**			**14.73**
S.D			**1.1393**			**0.9698**			**1.61918**
C.V (%)			**7.1256**			**6.8634**			**10.9979**

Table 11 shows that debt -equity ratio of all sample banks are high. The highest ratio of EBL is recorded in year 2007/08 (17.22) and lowest ratio is recorded in year 2004/05 (12.32) with mean ratio of 15.99 which is highest among the sample banks. In the same way the ratio of NIBL is also in fluctuating trend. It has ratio ranged between 12.7896 (2004/05) to 15.2525 (2007/08) with mean ratio of 14.13. The ratio of HBL is in decreasing mode. The ratio is ranged between 13.1795 in year 2008/09 to 17.0604 in year 2004/05 with ratio 14.73..Since highest mean ratio is recorded by EBL, they have more investment from debt than equity fund which cost a higher than equity. Higher debt investment brings a higher cost to the banks.

The C.V. of EBL, NIBL and HBL are 7.1256 %, 6.8634% and 10.9979%. Therefore NIBL has lowest C.V which defined that NIBL has consistency in debt-equity ratio. EBL also has maintained stability to some extent. But HBL is not very successful as NIBL and EBL to maintain a consistency.

Figure - 11



4.1.2 Statistical Analysis

This chapter includes some statistical analysis such as Karl Pearson's coefficient of correlation, simple regression analysis and trend line analysis, which are used to analyze the data to achieve the objective of the study.

4.1.2.1 Coefficient of Correlation Analysis (r)

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

4.1.2.1.1 Coefficient of Correlation between deposits and loans & advances

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

Table 13: Coefficient of Correlation between Deposits and Loan & Advance

(Rs.in million)

Banks						
	Everest Bank Limited		Nepal Investment Bank Limited		Himalayan Bank Limited	
Fiscal Year	Total Deposit	Loan & Advances	Total Deposit	Loan & Advances	Total Deposit	Loan & Advances
	(x)	(y)	(x)	(y)	(x)	(y)
2004/05	10097.691	7914.4	14254.57	10295.4	27844.69	13245
2005/06	13802.445	10124.2	18927.31	13007.2	29460.39	15515.7
2006/07	19097.7	14059.2	24488.84	17482.0	33519.14	17672.0
2007/08	23976.3	18814.3	34451.8	27145.5	36526.8	19985.2
2008/09	33322.9	24366.2	46697.9	36250.4	39790.23	25292.1
r	0.9256		0.9996		0.8255	
r^2	0.8567		0.9992		0.6815	
PE= 0.6745* $\frac{1- r^2}{\sqrt{n}}$	0.0431		0.0002		0.0961	
6PEr	0.2586		0.0014		0.5766	
Level of Significant	Significant		Significant		Significant	

The coefficient of correlation (r) for all the sampled banks found to be almost '1' which indicates there is proportion relationship between the deposits & loan & advance for all the banks. While testing 6P.E.r for all sample banks found to be significant as the r value for all the banks are greater than 6P.E.r which implies that there found to be perfect correlation between the deposits and loan & advances. It shows that the loan and advances is depends upon the deposit and all sample banks are successful in mobilizing the deposit to loan and advances efficiently.

4.1.2.1.2 Coefficient of Correlation between deposits and Investment

Investment is also a measures part of banks to mobilize the collected deposit. By investing in different profitable area like shares and debenture, government securities banks maximize the profit. Therefore it is important to study the relation between the deposit and investment. For this analysis deposit is taken as independent variable (x)

and investment (y) is taken as dependent variable. This analysis measures the degree of relationship between these two variables. Besides this, it will justify whether the deposits are significantly used in proper way or not and whether there is any relationship in between these two components. The following table exhibits the coefficient of correlation (r) between deposits and total investment, coefficient of determination (r2), probable error P.E.r.

Table 14 : Coefficient of Correlation between Deposits and Investment

(Rs. in million)

	Banks					
	Everest Bank Limited		Nepal Investment Bank Limited		Himalayan Bank Limited	
Fiscal Year	Total Deposit	Investment	Total Deposit	Investment	Total Deposit	Investment
	(x)	(y)	(x)	(y)	(x)	(y)
2004/05	10097.691	2100.3	14254.57	1949.5	27844.69	5946.7
2005/06	13802.445	3548.6	18927.31	2522.3	29460.39	5144.4
2006/07	19097.7	4704.6	24488.84	3256.4	33519.14	6454.8
2007/08	23976.3	4906.5	34451.8	3155.0	36526.8	7471.7
2008/09	33322.9	5146.0	46697.9	2531.3	39790.23	4212.3
r	0.8525		0.9012		0.8622	
r^2	0.7268		0.8122		0.7434	
PE= 0.6745* $\frac{1- r^2}{\sqrt{n}}$	0.0824		0.0566		0.0774	
6PE.r	0.4945		0.3399		0.4644	
Level of Significant	Significant		Significant		Significant	

The coefficient of correlation for all the sampled banks are found to be positive which indicates that there is positive and perfect relationship between the deposits & investments for all the sample banks. While testing 6P.E.r for all three sample banks found to be significant as the r value for all the banks are greater than 6P.E.r which implies that there found to be perfect correlation between the deposits and investment .This shows that they are successful in investment with respect to deposit. These bank's investment is depends upon the deposit.

4.1.2.1.3 Coefficient of Correlation between Investment & Net profit

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

coefficient of correlation between(r), coefficient of determinants (r^2) and probable error P.E.r on investment and net profit of banks.

Table 15 : Coefficient of Correlation between Investment and Net Profit

(Rs.in million)

Banks						
	Everest Bank Limited		Nepal Investment Bank Limited		Himalayan Bank Limited	
Fiscal	Investment	Net Profit	Investment	Net Profit	Investment	Net Profit
Year	(x)	(y)	(x)	(y)	(x)	(y)
2004/05	2100.3	170.8	1949.5	232.15	5946.7	308.28
2005/06	3548.6	237.3	2522.3	350.54	5144.4	457.46
2006/07	4704.6	296.4	3256.4	501.39	6454.8	491.82
2007/2008	4906.5	311.4	3155.0	696.73	7471.7	512.23
2008/2009	5146.0	367.2	2531.3	900.62	4212.3	537.95
r	0.8677		0.8766		0.8077	
r^2	0.7530		0.7684		0.6524	
PE= 0.6745* $\frac{1-r^2}{\sqrt{n}}$	0.0693		0.0699		0.1049	
6PEr	0.4158		0.4194		0.6294	
Level of Significant	Significant		Significant		Significant	

The coefficient of correlation for all the sampled banks found to be almost '1' which indicates that there is proportion relationship between the investment & net profit for all the sample banks. While testing 6P.E.r for all sample banks found to be significant as the r value of these banks are greater than 6P.E.r which implies there is perfect correlation between the Investment and net profit. This shows that all sample banks are successful to earn net profit by mobilizing the deposit to the investment.

4.1.2.1.4 Coefficient of Correlation between Loan and advances & Net profit

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

Table 16 : Coefficient of Correlation between Loan and Advances and Net Profit

(Rs.in million)

Banks						
	Everest Bank Limited		Nepal Investment Bank Limited		Himalayan Bank Limited	
Fiscal Year	Loan & Advances	Net Profit	Loan & Advances	Net Profit	Loan & Advances	Net Profit
	(x)	(y)	(x)	(y)	(x)	(y)
2004/05	7914.4	170.8	10295.4	232.15	13245.0	308.28
2005/06	10124.2	237.3	13007.2	350.54	15515.7	457.46
2006/07	14059.2	296.4	17482.0	501.39	17672.0	491.82
2007/08	18814.3	311.4	27145.5	696.73	19985.2	512.23
2008/09	24366.2	367.2	36250.4	900.62	25292.1	537.95
r	0.9256		0.9967		0.9695	
r^2	0.8567		0.9934		0.9399	
PE= 0.6745* $\frac{1-r^2}{\sqrt{n}}$	0.0432		0.0020		0.0181	
6PEr	0.2595		0.0120		0.1088	
Level of Significant	Significant		Significant		Significant	

The coefficient of correlation for all the sampled banks found to be almost '1' which indicates there is proportion relationship between the loan & advance and net profit for all the banks. While testing 6P.E.r for all sample banks found to be significant as the r value for all the banks are greater than 6P.E.r which implies that there found to be perfect correlation between the Loan & advance and net profit. It shows that all sample banks are successful in earning the net profit by mobilizing the loan and advances.

4.1.2.2. Trend Line Analysis

Among the various methods of determining trend of time series, the most popular and mathematical method is the least square method. Using this method of least square in the study, it has been tried to analyze the trend of prospective net profit in future by analyzing the trend of past net profit of the banks. Banks utilized the deposit by releasing investment in loan and advances in different profitable area for maximizing the profit. A bank can invest in shares & debenture, government securities and provide the loan and advances under different scheme.

This topic will be used to forecast the ratios of Total deposit, Total Loan and Advances, Total Investment and Net Profit of the banks for next five years on the base of past five years. The analysis is done under limited factors which are as follows:

- The economy will remain unchanged as of present the stage.

- Banks will run as of present position.
- The guidelines by NRB for Banks will remain unchanged.
- The forecast will be true only when the limitations of least square method are carried out.
- The main assumption is that other factors are constant.

4.1.2.2.1 Trend Line Analysis of Total Deposit

The part of this analysis will analyze Total deposit of banks for five years from 2005 to 2009 and projection for next five years i.e. 20010 to 20014. The following table exhibits the trend values of Total deposit of sample banks for 10 years.

Table 17 :Trend Line Analysis of Total Deposit

Year	Trend Values of Total Deposit		
	EBL	NIBL	HBL
2005	8734.54	11681.78	24529.74
2006	14396.97	19722.89	27034.56
2007	20059.40	27764.00	29539.40
2008	25721.83	35805.11	32044.24
2009	31384.26	43846.22	34549.08
2010	37046.69	51887.33	37053.92
1011	42709.12	59928.44	39558.76
2012	48371.55	67969.55	42063.60
2013	54033.98	76010.66	44568.44
2014	59696.41	84051.77	47073.28

[Sources: Annual Report of Concerned Bank, Refer Appendix -]

Figure – 17

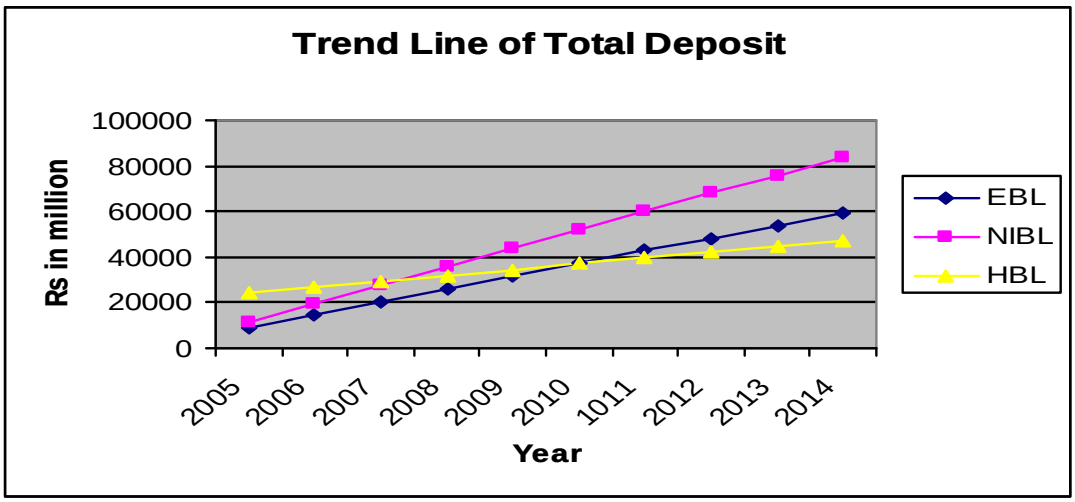


Table 17 exhibits that the trend values of all the sample banks are in increasing trend, which means futures of total deposit of all the sample banks are good. Among the sample banks NIBL has a highest trend of total deposit. It means NIBL is successful in mobilizing the deposit. In fiscal year 2005 the trend values of EBL, NIBL and HBL are 8734.54, 11681.78 and 24529.74

respectively. It is increase to 59696.41, 84051.77 and 47073.28 for the forecast year 2014.

4.1.2.2.2 Trend Line Analysis of Loan and Advances

The analysis will analyze Loan and Advances of banks for five years from 2005 to 2009 and forecast for following five years i.e.2010 to 2014. The following table exhibits the trend values of Total deposit of sample banks for 10 years.

Table 18 :Trend Line Analysis of Loan & Advances

Year	Trend Values of Loan & Advances		
	EBL	NIBL	HBL
2005	6736.92	7626.50	12629.26
2006	10896.29	14231.3	15485.63
2007	15055.66	20836.1	18342.00
2008	19215.03	27440.9	21198.37
2009	23374.40	34045.7	24054.74
2010	27533.77	40650.5	26911.11
1011	31693.14	47255.3	29767.48
2012	35852.51	53860.1	32623.85
2013	40011.88	60464.9	35480.22
2014	44171.25	67069.7	38336.59

[Sources: Annual Report of Concerned Bank, Refer Appendix -]

Figure – 18

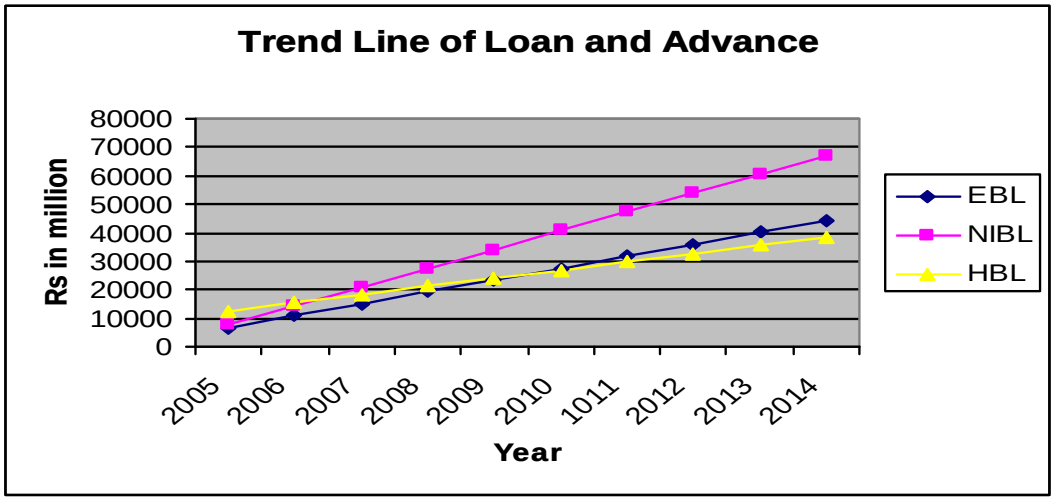


Table 18 exhibits that the trend values of all the sample banks are in increasing trend, which means futures of total Loan and Advances of all the sample banks are good. Among the other sample bank, NIBL are in highest trend .All the sample banks are successful in mobilizing the Loan and Advances to different productive and profitable sector. In fiscal year 2005 the trend values of EBL, NIBL and HBL are6736.92, 7626.50 and 12629.26 respectively. It is increase to 44171.25, 67069.7 and 38336.59 for the forecast year 2014.

4.1.2.2.3 Trend Line Analysis of Investment

The following table analyzes the trend values of Investment of sample banks for five years and prediction for next five years.

Table 19 :Trend Line Analysis of Investment

Year	Trend Values of Investments		
	EBL	NIBL	HBL
2005	3932.2	2323.74	6074.40
2006	4006.7	2503.37	5960.25
2007	4081.2	2683.00	5846.10
2008	4155.7	2862.63	5731.95
2009	4230.2	3042.26	5617.80
2010	4304.7	3221.89	5503.65
1011	4379.2	3401.52	5389.50
2012	4453.7	3581.15	5275.35
2013	4528.2	3760.78	5161.20
2014	4602.7	3940.41	5047.05

[Sources: Annual Report of Concerned Bank, Refer Appendix -]

Figure - 19

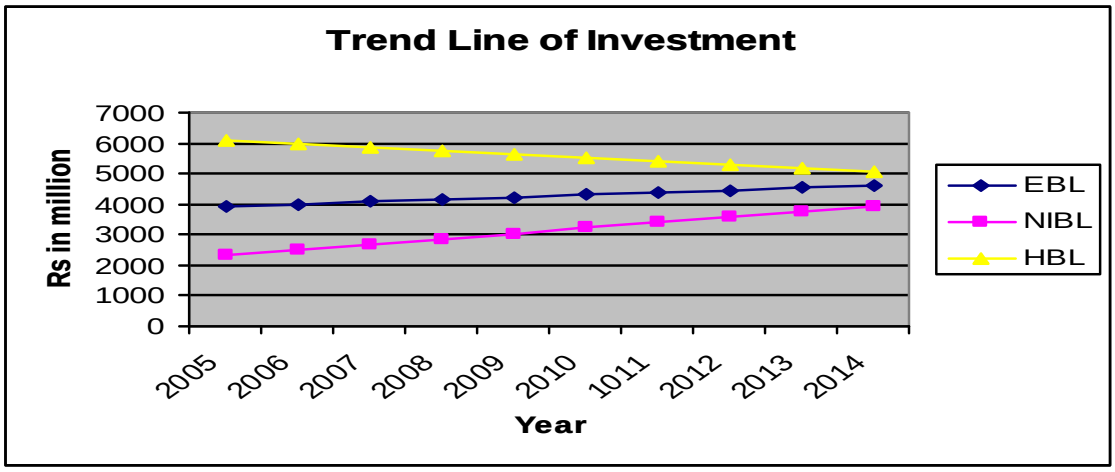


Table 19 exhibits that the trend values of EBL and NIBL are in increasing trend, which means futures of total deposit of these banks are good. But the sample banks

HBL has a decreasing trend of Investment. It means HBL is not successful in mobilizing the Investment. In fiscal year 2004 the trend values of EBL, NIBL and HBL are3932.2, 2323.74 and 6074.40 respectively. It is increase to 4602.7, 3940.41 and 5047.05and for the forecast year 2014.

4.1.2.2.4 Trend Line Analysis of Net Profit

The following table analyzes the trend values of Net Profit of sample banks for five years and prediction for next five years.

Table 20 :Trend Line Analysis of Net Profit

Year	Trend Values of Net Profits		
	EBL	NIBL	HBL
2005	183.22	199.66	358.73
2006	229.92	367.97	410.14
2007	276.62	536.28	461.55
2008	323.32	704.59	512.96
2009	370.02	872.9	564.37
2010	416.72	1041.21	615.78
1011	463.42	1209.52	667.19
2012	510.12	1377.83	718.6
2013	556.82	1546.14	770.01
2014	603.52	1714.45	821.42

[Sources: Annual Report of Concerned Bank, Refer Appendix -]

Figure-20

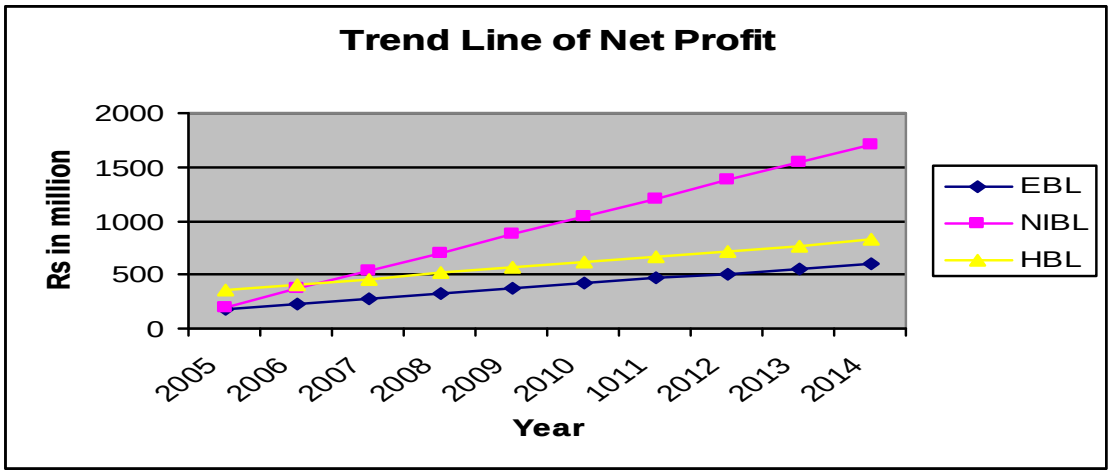


Table 20 exhibits that the trend values of all the sample banks are in increasing trend, which means futures of Net Profit of all the sample banks are good. Among the sample banks NIBL has a highest trend of Net Profit. In fiscal year 2005 the trend values of EBL, NIBL and HBL are183.22, 199.66 and 358.73 respectively. It is increase to603.52, 1714.45 and 821.42 for the forecast year 2014.

4.2 Major Finding of the Study

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

4.2.1 Liquidity Ratio

- During the five years study period of three banks the current ratio found to be highly fluctuate. It is well known that the standard current ratio is 2:1. Among sample bank the current ratios of EBL dominate the respective current liabilities which indicate that EBL is capable in paying the current obligation. Therefore EBL has a highest liquidity ratio among sample banks. NIBL and HBL have low current ratio, but it does not mean that they are failed to maintain the liquidity position. From point of view of working policy they are very much aggressive. However average of all banks shows the satisfactory level of current ratio.

- EBL and NIBL are found to be in better position to maintain the cash and bank balance in total deposit ratio and cash and bank balance to current Assets ratio respectively among the sample banks. But it does not mean that it has mobilized its more funds in profitable sector. It actually means that it can meet the daily cash requirement to make payments of the customer. HBL has an average mean ratio. All the banks have a fluctuation ratio during study period.

From above results it can said that the liquidity position of EBL found to be comparatively better than other sample banks. But NIBL and HBL also has a satisfactory level of liquidity position due to their aggressive working policy.

4.2.2 Assets Management Ratio

- The loan and advances to total deposit ratio of all banks found to be at satisfactory level and maintain the good consistency in ratio. However EBL has a highest mean ratio it shows that NIBL‘s liquidity position with respect to this ratio is more satisfactory than other sample banks. Apart from that it has a more consistency in ratio than other.

- The mean ratio of loan and advances to total deposit ratio all the banks are found to be at satisfactory level. Since EBL has a higher mean ratio, EBL is

able to proper utilization of loan and advance with respects to fixed deposit. NIBL and HBL have seemed to less effective in utilizing the loan and advances in compare to EBL.

- All the sample banks are successful to mobilize their funds as loan and advances with respect to total assets. But in comparative study for five years for three sample banks HBL has a higher mean ratio, so they are found to be best investor among sample banks. As concern to consistency, almost all banks are failed to maintain the consistent. Among them HBL has maintain the consistency in loan and advances up to some extent.

- Among sample banks EBL is successful in mobilizing the deposit in invest on government securities, since it has a higher mean ratio. But NIBL has a lower mean ratio; they are less successful to utilize the deposit in investment on government securities in compare with sample banks. Similarly, HBL is also successful in mobilizing the deposit in investment on Government securities. EBL are found to be best as concern with consistency. It has maintained the consistency level up to some extent.

From above finding, it shows that all the sample banks are successful in on-balance sheet utilization as well as off balance sheet operation. Among them EBL found a best in mobilizing the assets to the profitable sector.

4.2.3 Profitability Ratio

- All the sample banks are able to earn the profit on total assets. Among them, NIBL found to be best, since it has a higher mean ratio than average mean ratio. As concern to consistency NIBL also shows the consistency on earning the profit. In case of another two banks they have lowest earning on total assets and also have lowest consistency in earning the profit.

- The mean ratio of net profit to total deposit ratio of NIBL is highest among the sample banks. EBL and HBL has lower mean ratio and failed to maintain the consistency. Also NIBL is found to be best as concern with consistency. It has maintained the best consistency level among the sample banks. EBL and HBL has lower mean ratio and failed to maintain the consistency.

- Even though all sample banks seem to earn the interest on total working fund, NIBL has successful in earning the higher interest where as HBL maintain the consistency in earning. NIBL and EBL are failed to maintain the consistency in earning the interest than HBL.

- EBL and HBL seem to be successful to collect its working fund from less expensive sources in comparison to NIBL. Even though NIBL has a higher interest expense they are successful in maintain the stability on expenses of interest.

From above finding, we can conclude that NIBL has a consistency in earning the profit and expenses on interest and NIBL are successful in earning the higher profit with lower interest expenses, where as EBL are average of other comparative banks.

4.2.4 Leverage Ratio

- Debt-assets ratio of the HBL is highest among the sample banks. Similarly, NIBL and EBL has maintained the debt-assets ratio but less than that of HBL. Whereas HBL have more consistence in maintaining the ratio.

- EBL is able to maintain the debt-equity ratio than other sample banks and also maintain the variability. In part of NIBL they are able to maintain the consistency than other banks but they also failed to use the equity fund to creditors. In case of HBL is unable to maintain the debt equity ratio as well as variability.

4.2.6 Coefficient of Correlation

- The Positive correlation between the deposit and loan and advances are found in all sample banks. The correlation between the deposit and loan and advances are perfect as there is significant between them. It means that the all banks provided the loans and advances from its deposit. Banks are successful in mobilizing the deposit as loans and advances.

- There is the perfect positive correlation between the deposit and investment in all sample banks. In all three banks they have effectively

mobilize its deposit on investment. In another word it can be said that Investment is depends upon the deposit.

- All three sample banks are successful in earn the net profit from its investment which means that there is a positive correlation between the Investment and net profit.

- All the sample banks are successful in earning the net profit by mobilizing the loan and advances. The correlation between the loan and advances and net profit are found to be positive.

4.2.7 Trend Line Analysis

Trend analysis is for past five years for projecting future results. The future trend analysis is done on some basic assumption that will continue in the future. The trend analysis results are as follows:

- The trend line of total deposit for all sample banks is in increasing trend. In fiscal year 2005 the trend values of EBL, NIBL and HBL are 8734.54, 11681.78 and 24529.74 respectively. It is increase to 59696.41, 84051.77 and 47073.28 for the forecast year 2014.Among the sample banks NIBL has a highest trend of total deposit. It means NIBL is successful in mobilizing the deposit.

- All the sample banks have increasing trend of the loan and advances. Among them NIBL has highest increasing trend and EBL has lowest increasing trend. All the sample banks are successful in mobilizing the Loan and Advances to different productive and profitable sector. In fiscal year 2005 the trend values of EBL, NIBL and HBL are6736.92, 7626.50 and 12629.26 respectively. It is increase to 44171.25, 67069.7 and 38336.59 for the forecast year 2014.

- The trend values of EBL and NIBL are in increasing trend, which means futures of total deposit of these banks are good. But the sample banks HBL has a decreasing trend of Investment. It means HBL is not successful in mobilizing the Investment. In fiscal year 2005 the trend values of EBL, NIBL and HBL are3932.2, 2323.74 and 6074.40 respectively. It is increase to 4602.7, 3940.41 and 5047.05and for the forecast year 2014.

- Although all sample banks has increasing trend of Net Profit NIBL has highest increasing trend. In fiscal year 2005 the trend values of EBL, NIBL and HBL are 183.22, 199.66 and 358.73 respectively. It is increase to 603.52, 1714.45 and 821.42 for the forecast year 2014.

CHAPTER 5

SUMMARY, CONCLUSION & RECOMMENDATION

The proceeding chapters have discussed and explored the facts and matters required for the various parts of the study, analytical part, which is the heart of the study, made a comparative analysis of various aspects of the financial performance of commercial banks by using some important financial as well as statistical tool. Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist, finding and give recommendation for further improvement this would be meaningful to the top management of the bank to initiate action and achieve the desired result. The objective of the researcher is not only to point out an errors and mistakes but also to correct them and give directions for further growth and improvement.

5.1 Summary

The development of any country largely depends upon its economic development. Banking industries been regarded as one of the component of economy. It transfers the scattered funds collected from saving of the public into various productive sectors. Economic activities remains halt in absence of banking industries as it plays the role of catalyst for economic development of the country in the developing country where there prevail unorganized transactions. It helps to enhance economic activities of the country by providing capital funds for the smooth operation of business activities, create employment opportunities, investing agriculture, industry. At present there are more than 25 commercial banks operating in the country among which NBL and RBB has occupied wide range of the business due to access to most of the corner of the country. Slowly private banks are also initiating to move toward every corner of the country but due to prevailing political crisis they are not being able to meet their objects to reach to every corner of the country. Due to increasing competition banks are forced to innovate new products to their customer and they are also shifting from traditional service procedure to various sophisticated services like ATM card, debit cards, credit card, housing loan, educational loans, vehicle financing.

Financial analysis is the process of determining the significant operation and financial characteristics of a firm from accounting data. It shows the relationship between the

various component which can be found in balance sheet and profit and loss statement. The analyzed statement contains that information which is useful for management, shareholder, creditors, investors, depositors etc. As in other industries banking industries also need financial analysis, as it is crucial for evaluating and analyzing the performance of the particular company as compare to the other and also from the previous performance of the same company. So, this study almost concentrated in following problems of the sampled banks.

In this study regarding the financial performance of the three banks namely EBL, NIBL and HBL has been conducted to highlight the hidden implications of figures portrayed in the balance sheet and profit loss account of the banks by interpreting their cause effect relationship with regard to their finance performance and to identify their contribution to the national economy. The objective of this study can also be identified as to come up with conclusion and findings of the financial performance of banks with regard to their key financial variables and based on the findings of the analysis; provide specific suggestion which will be beneficial for these banks as well as for the entire economy. The financial statement of five years2004/2005 to 2008/2009 has been examined to fulfill the objective of the study..

5.2 Conclusions

The overall performance of sample banks found to be satisfactory. All sample banks are not strong in all performance. Some are strong in liquidity position and some are strong in profit making. The analysis of liquidity position of these commercial banks shows different positions. The current ratio measures only total rupees worth of current assets and total rupees of current liabilities, i.e. it indicates the availability of current assets in rupees for everyone rupee of current liability .Since mean ratios of EBL found to be highest than NIBL and HBL from which we can conclude that EBL is successful to meet their current obligation. Even though NIBL and HBL have failed to maintain the current obligation they are not failed in earning the profit. From point of view of working policy they have taken the aggressive policy.

The turnover of the commercial banks is the main indication of income generating activity. These ratios are used to judge how efficiently the firm has been using its resources. From the analysis of turnover of banks all the 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 and Investment in Government securities

The main objective of a bank is to make profit providing different types of services to its customers. Profit is necessary to survive in any business field for its successful operation and further expansion. Profitability shows the overall efficiency of the business concerns. From profitability point of view, NIBL found to be better among sample banks because they pay lower interest rate for debt fund and earn higher interest by mobilizing its deposit and assets to different productive and profitable sectors.

Leverage ratio is calculated to measure the long-term financial position of a firm. The analysis of leverage ratio shows that all the sample banks use a high equity fund rather than debt fund. Debt fund need to pay an interest until debt is hold by bank. Therefore debt fund is burden for the bank and it should decrease according to the necessity.

Deposits are the main tool for developing banking performance of the banks. And investment and loan and advances are keys to mobilize the deposit. All sample banks have a positive relation between the Deposit and Loan & Advances, Deposit and Investment, Investment and Net Profit and also Loan and Advances and Net Profit, which shows by the correlation between these variables. All the sample banks use their deposit use in proper way as Loan and Advances and Investment. Among them NIBL is best. EBL is weak in earning the net profit through the loan and advances whereas NIBL and HBL are successful to earn net profit by mobilizing the deposit to the investment. Coefficient of correlation between Loan and Advances and Net profit shows that all sample banks are successful in earning the net profit by mobilizing the loan and advances.

The Trend Line Analysis of Deposit, Loan and Advance and Net Profit shows increasing trend which indicates futures of those variables are bright. Also the Trend Line Analysis of Investment of NIBL and EBL are in increasing trend but of HBL are in decreasing trend. Among them NIBL has highest increasing trend in Deposit, Loan and Advances and Net Profit where as EBL has Highest increasing trend in Investment. That indicates NIBL is successful in mobilizing the deposit, Loan and Advances and net profit where as EBL has successfully mobilize their Investment.

The overall sample banks is satisfactory however inflation in the current situation came as a major factor in narrowing the scope of operation of these banks. Therefore Nepal Rastra Bank has to play more active role to enhance the operation. The analysis of financial performance shows that all the banks have aggressive polices in investment and lending. Deposits are main tool of investing and all banks' deposit and net profit are in increasing trend.

Strengthening and the institutionalization of the banks are very important to have a meaningful relationship between financial institution and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of banks, good relationship between financial institution and commercial banks, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfections, allowing flexibility in lending, one window service from NRB, need of a strong supervision and monitoring from NRB, diversify scope of activities to fee based services, allow funds transfer, refinancing facilities for banks, professional culture within banks, etc. All these are necessary to ensure better future performance of banks that have already been established and growing in Nepal.

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

5.3 Recommendation

From above finding and analysis it is clear that all banks are not strong in all fields. Some of them are stronger in profit making but failed to maintain the consistency, some are weaker in mobilizing their deposits; few of them have concentrated into very limited diversified investments etc. Therefore the following recommendations should be brought into highlight to overcome inefficiency, weakness and to develop present fund mobilization and investment policy of the banks:

- Bank should maintain the liquidity ratio for daily cash transaction. Bank should not invest all the deposit as loan and advances. According to the policy of NRB some percentage should kept in the banks for fulfilling require demand of the customer. The Standard liquidity ratio is 2:1. The depositor may

demand the money at time so; bank should be ready at any time. In this research none of sample bank has the standard ratio due to their aggressive working capital policy. Therefore all sample banks should modify their working capital policy to maintain the standard ratio. If sample banks cannot maintain the ratio they may failed to maintain the daily cash transaction.

- The Company must apply different development scheme such as deposit, insurance scheme, workers saving scheme and women development scheme through which banks can attract more customers.

- HBL have less mobilization of total deposit to loan and advances among sample banks. The purpose of loan and advances is to generate an income for the banks. So, HBL should increase a loan and advances to different productive or profitable sectors. HBL should maintain the consistency.

- HBL are failed to maintain the average ratio which indicate that they are not very much successful in mobilizing the loan and advance with respect to the total assets. So HBL should try to mobilize the Loan and Advance with respect to Total Assets.

- Among sample banks, HBL is less successful in mobilizing its deposit by investing in different productive sectors. Investment is the key to earn a profit. Therefore, they should invest in different productive sectors by utilizing the different types of deposit. Since there consistency level is very high they should maintain stability in total investment.

- The overall investment of the Bank should be concentrated on productive sector such as business and industrial loan rather than consumer product such as hire purchase and housing loan. Because industrial and business sector will create the employment opportunity which is necessary for capital formation and economic growth.

- NIBL also should increase it's investment toward government securities. And decrease a variation of investment on government securities. Even though Government Securities have low interest rate, they are risk free assets

because government securities have marketability and can sell any time when needed.

- Profit is a key of success of any business. The bank also cannot survive without the profit. So, they should keep in the mind for profit maximization. But in long term business bank also should be concern with the shareholder's wealth maximization as they are investor of the bank.

- EBL is not successful as NIBL and HBL to earn a net profit by utilizing its assets and deposits. So, EBL should invest its deposits and utilize its assets in different productive and profitable sectors on the basis of portfolio management. The portfolio management of assets basically means allocation of funds into different components of banking assets having different degrees of risk and varying rate of return in such a way that the conflicting goal of maximum yield and minimum risk. So, portfolio condition of each bank should carefully be examined from time to time and attention should be made to maintain equilibrium in the portfolio condition as far as possible keeping the statement in mind that all eggs should not be kept in the same basket. Even though NIBL has higher net profit with respect to total assets and deposit, they are failed to maintain stability. Therefore they should decrease a variation level. HBL also fail to maintain consistency. They should try to maintain consistency level.

- EBL should maintain stability in earning an interest since they have greater variation in earning an interest. Also EBL have low interest earning among the sample banks they should increase an interest earning because it will directly effect to the net profit.

- The economic liberalization has made the entire bank to determine the own interest rate. But nowadays dew to unhealthy competition the spread between the deposit and lending interest has being higher than Nepal Rastra's Banks policy. If the depositor interest rate is very low then depositor may not interest to deposit their saving. Therefore the spread should be fixed according to the NRB.

- NIBL paid a higher interest among sample bank which mean that they used more creditors funds or paid higher interest rate in investment. So, they need to use equity fund rather than debt or should pay a less interest rate. EBL should maintain stability in paying the interest because their variation in interest rate is high.

- The discrimination in lending interest should not be done by the bank because it will bring the un satisfaction to the general public. This may lead to discourage toward deposit in the bank in long term business. The rate of interest should be fixed accordance to the situation of the country. There should not be unhealthy competition regarding the interest rate to attract customer.

- All the sample banks have more creditors fund to acquire an assets & investment. This means they all have more debt financing in assets. Since debt financing need to pay an interest regularly, higher debt are burden to bank. Among sample banks highest debt is used by HBL. Therefore they should decrease a debt financing and increase an equity financing, which may help in increasing profit to some extent. Equity fund is invest by shareholder and banks should pay dividend which may be very low than interest. So, more financing should do from equity fund rather than debt fund.

- Banks should evaluate its investment portfolio every year. Investment portfolio must be balanced in each sector according to the NRB rules and company's self policy. It should calculate co-efficient of correlation and regression among deposit, investment and return of the company.

- Nepal Rastra Bank should clearly define its role and strict monitoring for the efficient operations of Banks so that they can use the facilities as much as possible. Besides that, NRB should show open to all, flexible and strong supervision rather than imposing rules and regulations only.

- The success rate of banking mainly depends upon the banking awareness by the general public. Unless they find a convincing reason about their savings as well as new approach of investment, it is almost impossible to make live for a bank. Therefore there should be the awareness program, regularly

conducted in terms of seminars or workshops from well experienced personnel such as top executives from Banks and concerned regulating authorities. This will exchange the ideas and share the grass root problems. On the basis of this feed back information, regular changes or implementation of new rules and regulations can be easily carried out. Nepal Rastra Bank should also encourage frequent trainings to new entrants to provide orientations on the conceptual dimensions and practical aspects of operation of the Banks.

- Today is an age of competition. Bank should be survived within these competitions. Therefore for attraction of the deposit, they should brought different attractive programmed , facilities , technology etc. like ATM, credit cards, 365days banking service, prompt service etc.

- In the present situation, it is the utmost important to provide security and the reliability. So the bank should focus on the security concern in order to make the customer feel that they more secured in investing in the bank whether it may be EBL, NIBL or HBL.

- It is suggested to all the sample banks that they should use well-trained manpower. Well trained manpower will provide better services to the bank and customer. They will try to increase the operating efficiency of the bank, so the banks have to conduct "Training School" for their personal.

Banks play a vital role in development of economy of the country. However all the banks have satisfactory performance, there is situation of inflation which is a cause of narrow scope operation. Therefore NRB has to come with strong supervision and monitoring with one window service in lending and investment activities. Banks have to prove that they are the potential contributors to the national economy ensuring adequate rate of return on investment, efficient and viable agencies for mobilization of savings and its channels into productive sectors and strategically well planned to be competitive with banks and other agencies and are trust worthy.

APPENDIX -1

Current Ratio

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\bar{X}$	d^2	Ratio (in times) x	d =X - $\bar{X}$	d^2	Ratio (in times) X	d =X - $\bar{X}$	d^2
2004/05	1.1208	-0.0121	0.000146	0.9243	-0.0104	0.000108	0.8071	-0.0373	0.001391
2005/06	1.1212	-0.0117	0.000137	0.8989	-0.0358	0.001282	0.836	-0.0084	0.0000070
2006/07	1.1499	0.017	0.000289	0.9166	-0.0181	0.000328	0.8749	0.0305	0.00093
2007/08	1.1312	-0.0017	0.0000028	0.977	0.0423	0.001789	0.8432	-0.0012	0.000000144
2008/09	1.1412	0.0083	0.00000689	0.9565	0.0218	0.000475	0.8609	0.0165	0.000272
X	5.6643			4.6733			4.2221		
Mean ($\bar{X}$)	1.1329			0.9347			0.8444		
d^2			0.000644			0.003982			0.002666
S.D.	0.0100			0.0283			0.0806		
C.V.(%)	0.88270			3.0260			9.5452		

Mean = $\frac{X}{N}$

Everest Bank

$= \frac{5.6643}{5}$

$= 1.1329$

Nepal Investment Bank

$= \frac{4.6733}{5}$

$= 0.9347$

Himalayan Bank

$= \frac{4.2221}{5}$

$= 0.8444$

S.D. $= \sqrt{\frac{d^2}{N\ Z1}}$

Everest Bank

$= \sqrt{\frac{0.000644}{5\ Z1}}$

$= 0.0100$

Nepal Investment Bank

$= \sqrt{\frac{0.003982}{5\ Z1}}$

$= 0.0283$

Himalayan Bank

$= \sqrt{\frac{0.002666}{5\ Z1}}$

$= 0.0806$

Coefficient of Variations (C.V.) = $\frac{S.D.}{Mean} \mid 100$

Everest Bank

$= \frac{1.0100}{1.1329} * 100$

Nepal Investment Bank

$= \frac{0.0283}{0.9347} \mid 100$

Himalayan Bank

$= \frac{0.0806}{0.8444} \mid 100$

= 0.88270 % = 3.0260 % = 9.5452 %

APPENDIX -2

Cash and Bank Balance to Total Deposit Ratio

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.104	-0.0251	0.00063	0.094	-0.0251	0.00063	0.0811	0.0138	0.00019044
2005/06	0.1125	-0.0166	0.000276	0.1234	0.0043	1.85E-05	0.0648	-0.0025	0.00000625
2006/07	0.1252	-0.0039	1.52E-05	0.0997	-0.0194	0.000376	0.0589	-0.0084	0.00007056
2007/08	0.1189	-0.0102	0.000104	0.1089	-0.0102	0.000104	0.0439	-0.0234	0.00054756
2008/09	0.185	0.0559	0.003125	0.1695	0.0504	0.00254	0.0879	0.0206	0.00042436
X	0.6456			0.5955			0.3366		
Mean ($\overline{X}$)	0.1291			0.1191			0.0673		
d^2			0.00415			0.003669			0.00123917
S.D	0.0283			0.0265			0.0141		
C.V. (%)	21.910			22.210			21.0136		

APPENDIX -4

Loan and Advances to Total Deposit Ratio

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.7839	0.03	0.0009	0.7224	-0.0151	0.00022801	0.5338	-0.0798	0.00636804
2005/06	0.7335	-0.0204	0.00041616	0.6872	-0.0503	0.00253009	0.5857	-0.0279	0.00077841

2006/07	0.7362	-0.0177	0.00031329	0.7139	-0.0236	0.00055696	0.5909	-0.0227	0.00051529
2007/08	0.7847	0.0308	0.00094864	0.7879	0.0504	0.00254016	0.6284	0.0148	0.00021904
2008/09	0.7312	-0.0227	0.00051529	0.7763	0.0388	0.00150544	0.7293	0.1157	0.01338649
X				3.6877			3.0681		
Mean ($\overline{X}$)	0.7539			0.7375			0.6136		
d^2			0.00309338			0.00736066			0.02126727
S.D	0.027809			0.042897			0.072917		
C.V. (%)	3.688696			5.816562			11.88339		

APPENDIX -3

Cash and Bank Balance to Current Assets Ratio

	Banks								
	Nabil Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.0924	-0.0333	0.00110889	0.0962	-0.0476	0.00226576	0.0949	0.0212	0.00044944
2005/06	0.0994	-0.0263	0.00069169	0.1306	-0.0132	0.00017424	0.0742	0.0005	0.00000025
2006/07	0.1137	-0.012	0.000144	0.1036	-0.0402	0.00161604	0.064	-0.0097	0.00009409
2007/08	0.1129	-0.0128	0.00016384	0.1378	-0.006	3.6E-05	0.0463	-0.0274	0.00075076
2008/09	0.2102	0.0845	0.00714025	0.2508	0.107	0.011449	0.0889	0.0152	0.00023104
X	0.6286			0.719			0.3683		
Mean ($\overline{X}$)	0.1257			0.1438			0.0737		
d^2			0.00924867			0.01554104			0.00152558
S.D	0.0424			0.0557			0.0173		
C.V. (%)	33.7521			38.734			23.47		

APPENDIX – 5

Investment on Govt. Securities to Total Deposit Ratio

	Banks								
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.2079	-0.0062	3.844E-05	0.1367	-0.0053	0.00002809	0.2204	0.0231	0.00053361
2005/06	0.2571	0.043	0.001849	0.1333	-0.0087	7.569E-05	0.1942	-0.0031	0.0000096
2006/07	0.2463	0.0322	0.00103684	0.1329	-0.0091	8.281E-05	0.2158	0.0185	0.00034225
2007/08	0.2046	-0.0095	9.025E-05	0.2169	0.0749	0.00561001	0.2349	0.0376	0.00141376
2008/09	0.1544	-0.0597	0.00356409	0.0902	-0.0518	0.00268324	0.1214	-0.0759	0.00576081
X	1.0703			0.71			0.9867		
Mean ($\overline{X}$)	0.2141			0.142			0.1973		
d^2			0.00657862			0.00847984			0.00806004
S.D	0.04055			0.04604			0.044889		
C.V. (%)	18.9417			32.4246			22.75158		

APPENDIX - 6

Net Profit to Total Assets Ratio

	Banks								
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.014	0.0012	0.00000144	0.0143	-0.0024	0.00000576	0.0111	-0.0027	0.00000729
2005/06	0.015	0.0022	0.00000484	0.0164	-0.0003	0.00000009	0.0155	0.0017	0.00000289
2006/07	0.014	0.0012	0.00000144	0.0182	0.0015	0.00000225	0.0147	0.0009	0.00000081
2007/08	0.011	-0.0018	0.00000324	0.018	0.0013	0.00000169	0.014	0.0002	0.00000004
2008/09	0.0102	-0.0026	0.00000676	0.0171	0.0004	0.0000016	0.0135	-0.0003	0.00000009
X	0.0642			0.084			0.0688		
Mean ($\overline{X}$)	0.0128			0.0167			0.0138		
d^2			0.00001772			0.00000995			0.00001112
S.D	0.002105			0.001577			0.001667		
C.V. (%)	16.44341			9.444198			12.08212		

APPENDIX – 7

Net Profit to Total Deposit Ratio

	Banks								
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.0169	0.00224	5.0176E-06	0.0163	-0.00256	6.5536E-06	0.0124	-0.0023	0.00000529
2005/06	0.017	0.00234	5.4756E-06	0.0185	-0.00036	1.296E-07	0.0173	0.0026	0.00000676
2006/07	0.0155	0.00084	7.056E-07	0.0205	0.00164	2.6896E-06	0.0164	0.0017	2.89E-06
2007/08	0.0129	-0.00176	3.0976E-06	0.02	0.00114	1.2996E-06	0.014	-0.0007	4.9E-07
2008/09	0.011	-0.00366	1.3396E-05	0.019	0.00014	1.96E-08	0.0135	-0.0012	0.00000144
X	0.0733			0.0943			0.0736		

Mean ($\overline{X}$)	0.01466			0.01886			0.0147		
d^2			0.00002767			0.0000107			0.00001687
S.D	0.002631			0.001635			0.002054		
C.V. (%)	17.94788			8.668776			13.97044		

APPENDIX – 8

Total Interest Earned to Total Working Fund Ratio

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.0306	-0.0098	0.00009604	0.0545	-0.0057	0.00003249	0.0519	-0.00106	1.1236E-06
2005/06	0.0341	-0.0063	0.00003969	0.055	-0.0052	0.00002704	0.0552	0.00224	5.0176E-06
2006/07	0.037	-0.0034	0.00001156	0.0574	-0.0028	7.84E-06	0.053	4E-05	1.6E-09
2007/08	0.0426	0.0022	0.00000484	0.0554	-0.0048	0.00002304	0.0509	-0.00206	4.2436E-06
2008/09	0.0543	0.0139	0.00019321	0.0786	0.0184	0.00033856	0.0538	0.00084	7.056E-07
X	0.1986			0.3009			0.2648		
Mean ($\overline{X}$)	0.0404			0.0602			0.05296		
d^2			0.00034534			0.00042897			0.0000111
S.D	0.006702			0.010356			0.001665		
C.V. (%)	43.34875			17.20232			3.144322		

APPENDIX – 9

Total Interest Paid to Total Working Fund Ratio

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.0127	-0.0028	0.00000784	0.0218	-0.0053	0.00002809	0.0202	-0.0007	4.9E-07
2005/06	0.0151	-0.0004	1.6E-07	0.023	-0.0041	0.00001681	0.0186	-0.0023	0.00000529
2006/07	0.0069	-0.0086	0.00007396	0.0248	-0.0023	0.00000529	0.0229	0.002	4E-06
2007/08	0.0174	0.0019	0.00000361	0.0251	-0.002	0.000004	0.0213	0.0004	1.6E-07
2008/09	0.0252	0.0097	0.00009409	0.0406	0.0135	0.00018225	0.0216	0.0007	4.9E-07
X	0.0773			0.1353			0.1046		
Mean ($\overline{X}$)	0.0155			0.0271			0.0209		
d^2			0.00017966			0.00023644			0.00001043
S.D	0.006702			0.007688			0.0016148		
C.V. (%)	43.2387			28.37012			7.726199		

APPENDIX – 10

Debt- Asset Ratio

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	0.9347	0.0082	6.724E-05	0.9275	0.0504	0.00254016	0.9446	-0.0099	0.000098
2005/06	0.9397	0.0132	0.00017424	0.9336	0.0565	0.00319225	0.94	-0.0145	0.00021025
2006/07	0.9439	0.0174	0.00030276	0.9319	0.0548	0.00300304	0.936	-0.0185	0.00034225

2007/08	0.9462	0.0197	0.00038809	0.846	-0.0311	0.00096721	0.9753	0.0208	0.00043264
2008/09	0.8682	-0.0583	0.00339889	0.7463	-0.1308	0.01710864	0.9764	0.0219	0.00047961
X	4.6327			4.3853			4.7723		
Mean ($\overline{X}$)	0.9265			0.8771			0.9545		
d^2			0.00433122			0.0268113			0.00156276
S.D	0.032906			0.081871			0.019766		
C.V. (%)	3.551646			9.334259			2.07081		

APPENDIX – 11

Debt- Equity Ratio

Banks									
	Everest Bank Limited			Nepal Investment Bank Limited			Himalayan Bank Limited		
Fiscal Year	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2	Ratio (in times) X	d =X - $\overline{X}$	d^2
2004/05	14.32	-1.67	2.7889	12.7896	-1.3404	1.79667216	17.0604	2.3304	5.43076416
2005/06	15.58	-0.41	0.1681	14.0697	-0.0603	0.00363609	15.6803	0.9503	0.90307009
2006/07	16.84	0.85	0.7225	13.6907	-0.4393	0.19298449	14.6157	-0.1143	0.01306449
2007/08	17.22	1.23	1.5129	15.2525	1.1225	1.26000625	13.4124	-1.3176	1.73606976
2008/09	16.01	0.02	0.0004	14.8435	0.7135	0.50908225	13.1795	-1.5505	2.40405025
X	79.97			70.646			73.9483		
Mean ($\overline{X}$)	15.99			14.13			14.73		
d^2			5.1928			3.76238124			10.48701875
S.D	1.13938			0.969843			1.619183		
C.V. (%)	7.12561			6.8634			10.9979		

APPENDIX - 12

Trend Line Analysis of Deposits

y = a + bx

Everest Bank Limited

Calculation of Trend Values of Deposit

year (t)	Deposit (y)	x = t- 2007	xy	x^2	yc= 20059.4 + 5662.43 x
2005	10097.69	-2	-20195.4	4	8734.54
2006	13802.44	-1	-13802.4	1	14396.97
2007	19097.7	0	0	0	20059.4
2008	23976.3	1	23976.3	1	25721.83
2009	33322.9	2	66645.8	4	31384.26
	100297	**0**	**56624.28**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	yc= 20059.4 + 5662.43 x
2010	3	37046.69
2011	4	42709.12
2010	5	48371.55
2012	6	54033.98
2013	7	59696.41

Where, $a = \frac{\sum Y}{N}$ $b = \frac{\sum XY}{\sum X2}$

Nepal Investment Bank Limited

Calculation of Trend Values of Deposit

year (t)	Deposit (y)	x = t- 2007	xy	x^2	yc=27764.0 + 8041.11 x
2005	14254.57	-2	-28509.1	4	11681.78
2006	18927.31	-1	-18927.3	1	19722.89
2007	24488.84	0	0	0	27764.00
2008	34451.8	1	34451.8	1	35805.11
2009	46697.9	2	93395.8	4	43846.22
	138820.4	**0**	**80411.15**	**10**	

Future Projection of Next Five Year

year	x = t -2007	yc= 27764.0 + 8041.11 x
2010	3	51887.33
2011	4	59928.44
2012	5	67969.55
2013	6	76010.66
2014	7	84051.77

Himalayan Bank Limited

Calculation of Trend Values of Deposit

year (t)	Deposit (y)	x = t-2007	xy	x^2	yc= 29539.4 + 2504.84 x
2005	24814.01	-2	-49628.0	4	24529.74
2006	26490.85	-1	-26490.9	1	27034.56
2007	29905.8	0	0	0	29539.4
2008	31805.8	1	31805.3	1	32044.24
2009	34681.0	2	69362.0	4	34549.08
		0	**25048.43**	**10**	

Future Projection of Next Five Year

year	x = t -2007	yc= 29539.4 + 2504.84 x
2010	3	37053.92
2011	4	39558.76
2012	5	42063.6
2013	6	44568.44
2014	7	47073.28

APPENDIX – 13

Trend Line Analysis of Loan and Advances

y = a + bx

Everest Bank Limited

Calculation of Trend Values of Loan and Advances

year (t)	Loan & Advances (y)	x = t-2007	xy	x^2	yc= 15055.66+4159.37x
2005	7914.4	-2	-15828.8	4	6736.92
2006	10124.2	-1	-10124.2	1	10896.29
2007	14059.2	0	0	0	15055.66
2008	18814.3	1	18814.3	1	19215.03
2009	24366.2	2	48732.4	4	23374.4
	75278.3	**0**	**41593.7**	**10**	

Future Projection of Next Five Year

year	x = t -2007	yc=15055.66+4159.37x x
2010	3	27533.77
2011	4	31693.14
2012	5	35852.51
2013	6	40011.88
2014	7	44171.25

Nepal Investment Bank Limited

Calculation of Trend Values of Loan and Advances

year (t)	Loan & Advances (y)	x = t-2007	xy	x^2	yc=20836.1+6604.83 x
2005	10295.4	-2	-20590.8	4	7626.5
2006	13007.2	-1	-13007.2	1	14231.3
2007	17482	0	0	0	20836.1
2008	27145.5	1	27145.5	1	27440.9
2009	36250.4	2	72500.8	4	34045.7
	104180.5	**0**	**66048.3**	**10**	

Future Projection of Next Five Year

year	x = t -2007	yc=20836.1+6604.83 x
2010	3	40650.5
2011	4	47255.3
2012	5	53860.1
2013	6	60464.9
2014	7	67069.7

Himalayan Bank Limited

Calculation of Trend Values of Loan and Advances

year (t)	Loan & Advances (y)	x = t-2007	xy	x^2	yc=18342+2856.37 x
2005	13245	-2	-26490	4	12629.26
2006	15515.7	-1	-15515.7	1	15485.63
2007	17672	0	0	0	18342
2008	19985.2	1	19985.2	1	21198.37
2009	25292.1	2	50584.2	4	24054.74
	91710	**0**	**28563.7**	**10**	

Future Projection of Next Five Year

year	x = t -2007	yc= 18342+2856.37 x
2010	3	26911.11
2011	4	29767.48
2012	5	32623.85
2013	6	35480.22
2014	7	38336.59

APPENDIX - 14

Trend Line Analysis of Investments

y = a + bx

Everest Bank Limited

Calculation of Trend Values of Investment

year (t)	Investment (y)	x = t- 2007	xy	x^2	yc=4081.2 + 74.5 x
2005	2100.3	-2	-4200.6	4	3932.2
2006	3548.6	-1	-3548.6	1	4006.7
2007	4704.6	0	0	0	4081.2
2008	4906.5	1	4906.5	1	4155.7
2009	5146	2	10292	4	4230.2
	20406	**0**	**7449.3**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	yc=4081.2 + 74.5 x
2010	3	4304.7
2011	4	4379.2
2012	5	4453.7
2013	6	4528.2
2014	7	4602.7

Nepal Investment Bank Limited

Calculation of Trend Values of Investments

year (t)	Investment (y)	x = t- 2007	xy	x^2	yc=2683.0 + 179.63 x
2005	1949.5	-2	-3899	4	2323.74
2006	2522.3	-1	-2522.3	1	2503.37
2007	3256.4	0	0	0	2683
2008	3155	1	3155	1	2862.63
2009	2531.3	2	5062.6	4	3042.26
	13414.5	**0**	**1796.3**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	yc=2683.0 + 179.63 x
2010	3	3221.89
2011	4	3401.52
2012	5	3581.15
2013	6	3760.78
2014	7	3940.41

Himalayan Bank Limited

Calculation of Trend Values of Investments

year (t)	Investment (y)	x = t- 2007	xy	x^2	yc=5846.1+(-114.15) x
2005	5946.7	-2	-11893.4	4	6074.4

Future Projection of Next Five Year

year	x = t - 2007	yc= 5846.1+(-114.15) x
2010	3	5503.65

2006	5144.4	-1	-5144.4	1	5960.25
2007	6454.8	0	0	0	5846.1
2008	7471.7	1	7471.7	1	5731.95
2009	4212.3	2	8424.6	4	5617.8
	29229.9	**0**	**-1141.5**	**10**	

2011	4	5389.5
2012	5	5275.35
2013	6	5161.2
2014	7	5047.05

APPENDIX - 15

Trend Line Analysis of Net Profit

y = a + bx

Everest Bank Limited

Calculation of Trend Values of Net Profit

year (t)	Net Profit (y)	x = t-2007	xy	x^2	yc=276.62+46.69 x
2005	170.8	-2	-341.6	4	183.22
2006	237.3	-1	-237.3	1	229.92
2007	296.4	0	0	0	276.62
2008	311.4	1	311.4	1	323.32
2009	367.2	2	734.4	4	370.02
	1383.1	**0**	**466.9**	**10**	

Future Projection of Next Five Year

year	x = t -2007	yc= 276.62+46.69 x
2010	3	416.72
2011	4	463.42
2012	5	510.12
2013	6	556.82
2014	7	603.52

Nepal Investment Bank Limited

Calculation of Trend Values of Net Profit

year (t)	Net Profit (y)	x = t-2007	xy	x^2	yc=536.28+168.31x
2005	232.15	-2	-464.3	4	199.66
2006	350.54	-1	-350.54	1	367.97
2007	501.39	0	0	0	536.28
2008	696.73	1	696.73	1	704.59
2009	900.62	2	1801.24	4	872.9
	2681.43	**0**	**1683.13**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	yc=536.28+168.31x
2010	3	1041.21
2011	4	1209.52
2012	5	1377.83
2013	6	1546.14
2014	7	1714.45

Himalayan Bank Limited

Calculation of Trend Values of Net Profit

Future Projection of Next Five Year

year (t)	Net Profit (y)	x = t-2007	xy	x^2	yc=461.54+51.41 x
2005	308.28	-2	-616.56	4	358.73
2006	457.46	-1	-457.46	1	410.14
2007	491.82	0	0	0	461.55
2008	512.23	1	512.23	1	512.96
2009	537.95	2	1075.9	4	564.37
	2307.74	**0**	**514.11**	**10**	

year	x = t - 2007	yc= 461.54+51.41 x
2010	3	615.78
2011	4	667.19
2012	5	718.6
2013	6	770.01
2014	7	821.42

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BALANCE SHEET OF

NEPAL INVESTMENT BANK LIMITED

(Rs in million)

S.N	Capital and Liabilities	2004/05	2005/06	2006/07	2007/08	2008/09
1	Share Capital	587.738	590.586	801.352	1203.915	2,407.07
2	Reserves and Funds	592.434	824.853	1076.771	1,482.87	1,500.77
3	Debentures and Bonds	0	550	800	1050	1050
4	Borrowings	350	0	0	0	38.8
5	Deposits	14254.573	18927.305	24,488.86	34,451.73	46,698.10
6	Bills payables	15.008	18.82	32.401	78.838	82.338
7	Proposed and Dividend Payables	0	121.627	43.65	93.468	485.453
8	Income Tax Libilities	0	9.318	0.295	24.082	38.296
9	Other Liabilities	474.308	287.626	347.518	488.404	709.975
	Total Liabilities	**16274.06**	**21330.14**	**27590.84**	**38873.30**	**53010.80**

S.N	Assets	2004/05	2005/06	2006/07	2007/08	2008/09
1	Cash Balance	374.265	562.56	763.984	1464.482	1833.462
2	Balance with Nepal Rastra Bank	966.215	1,526.07	1,381.35	1,820.01	4411.133
3	Balance with Banks/Financial Inst.	0	247.894	296.178	470.452	1673.408
4	Money at Call and Short Notice	140	70	362.97	0.00	
5	Investments	3934.188	5,602.87	6,505.68	6,874.02	7,399.81
6	Loan Advances and Bills Purchase	10126.055	12,776.21	17,286.43	26,996.63	36,241.21
7	Fixed Assets	320.592	343.449	759.456	970.091	1060.752
8	Non-Banking Assets	0	0	1.125	0.75	0.375
9	Other Assets	412.746	201.09	233.671	276.846	390.653
	Total Assets	**16274.06**	**21330.14**	**27590.84**	**38873.28**	**53010.80**

PROFIT AND LOSS ACCOUNT OF
NEPAL INVESTMENT BANK LIMITED

(Rs in million)

S.N	Particulars	2004/05	2005/06	2006/07	2007/08	2008/09
1	Interest Income	886.799	1172.742	1584.987	2194.275	3267.941
2	Interest Expenses	354.549	490.946	685.53	992.158	1686.973
	Net Interest Income	**532.25**	**681.796**	**899.457**	**1202.117**	**1580.968**
3	Commission and Discount	93.55	115.942	163.899	215.292	262.791
4	Other Operating Income	25.574	35.902	47.318	66.376	87.574
5	Exchange Fluctuation income	102.517	125.747	135.355	165.838	185.327
	Total Operating Income	**753.89**	**959.39**	**1246.03**	**1649.62**	**2116.66**
6	Staffs Expenses	97.004	111.053	145.37	187.149	225.721
7	Other Operating Expenses	182.916	200.215	243.43	313.153	413.883
8	Exchange Fluctuation Loss	0	0	0	0	0
	O.P. before Provision for Possible Losses	**473.97**	**648.12**	**857.23**	**1149.32**	**1477.06**
9	Provision for Possible Losses	140.109	103.807	129.718	135.989	166.201
	Operating Profit	**333.86**	**544.31**	**727.51**	**1013.33**	**1310.86**
10	Non-Operating Income(Loss)	6.192	0.39	1.426	7.047	2.953
11	Loan Loss Provision Written-Back	30.992	10.704	66.776	101.576	114.653

	Profit from Regular Operations	**371.05**	**555.41**	**795.71**	**1121.96**	**1428.46**
12	Profot/(Loss) from Extra-ordinary Activities	0	0	0	0	0
	Net Profit after considering all Activities	**371.05**	**555.41**	**795.71**	**1121.96**	**1428.46**
13	Staff Bonus Provision	37.075	50.491	72.337	101.996	129.86
14	Tax Provision	101.528	154.377	221.976	321.287	389.58
	a)Current Year	0	0	0	0	7.477
	b)Upto previous year	0	0	0	1941.34	15.879
	c)Deffered Income tax (Expenses)	0	0	0	0	0
15	Provision for Non Banking Assests	0	0	0	0	0
NET PROFIT/LOSS		**232.44**	**350.54**	**501.40**	**698.67**	**916.50**