CHAPTER - I
INTRODUCTION

1.1 Background of the Study

Generally, the growth of any economy depends substantially in the flow of funds. Financial intermediaries play vital role in such fund movement i.e. from the surplus holders to the needy. In this regard, financial institutions are the formal medium for contributing effective utilization of the available resources in the economy. Likewise, financial market is another prosaic contributor for effective financial capital transactions.

Those financial markets that facilitate the flow of short term funds, that is, less than one year are known as money market, while those that facilitate the flow of long-term funds are known as capital markets. Likewise, there are two types of securities. Securities having life less than one year are called money market securities and securities having long life, generally of more than a year are called capital market securities. Money market securities generally have higher liquidity whereas capital market securities generate higher annual return to investors

In this domain, security market is the base whereby financial transaction relating to shares takes place. The history of security market is not that long. In Nepalese context, the concept of security market began with the set up of "Nepal Stock Exchange (NEPSE)" former known as "Securities Exchange Center" in 1976. This is the only stock market in Nepal. In spite of considerable development of stock market there is lot more to be done for the development of stock market in Nepal. Many investors are still afraid to invest in securities because of inadequate knowledge in this field and most investor's are exploited from market intermediaries. For this purpose potential investors must be able to analyze risk and return of individual stock to increase market efficiency and consequently speed up the economic development. NEPSE has adopted 'open – outcry' system for trading.

Transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the trading starts on the stock exchange floor. Once the bid and offer prices match, contract between the buying and selling brokers, or between the brokers and market makers, are concluded on the floor.

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

The well functioning stock market allows stockholder to achieve efficient diversification, which reduce risk, which in turn, lowers the risk premium component in the cost of capital. Stock markets lower the cost of capital by liquidating investor's investment. It encourages investors to retain their earning and convert it into cash by selling shares in the stock market. The stock market provides an opportunity to the portfolio managers and public for direct participating and sharing the gain of economic progress.

The fair price and the market price are the components that are recursively discussed by the investors before deciding their investment portfolios. The fair price is the price derived by using the various models of investment analysis. Some of the models are Net Assets Value (NAV) approach, Dividend Discount Model, P/E ratio, and Option Price Model. These models give the fair market price and a threshold to the potential investors about the value of the common stock trading at the stock exchange. Nevertheless, the investor risks return indifference curve is the determining factor that dominates the transaction. In a clear tone, difference in perception among the

investors is the root cause for transactions. This means that the seller of the stock perceive that the price of the stock will decline in the future, whereas the buyer perceive that the stock price will increase, these two differences in perception will lead to the coincidence of perception at a particular point. Thus, at this point the transaction takes place.

Financial Market is the place where the financial instruments like share, bond and debenture are traded. "A financial market is a market for creation and exchange of financial assets if you buy or sell financial assets, you will participate in financial market in some way or other." (Pradhan, 2002:24). There are different types of financial markets. Each market serves a different set of customer or deal with different types of security. Transfer of capital between savers and those who need capital take place in different ways like direct transfer, indirect transfer through investment banks and indirect transfer through financial intermediaries.

Financial markets can be divided into money markets and capital markets. Money markets are the markets for debt security with maturities of less than one year. Money markets basically involve the trading of short securities. Money markets are sometimes classified as organized and unorganized markets. The organized or formal money market is an institutional mechanism for the transaction of short-term securities and commercial banks, finance companies and other savings/credit unions are the players in the money markets. Local merchants, indigenous bankers and relatives come under the informal sector or unorganized sector. A survey conducted by Nepal Rastra Bank in 1992 revealed that the formal sector market provides only 20 percent of the total credit demand of the rural sector. This implies that the financial markets of the country are yet to develop. Capital markets are the markets for long term debt and corporate stock. Capital Markets are also classified as primary markets and secondary markets. Primary markets are involved when securities are issued for the first time in the market. Secondary markets are markets in which existing/outstanding securities are traded among by the SEBO/N and

the other services such as managers, underwriting and listing of corporate stocks are provided by licenses company/bodies. NEPSE is the only one organized stock markets which provides floor for the trading (buy and sell) of securities already issued.

The smooth continuity of the economic development widely depends upon the adequate and steady of medium as well as long term capital funds for productive investments, which is concerned with finance. The finance is directly concerned with conservation or accumulation of capital funds to meet the financial needs of various institutions. For efficient mobilization of financial resources, the financial market is an important intermediary through which effective bridging of deficit units and surplus units can be ensured. Financial markets are engaged in mobilization of saving from surplus units and deploy funds into the deficit units into productive investment. Capital market plays a crucial role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive capacity in the countries. Financial market provides a forum in which suppliers and demanders of funds can transact business directly.

1.2 Statement of the Problem

Stock return are explained and determined not only by a single factor rather this is the function of different independent variables. Financial position determines the stock returns. But how much is it relevant and applicable in case of under developed capital market like Nepal. Being an imperfect market the floor price of the listed company's shares cannot represent their true value, wither they are undervalued or overvalued.

Performance of a company can be measured using financial ratios. These ratios are used for comparison which is better performer. Ratios can be developed with the help of past balance sheet and profit and loss account. The developments must be in according to the change the market price of the share. A financially sound and better performing firm should have adequate liquidity, and the firm should lead the price and trade volume in stock market. Does this situation prevail the Nepal?

Another thing of consideration in case of Nepal is industry wise, firms differ in performance, there is too much of difference in profit between firms in same industry. The market value per share determines the rate of return to investors representing the profit of the company.

With consideration to above discussion few questions emerge that needs to be researched.

- What are the variables that reflect the performance of the (selectively) listed companies in Nepal Stock Exchange?
- What is the significance of the calculation of return to the investor?
- What is the financial performance of the selected organization?
- What is the position of stock price movement of the companies?

1.3 Focus of the Study

Lots of study has been conducted previously to measure the performance of the company listed in the security market. Separately some studies have also been conducted to study rate of return to investor. A joint study of performance and return to investor is an attempt to explore the relationship between the two under estimated aspects of capital market in Nepal. So this study on its completion is supposed to have a distinct place for the concerned. This study will be more beneficial to investors who assume overall risk while investing in stocks.

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

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

1.4 Brief profile of sample banks under study

a) NABIL Bank Limited

NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursing it's objective, NABIL provides a full range of commercial banking services through its 19 point of representation across the kingdom and over 170 reputed corresponding banks across the global. The promoters and shares holding patterns of Nabil Bank Ltd are as follows:

National Bank Limited, Bangladesh	-	50.00%
Financial Institutions	-	20.00%
Nepalese Public	-	30.00%

Share Capital of Nabil Bank Ltd.

a. Authorized Capital

5,000, 000 ordinary shares @ Rs.100 per share = Rs.500,000,000.

b. Issued capital

4,916,544 ordinary shares @ Rs. 100 per share = Rs. 491,654,400.

c. Paid up capital

4,916,544 ordinary share @ Rs. 100 per share = Rs. 491,654,400.

Source: Annual Report of NABIL 2006/07

b) Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Limited was established in 1985 as a second foreign joint venture bank under the Company Act 1964 by the name of Nepal Grindlays Bank Limited. ANZ Grindlays Bank PLC is managing the bank under joint venture and technical service agreement singed between ANZ Grindlays Bank Limited had changed its name as standard Chartered Bank Limited (SCBNL). The promoters and shares holding patterns of Nabil Bank Ltd are as follows:

ANZ Grindlays Bank PLC	-	50.00%
Nepal Bank Limited	-	33.37%
Nepalese Public	-	16.66%

Share Capital of SCBNL

a. Authorized capital

10,000,000 ordinary shares @ Rs.100 per share = Rs. 1000,000,000.

b. Issued capital

5,000,000 ordinary shares @ Rs. 100 per share = Rs. 500,000,000.

c. Paid up capital

4,132,548 ordinary share @ Rs. 100 per share = Rs. 413,254,800.

Source: Annual Report of SCBNL 2006/07

c) Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operation was commenced from January 1993. It is the first commercial bank of Nepal with maximum share holding by Nepalese private sector. Beside commercial activities, the Bank also offers industrial and merchant banking. The promoters and their shares holding patterns of Himalayan Bank Ltd are as follows:

Nepali Promoters	-	51.00%
Habib Bank of Pakistan	-	20.00%
Karmachari Sanchaya Kosh	-	14.66%
General Public	-	15.34%

Share Capital of Himalayan Bank Ltd.

a. Authorized capital

10,000,000 ordinary shares @ Rs.100 per share = Rs. 1000,000,000

b. Issued capital

8,108,100 ordinary shares @ Rs. 100 per share = Rs. 810,810,000

c. Paid up capital

8,108,100 ordinary share @ Rs. 100 per share = Rs. 810,810,000

Source: Annual Report of HBL 2006/07

d) Everest Bank Limited (EBL):

Everest Bank Ltd was established in 2051 B.S It entered into joint venture with Punjab National bank of India (PNB). The bank operates with the objective of extending professionalized banking services to various section of the society of the country and thereby contributes to the economic development of the society in the country. The promoters and their shares holding patterns of Everest Bank Ltd are as follows:

Nepalese Promoters	-50%
Punjab National Bank	-20%
General Public	-30%

Share Capital of Everest Bank Ltd.

a) Authorized capital

10,000,000 ordinary shares@Rs. 100 per share=Rs.1,000,000,000

b) Issued capital

7,298,000 ordinary shares @Rs. 100 per share= Rs. 729,800,000

c) Paid up capital

5,180,000 ordinary shares@ Rs. 100 per share= Rs. 518,000,000

Source: Annual Report of EBL 2006/07

1.5 Objective of the Study

Financial performance has become vital and important tools in the field of financial management in all organization. The study is basically confined to provide a detailed analysis such as practical, usable and valuable and the financial performance currently facing the selected listed commercial banks.

The general objective of the study is to generalize the financial performance of the selected commercial banks and return to investor. To achieve this basic objective, the specific objectives are as follows.

- To analyze the financial performance of the commercial banks.
- To analyze the investment returns of commercial banks.
- To trace the stock price movement with special reference to the performance of the company.

1.6 Significance of the Study

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

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

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

1.7 Limitation of the Study

The study will have some limitations; basically the study is done for the partial fulfillment of Masters of Business Studies. Time constraints, financial problem and lack of research experience will be the primary limitation and other limitations are as follows;

- The study has been designed to concentrate on banking sector, which is part of total capital market, so the conclusion can't be generalized on the total capital market.
- Time and financial constraint are also major limitation of the study. The report has to be submitted within certain time period so this hinders the study to cover a large area.

- The researcher being a beginner in this area, this report cannot remain without flaws. But effort will be maid to make the report with minimum error.
- Being almost impossible to draw the final product error is also a major limitation of the study.
- Study being based on the secondary data the result of this study resides on the accuracy of the sources.

1.8 Scheme of the Study

This study has been organized over altogether five chapters. Starting from Introduction, Review of Literature, Research methodology, Presentation & Analysis of data and summary, to conclusion & Recommendation as get of the entire study. A brief outline of this chapter has been outlined as under.

The first chapter entitled **"Introduction"** introduces the subject; present the research problem, reason for studying, objective of the study, along with limitation.

The second chapter entitled **"Review of Literature"** concerned with the study of financial performance have been reviewed & presented.

The third chapter discussed the **"Research Methodology"** used in the study. It comprises research design, nature & source of data, data gathering method and analytical tools used.

The fourth chapter deals with the **"Presentation & Analysis"** of data & scoring the empirical finding out the study through definite course of research methodology.

The last chapter i.e. **"Summary"** of the study, which is followed by the basic conclusion of the study based in the fourth chapter on the basis of these conclusion and recommendation has also been presented for consideration.

CHAPTER - II
REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on past knowledge. The previous studies can not be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies.

2.1 Conceptual Review

2.1.1 Investment

The word investment sounds very good & attractive that is why every individual in the world is interested in it. In Layman's sense, there is always a return if there is investment. This may be favorable as well as unfavorable to the investor's stand point.

Investment brings forth vision of profit, risk, speculation & wealth. For the uninformed, investing may result in disaster. In general sense; investment means to pay out money to get more. But in the broadest sense, investment means the sacrifice of current money for future money. Two different attributes are generally involved time & risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain (Sharpe, Alexander & Baily; 2002:1). Shrestha (2002) write investment as utilization of saving for something that is expected to produce profit or benefits. Investment is employment of funds with the aim of achieving addition income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption, in the hope that some benefits will accrue in the future. Investment generally involves real assets and financial assets. Real assets investment involves some kinds of tangible assets such as building, land, machinery, factory etc. and financial assets investment are pieces of paper representing an indirect claim to real assets held by someone else. Real assets are generally less liquid than financial assets.

According to Reilly " Investment is 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 uncertainty involved in the future flow of the funds."(Frank & Reilly; 1992:1)

F. Amling "Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period."

Dr. Preeti Singh defined investment as "Investment is the employment of funds with the aim of achieving additional income or growth in value."

A banker does not prefer to invest his funds in company shares and debentures. The shares and debentures may be very easily sold on the stock exchange. But the bank will incur a loss if the market value of the securities falls. Unlike the government securities there is no maturity date for shares. The income from shares depends upon the prosperity of the company issuing the shares. If the company becomes insolvent the banker loses heavily. If a bank has certain amount of funds which can be left undisturbed for a number of years, investment in long term government securities becomes profitable proposition". (Radhaswamy; 1979:549)

2.1.2 Financial Performance

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 a business enterprise". (Ronald; 195: 21-22). Business organization is mostly inspired to generate profit. Profit is the major indicators of a good-financial performance of the company. Financial performance is the heart of financial decision. It is the main indicator of success and failure of a firm. So, that the management should take appropriate action towards its weakness and maintain good performance in the strong areas. The

main purpose of bank performance analysis is to evaluate its progress to meet the goals and objectives set forth by management and to compare the performance of the bank relative to that of similar other banks.

Effective planning and control are central to enhancing enterprises value. Financial plans may take forms, but any good plan must be related to the firms' existing strength and weaknesses. The strengths must be understood if they are to be used to proper advantage and the weaknesses must be recognized if corrective action is to be taken. The financial manager can plan future financial requirements in accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis.

A powerful and the most tested tool of financial analysis is the ratio analysis. "It is defined as the systematic use of ratio to interpret the financial statement. So that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined" (Khan and Jain; 1999: 5.13).

Traditional financial ratio analysis has focused on the numbers. But the world is becoming more dynamic and subject to rapid changes. It is not enough to analyze operating performance. Financial analysis must also include consideration of the strategic and economic developments to which the firm must relate for its long run success. Different sources and different analysis use different lists or combination of financial ratios for analysis. Financial statement report both on the firm's position at a point in time and on its operation over some past period. However, the real value of financial statement lies in the face that they can be used to help predict the firm's future earnings and dividends. From an investor's stand point, predicting the future is what financial statement analysis is useful both as a way to anticipate future conditions and more important, as a starting point of planning actions that will influence the future course event.

Ratio analysis is designed to determine the relative strengths and weakness of business operations. It also provides a 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. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firms operation.

"Financial ratios can divide into four type's liquidity ratio, debt ratio, profitability ratio and coverage ratio. These ratios are helpful for managerial control and for a better understanding of what outside suppliers of capital expect in financial condition and performance" (Van Horne; 2002:343).

"The major functions of financial management are raising funds, investing them in assets and distributing return earned from assets to shareholders, which are respectively known as financing investing and dividend decision. While performing these functions a firm should balance cash outflow and inflow, which is know as liquidity decision" (Pandey; 1999:5).

"If management is to maximize the value of the firms stock price, is must analysis the weakness and strength of the firm which is possible from the ratio analysis which help to assess the financial performance in comparing with the firm and other firm. Financial statement analysis involves a comparison of firm's performance with that of other firm in the same line of business. The analysis is used to determine the firm's financial position in order to find out current strengths and weakness and to suggest action that might useful to firm to take advantages to its strength and correction to its weakness" (Weston and Brigham; 1987:44).

"Financial management in broad sense and provides a conceptual and analytical framework for decision making they also covers both acquisitions of funds as well as there allocation of funds to various uses. Their major decision, are investment decisions, financial decisions and the dividend policy decision" (Khan and Jain; 1999:1.16).

A study of financial performance is a basic process which provides information, liquidity position, earning capacity, efficiency in operation, profitability, sources and uses of capital, financial achievement and status of the companies. This study mainly focused on financial performance of commercial bank, which is examined for various reasons.

There are many parties concerned with the bank i.e. shareholders, creditors, investors, governments, management, central bank, general public etc. Short-term creditors are interested in the liquidity of the bank. They examined the ability of the bank to pay the amount of interest. Long-term creditors like debenture holders, financial institutions etc. are more concerned with the bank's long-term financial strength of solvency while evaluating the financial performance business concerning with resource mobilization.

Shareholders are interested with the growth of the retained earning and at the same time stability in earning. Similarly, management of the bank is concerned about the overall position of the bank. Likewise, government regularity is concerned with the rate of return on the assets and also wants to see the proportion of capital structure of the bank. The general public is also interested towards the concerned matters.

Proper utilization of the bank's resources is an indicator of sound performance. How far the banks have gained over the years depend chiefly on how far they have been able to utilize their resources in an effective manner. So to increase profitability, the bank should properly utilize the resources. So financial performance analysis of the firm has different kind of indicators out of which financial statement analysis, ratio analysis, sources & uses of fund are the major indicators to measure the strength and weakness of a firm.

2.1.3 Returns to Investors (Shareholders)

The return to shareholders has become the touchstone of much financial analysis. The theme of enhancing shareholder value is the subject of many books, articles, and its highlighted in the annual reports of many individual companies. The return to shareholders measures what shareholders actually earn over a period of time. This is widely used measure in making comparisons between the market returns among wide range of financial instruments. The return to shareholders is defined as the average of the sums of the dividend yield plus capital gains per year over the measurement period.

In general term, return, means benefit. In other words, return is the income received on investment. Investment return is defined as the after tax increase in the value of the initial investment as per Cheney & Mosses. The increase in value of assets can come from two sources: a direct cash payment to the investor or an increase in the market value of the investment relative to the original purchase price. The rate of return is the relative value of benefit on investment. The rate of return concept is important because it measure the speed at which the investor's wealth increases or decreases (Francis;1992:1).

Shareholders expect two forms of return from the purchase of common stock:

1. Capital gain/return
2. Dividend gain/return

Capital gain is the profit resulting from the sale of common stock. The shareholders expect at some point as a distribution of the firm's earnings in the form of dividends. From mature and Stable Corporation, most investors expect regular dividends to be declared and paid in common stock. This expectation takes priority over the desire to retain earnings to finance expansion and growth. Shareholder's expectations can be fulfilled through either capital gain or dividends. Since dividends would be more attractive to stock holders, one might think that there would be tendency for corporations to increase distribution of dividends. But one might

equally pressures that gross dividends would be reduced some what, with an increase in net after tax dividends still available to stock holders, and increase in retained earnings for the corporation (Trop;1977:90-91).

Holding Period Return

Return for Single Period

An investment's single period return is simply the total return an investor would receive during the investing period or holding period stated as a percent of the investment price at the start of the holding period.

$$R_t = \frac{\text{Concling Wealth-Beginning Wealth+Cash Inflow}}{\text{Beginning Wealth}}$$

$$= \frac{P_t - P_{t-1} + C_t}{P_{t-1}}$$

Where,

P_t = Market price at beginning of the period

P_{t-1} = Market price at the end of the period

C_t = Cash inflow (if any)

If stock dividend is announced instead of cash dividend, some adjustment is necessary. Therefore the stock dividend is converted into cash using the following model.

Total dividend=Cash dividend + Stock dividend% x Next Year MVPS.

Holding period return are often calculated for period other than one year for this reason the length of the holding period must always be indicated for a specific HPR. Many HPR for periods shorter or longer than one year are annualized.

Return for Several Periods

Calculation of return for several periods will be clearer if we go through an example. Suppose we have the following data on the performance of an imaginary stock.

Year Ended	**Market value per share**	**Dividend received**	**HPR**
2002	Rs. 250	-	-
2003	Rs. 320	Rs. 5	0.300
2004	Rs. 405	Rs. 7	0.287

Holding period return for individual year 2003 and 2004 can be calculated using above equation. Similarly two year holding period return can also be calculated using equation. Two assumptions can be made about the income distribution (Dividend) Rs. 5 paid during year end 2003. Under the first assumption Rs. 5 is assumed to be treated as income that was not reinvested giving a two year HPR.

$$HPR = \frac{405 - 250 + 5 + 7}{250} = 66.8\%$$

Under the second assumption Rs. 5 is assumed to be reinvested, when it was received at the year end 2003. It is reinvested at HPR of 2003 at 30%.

$$HPR = \frac{405 - 250 + 5(1 + 0.3) + 7}{250} = 67.4\%$$

Annualized holding period return (HPRs) is reported as an annual equivalent. Two methods are generally employed. One possibility is to take the sample arithmetic average of the annual HPR computed by

$$HPR = \frac{(\sum HPR_T)}{n} = 67.4\%$$

As per above given data

$$HPR = \frac{0.3 + 0.2875}{2} = 29.375\%$$

There are some drawbacks of simple arithmetic average method which can be listed as:

1. Simple average method ignores the compounding effect that results if the amount received in between the time periods is reinvested.
2. The result from arithmetic average can be distorted if there are large differences in the rate of return across time periods.
3. The Geometric mean rate of return is the second method of computation of annual equivalent return. The Geometric mean rate of return is defined as a rate & return that would make the initial investment equals to the ending investment value. It is calculated by taking 4^{th} root of the product of one plus the individual return.

$HPR_g = \pi(1+HPR_t)^{1/n}$

Where,

π = The product

HPR_g = Geometric rate of return

HPR_t = Individual rate of return

n = No. of time interval

Expected Rate of Return

Investment decisions are based on expectations about the future. The expected rate of return for any asset is the weighted average rate of return using the probability of each rate of return as the weight. If investment is to be made, the expected rate of return or the expected holding period return should be equal to or greater than the required rate of return for that investment. The expected rate of return is based upon the expected cash receipt over the holding period and the expected ending or selling price. The expected rate of return is an ex-ante or unknown, future return (Cheney and Moses;1993:34). Unless the rate of return is guaranteed, most investors recognize that several rates of returns are possible. Investors summarize these possible rates of return into a single number called the expected rate of return.

If the investors can describe the possible variables that will influence each of the possible rates of return and assign probability to these outcomes then the expected rate of return should equal the weighted average of the various possibilities. Listing the possible investment results and assigning probabilities to each of these outcomes is the same as creating a probability distribution in statistics. Probability distributions are used to describe possible outcomes and to assign individual probabilities from zero to one, to each possible outcome. The expected rate of return is calculated by summing the products of the rates of return and their respective probabilities.

$$E(r) = \sum_{t=1}^{n} P_t r_t$$

Where,

P_t = Probability distributions of rates of returns

r_t = Rates of return

2.1.4 Market Efficiency

Market efficiency means that the market price of a security represents the market consensus estimate of the value of the security. If the market is efficient, it uses all information available to it in setting a price. Investors who choose their information lead them to think that the security is worth at least its current market price. Those who do not purchase the stock interpret their information as a lower appraisal.

An efficient financial market exist when security price reflect all available public information about the economy about financial market and about the specific involved. The implication is that the market price of individual security adjusts very rapidly to new information. As a result security price are said to fluctuate randomly about their intrinsic value.

A market is efficient with respect to a particular set of information if it is impossible to make abnormal profit by using this set of information to formulate buying & selling decision. That is in an efficient market investors should expect to make only normal profits and earn a normal rate of return on their investment. Test of efficiency are essential test of whether the three general type of information, past price, other public information and inside information can be used to make above average profit on investment.

This is taken as the oldest statement of the hypothesis. It holds that present stock market price reflect all information with respect to past stock price trends and volume. Thus it asserts that past data cannot be used to predict future stock price. Weak form hypothesis approximate a random walk of the stock price, since the walk is random a knowledge of past price change does nothing to inform the analyst about whether the price in future will be higher or lower.

The semi strong hypothesis centers on how rapidly and effectively market price adjusts to new publicity available information. If the efficiency is semi strong, one cannot outperform the market by using the available information. Different financial reports and audited financial information filed with the security exchange are readily available to the investor.

This background information about corporation provides the perspective needed to evaluate new information. Financial newspapers and news service compete to deliver new information as quickly as possible so that investor can obtain information so that they can obtain the latest news quickly at minimal cost when news affect the value of security it causes reevaluation and security trading that begins immediately and affect price at once.

The strong form hypothesis is concerned with whether or not certain individual or group posses inside information that can be used to make above average profit. It holds that stock price react very quickly to all public and inside information. One obvious to check the validity of the strongly efficiently market hypothesis is to examine the profitability of trades in security made by insiders to see if the insiders access to valuable information allow them to earn statistically significant trading profit.

Since strongly efficient market hypothesis suggests that all information, public or not fully reflect in the security price. This idealistic economy situation result in a perfectly efficient market where price & value are always equal as they fluctuate randomly together in response to the arrival of new information.

2.1.5 Investment Environment

Investment environment in our country is not providing favorable due to non performing character of the public limited companies. However, by definition, the investment environment refers to all internal & external forces affecting investment decisions of investors. It covers all kinds of marketable securities that they are bought and sold through the brokers' network and financial intermediaries. Thus, securities, security markets and financial institutions form the scope & coverage of investment environment. Existence of a favourable environment is the medium which direct the pool of saving into the productive sector.

2.1.5.1 Securities

Securities are financial assets that form the part of an investor's wealth, common stocks, preferred stocks, bonds, convertibles, warrants, options, rights, futures are examples of securities. Securities represent specific claim on a stream of income and/or particular assets. Bonds and mortgage are typical debt securities, ownership securities include common stock. Preferred stock is a hybrid security that entails a mixture of both ownership and creditor ship privilege highly liquid debt securities that have short term until they mature and involve little or no risk of default are called money market securities.

There are involvement of many parties in the development of securities market in Nepal like government, SEBO/N, NEPSE, financial intermediaries, market makers, investors, brokers and the office of the company registrar.

2.1.5.2 Security Markets

Security markets are mechanisms for channeling savings from savers to the ultimate investors who invest in real assets. They bring buyers and sellers of securities together and facilitate the flow of funds in the economy. The flotation of the shares and debentures by public limited companies, trading on mutual funds by an investment company and the auction of treasury bills by governments take place in security markets.

The security markets are classified into:

i) Money market and capital market

ii) Primary market and secondary market.

Money Market and Capital Market

In money markets, all financial assets with a term to maturity of one year or less than one year are traded. For example, treasury bills are issued and traded in money market. The main function of money market is to provide short term loans to the business loan to the government and loans to households.

The government and business organizations requiring short term funds sell securities and investors who have surplus money buy securities in this market. Financial assets traded in capital market have maturity of more than one year. For example, financial such as stocks, corporate bonds, government bonds etc. are issued and traded in the capital market.

Primary and Secondary Market

The security markets consist of primary and secondary market. When firms need capital, they may sell new securities. These new securities are sold in primary markets. Investment bankers help market these new issues of stocks, bonds or other securities to the public. The issue of securities in the primary market leads to direct transfer of money from the savers to the issuer of the securities. Thus the primary market helps transfer the funds from savers to investors to make the capital available for new investments in building, equipment, stock of necessary goods. The existing securities are bought and sold in the secondary market.

2.1.5.3 Valuation

Various mathematical models have been developed to include variable that determines value which over simplify the valuation process. In reality many factors determine the market price of a common stock. These factors may change and the relationship between these factors may change No models can consider the complexities of the real world process. These models however can provide a useful framework for the analysis.

Mathematical models imply precision and accuracy and it is essentially a quantitative procedure. However common stock valuation is an out. Models are useful to the analyst but are not the substitute for judgment and common sense. Models can be used in making accurate forecast. Therefore models should be viewed as tools for decision making. Finance theory indicates that the value of common stock is essentially a function of future income the stock can provide and the risky ness of the income stream.

V_n = f (income, risk)
Where, V_n = Intrinsic value of the common stock in period n.

Equity management assumes that all historical and current information is not fully and correctly reflected in the current price of every stock. Hence there exist stocks that are undervalued and overvalued.

2.1.6 Investment Decision

Investment decision theory analyzes how to get from investors' preferences to the optimal investment decisions. Decision is made after the completion of analysis. The general model of decision making is to compare the estimate expected return and estimate requires holding period return.

Expected return E $(HPR)_1$ = $\frac{V_1 - P_0 + D_1}{P_0}$

Where, E $(HPR)_1$ = Expected holding period return

V_1 = Value at the end over one year

P_0 = Price at the beginning of the year

D_1 = Dividend paid at the end of the year

And, the estimated required rate of return as suggested by CAPM.

$E(r_j) = r_f + b_i[E(r_m) - r_f]$

Where,

$E(r_j)$ = Expected required period return

r_f = Risk free return

b_i = Beta for the stock

$E(r_m)$ = Expected market return

The analyst should compare E(HPR) and E(r_j) and if E(HPR)>E(r_j) the analyst should invest for long term and if E(HPR)< E(r_j) should invest for a short term.

2.1.7 Investment Strategies

In an extremely competitive market, exceptional performance of one investor comes at the expense of other investors. In a competitive market security price are likely to accurately reflect available information and responses very rapidly to available information, as degree of efficiency is the crucial matter of concern, which has to be addressed while going for an investment strategy. If the market is less than perfectly efficient some strategies may result in risk adjusted excess return. The degree of market efficiency has been the subject of considerable debate. The debate has resulted into two strategies:

- Passive Strategy
- Active Strategy

A passive strategy leads to earn what just the market determined, it does not try to outperform the market or earn risk adjusted excess return. Investors select stocks for investment randomly since in a perfectly efficient market the selected stock would be correctly valued. Portfolio investment could be done to reduce any uncertain risk. Investment horizon would be long term. Passive investment strategy incurs low transactional cost. The cost of trading or for acquiring and analyzing information is avoided.

An active investment strategy is pursued on the ground that market inefficiency exists. It assumes that some investors have an advantage over other. Following three advantages are possible:

- Timing: Use of accurate time is the basic to gain extra return. Investors who can accurately predict movement in individual security or the market can achieve superior return.
- Selection: Inefficiency leads to the existence of undervalued and overvalued stocks in the market.
- Investment Philosophy: Investment philosophy requires a commitment to a specific area of investment approach.

An individual has a large advantage over institution and professional investors including the following.

Individual investors engage in small trades that can be executed quickly.

- Individual have the flexibility to invest in small companies.
- If they wish individual investors can put all or most of their eggs in one basket.
- Individual have the flexibility to use short sale and margin trading.

2.2 Reviews from Previous Studies

2.2.1 Review of Article

An article *"Psychological Pressure for Willful Defaulters"* published in "Business Age International" of January 2005 said that maintaining the health of the financial sector is the first priority of the government, as crisis in the sector will push the country decades back and increase poverty. 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 does not compromise on other aspects of business and livelihood. The bad practice of top Nepali business firms for not repaying loans to the banks has created hurdles in the healthy and free growth of the financial sector. It is the responsibility of the government to strictly discourage such unhealthy practices to safeguard the entire financial sector from any mishaps.

In order to check the growing non-performing asset problems of commercial banks and financial institutions and to maintain the financial health of these institutions by preventing risky investments, RBB on September 18, 2003 issued several directives tightening its earlier blacklisting procedures. As per the new provisions: All financial institutions are required to disclose the name of the loan defaulters every six months; financial institutions have been barred from lending any amount to the blacklisted defaulter or any of his family members. Credit Information Bureau (CIB) can blacklist the firm, company, or an individual who fails to clear the debt within the stipulated period. If

they fail to clear the debt amount in time, or is found misusing the loans, among others, the creditor can be blacklisted. The proprietor along with the proprietorship firms, and partners would also be blacklisted. Furthermore, the shareholders holding 10% or more shares would also be blacklisted, if the public limited company fails to clear the dues.

During the recently held meeting of the World Bank and the International Monetary Fund, the donor community has strongly raised the issue of slow pace of loan recovery by the defaulters of the bank. Consequently, the government has vowed to take harsh measures, which includes seizing the passports of willful defaulters, if the concerned line institutions make formal request through the NRB essential to recover loans from defaulters to ensure the success of financial sector reforms. Due to the tendency of non-repayment for loans, the risk of taking the provision has increased thereby lessening the possibility of reducing the interest rate between deposit and lending. Taking into consideration these adversities, Debt Recovery Act, Debt Recovery Tribunal and the Umbrella Act related with banking have been in operation.

K.C., Raj Kumar (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.

According to **Sharma**, **Murari Raj (1998)** in his article *"Joint Venture Banks in Nepal Co-Existing and Crowding Out"* published in PRASHAN yearly on 1998 volume 35 said that, it would be definitely be unwise for Nepal not to let the JVBs to operate in the country and not to take advantages of them as additional means of resources mobilization as well as harbinger of new era in banking. But it will certainly be unfortunate for the country to develop the JVB s. And the most of the

cost of the domestic banks .so far, one should admit frankly, no different treatment has been extended to the domestic and JVB s; at least from the government side, which is commendable. If Government keeps on the stance of treating the domestic and JVBs; equally deposit the leathers bargaining strength and the JVBs also show their alacrity to come forward to share the trials and the tribulations of this poor country. Both type of banks will coalesce and co-exists, complimenting each other and contributing for the nations accelerate developments. On the contrary, if the JVBs use their straight against trading in to the cumbersome path of the development along with the domestic banks and government.

In 1997 International Monetary Fund [IMF], Policy Development and Review Development Division published a working paper entitled "Determinants of Stock Prices: The case of Zimbabwe". The working paper examined the general relationship between stock price and macroeconomic variables in Zimbabwe, using the revised DDM, error-correction model, and multi factor return generating model. Despite the large fluctuation in stock prices since 1991, the analysts indicated that the Zimbabwe Stock Exchange functioned quite constituently during the period. Whereas, sharp increases in the share prices in stock prices during 1993-94 were mainly due to the shift of the risk premium that was caused by partial capital account liberalization, the monetary.

In the journal of Financial Economics, summer 1996, entitled *"Commonality in the Determinants of Expected Stock Returns"* by Robert A. Haugen and Nardin L. Baker, they presented with evidence that the determinants of the cross section of expected stock return were stable in their identify and influence from period to period and from country. The determinants were related to risk, liquidity, price level, growth potential and stock price history. Out of sample predications of expected returns, using moving average values for the pay-offs to these firm characteristics were strongly and consistently accurate. Two findings, however, distinguished their paper form others in the contemporary literature. First, the stock with higher expected and realized rate of return was unambiguously of lower risk than the

stocks with lower returns. Second, they found that the important determinants of expected stock returns were strikingly common to the major equity markets of the world. Given the nature of the texts, it was highly unlikely that those results may be attributed to bias or data snooping. Consequently, the result seems to reveal a major failure in the efficient market hypothesis.

Poudel, Narayan Prasad (2053) in his article "*Financial Statement Analysis: An Approach to Evaluate Bank's Performance*" published in NRB Samachar said that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account. 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 accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial Bank Act 2031 B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

Pradhan, Dr. R.S. (1993) provides very close insight for analyzing the capital market in Nepal. He advocated, *"A number of studies have been conducted on the stock market behavior in developed and big capital markets but their relevance is yet to be seen in the context of smaller and underdeveloped capital markets."*

As per the book, the stock market behavior in smaller and underdeveloped capital markets is thus one of the important areas of the study in finance. Information on stock market behavior in such smaller and underdeveloped capital markets would help development of realistic theoretical models and formulation of relevant hypotheses for empirical testing in finance.

In Nepal, the listing of shares in stock exchange center (SEC) and their trading in the stock market is a recent phenomenon. Low trading volume, absence of professional brokers, early stage of growth, limited movement of share prices, and limited information available to investors characterize the Nepalese stock market. A number of researchers are available on government owned public enterprises but researches on enterprises whose stocks are listed in SEC and traded in stock market are yet to come up in Nepal. Viewed in this way, this chapter is expected to provide at least some insights info stock price behavior in Nepal.

Article written by **Kafle, Deepak Raj (1993)** *"Capital Market in Nepal"* in the newsletter of the Nepal Chartered Accountant has been reviewed. According to that, Nepalese capital market got a proper structure only in the year 1993. In this year securities board was established as regulator and stock trading commenced through the member brokers adopting upon outcry auction system. Stock exchange in its usual role was their expected to develop as a powerful mechanism to mobilize savings for long term investments.

Today stock exchange has gained as experience of over a decade. It is now a place where the financial products of 115 companies are traded. These listed companies make a market capitalization in the tune of 45 billions rupees 8.5% of GDP. During this period, a cumulative total of seven hundred thousand shareholders have acquired stock ownership in the listed companies. A broad based initial offer market where more than seven billion rupees were raise contributes the proliferation in the share ownership.

Stock market has grown in the past decade but not to an extent desired. It is still in an early stage and has to grow significantly to play a more meaningful role in the banking dominated financial system. There should be concerted efforts to improve market size, liquidity, concentration and volatility in order to gain the status of a credible market. It has become more relevant to focus on developing a credible market when banking sector is under its way of meaningful reform and pressure for integration to the world and regional markets are mounting. We probably do not have any other better choice than keeping in rhythm with regional prosperity through more investment and service linkages.

There are sufficient reasons to be enthusiastic for the growth of the private sector and subsequently argue in favor of vast potential of the growth of the stock market in Nepal. However, realizing such potentials is possible only when supported by requisite changes in the legal and institutional infrastructure telecom and aviation sector, new mega investment hydro and physical infrastructure projects are likely to come up and absorb huge investment resources. Furthermore, some well performing closely held companies are also showing interest to come to the capital market. These potential investment sectors can play a catalytic role to trigger further market growth.

We believe that the limited fund deployment needs in the domestic market and limited investment avenues are temporary phenomena that will get rectified as the economy becomes confident to come out from the prevailing conflict situation.

Some basic reforms in the capital markets are already taking shape in Nepal. Effective regulation of products and intermediaries, appropriate regulation with effective enforcement, market operations and transparent standards are some of the key reform agendas. Further the infrastructural developments including information dissemination and order routing mechanism, trading by stem linkages and settlement and clearing arrangement fundamental to a well functioning market have been visualized.

A book about capital market by **Mahat, Dr. R. S. (1981)** entitled *"Capital markets financial flows and Industrial finance in Nepal"* was written in the early period of the development of capital market and before the establishment of stock exchange. So Dr, Mahat made the first priority to establish stock exchange for the development of stock market. He has also written that Nepalese stock market is still in infancy stage and some drawbacks to the development of stock markets are strong historical and social reasons as well as mass poverty and illiteracy in Nepalese society. He further pointed out that some conscious and educated people of urban areas are also not investing in the industrial sector instead they are investing on the real estate especially in building construction. Although the book was written in the early stage of the development of stock market, the limitations of Nepalese society regarding the investment in stock market is still reality of Nepalese capital market.

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 prices of 30 individual stocks of the Dow Jones Industrial Average Index (DJIAI) for the period of 1957 to 1962. He employed the statically tools such as serial correlation and runs test to draw inference about depended of the price series. He calculated auto-correlation coefficient for daily changes in log prices for lag from 1 to 30 and found that the coefficient were almost close to zero in overall. The correlation coefficient for daily changes in average was +0.03, which is near to zero. 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. However Fama concluded, "Dependence as such a small order of magnitude is, from a practical point of view, probably unimportant for both the statistician and the investor." Fama also calculated 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 zero.

2.2.2 Review from Thesis

It has found that there are no more studies performed in this topic. However, there are some which is related to this conducted for the partial fulfillment of Master's Degree in Tribhuvan University.

Maharjan, Sunil (2007), conducted his master's thesis on *"A Comparative Study of Financial Performance of Commercial Bank (with reference to Himalayan Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited)"* had main objectives to identify the relationship between net profit with respect to deposit, loan and advance and investment and to analyze financial performance of sample banks in terms of liquidity, profitability , growth, leverage and capital adequacy , and reached to the conclusion , the overall performance of sample banks found to be satisfactory. All sample banks are not strong in all performance. Some are strong in liquidity point of view, EBL found to be comparatively better than sample banks because HBL and NIBL have aggressive working policy. All the sample banks are comparatively successful in assets and deposits in profitable sectors in form of loan and advance, investment in government securities and shares and debenture.

Saud, Gokul Bahadur (2006), conducted his master thesis on *"A Study of Financial Performance of Selected Commercial Bank in Nepal (Himalayan Bank, NB Bank and Everest Bank)"* had a main objectives to evaluate the trends and growth of loan, investment and total deposit patterns, and he find out that sample banks have gain normal position of different financial ratio.

- Due to lower liquidity position (bellow than normal standard) and highly leveraged capital structure and lower liquidity position as profitability as long as more risky.
- In case of earning capital and utilization of profit researcher come into the following conclusion.
- Himalayan Bank has performed better in terms of net profit during the study period. All of these three sample

banks are able to earn above 1% on total asset and to mobilize deposit properly.

- In case of dividend all sample banks are not able to pay regular dividend to its stockholder. However they are maintaining its EPS above its value.
- Regarding earning per share al of the sample banks are not able to retain its EPS on its previous level. The researcher concluded that during the study period trend line shows the decreasing pattern of net income after tax.

Joshi, Suchita (2006), conducted her master's thesis on *"Financial Performance of Joint Venture Banks in Nepal with reference to Everest Bank Limited"* had objectives to evaluate liquidity, profitability, capital structure, turnover, cost effectiveness and growth position of EBL and she found that the liquidity position of EBL is efficient .it showed that EBL cannot maintain the convenient standard of current ratio of 2:1.Beside it can also concluded that saving deposit of bank increasing trend as compared to fixed deposit. In addition, EBL has used higher proportion of debt in their capital structure financing assets from capital structure of EBL appears to be levered EBL follows more risk more profit strategy. Bank is not able to maintain the capital Adequacy ratio as directed by NRB. EBL is maintaining its interest coverage ratio. Beside, bank is utilizing more outsiders' funds in order to extend loan and advances to generate profit. But the profitability ratio of the bank is not favorable condition.

Neupane, Apar (2004), made a research entitled ***"Determinants of Stock Price in NEPSE"*** and tried to explore the factors that have significant influence on the stock price in NEPSE. He concluded his study by quoting;

- Nepalese investors have not adequate education about the capital market. They do not have good knowledge and information to analyze the scenario and to forecast share price. Perhaps due to this reason stock price in NEPSE rather shows irrational behavior.
- In NEPSE, DPS, BPS & EPS individually do not have constituent relationship [with the market price of the share among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS & DPS, jointly have significant effect in market price of the share. So, there may be other major factors affecting the share price significantly. NEPSE is in its primary stage, adopting open out cry system for stock trading and stockbrokers lack professionalism to create investing opportunities in NEPSE.
- Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing & processing, trading and hotel sectors have weak performance. So, financial intermediaries are strong but their ultimate investment is suffering.
- Companies' performances (earning, dividend, book value, risk etc) information disclosed , timely AGM , political stability, national economy, demand & supply situation, strikes, demonstrations, ceasefire and peace talks (and their outbreak) are the major factors affecting the share price in NEPSE, according to the respondent of survey. Interest rate, retention ratio, cost of equity, tax rate, gold price , value of US $, global economy, market liquidity, season, day of the weak, size of the firm, change in the management do not significantly affect the price of the share in NEPSE.
- There is deficiency of proper laws and policies regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interests. The implementation of existing laws is weak.
- Listed companies do not provide sufficient information (financial as well as non financial) to their shareholders and they are not

able to act according to the shareholders' interests. The performance of most of the listed companies is not transparent.

- Since NEPSE is in increasing trend, in spite of unfavorable environment for investment, Nepalese citizens have a huge amount of scattered fund remained unproductive, which can be used in the industrial development through capital market to accelerate the economic growth of the nation.
- With the existing Maoist problem, industrial development and capital market development is impossible. So, the peaceful solution of the Maoist problem is preliminary condition for capital market and economic development in Nepal.

A study conducted by **Luintel, Nabin Kishore** (2003) revels in the thesis, ***"A Study on Financial Performance Analysis of Nepal Bank Limited"*** that, the NBL has not maintained a balanced ratio among its deposit liabilities during the second period of the study. As compared the second period with the first period, the bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. During both the periods there are negative operating profit for two years. But both the years of the first period enjoyed positive net profits due to the non-operating incomes. Hence, there is a demarcation between operational and non –operational activities of the bank and performance and result of the first period shows that the bank is more inclined towards non-operating activities. Furthermore, the liquidity position of the bank is also not satisfactory during both periods. It is even worse during the second period. Various current ratios have fluctuated during both the periods .it shows lack of specific policy of holding various types of current assets. Thus it can be said that the financial position of the NBL is worse during the second period due to its inefficiency in risk management the overall financial position on the bank is unsatisfactory during the both periods

Shrestha, Birendra (2003) conducted study on; ***"A Comparative Analysis of Financial Performance of the Selected Joint Venture Banks"*** had set the following objectives:

- To examine the comparative financial strengths and weakness of the selected JVBs.
- To highlight various aspects relating to financial performance of these JVBs for last five years.

The major findings of the study were as follows:
Analysis of liquidity ratio indicates better liquidity position of the NB bank. Although liquidity position of NB bank and NABIL are lower, they are still able to meet their current obligation.

Analysis of leverage or capital structure ratio indicates that long-term debt to net worth ratio of NB bank is the highest and NABIL is the lowest. JVBs are extremely leveraged. Total debt to net worth and total asset ratio of HBL is the highest and that of NABIL has relatively lower leverage.

Return on investment, interest earned to total assets ratio and commission and discount earned to personnel expenses ratio of NB bank is higher than NABIL bank and HBL, while return on shareholder's equity is higher in HBL and interest income to interest expense ratio is higher in NABIL bank.

The valuation ratios used for analysis showed the following results the PE ratio and DPS of NABIL bank is the highest and HBL is the second highest, while the MVPS to BVPS ratio of HBL is the highest and NB is the lowest. Operating profit of NABIL is higher than that of HBL and NB bank. NABIL's operating profit is 42.62% of its operating income, HBL is 33.51% and NB bank is 33.86% only.

Joshi, Archana (2002) conducted a study on ***"A Comparative Study on Financial Performance of Nepal SBI bank ltd & Nepal Bangladesh bank Ltd."*** with the following objectives.

- to highlight various aspects of relating to financial performance of Nepal Bangladesh bank and Nepal SBI bank ltd for a period of 1996/97 to 2000/01

- to analyze financial performance through the use of appropriate financial tools
- to show the cause of change in cash position of the two banks

Through her research she has presented the following findings of the study:
The analysis of liquidity position of these commercial banks shows different position here, the average current ratio of NSBI is great than that of NBB. Therefore, the liquidity position of SBI is in normal position.

The turnover of the commercial banks is the main indication of income generating activities. These ratios are used to judge how efficiently the firm is using its resources. From the analysis of turnover of these two banks, NBB has better turnover than SBI in terms of loans and advances to total deposit ratio. Thus NBB has better utilization of resources income generating activities than SBI bank; which definitely lead the bank to increase income and thus making an increment profit for the organization. Despite the fluctuating trend in the ratio of cash and bank balance to total deposit SBI bank is more efficient than NBB in cash management i.e. it is more able to keep more cash balance against its various deposits.

The analysis of profitability of these two commercial banks is also different. The overall calculation seems to be better for NBB. Though certain ratios like dividend per share, dividend pay out ratio etc are better for SBI bank. From the calculation, NBB seems to tackle their investors more efficiently.

Going through net profit to total deposit ratio, it can be said that NBB seems to be more successful in mobilizing its customers saving in much more productive sectors. NBB has slightly riskier debt financing position in comparison to SBI bank.

Upadhaya, Sudeep (2002), in the title of ***"Risk and Return on common stock investment of commercial bank in Nepal".*** In his research paper he would apply the five-year data from 1997 to 2002.

Upadhaya focused on; In general, most people see stock market investment as a black art that they know little about. Many people have unrealistically optimistic a pessimistic expectations. About stock market investment or perhaps a fear of the unknown. As over all economy Nepalese stock market is in emerging state. Its development is accelerating since the political charge in 1990 in effect of openness and other part if the stock market is influence due to the Mousiest problem faced by the county. And other But due to the lack of information and poor knowledge, Nepalese individual investor can not analyze the securities as well as market properly." Upadhaya, Sudeep, risk return on common stock investment of commercial bank in Nepal.

In addition, Upadhaya added that: proper analysis of individual security, Industry and over all market is always needed. General knowledge about economic, political and technological trend will be advantageous. To win the market, shares should be hold when the market is rising and hold safer investment when it is falling.

Ojha, Khagendra Prasad (2000), has conducted a research on ***"Financial Performance and Common Stock Pricing"***. The main objectives of his research were;

- To study and examine the difference of financial performance and stock prices.
- To examine the relationship of dividends and stock price.
- To explore the signaling effects in stock price.

Nepalese stock market is in infancy stage, in general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have a relatively stable profitability parameters that the firm established after the economic liberalization of 1990. Older firms have been issuing bonus share more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been highly fluctuating. Due to lack of proper investment opportunity most of the investors have directed their

saving towards the secondary stock market. There is significant positive correlation between the dividends paid and stocks prices of banking and manufacturing industries. All other industries have not a perfect correlation between the dividends paid and stock prices. There is a positive correlation between the net worth per share and stock prices of banking, airline and hotel industries, there is no perfect correlation between the net worth per share and common stock price."

Aryal, Mukti (1995), has conducted research on "***The General Behavior of stock market prices"***, the main objectives of this study were to discuss the movement of stock market prices and develop the empirical probability distribution of successive price change of an individual common stock and a stock market as a whole. This study is based on secondary information obtained from Nepal Stock Exchange. This study covers almost 8 months period and took about 21 stocks listed in NEPSE. He has applied run test as statically tools to analyze the data and get results. He has conducted that the assumption of independence, as predicted by random walk model of security price behavior, has been refuted at least for Nepalese context as the first approximation even in the rough way for curly days of stock market operation. This rejection of hypothesis made clear that the knowledge of past and now become useful in predicting the future movements of stock market prices. The investors, on the floor of stock exchanges for security, can make higher expected price in the future based on these historical price series. In other words, the dependence nature of price series produced by general market fluctuation statistically implied, today's price change is positively depending upon yesterday price change. This implied that there is a sufficient lack of financial and market analysis who are sophisticate and superior in analyzing the general market fluctuations, predicting the occurrence of future potential and economic events that their eventual affects on price series."

CHAPTER - III

RESEARCH METHODOLOGY

This is the most sensitive part of the research and the base on which our conclusion was drawn is included. The first part of this chapter relates to the research design, where as in the second part describes the population and sample. The sources and types of data and technique applied for the collection of data are placed on third and fourth part of the chapter. The most significant aspect of the chapter, which in depth has analyzed the data analysis tool used in the research, has been included in the fifth part. Limitation of the methodology has been revealed at the end of this chapter.

3.1 Research Design

Research design in the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variable and their relation and just a position, we build structural schemes for accomplishing operational research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reach and how the problems encountered in the research will be tackled.

By research design we mean an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data after identifying what the researcher wants to know and what has to be dealt with in order to obtain the required information. The research

design is an organized approach and not a collection of loose, unrelated parts.

It is an integrated system that guides the researcher in formulating, implementing and controlling the study. Useful research design can produce the answer to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

3.2 Population and Sample

This study has been totally confined to the institutions listed in the Nepal stock exchange. Total number of organizations listed in the NEPSE is 135 as per the Nepal Stock Exchange website (www.nepalstock.com). These listed organizations according to their nature of business are categorized into eight groups/sectors.

1. Commercial Banks
2. Manufacturing & Processing
3. Hotels
4. Others
5. Trading
6. Insurance
7. Finance
8. Development Bank Ltd.

This study has been limited to the commercial banking sector, which has a large impact on the total performance of the stock exchange. Total no. of commercial banks listed in the stock exchange is fifteen. These fifteen banks totally form the population of study. The banks included in the study are four in number. The selection is based on stratified random sampling. A total effort has been exerted to overcome the sampling error, so that the result of the study can be representative. The banks included in the study are:

1. NABIL
2. Standard Chartered Bank Ltd.
3. Himalayan Bank Ltd.
4. Everest Bank Ltd.

3.3 Nature and Sources of Data

This study mainly based on secondary data of the concerned banks, Nepal Rastra Bank, SEBO, and different library are the providers of the data. The review of literature of the proposed study was based on the text books, official publications, journals, unpublished thesis, web site etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB Ministry of Finance, NEPSE, SEBO and their respective publications similarly the required micro level data derived from annual reports of selected banks, SEBO and NEPSE. In addition to above, supplementary data and information were collected from different library such as library of Shankar Dev Campus, T.U. Central library, SEBO etc. The major sources of data and information are as follows;

NRB Economic Report, NRB
Non-Banking Financial Statistics, NRB
Banking and Financial Statistics, NRB
Economic Survey, Ministry of Finance
Annual Reports of Concern Commercial Banks (from 2002/03 to 2006/07)
Annual Report of SEBO Nepal
Trading Report of NEPSE
Journal of Finance
Journal of Business
Previous Research Studies, Dissertation and Articles on the Subject
Various Text Books
Different Library
Different Website Related to study

3.4 Methods of Analysis

To achieve the objective of the study, various financial and statistical tools have been used. The analysis of data will be done according to the pattern of data available. Due to limited time and resources, simple analytical statistical tools such as percentage, graph, Karl Pearson's coefficient of correlation are used in this study. Likewise,

some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

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

3.4.1 Financial Tools

Financial tools are used to examine the strength and weakness of banks. In this study financial tools like ratio analysis and financial statement analysis have been used.

Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's to it overtime. 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 and current liabilities. It shows the relationship between current assets and current liabilities.

Mathematically it is represented as:

$$\text{Current ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Where,

Current assets include cash and bank balance, money at call or short-term notice, loans and advances, investment in government securities and other interest receivable and miscellaneous current assets where as current liabilities include deposits and other accounts of short-term loan, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

The widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio.

ii) Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets of a firm, cash and bank balance to total deposit ratio measures the percentage of most liquid assets to pay depositors immediately. This ratio is computed dividing the amount of cash and bank balance by the total deposits. It can be presented as,

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

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 measures the percentages of liquid assets i.e. cash and Bank balance among the current assets of a firm. Higher ratio shows the higher capacity of firms to meet the cash demand.

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

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

iv) Investment on Government Securities to Current Asset Ratio

This ratio is used to find the percentage of 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,

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

v) Loan and Advances to Current Assets Ratio

Bank's major earning source is loan. Loans are also taken as current assets as most of them are maturing within a period of one year and represent short term disbursement. A Bank should not allocate all funds in loan and advances so it must maintain in an appropriate level. In order to calculate the proportion of loan and advances to total current assets, the ratio is obtained by dividing loan and advances by current assets.

$$\text{Loan \& Advances to Current Assets Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Current Assets}}$$

B. Assets Management Ratios (Activity Ratios)

Asset management ratio is here used to indicate how efficiently the selected banks have arranged and invested their limited resources .The following financial ratios related to investment policy is 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.

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

ii) Total Investment to Total Deposit Ratio

Investment is one of the major sources of earning money. This ratio includes how properly firms' deposits have been invested on government securities and shares and debentures of other companies. This ratio can be computed diving total amount of investment by total amount deposit collection, which can be shown as;

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

iii) Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. Loan and advances amount by total working fund. That is formulizing as;

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

Where, total working fund include total amount of assets given balance sheet which refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e., letter of credit, letter of guarantee etc.

iv) Investment on Government Securities to Total Working Fund Ratio

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

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

v) 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. That can be calculated as;

Investment on Shares and

Debentures toTotal Working Fund Ratio = $\frac{\text{Investment on Share \& Debenture}}{\text{Total Working Fund}}$

C. Profitability Ratios

Profitability ratios are calculated to measure the efficiency of operation of a firm on term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa. Profitability position can be evaluated through following different way.

i) Return on Total Assets

This ratio establishes the relationship between net profit and total assets. This ratio is also called 'profit to assets ratio'. It is calculated dividing return on net profit/loss by total working fund and can expressed as;

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

ii) Total Interested Earned to Total Outside Assets

This ratio shows the relationship between interests earned amount and total outside assets borrowed by the Bank. Total interest earned is that amount which is earned investing in different sectors by the Bank in an accounting year. Whereas, total outsiders assets include loans (short term as well as long term), borrowings and bond amounts. This ratio is calculated as follows;

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

iii) Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiency of the Banks and finance companies have utilized their resources to earn good return from provided loan and advances. This ratio is computed to divide net profit/loss by the total amount of loan and advances. It can be mentioned as;

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loan \& Advances}}$$

iv) Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working fund is calculated to find out the percentage of interest earned to total assets. Higher the ratio indicates the better performance of financial institutions in the form of interest earning on the better working fund. This ratio is calculated diving total interest earned from investment by total working fund and is mentioned as below;

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

v) Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working

fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated by dividing total interest paid by total working fund.

$$\text{Total Interest Paid to Total Working Capital Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

vi) Return on Equity Ratio (ROE)

The ratio measures how efficiently the banks have used the funds of the owners. The ratio is calculated by dividing net profit by total equity capital (net worth). This can be started as,

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

Holding Period Return

Return for Single Period

An investment's single period return is simply the total return an investor would receive during the investing period or holding period stated as a percent of the investment price at the start of the holding period.

$$R_t = \frac{\text{Concling Wealth-Beginning Wealth+Cash Inflow}}{\text{Beginning Wealth}}$$

$$= \frac{P_t - P_{t1} + C_t}{P_{t-1}}$$

Where,

P_t = Market price at beginning of the period

P_{t-1} = Market price at the end of the period

C_t = Cash inflow (if any)

If stock dividend is announced instead of cash dividend, some adjustment is necessary. Therefore the stock dividend is converted into cash using the following model.

Total dividend=Cash dividend + Stock dividend% x Next Year MVPS.

Holding period return are often calculated for period other than one year for this reason the length of the holding period must always be indicated for a specific HPR. Many HPR for periods shorter or longer than one year are annualized.

3.4.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows:

Coefficient of Correlation (r)

Correlation analysis contributes to the understanding of economic behaviour, aids in locating the critically important variables on which others depend, may reveal to the economist the connections by which

disturbances spread and suggest to him the paths through which stabilizing forces may become effective. (W.A. Neiswanger) The coefficient of correlation measures the direction of relationship between the two sets of figures. It is the square root of the coefficient of determination. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other variable. There is positive and negative correlation. If the values of the two variables deviate in the same direction i.e. the increase in the values of one variable results, on an average, in a corresponding increase in the value of the other value or if a decrease in the values of one variable results, on an average, in a corresponding decrease in the values of the other variable, correlation is said to be positive or direct. On the other hand correlation is said to be negative or inverse if the variables deviate in the opposite direction i.e. if the increase (decrease) in the values of one variable results, on the average, in a corresponding decrease (increase) in the values of the other variable. In this study coefficient of correlation is calculated between a MVPS and BVPS, ROE and HPR. The degree of association between the two variables, say x and y and is defined by correlation coefficient (r).

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

Where,

N=the no. of pair of observation

X= Dependent Variable

Y= Independent Variable

The value of 'r' lies between -1 to +1 and if r=1, there is perfect positive relationship. If r=-1, there is perfect negative relationship. If r=0, there is no correlation at all.

Coefficient of Determination (r^2)

The coefficient of determination is the measure of the degree of linear association or correlation between two variables, one of which

happens to be independent and the other dependent variable. It measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination can have a value ranging from 0 to 1.

$$r^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

Probable Error (PE)

The probable error of the coefficient of correlation helps in interpreting its value. With the help of probable error it is possible to determine the reliability of the values of the coefficient in so far it depends on the condition of random sampling. The probable error of the coefficient of correlation is obtained as follows.

$$\text{PE} = 0.6745\frac{1 - \text{r}^2}{\sqrt{N}}$$

Where, r^2 = Coefficient of Determination

N = the no. of pair of observation

1. If the value of r is less than probable error there is no evidence of correlation i.e. value of r is not at all significant.
2. If the value of r is more than six times the probable error coefficient of correlation is practically certain i.e. the value of r is significant.

Regression Analysis

The literal or dictionary meaning of the word regression is stepping back or returning to the average value. It is used to estimate or predict the value of one variable when the value of other variable is known.

Simple Regression Equation

Regression lines are expressed algebraically by the equation of straight line called regression equation. The regression equation of y on x is used to describe the change in y-value for a given change in x- value.

The regression equation of y on x axis is:

y=a + bx + U

$$a = \frac{\sum Y^2 \sum X - \sum Y \sum XY}{N\sum Y^2 - \left(\sum Y\right)^2} \qquad b = \frac{N\sum XY - \sum X \sum Y}{N\sum Y^2 - \left(\sum Y\right)^2}$$

Where,

y = Dependent variable

x = Independent variable

a = Intercept

b = Slope of regression

U = Residual value.

In order to determine the line completes method of least square.

Hypothesis Testing

To test the set hypotheses, t-test has been employed. Under Null Hypothesis (H_0), t-test statistics is:

$$\mathbf{t} = \frac{\overline{X} - \mu}{S/\sqrt{n}}$$

where, $\overline{\mathbf{X}}$ = average return of the common stock of sample under study

μ = average market return (assumed as population)

S = sample standard deviation

n = number of observation

CHAPTER – IV
PRESENTATION AND ANALYSIS OF DATA

The basic objective of analyzing the financial performance & return to investor and interpretation is to highlight the strength and weakness of the business. Therefore, this chapter includes the analysis and result of gathered data with a view to assessing financial performance of the bank for the period of five years. Consequently, this analysis help the management to take benefits of strategic management technique by providing the information regarding the strength and weaknesses of the four commercial banks, to exploit the opportunities lying in the environment and management threat posed by the environment.

In this chapter, the data are presented, calculated and analyzed. The secondary data is used for the purpose and the data represents the duration of five years (2002/03 to 2006/07). The details of calculation are shown in the respective appendix.

4.1 Financial Tools

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed. Various financial ratios related to the investment management and the fund mobilization are presented and discussed to evaluate and analyze the performance of NABIL, SCBNL, HBL and EBL. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another. All these calculations are based on financial statements of concerned banks. The important and needed financial ratios, which are to be calculated for the purpose of this study as mention in objective no. 1 are mentioned below:

a) Liquidity Ratio
b) Assets management Ratio
c) Profitability Ratio

4.1.1 Liquidity Ratio

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Demand for the deposits, with drawls, pay maturity in time and convert non-cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long run profit.

The following ratios are evaluated and interpreted under liquidity ratios.

(i) Current Ratio

Current ratio indicates the ability of a bank to meet its current obligation. This is the broad measure of liquidity position of the financial institution. Current ratio is derived by dividing current assets by current liabilities.

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

Where,

Current assets consist of cash and bank balance, money at call or short-term notice, loan and advances, investment in government securities and other interest receivable and other miscellaneous current assets.

Current liabilities consist of deposits, loan and advances, bills payable, tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1

Current Ratio (Times)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	1.067	1.099	1.113	1.0732	1.155	**1.1016**	**0.035**	**3.21%**
SCBNL	0.971	0.9698	1.0226	0.981	0.946	**0.978**	**0.028**	**2.86%**
HBL	0.854	0.993	1.098	1.103	1.446	**1.099**	**0.24**	**21.84%**
EBL	1.70	1.56	2.00	1.98	1.47	**1.74**	**0.24**	**13.83%**

Sources: Appendix 1(i)

The above table shows that current assets of NABIL is higher than current liabilities and ratios are in increasing trend from 2002/03 to 2004/05 and again increases in 2006/07. SCBNL has lower current assets than current liabilities in FY 2002/03, 2003/04, 2005/06, 2006/07 and higher C.A in 2004/05, it means SCBNL has not sound ability to pay short term obligations due to more liabilities. In case of HBL in FY 2002/03 to 2003/04 it's current assets if lower than current liabilities but from FY 2005/06 to 2006/07 it's current assets is greater than current liabilities and HBL ratio is in increasing trend during the study period.Current asset of EBL is higher than current liabilities and ratios are in decreasing trend from 2002/03 to 2006/07 except in year 2004/05.

In average liquidity position of EBL is greater than other banks i.e. 1.74>1.1016 > 1.099>0.978 So, EBL is sound in liquidity position than other banks.

Likewise the co-efficient of variation (C.V) of EBL is less than HBL and slightly higher than SCBNL and NABIL i.e. 13.83% > 3.21> 2.86 % and 13.83% < 21.84%. It can be said that current ratio of EBL is more consistent than HBL and less consistent than SCBNL and NABIL.
Thus, it can be concluded that EBL is capable to pay their current obligations in comparison to NABIL, SCBNL and HBL.

(ii) Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)

Cash and bank balance is said to be the first defense of every banks. The ratio between the cash and bank balance and total deposit measures the ability of the bank to meet the unanticipated cash and all types of deposits. Higher the ratio, the greater will be the ability to meet sudden demand of deposit and vice versa. But every high ratio is not desirable since bank has to pay interest on deposits. This will also maximize the cost of fund to the bank.

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposit}}$$

Where,

Cash and bank balance is composed of cash on hand including foreign cheques, other cash items; balance with domestic banks and abroad. Deposit includes current deposits, saving, deposits, fixed deposits, money at call or short notice and other types of deposits.

Table 4.2

Cash and Bank Balance to Total Deposit (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	8.51	6.87	3.83	2.87	5.93	**5.60**	**2.27**	**40%**
SCBNL	8.06	9.56	5.75	5.53	8.21	**7.42**	**1.73**	**24%**
HBL	9.42	9.10	8.12	6.48	5.85	**7.79**	**1.61**	**21%**
EBL	17.02	10.16	10.40	11.25	13.15	**12.40**	**2.84**	**22.91%**

Sources: Appendix 1(ii)

Table 4.2 shows that the cash and bank balance to total deposit ratio of NABIL has followed decreasing trend from FY 2002/03 to 2005/06 & it increases in 2006/07. Similarly, SCBNL has increases from 2002/03 to 2003/04 and decreases form FY 2004/05 to 2005/06 and again increases in 2006/07. On the case of HBL it has followed decreasing trend during the study period i.e., FY 2002/03 to FY 2006/07. EBL has increasing trend till last year but in FY 2003/04 it has slightly decreased and then increased to till last year.

In average, NABIL has maintained lower cash & bank balance to total deposit ratio than SCBNL, HBL and EBL i.e. 5.60<7.42<7.79<12.40. It states that cash and bank balance in liquidity position of NABIL is lower than other three banks. The C.V of NABIL is 40%, which is comparatively higher than that of SCBNL 24%, EBL 22.91% and HBL 21%. So that NABIL shows the less consistent than that of SCBNL, EBL and HBL.

Comparatively NABIL has maintained low ratios, it shows some difficulties to meet the demand of its customers on their deposit to pay at any time but it may be earning more by investing cash to different sectors. But it should ensure to have enough liquid funds to serve its customer.

(iii) Cash and Bank Balance to Current Assets Ratio

This ratio shows the bank liquidity capacity on the basis of cash and bank balance that is the most liquid asset. Higher ratio indicates the bank ability to meet the daily cash requirement of their customer deposit and vice versa. But higher ratio is not preferred, as the bank has to pay more interest on deposit and will increase the cost of fund. Lower ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. Therefore, bank has to balance the cash and bank balance to current assets ratio in such a manner that it should have the adequate cash for the customers demand against deposit when required and less interest is required to be paid against the cash deposit.

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

Table 4.3

Cash and Bank Balance to Current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	8.25	6.81	3.74	3.07	6.06	**5.59**	**2.21**	**39.53%**
SCBNL	8.85	10.07	5.53	5.94	9.18	**7.91**	**2.04**	**25.79%**
HBL	12.14	10.76	9.45	7.42	6.33	**9.22**	**2.37**	**25.70%**
EBL	14.45	8.70	9.08	10.25	11.40	**10.78**	**2.31**	**21.44%**

Sources: Appendix 1(iii)

Above table exhibits that cash and bank balance to current assets ratio of NABIL has followed decreasing trend from FY 2002/03 to 2005/06 and increased in FY 2005/06. SCBNL has followed fluctuating trend from FY 2002/03 to 2005/06 & it followed increasing trend from 2005/06 to 2006/07. In case of HBL it has followed decreasing trend. But EBL shows increasing trend except in FY 2003/04.

While examining the mean ratio, NABIL had maintained 5.59 which is less than SCBNL, HBL and EBL i.e. 7.91, 9.22 and 10.78. It states

that liquidity position of NABIL is lower than other three banks. In this regard, the co-efficient of variation between the above ratios of NABIL is 39.53% which is comparatively higher than that of SCBNL, HBL & EBL i.e., 39.53%>25.79%>25.70%>21.44 it shows less consistent of NABIL than that of SCBNL, HBL & EBL. It shows the current ratios are less homogeneous than that of other three banks.

Thus, it can be concluded that NABIL is low capable to maintain cash & bank balance is comparison to other three banks.

(iv) Investment on Government Securities to Current Assets Ratio

The commercial banks are interested to invest their collected funds in various government securities issued by government. Though government securities are not so much liquid as cash & bank balance, they can be easily sold in the market or they can be converted into cash in other ways. The main purpose of this ratio is to examine the portion of commercial banks current assets that is invested on different government securities.

Investment on government securities to current assets ratio

$$= \frac{\text{Investment Govt. Securities}}{\text{Current Assets}}$$

Table 4.4

Investment on Government Securities to Current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	25.87	25.78	16.12	12.69	21.06	**21.36**	**5.85**	**28.83%**
SCBNL	38.52	39.56	37.28	40.22	32.27	**36.97**	**3.23**	**8.75%**
HBL	20.54	18.45	25.68	22.22	23.24	**22.02**	**2.72**	**12.36%**
EBL	20.28	26.18	18.15	23.43	22.42	**22.09**	**3.06**	**13.85%**

Sources: Appendix 1(iv)

The above table 4.4 shows that the ratio of NABIL is in decreasing trend from FY 2002/03 to 2005/06 and increased is FY 2006/07. In the case of SCBNL & HBL its ratio is in fluctuating trend.

In overall, the mean ratio of investment in govt. securities to current assets ratio of SCBNL is higher than that of EBL, HBL & NABIL i.e. 36.97>22.09>22.02>21.36. It means SCBNL had invested its higher portions of current assets on government securities, than other three banks. On the other had C.V in ratios of NABIL is greater than that of EBL, SCBNL & HBL i.e. 28.83%>13.85%>12.36%>8.75%. Which means the variability's of ratios of NABIL is less consistent than that of EBL, SCBNL & HBL.

It can be concluded that SCBNL has invested its more portion of current assets as government securities than that of NABIL, EBL & HBL. SCBNL liquidity portion from the point of view of investment on government securities is better than that of other three banks.

(v) Loan and Advances to Current Assets Ratio

Loan and advances are also included is the current assets of commercial banks because generally it provides short-term loan, advances/overdraft/ cash-credit, local and foreign bill purchased and discounted.

To make a high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and may lose some earnings, but high loan and advances may also be harmful to keep the bank is most liquid position because they can only be collected at the time of maturity only. Thus, the bank must maintain its loan and advances in appropriate level to find out portion of current asset, which is granted as loan and advances.

$$\text{Loan and advances to current assets ratio (\%)} = \frac{\text{Loan \& Advances}}{\text{Current Assets}}$$

Table 4.5

Loan & Advances to Current Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	55.93	57.50	70.71	71.26	68.11	**64.70**	**7.40**	**11.45%**
SCBNL	33.34	31.40	42.14	41.61	47.68	**39.33**	**6.58**	**16.74%**
HBL	66.56	69.45	63.07	68.08	59.59	**65.34**	**4.00**	**6.12%**
EBL	62.23	62.46	65.85	64.70	65.12	**64.07**	**1.63**	**2.55%**

Sources: Appendix 1(v)

Above table exhibits that loan and advances to current assets ratio of NABIL is in increasing trend from FY 2002/03 to 2005/06 and then in decreasing trend from 2005/06 to 2006/07. In case of SCBNL, EBL & HBL ratio are in fluctuating trend during the study period.

While examining the mean ratio, NABIL has maintained 64.70 which is slightly higher than EBL i.e.64.07 and slightly lower than HBL i.e. 65.34 and higher than SCBNL i.e. 39.33. On the other side co-efficient of variation of NABIL 11.45% is lower than SCBNL and higher than HBL and EBL i.e. 16.74>11.45>6.12>2.55.

From the above table it can be concluded that NABIL has succeeded to invest its fund in loan and advances in comparison to SCBNL but seen little weak in comparison to HBL and EBL in point of view of mean & C.V.

4.1.2 Assets Management Ratio (Activity Ratio)

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner.

(i) Loan and Advances to Total Deposit Ratio.

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances.

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

Table 4.6

Loan & Advances to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	57.67	58.00	72.57	66.79	66.61	**64.33**	**5.72**	**8.89%**
SCBNL	30.36	30.30	42.12	38.75	42.61	**36.86**	**5.47**	**14.84%**
HBL	51.62	58.70	54.21	59.50	56.57	**56.12**	**2.94**	**5.24%**
EBL	73.32	72.97	75.45	71.01	75.13	**73.58**	**1.80**	**2.44%**

Sources: Appendix 1(vi)

In the table 4.6, all the banks have fluctuating trend regarding the ratios. During the study period, NABIL has highest ratio of 72.57 is FY 2004/05 ad lowest ratio 57.67 is FY 2002/03, SCBNL has highest and lowest ratios 42.61 and 30.30 is FY 2006/07 and 2003/04, HBL has highest & lowest ratios 59.50 and 51.62 is FY 2005/06 and 2002/03 and EBL has highest ratio of 75.45 is FY 2004/05 and lowest ratio 71.01 is FY 2005/06 respectively.

In over all mean ratio of loan & advances to total deposit of EBL is higher than that of NABIL, SCBNL & HBL. In case of co-efficient of variation of above banks, EBL has 2.44%, which is comparatively lower than NABIL, SCBNL and HBL i.e. 8.89%, 14.84%, 5.24% respectively.

In conclusion, EBL has strong position regarding the mobilization of total deposit on loan ad advances and acquiring higher profit with compare to NABIL, SCBNL & HBL. It states that EBL is better is this regard.

(ii) Total Investment to Total Deposit Ratio

A commercial bank mobilizes its deposits by investing its fund is different securities issued by government and other financial or no financial institutions. Now, effort has been made to measure the extent to which the banks are successful in mobilizing the total deposits on investment.

In the process of portfolio management of bank assets, various factors such as availability of fund, liquidity requirement Central banks norms etc are to be considered in general. A high ratio is the indicator of high success to mobilize the banking fund as investment and vice versa.

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

Table 4.7

Total Investment to Total Deposit Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	44.85	41.33	29.27	31.93	38.32	**37.14**	**5.79**	**1.6%**
SCBNL	54.47	53.68	50.18	55.71	55.10	**53.83**	**1.94**	**3.6%**
HBL	48.44	42.22	47.20	41.10	39.34	**43.66**	**3.54**	**8.1%**
EBL	24.70	31.44	21.08	30.43	27.41	**27.01**	**4.24**	**15.70%**

Sources: Appendix 1(vii)

The above table exhibits that the ratio of NABIL is in decreasing trend from 2002/03 to 2004/05 and is increasing trend from 2005/06 to 2006/07. In the case of SCBNL it's also in decreasing trend from 2002/03 to 2004/05 and increases is FY 2005/06 & 2006/07. And incase of HBL and EBL its ratio has fluctuating trend.

In average EBL has maintained lower, mean value i.e. 27.01<37.14<43.66< 53.83 than other three banks. SCBNL has maintained the highest mean value of 53.83.

The CV ratio of NABIL is 1.6% which is lower than 3.6%,8.1% and 15.7% of SCBNL,HBL and EBL. NABIL is more stable than that of other three banks.

In conclusion, EBL is in weak condition to mobilize its deposits by investing in different sectors in comparison of other two banks.

(iii) Loan & Advances to Total Working Fund Ratio

Loan & advances is an important part of total assets (total working fund). Commercial bank must be very careful in mobilizing it total assets. As loan and advances in appropriate level to generate profit this ratio reflects the extent to which the commercial banks are success is mobilizing their assets, loan & advances for the purpose of income generation. A high ratio indicates better is mobilization of funds as loan and advances and vice versa.

Loan and Advances to Total Working Fund Ratio

$$= \frac{\text{Loan \& Advances}}{\text{Total Working Fund}}$$

Where, total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment: loans for development bank etc.

Table 4.8

Loan & Advances to Total Working Fund Ratio %

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	46.82	48.91	61.60	57.87	57.04	**54.45**	**6.29**	**11.56%**
SCBNL	27.24	27.11	37.19	34.67	36.73	**32.59**	**5.03**	**15.44%**
HBL	44.82	50.21	46.60	51.54	49.53	**48.54**	**2.75**	**5.66%**
EBL	60.96	61.24	64.61	61.41	63.75	**62.39**	**1.67**	**2.67%**

Sources: Appendix 1(viii)

The above table exhibits that the ratio of NABIL is increasing trend from 2002/03 to 2004/05 and decreasing trend from 2005/06 to 2006/07. In case of SCBNL, HBL and EBL ratios are in fluctuating trend.

On the basis of mean ratios, EBL has maintained the higher ratio than that of NABIL, SCBNL & HBL i.e. 62.39>54.45>48.54>32.59. So, EBL is in good condition to mobilize its total working fund as loan and advances. Co-efficient of variation of EBL is less than HBL, NABIL and SCBNL i.e. 2.67%<5.66%<11.56%<15.44%. It indicates more uniform of EBL is comparison to NABIL, SCBNL and HBL.

So that EBL fund mobilization in terms of loan & advances with respect of total working fund is more satisfactory than that of other three banks.

(iv) Investment on Government Securities to Total Working Fund Ratio

All the resources of a bank are not used as loan and advances. A bank mobilize its fund is various ways. To some extent commercial bank seems to utilize its fund by purchasing government securities. A government security is a safe medium of investment though it is not liquid as cash and bank balance. This ratio is very important to know the extent to which the banks are successful in mobilizing their total fund or different types of government securities to maximize its income. A high ratio indicates better mobilization of funds as investment on government securities is a current asset which is invested by external parties. These types of securities can be sold in the market.

$$\text{Investment an government securities to total working fund ratio} = \frac{\text{Investment on Government Securities}}{\text{Total Working Fund}}$$

Table 4.9

Investment on Government Securities to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	21.67	21.93	14.04	10.31	17.64	**17.12**	**4.99**	**29%**
SCBNL	31.47	33.62	31.90	33.54	24.85	**31.28**	**30.70**	**11.8%**
HBL	13.82	13.34	18.94	16.82	18.81	**16.35**	**2.67**	**16.31%**
EBL	19.86	25.67	17.81	22.24	21.95	**21.51**	**2.93**	**13.64%**

Sources: Appendix 1(ix)

From the above table it is clearly seen that investment on government securities to working fund ratio of NABIL, SCBNL, HBL & EBL is in fluctuating trend.

On the basis of mean, NABIL has maintained slightly higher ratio than HBL and lower ratio than SCBNL and EBL i.e. 17.12>16.35<31.28<21.51. The co-efficient of variation of NABIL is higher than that of SCBNL, EBL & HBL i.e. 29%>16.31%>13.64%>11.8%.

From the above analysis, it can be concluded that fund mobilization in terms of government securities with respect of total working fund of SCBNL is more satisfactory and consistent than that of other three banks. And NABIL is less satisfactory and less homogeneous.

(v) Investment on shares and Debentures to Total Working Fund Ratio

To study the investment management of NABIL, SCBNL, HBL& EBL, total investment has been separated into two parts i.e. Investment on government securities and investment on shares and debentures. Now a day a commercial bank is interested to invest its funds not only on government securities but also in shares & debentures of other different companies and regional development banks.

Investment on shares and debentures to total assets ratio reflects the extent to which the banks are successful to mobilize their assets on purchase of shares and debentures of other companies to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on share and debentures out of total working fund and vice versa.

$$\text{Investment on shares and debentures to total working fund ratio} = \frac{\text{Investment on Shares \& Debentures}}{\text{Total Working Fund}}$$

Table 4.10

Investment on Shares & Debenture to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	0.13	0.13	2.56	0.47	1.053	**0.87**	**1.02**	**11.7%**
SCBNL	0.05	0.05	0.06	0.06	0.16	**0.076**	**0.047**	**62.13%**
HBL	0.14	0.13	0.14	0.13	0.21	**0.15**	**0.03**	**22.6%**
EBL	0.21	0.18	0.16	0.12	0.09	**0.15**	**0.05**	**31.35%**

Sources: Appendix 1(x)

The above table exhibits that the ratio of NABIL & SCBNL is in increasing trend incase of HBL it is in fluctuating trend. And that of EBL is in decreasing trend.

On the basis of mean ratios, NABIL has higher investment than other three banks i.e. 0.87>0.15>0.15>0.076. Moreover, CV of NABIL is less than other three banks i.e. 11.7 %< 22.6 %<31.35%< 62.13%, which states that the position of NABIL is better in this regard.

It can be concluded that NABIL has invested more portion of its total working fund on shares & debentures than other three banks. And also NABIL is more consistent and homogeneous than SCBNL, EBL & HBL.

4.1.3 Profitability Ratio

Profit is the back bone of the financial institutions and commercial banks. The main objective of a commercial bank is to earn profit providing different types of banking services to its customers. To meet various objectives like to have a good liquidity position, meet fixed internal obligation, overcome the future contingencies, grab hidden investment opportunities, expend banking transitions in different places and finance government in need of development funds etc, a commercial bank must earn sufficient profit.

Profitability ratios are the best indicators of overall efficiency. Here mainly those ratios are presented and analyzed which are related with profit as well as investments. An effort has been made to measure the profit earning capacity of NABIL, SCBNL, HBL & EBL through the following ratios.

(i) Return on Total Working Fund Ratio

It measures the profit earning capacity by utilizing available resources i.e., total assets. Return will be higher if the banks working fund is well managed and are efficiently utilized, maximizing taxes with in legal options available will also improve the return.

$$\text{Return on total working fund ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

Where,

Net profit includes the profit that is left to the internal equities after all costs, charges & expenses

Table 4.11

Return on Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	2.51	2.72	3.02	2.84	2.47	**2.71**	**0.23**	**8.47%**
SCBNL	2.42	2.27	2.46	2.55	2.42	**2.42**	**0.10**	**4.18%**
HBL	0.88	1.02	1.06	1.50	1.43	**1.18**	**0.27**	**23.05%**
EBL	1.17	1.49	1.43	1.49	1.38	**1.39**	**0.13**	**9.51%**

Sources: Appendix 1(xi)

The above table exhibits that the ratio of NABIL is in increasing trend from 2002/03 to 2004/05 and decreasing from 2005/06 to 2006/07. In case of SCBNL and EBL it's in fluctuating trend and incase of HBL it's in increasing trend from 2002/03 to 2005/06 & its decreases on 2006/07.

In the mean ratios, it is observed that the NABIL has the highest mean value i.e. 2.71>2.42>1.39>1.18. So, NABIL is highly efficient to earn net profit and return as well. On the other hand C.V of NABIL is less

than HBL & EBL and higher than SCBNL i.e. 8.47%<23.05%>9.51%>4.18%.

From the above analysis it can be concluded that NABIL is in strong position in the earning capacity by utilizing available resources than other banks. It's less consistent and homogeneous than SCBNL & more than HBL and EBL.

(ii) Total Interest Earned to Total outside Assets Ratio

It reflects that the extent to which the bank is successful to earn interests as major income on all the outside Assets. Higher the ratio higher will be the earning power of total outside assets. This is very important ratio, as the main asset is the outside Assets of a commercial bank.

$$\text{Total interest earned to Total outside Assets} = \frac{\text{Total Interest Earned}}{\text{Total Outside Asset}}$$

The total outside assets includes loan & advances investment n government securities, share and debentures and other all types of investment.

Table 4.12

Total Interest Earned to Total Outside Assets Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	7.38	7.14	7.20	6.86	6.50	**7.02**	**0.34**	**4.89%**
SCBNL	14.9	5.86	5.93	5.46	5.87	**7.66**	**4.08**	**53.72%**
HBL	5.71	5.61	5.75	6.10	6.10	**5.85**	**0.23**	**3.94%**
EBL	7.93	7.81	7.38	6.45	6.14	**7.14**	**0.81**	**11.30%**

Sources: Appendix 1(xii)

The above comparative table reveals that NABIL has fluctuating trend from FY 2002/03 to 2005/06 and on FY 2006/07 it's increasing. SCBNL has fluctuating trend during the study period and HBL has fluctuating trend from 2002/03 to 2005/06 its stable is 2006/07 and EBL has decreasing trend till the study period.

On the basis of mean ratios NABIL is less than EBL and SCBNL 7.02<7.14<7.66 & higher than HBL i.e. 7.02>5.85 in respect to total interest earned to total outside assets. On the other hand, C.V of NABIL is less than that of SCBNL and EBL and higher than HBL.

From the above analysis, it can be concluded the NABIL is in strong position is earning high interest income from its total outside assets is comparison to SCBNL & HBL is view point of mean & C.V ratio. Moreover, SCBNL and EBL is comparatively efficient to earn high interest income from outside assets than other banks.

(iii) Total Interest Earned to Total Working Fund Ratio

This ratio reflects the extent to which the banks are successful is mobilizing their total assets to generate high income as interest. A high ratio is indicator of high earning power of the bank on its total working fund and vice versa.

$$\text{Total interest earned to total working fund ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

Table 4.13

Total Interest Earned to Total Working Fund Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	6.15	5.98	6.22	5.87	5.88	**6.01**	**0.17**	**2.84%**
SCBNL	4.81	4.41	4.83	4.61	5.94	**4.72**	**0.21**	**4.45%**
HBL	4.96	4.84	5.01	5.32	5.17	**4.96**	**0.22**	**4.40%**
EBL	6.46	6.84	6.10	5.66	5.34	**6.08**	**0.60**	**9.89%**

Sources: Appendix 1(xiv)

The above comparative table reveals that NABIL & SCBNL has followed fluctuating trend during the study period. In the case of HBL it is in fluctuating trend from FY 2002/03 to FY 2005/06 and decreasing is

2006/07 like wise 4.96, 4.84, 5.01, 5.32, 5.17 is FY 2002/03 to 2006/07. EBL has decreasing trend except in FY 2003/04 it is in increasing from 6.46% to 6.84%.

The mean of EBL is greater than that of other three banks i.e. 6.08>6.01>4.96>4.72. So, we can say that EBL is in strong position to generate interest income from the total working fund than other three banks. On the other hand, C.V of NABIL is lower than that of SCBNL, HBL & EBL i.e. 2.84%<4.40%<4.45%<9.89%. It means NABIL is more consistent than other three banks.

Thus, it can be concluded that the ratio of total interest earned to total working fund ratio of NABIL is satisfactory with compared to other banks. That means the total interest earned to total working fund ratio of NABIL is stable in comparison to EBL, SCBNL & HBL.

(iv) Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest paid against the total working fund. A high ratio indicates the higher interest expenses on total working fund and vice versa.

$$\text{Total interest paid to total working fund ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

Table 4.14

Total Interest Paid to Total Working Fund Ratio

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	1.91	1.70	1.42	1.55	2.04	**1.72**	**0.25**	**14.76%**
SCBNL	1.22	1.20	1.16	1.20	1.44	**1.24**	**0.11**	**9.02%**
HBL	2.31	1.91	1.95	2.12	2.24	**2.11**	**0.17**	**8.3%**
EBL	3.82	3.29	2.54	2.52	2.41	**2.92**	**0.61**	**21.08%**

Sources: Appendix 1(xv)

The above comparative table reveals that total interest paid to total working fund ratio of NABL and SCBNL is in decreasing trend at first 3

years i.e. FY 2002/03 to 2004/05 and then it is in increasing trend from 2005/06 to 2006/ 07 . In case of HBL its ratio is in decreasing trend from FY 2002/03 to 2003/04 and in increasing trend from 2004/05 to 2005/06. In case of EBL, total interest paid to total working fund ratio is in decreasing to till the last year during the study period.

The mean ratio of EBL i.e. 2.92 is higher than that of NABIL, SCBNL and HBL i.e. 1.72, 1.24 and 2.11. It means EBL pays higher interest than other three banks during the study period. On the other hand EBL coefficient of variable is higher i.e. 21.08% in comparison to NABIL, SCBNL and HBL i.e. 14.76%, 9.02% and 8.3%. It indicates that EBL ratio is less consistent than other banks.

In conclusion we can say that HBL is in better position from payment of interest point of view (less expenses generate the high income generate theory). It seems to be successful to collect its working fund from less expensive sources in comparison to NABIL, SCBNL and less than EBL.

(v) Return on Loan & Advances Ratio

Return on loan & advances ratio measures the earning capacity of a commercial bank on its mobilized fund based loan and advances. A high ratio indicates a greater success to mobilize fund and vice versa.

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit}}{\text{Loan \& Advances}}$$

Table 4.15

Return on Loan & Advances Ratio (%)

Banks	Fiscal Year					Mean	S.D	C.V (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	5.37	5.56	4.90	4.92	4.33	**5.02**	**.48**	**9.5%**
SCBNL	8.9	8.41	6.62	7.37	6.6	**7.58**	**1.64**	**13.77%**
HBL	1.96	2.03	2.30	2.90	2.89	**2.42**	**0.45**	**18.8%**
EBL	1.92	2.44	2.21	2.42	2.17	**2.23**	**0.21**	**9.51%**

Sources: Appendix 1(xiii)

The above table exhibits that the ratio of NABIL has maintained fluctuating trend. SCBNL has decreasing trend at first i.e. from FY

2002/03 to 2004/05 and then followed fluctuating trend from 2005/06 to 2006/07. HBL has maintained increasing trend from 2002/03 to 2005/06 and then decreases in 2006/07. EBL has fluctuated trend till the study period.

The mean of the NABIL is higher than HBL and EBL i.e. 5.02>2.42>2.23 and lower than SCBNL i.e. 5.02<7.58 is respect to return on loan & advances ratio. On the other hand C.V of NABIL is less than that of other three banks. So NABIL has maintained high return with variability ratios.

From the above analysis, it can be concluded that NABIL is significantly able to earn high return on its loan and advances is comparison of other three banks is point of view of average mean & low C.V ratio.

(vi) Return on Equity

Equity capital of any banks is its owned capital. The prime objective of any banks is wealth maximization or in other words to earn high profit and maximizing return to its shareholders. ROE is the measuring rod of the profitability of banks. It reflects the extent to which the banks has been successful to mobilize it's equity capital. A high ratio indicates higher success to mobilize its owned capital and vice versa.

$$\text{Return on equity} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

Table 4.16

Return on Equity Ratio (%)

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	35.12	30.77	31.30	33.91	32.79	**32.88**	**1.42**	**4.32%**
SCBNL	37.03	35.96	33.89	37.55	32.68	**35.42**	**2.08**	**5.86%**
HBL	19.95	19.87	19.99	25.90	36.89	**24.52**	**7.38**	**30.10%**
EBL	15.37	21.10	14.85	18.79	19.74	**17.97**	**2.74**	**15.26%**

Sources: Appendix 1(xvi)

The above table exhibits that ratios of NABIL followed decreasing trend from FY 2002/03 to FY 2003/04 and then increased from FY 2004/05

to 2005/06 and again decreased is FY 2006/07. In case of SCBNL ratio, it followed decreasing trend from FY 2002/03 to 2004/05 then increasing trend from 2005/06 to 2006/07. In case of HBL ratio, it followed decreasing trend is FY 2002/03 to FY 2003/04 and then increased from FY 2004/05 to 2006/07. EBL has fluctuated trend, it has decreased in FY 2004/05 and then increase till last year during study period.

In the mean ratios, it is observed that NABIL has the average mean value i.e., 32.88 which is less than 35.42 of SCBNL and higher than 24.52 and 17.97 of HBL and EBL. The co-efficient of variation of NABIL is less than other banks i.e., 4.32%< 5.86%<15.26%<30.10%.

In the point of view of average mean and lower C.V it can be concluded that comparatively NABIL has mobilized its equity capital more efficiently than other banks. So, NABIL has sound investment policy on equity capital more over its lower C.V shows its more homogenous during the study period.

4.2 Return to Investor

Return to investor is another tool of analysis the performance of the commercial banks. Higher the return to the investor, better the performance of the company. Higher dividends and the stock price increase the increase return to investors. Investor thus gets returns to their investment in the form of dividend yield. This study tries to analysis the rate of return to the investors as MPS, EPS, DPS, NWPS, P/E Ratio and dividend yield as per the purpose of objective no. 2.

4.2.1 Market Price Per Share (MPS)

Market price per share is the price at which shares are traded in the stock market. Those shares are transacted in the secondary markets, which are already issued to the public. Organized stock exchange centers are known as secondary market where trading of the stocks are conducted. Market value in the secondary market is determined by supply and demand factors and reflects the consensus opinion of investors and traders concerning the value of the stock. In an efficient market a set of information is fully and immediately reflected in

market price. Market price per share of a company reflects the performance of the company. Performance evaluation thus could be defined as analysis of common stock. The demand of the stocks of better companies will be higher and market price per share of those companies also will be higher in the stock market.

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

Table 4.17

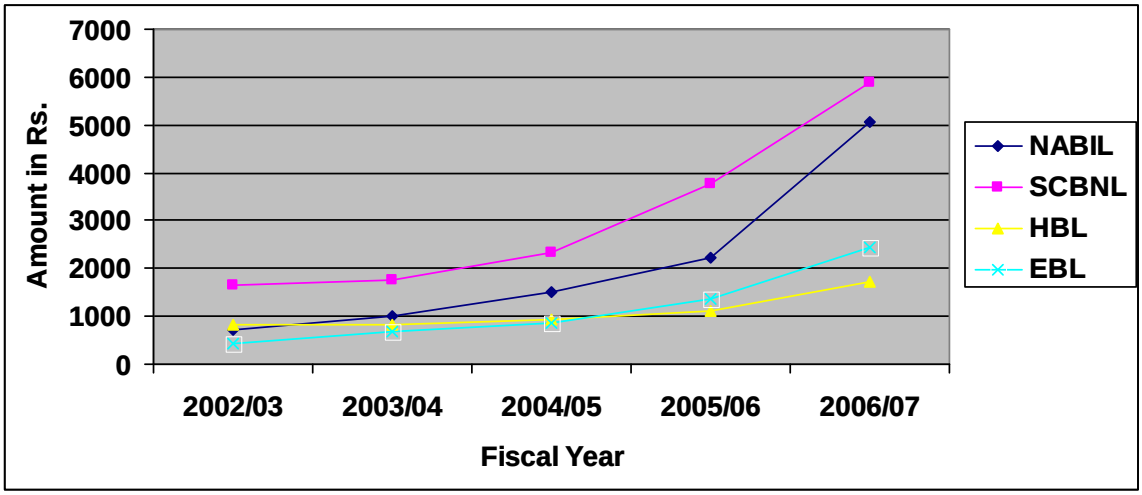
Market Price Per Share

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	735	1000	1505	2240	5050	**2106.00**	**1742.78**	**82.75%**
SCBNL	1640	1745	2345	3775	5900	**3081.00**	**1791.05**	**58.13%**
HBL	836	840	920	1100	1740	**1087.20**	**380.29**	**34.98%**
EBL	445	680	870	1379	2430	**1160.80**	**788.45**	**67.92%**

Source: Annual Report of Concern Bank

Figure 4.1

Market Price Per Share of Banks



The average closing MPS of NABIL during the period of study is Rs. 2106 with standard deviation of 1742.78 and a coefficient of variation

of 82.75%. This implies that the share price of NABIL is highly fluctuating in nature.

SCBNL within the period of study had an average closing MPS of Rs. 3081, ranging between Rs.5900 and Rs 1640. The standard deviation is 1791.05 and the fluctuation of 58.13% in the closing MPS is seen during the period.

During the period of study, HBL had an average closing MPS of Rs. 1087.20 with standard deviation 380.29. The coefficient of variation shows that there is fluctuation of 34.98% in closing MPS of HBL.

EBL has the closing MPS range between Rs. 2430 and Rs. 445 during the period of study. An average closing MPS of Rs 1160.80 is noted during this period. The standard deviation of the closing MPS is 788.45. The C.V of 67.92% indicates that there is a fluctuation of 67.92% in the closing MPS of EBL during the period of the study, which is high.

From the above data calculations, it can be seen that the average closing MPS of SCBNL is the highest and that of HBL is the lowest. Similarly the standard deviation of SCBNL is highest and HBL is the lowest. The coefficient of variation of these banks shows that there is an above moderate level of fluctuations in the MPS.

4.2.2 Net Worth Per Share (NWPS)

Net worth is the owner's equity in the company. It is also known as book value of the company. The book value per share is computed by dividing the amount of total shareholder's equity, which is called net worth, by the number of shares outstanding (Weston and Brigham, 1996:675). This figure represents the asset value per share after deducting liabilities and preferred stock (Cheney and Moses, 1993:417). Book value is a historical cost amount. It represents the real or actual value of the common stock. Generally, market price of stock is greater than book value of the stock. This clearly indicates that higher net worth per share is the signal of better companies.

Therefore, the net worth per share is a good measure of performance of joint venture banks.

Table 4.18

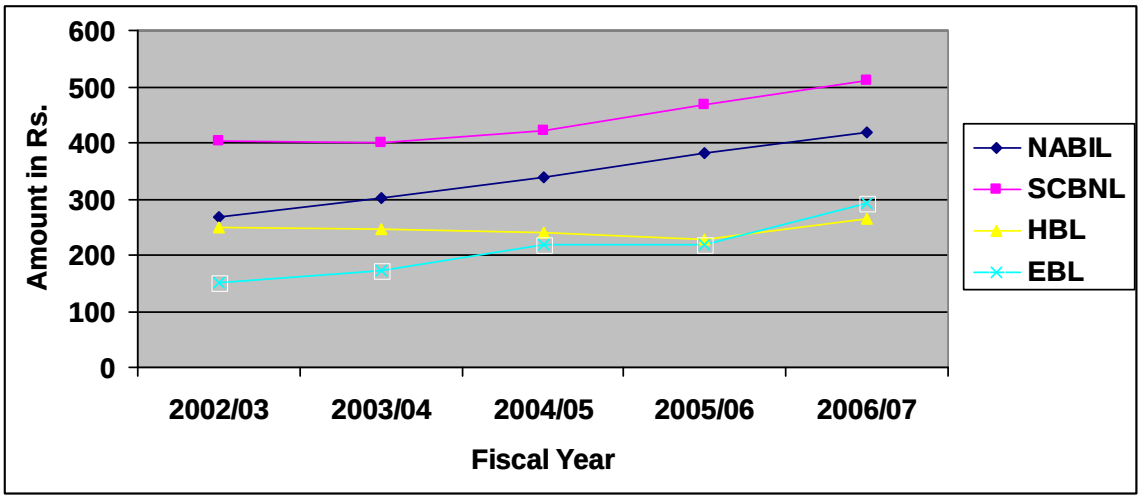
Net Worth Per Share

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	267.30	301.37	337	381	418	**340.93**	**60.31**	**17.69%**
SCBNL	403.15	399.25	422.37	468.22	512.12	**441.02**	**48.27**	**10.95%**
HBL	247.82	246.93	239.59	228.72	264.74	**245.56**	**13.17**	**5.36%**
EBL	150.10	171.52	219.88	217.67	292.75	**210.38**	**54.94**	**26.11%**

Source: Annual Report of Concern Bank

Figure 4.2

Net Worth Per Share of Banks



During the period of study, NABIL had an average NWPS of Rs. 340.93 with standard deviation 60.31. The coefficient of variation shows that there is fluctuation of 17.69% in NWPS of NABIL.

SCBNL within the period of study had an NWPS of Rs.441.02, ranging between Rs.512.12 and Rs. 399.25. The standard deviation is 48.27 and the fluctuation of 10.95% in the closing NWPS is seen during the period.

The average NWPS of HBL during the period of study is Rs. 245.56 with standard deviation of 13.17 and a coefficient of variation of 5.36%. EBL has the NWPS range between Rs. 292.75 and Rs. 150.10

during the period of study. An average NWPS of Rs. 210.38 is noted during this period. The standard deviation of the NWPS is Rs.54.94. The C.V of 26.11% indicates that there is a fluctuation of 26.11% in the NWPS of EBL during the period of the study.

From the above data calculations, it can be seen that NWPS of SCBNL is the highest and that of EBL is the lowest. Similarly the standard deviation of NABIL is highest and HBL is the lowest. The coefficient of variation of these banks shows that there is an above moderate level of fluctuations in the NWPS

4.2.3 Earning Per Share (EPS)

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

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

$$\text{EPS} = \text{Asset Turnover} \times \text{Margin on Sales} \times \text{Financial Leverage} \times \text{Book Value per Share}$$

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

EPS is the overall result of turnover, profitability, leverage and book value per share. It provides combined result of total assets turnover, return on sales debt and equity position in the capital structure, and the book value per share of the company. Higher EPS shows the better earning capacity of the company. The EPS is thus a good measure of performance of companies. A company with higher earning per share not only can satisfy its existing shareholders and attract potential

investors but also contribute to government, society and ultimately to the nation.

Table 4.19

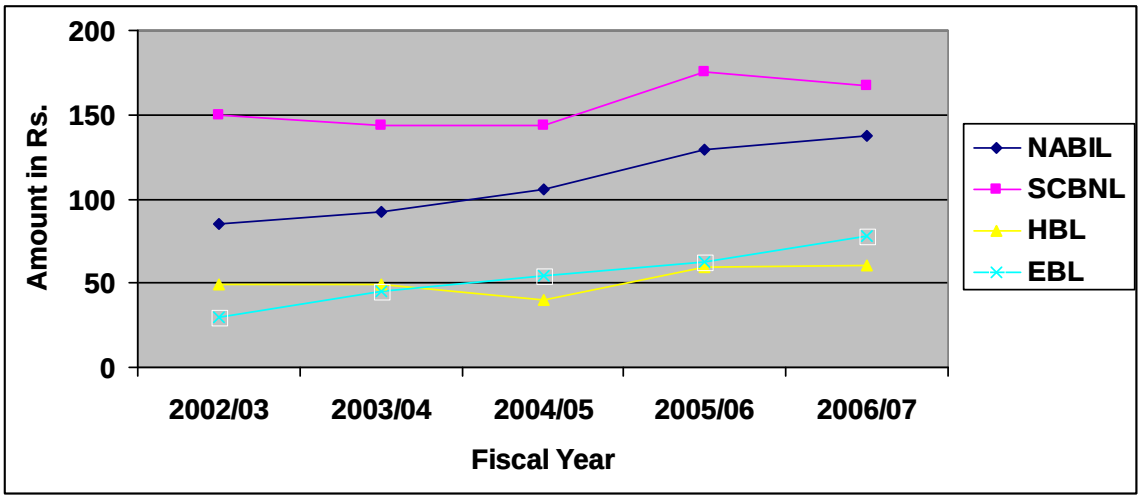
Earning Per Share

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	84.66	92.61	105.49	129.21	137.08	**109.81**	**22.73**	**20.70%**
SCBNL	149.30	143.55	143.14	175.84	167.35	**155.84**	**14.90**	**9.56%**
HBL	49.45	49.05	39.92	59.24	60.66	**51.66**	**8.48**	**16.42%**
EBL	29.9	45.6	54.2	62.8	78.4	**54.18**	**18.19**	**33.58%**

Source: Annual Report of Concern Bank

Figure 4.3

Earning Per Share of Banks



During the period of study, NABIL had an average EPS of Rs. 109.81 with standard deviation Rs.22.73. The coefficient of variation shows that there is fluctuation of 20.70% in EPS of NABIL.

SCBNL within the period of study had an average EPS of Rs.155.84, ranging between Rs.175.84 and Rs. 143.14. The standard deviation is Rs. 14.90 and the fluctuation of 9.56% in the EPS is seen during the period.

The average EPS of HBL during the period of study is Rs. 51.66 with standard deviation of Rs.8.48 and a coefficient of variation of 16.42%. EBL has the EPS range between Rs. 78.4 and Rs. 29.9 during the

period of study. An average EPS of Rs 54.18 is noted during this period. The standard deviation of the EPS is Rs.18.19. The C.V of 33.58% indicates that there is a fluctuation of 33.58% in the EPS of EBL during the period of the study.

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

4.2.4 Dividend Per Share (DPS)

Investors on the common stocks are attracted to the dividends because it is the return on their investment. Not all companies can provide higher dividends to the common stockholders. For this, they need larger amount of profit. From the total earnings available to common stockholders, the company may retain some earnings for planned investment and distribute remaining amount to common stock holders, or the company may distribute dividends at fixed amount or constant pay out ratio as per its dividend policy. Dividend per share is the regular amount availed to the holders of each common stock by the company. Evaluation of performance of listed companies in terms of dividend per share (DPS) is considered as an appropriate measure, which shows the companies' earnings and dividend paying capacity.

DPS is the result of various ratios as follows

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

Dividend per Share includes dividend decision in earning per share. Although the behavior of companies towards dividend payment is disappointing in Nepal, the joint venture banks, other financial institutions, and some other companies have brought greater revolution in this trend. They are competing for paying larger amount of dividends in recent years.

Table 4.20

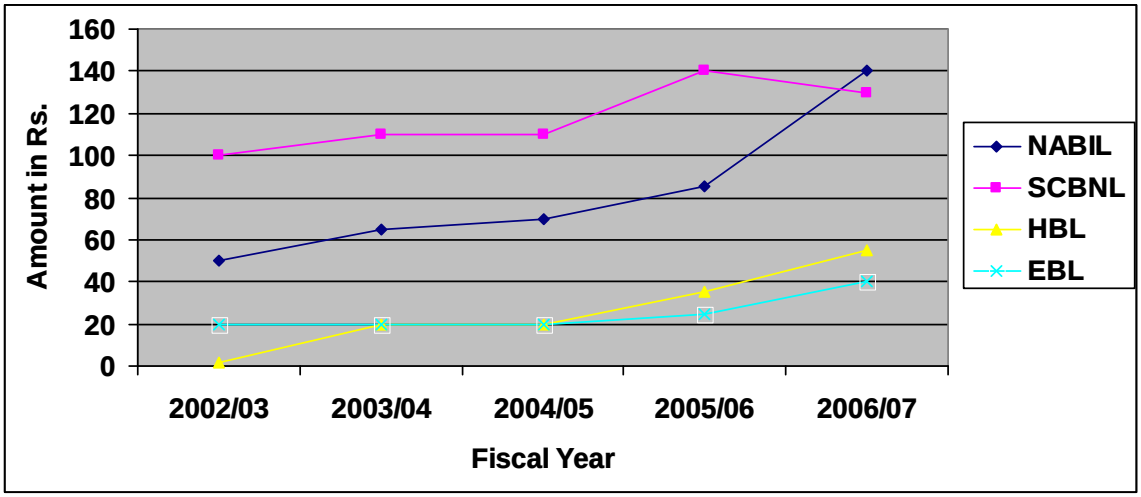
Dividend Per Share

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	50	65	70	85	140	**82.00**	**34.75**	**42.38%**
SCBNL	100	110	110	140	130	**118.00**	**16.43**	**13.93%**
HBL	1.32	20	20	35	55	**26.26**	**20.02**	**76.22%**
EBL	20	20	20	25	40	**25.00**	**8.66**	**34.64%**

Source: Annual Report of Concern Bank

Figure 4.4

Dividend Per Share of Banks



The average DPS of NABIL is Rs.82 with the standard deviation Rs.34.75. The coefficient of variation is 42.38%, which indicates that there is moderated fluctuation in the DPS of NABIL.

SCBNL has an average DPS of Rs. 118. Continue dividend was paid in the years. The standard deviation is Rs. 16.43 and the fluctuation of 13.93% in the DPS is seen during this period.

HBL has an average DPS of Rs. 26.26. The highest DPS is Rs 55 whereas it has paid low dividend in the years 2002/2003. The standard deviation is 20.02 and coefficient of variation is 76.22%. The CV indicates that the DPS of HBL is huge fluctuating.

EBL paid the highest DPS of Rs.40. and constant dividend was paid in the year's 2002/03, 2003/04 and 2004/05. An average DPS of Rs 25 has been noted during the study period. The standard deviation of the DPS is Rs. 8.66. The C.V. of 34.64% indicates that there is a quite fluctuation in the DPS of EBL.

From the above calculations, SCBNL has the highest average DPS and EBL has the lowest. The C.V indicates that among the banks under study during the period no bank has the highest consistency in paying dividend whereas the DPS of NABIL and HBL are highly fluctuating.

4.2.5 Price Earning Ratio (P/E Ratio)

The price-earning ratio is widely used by the security analysts to value the firm's performance as expected by investors. It indicates investors' expectations about the firm's performance. Management is also interested in this market appraisal of the firm's performance and will like to find the causes if the P/E ratio declines. P/E ratio reflects investor's expectations about the growth in the firm's earnings. Industries differ in their growth prospects accordingly, the P/E ratios fore industries vary widely.

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

Table 4.21

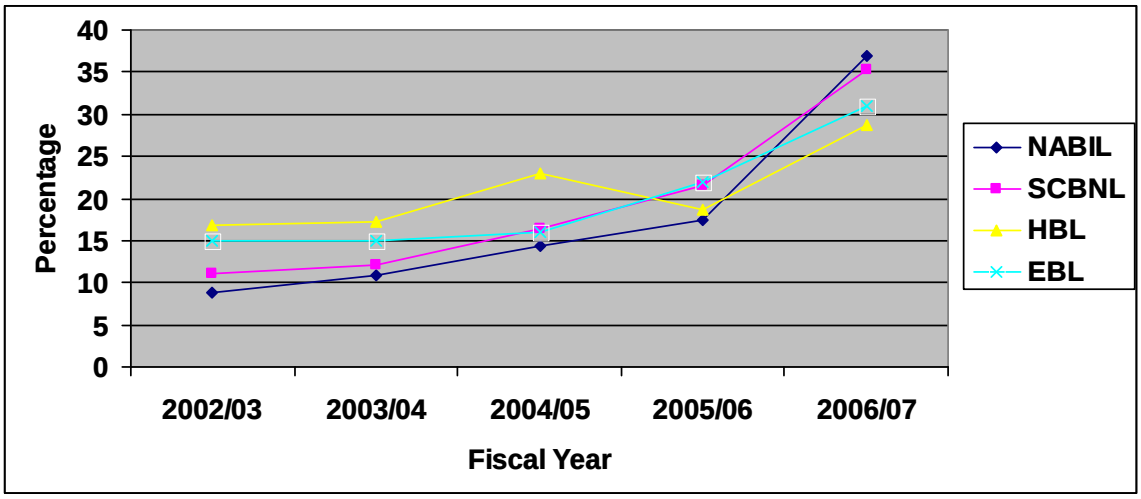
Price Earning Ratio (%)

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	8.74	10.80	14.26	17.34	36.84	**17.60**	**11.25**	**63.93%**
SCBNL	10.98	12.15	16.38	21.47	35.25	**19.25**	**9.85**	**51.17%**
HBL	16.91	17.13	23.05	18.57	28.68	**20.87**	**5.02**	**24.04%**
EBL	14.9	14.9	16.0	22.0	31.0	**19.76**	**6.94**	**35.13%**

Source: Annual Report of Concern Bank

Figure 4.5

Price Earning Ratio of Banks



The average P/E Ratio of NABIL, during this period of study is 17.60. It is within the range of 36.84 and 8.74. The standard deviation of P/E Ratio is 11.25 whereas coefficient of variation is 63.93% indicates the high fluctuating nature of P/E Ratio in NABIL. SCBNL has an average P/E Ratio of 19.25. The standard deviation is 9.85 and coefficient of variation is 51.17%. The CV indicates that the P/E Ratio of SCBNL is significantly high.

HBL has an average P/E Ratio of 20.87 ranging between 28.68 and 16.91 during the period of study. The standard deviation is 5.02 and the fluctuation of 24.04% in the P/E Ratio is seen during this period, which is high.

The average P/E ratio of EBL is 19.76 with standard deviation of 6.94. The coefficient of variation is 35.13%, which indicates that the bank has the medium fluctuation in P/E Ratio during the period.

From the above calculations, HBL has the highest average P/E Ratio and NABIL has the lowest. The C.V indicates that among the banks under study during period, HBL has the highest consistency in P/E Ratio whereas the P/E Ratio of NABIL is highly fluctuating.

4.2.6 Dividend Yield

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

Table 4.22

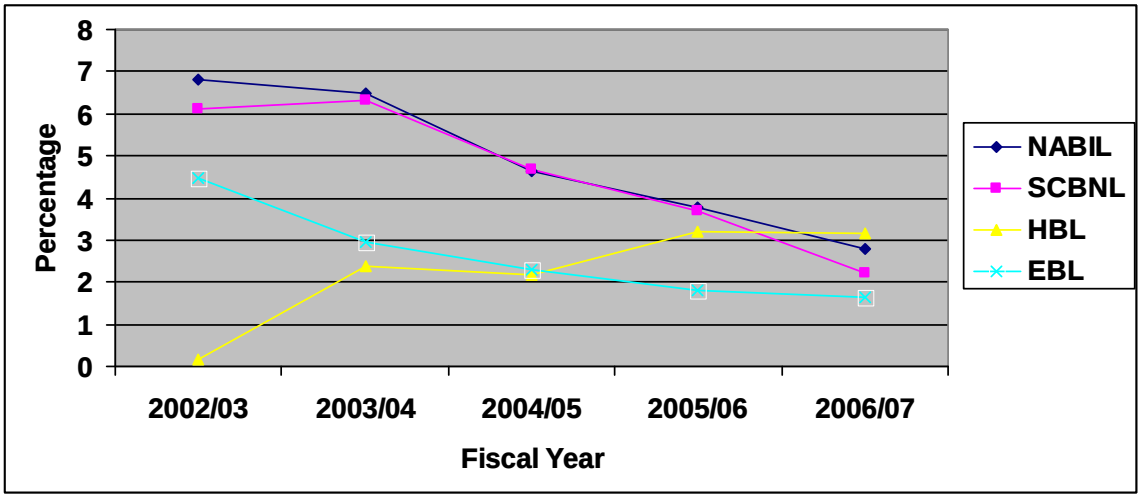
Dividend Yield

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	6.80	6.50	4.65	3.79	2.77	**4.9**	**2.4**	**48.99%**
SCBNL	6.10	6.30	4.69	3.71	2.20	**4.6**	**2.34**	**50.87%**
HBL	0.16	2.38	2.17	3.18	3.16	**2.21**	**1.68**	**76.07%**
EBL	4.49	2.94	2.30	1.81	1.65	**2.64**	**1.06**	**40.13%**

Source: Annual Report of Concern Bank

Figure 4.6

Dividend Yield of Banks



During the period of study, HBL had an average DY of 2.21% with a standard deviation of the DY under the period of study is 1.68. The DY range between 3.18% and 0.16%. The coefficient of variation shows that there is a fluctuation of 76.07% in DY of HBL. EBL has the DY range between 4.49% and 1.65% during the period of study. An average DY of 2.64% is noted during this period. The standard deviation of the DY is 1.06. The C.V. of 40.13% indicates that there is a fluctuation of 40.13% in the DY of EBL, during the period of study, which is high. SCBNL within the period of study had an average DY of 4.6% ranging between 6.30% and 2.20%. The standard deviation is 2.34 and the fluctuation of 50.87% in the DY, shown by the coefficient of variation of the bank significantly high. The DY of NABIL range between 6.80% and 2.77% during the period of study. The average DY is 4.9%. The standard deviation of the DY is 2.4. The C.V. of 48.99% indicates that the fluctuation of the DY of NABIL is significantly high.

From the above data and calculations, it can be seen that the average DY of NABIL is the highest and that of HBL is the lowest. Similarly the standard deviation of NABIL is the highest and EBL is lowest. The coefficient of variation of these banks shows that the DY of HBL is highly fluctuating.

4.3 Return Analysis

A return analysis represent the investment return is defined as after tax increase in the value of the initial investment. The increase in value can come from two sources, a direct cash payment to the investors or an increase in market value of investment relative to the original purchase price.

Table 4.23

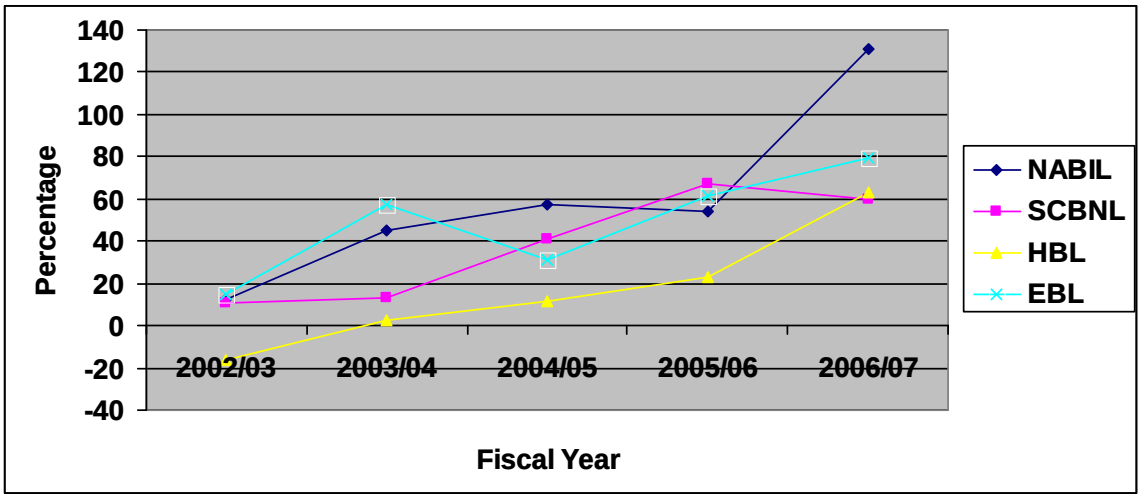
One Year Holding Period Return (%)

Banks	Fiscal Year					Mean	SD	CV (%)
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	12.14	44.90	57.50	54.48	131.17	**60.04**	**43.65**	**72.70%**
SCBNL	10.48	13.11	40.69	66.95	59.74	**38.19**	**25.95**	**67.96%**
HBL	-16.27	2.87	11.90	23.37	63.18	**17.01**	**29.60**	**174.04%**
EBL	14.81	57.30	30.88	61.38	79.11	**48.70**	**25.62**	**52.61%**

Source: Appendix 2(i-iv)

Figure 4.7

One Year Holding Period Return of Banks



The above table shows the one year holding period return of listed commercial banks during the study period 2002/03 to 2006/07. The mean holding period return of NABIL, SCBNL, HBL and EBL are 60.04, 38.19, 17.01, and 48.70 respectively. The mean HPR of NABIL is greater where as the mean HPR of HBL is less among the banks. The HBL has negative return on the year 2002/03. But all other banks have positive return.

The C.V. of HBL is 174.04% which is higher among other banks which is taken for the study, the return of HBL is more variance where as the C.V. of EBL is 52.61% lies less among them, the return comparing to other.

4.4 Statistical Tools

Under this heading some statistical tools such as co-efficient of correlation analysis between different variables, regression analysis as well as hypothesis test are used to achieve the objective no. 3 of the study.

4.4.1 Coefficient of Correlation Analysis

Correlation analysis is the relationship between two or more variables such that the change in one tends to be accompanied by the change in other. Correlation is denoted by 'r' and ranges from +1.0 indicating perfect positive correlation to -1.0, indicating perfect negative correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

In this chapter, correlation between MPS and EPS, NWPS, DPS have been calculated. Then results have analyzed and interpreted and then significance of correlation has been tested using Karl Pearson's correlation of co-efficient.

Interpretation of Correlation Co-efficient

- It lies always between +1 to -1.
- When r= +1, there is perfect positive correlation.
- When r= -1, there is perfect negative correlation.
- When r= 0, there is no correlation.
- When r lies between 0.7 to 0.999, (-0.7 to -0.999) there is a high degree of positive or negative correlation.
- When r lies between 0.5 to 0.6999, there is moderate degree of correlation.
- When r is less than 0.5, there is a low degree of correlation.

Probable Error

- If r < 6 P.E, then the value of 'r' is not significant.
- If r > 6 P.E, then the value of 'r' is definitely significant.
- If the other situations happen, nothing can be concluded with certainty.

4.4.1.1 Coefficient of Correlation Between MPS and EPS

This table is present to show the relationship between MPS and EPS. It is know that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.24

Correlation Between MPS and EPS

S. NO.	Name of Company	Correlation Coefficient (r)	Probable Error (6P.E.)
1	NABIL Bank Ltd.	0.8770	0.7539
2	Standard Chartered Bank Ltd.	0.7638	0.7539
3	Himalayan Bank Ltd.	0.7078	0.9032
4	Everest Bank Ltd.	0.9432	0.1998

Source: Appendix 3(i)

The statistical table 4.24 clear demonstrates that the degree of relationship between MPS and EPS seems to be significant. we can clearly see that the correlation of MPS with EPS 0.8770, 0.7638, 0.7078 and 0.9432 respectively in case of NABIL, SCBNL, HBL and EBL which shows that the increase in the value of EPS by 0.8770, 0.7638, 0.9431 and 0.9432 unit respectively causes to increase 1 unit value of MPS. Thus, there exists high degree of positive correlation in NABIL, SCBNL, HBL and EBL. Such an increasing value of MPS with EPS is healthy indicator of the financial activities of companies in the least developed countries like Nepal.

But the value of 'r' is less than six times P.E. in case of HBL. This states that there is not significant. In case of NABIL, SCBNL and EBL the value of 'r' is greater than 6P.E. which shows that the correlation coefficient of NABIL, SCBNL and EBL is significant.

In other words, if independent variables (EPS) increase then it causes to increase dependent variable (MPS) by 1unit and vice-versa in case of positive correlation. Again if independent variable (EPS) decreases than it causes to decrease dependent variable (MPS) by 1unit and vice-versa in case of negative correlation.

4.4.1.2 Coefficient of Correlation Between MPS and NWPS

This table is present to show the relationship between MPS and NWPS. It is known that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.25

Correlation Between MPS and NWPS

S. NO.	Name of Company	Correlation Coefficient (r)	Probable Error (6P.E.)
1	NABIL Bank Ltd.	0.9023	0.3364
2	Standard Chartered Bank Ltd.	0.9929	0.0254
3	Himalayan Bank Ltd.	0.6187	1.1171
4	Everest Bank Ltd.	0.9535	0.1643

Source: Appendix 3(ii)

The statistical table 4.25 clear demonstrates that the degree of relationship between MPS and NWPS seems to be significant. We can clearly see that the correlation of MPS with NWPS 0.9023, 0.9929, 0.6187 and 0.9535 respectively in case of NABIL, SCBNL, HBL and EBL respectively which shows that the increase in the value of NWPS by 0.9023, 0.9929, 0.6187 and 0.9535 units respectively causes to increase 1 unit value of MPS. Thus, there exists high degree of positive correlation in NABIL, SCBNL and EBL. There is moderate degree of correlation in HBL. Such an increasing value of MPS with NWPS is healthy indicator of the financial activities of companies in the least developed countries like Nepal.

But the value of 'r' is less than six times P.E. in case of HBL. This states that there is no significant. NABIL, SCBNL and EBL the value of 'r' is greater than 6P.E. which shows that the correlation coefficient is significant.

In other words, if independent variables (NWPS) increase then it causes to increase dependent variable (MPS) by 1 unit and vice-versa in case of positive correlation. Again if independent variable (NWPS) decreases than it causes to decrease dependent variable (MPS) by 1 unit and vice-versa in case of negative correlation.

4.4.1.3 Coefficient of Correlation between MPS and DPS

This table is present to show the relationship between MPS and DPS. It is known that the correlation coefficient helps to determine if any relationship exists among variables and this test the significant of correlation coefficient.

Table 4.26

Correlation between MPS and DPS

S. NO.	Name of Company	Correlation Coefficient (r)	Probable Error (6P.E.)
1	NABIL Bank Ltd.	0.9950	0.0179
2	Standard Chartered Bank Ltd.	0.7782	0.7138
3	Himalayan Bank Ltd.	0.9108	0.3086
4	Everest Bank Ltd.	0.9693	0.1093

Source: Appendix 3(iii)

The statistical table 4.26 clear demonstrates that the degree of relationship between MPS and DPS seems to be significant. We can clearly see that the correlation of MPS with DPS 0.9950, 0.7782, 0.9108 and 0.9693 respectively in case of NABIL, SCBNL, HBL and EBL respectively which shows that the increase in the value of DPS by 0.9950, 0.7782, 0.9108 and 0.9693 units respectively causes to increase 1 unit value of MPS. Thus, there exists high degree of positive correlation in NABIL, SCBNL, HBL and EBL. Such an increasing value of MPS with DPS is healthy indicator of the financial activities of companies in the least developed countries like Nepal.

In all the case the value of 'r' is greater than 6P.E. which shows that the correlation coefficient is significant.

In other words, if independent variables (DPS) increase then it causes to increase dependent variable (MPS) by 1 unit and vice-versa in case of positive correlation. Again if independent variable (DPS) decreases than it causes to decrease dependent variable (MPS) by 1 unit and vice-versa in case of negative correlation.

4.4.2 Regression Analysis

Multiple regression analysis is the basis for this chapter because the analysis part is fully covered by multiple regression analysis. Under this analysis, influences of independent variables upon dependent variable is measured and evaluated. In other words, multiple regression analysis helps to establish the functional relationship between dependent and independent variables and there by provides a mechanism for estimation. The purpose of multiple regression analysis in this study is to analyze the combined effect of EPS, NWPS and DPS on MPS of the sampled companies. Further more, how the selected variables influence equity price, is also being tested using regression model. As stated earlier, multiple regression analysis is the best way to project or estimate the value of dependent variable on the basic of independent variables. This chapter presents the estimated MPS with respect to the selected financial indicators.

Company-wise regression model is presented so that the behavior of individual stock can be visualized. Because of some serious limitations, the results in some where are irrelevant. However, this can be treated as symptoms of the existing situations. Nonetheless, regression model is the basic theme of this study.

4.4.2.1 Regression Equation of Market Price on EPS by Using the Method of t-Test (MPS = a + bEPS)

Null Hypothesis(H_o): $\rho = 0$ that is population correlation coefficient is zero. In other words, the variable are insignificantly correlated in the population i.e. 'r' is not significant of correlation in the population.

Alternative Hypothesis(H_1): $\rho \neq 0$ that is population correlation coefficient is not zero. In other words, the variable are significantly correlated in the population i.e. 'r' is significant of correlation in the population.

Table 4.27
Regression Equation of Market Price on EPS by Using the Method of t-Test (MPS = a + bEPS)

Name of Company	Regression Coefficient					
	Constant (a)	Slope (b)	r^2	Calculated Value (t)	Tabulated Value (t)	Result
NABIL	-5277.36	67.238	0.7692	3.162	3.182	Insignificant
SCBNL	-11231.259	91.842	0.5835	2.050	3.182	Insignificant
HBL	-551.720	31.723	0.5010	1.735	3.182	Insignificant
EBL	-1053.367	40.867	0.8895	1.915	3.182	Insignificant

Source: Appendix 4(i-iv)

Table 4.27 deficits the major output of simple regression between market price and EPS of the sampled companies by using the method of t-test. The regression coefficient (b) of NABIL, SCBNL, HBL and EBL are positive of 67.238, 91.842, 31.723 and 40.867 respectively. They indicate that there exists positive relationship between market price and EPS which demonstrate that if EPS (independent variable)

increase by 67.238, 91.842, 31.723 and 40.867 units then it leads to increase MPS by 100% and vice-versa. In case of slope if one variable increase than other variable also increase.

The prediction of MPS is strong for NABIL, SCBNL, HBL and EBL because the respective coefficient of determination (r^2) are 0.7692, 0.5835, 0.5010 and 0.8895 which indicates that the change in MPS is due to change of EPS are 0.7692, 0.5835, 0.5010 and 0.8895 units respectively and the remaining variables is due to the effect of other factor.

In case of t-test, the calculated value of t < tabulated value of t in case of NABIL, SCBNL, HBL and EBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that MPS and EPS are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

4.4.2.2 Regression Equation of Market Price on NWPS by Using the Method of t-Test (MPS = a + bNWPS)

Table 4.28

Regression Equation of Market Price on NWPS by Using the Method of t-Test (MPS = a + bNWPS)

Name of Company	Regression Coefficient					
	Constant (a)	Slope (b)	r^2	Calculated Value (t)	Tabulated Value (t)	Result
NABIL	-6784.021	26.075	0.8141	3.625	3.182	Significant
SCBNL	-13166.085	36.840	0.9859	14.505	3.182	Significant
HBL	2058.650	-2.782	0.5057	-1.752	3.182	Insignificant
EBL	-1718.292	13.685	0.9092	5.481	3.182	Significant

Source: Appendix 5(i-iv)

Table 4.28 deficits the major output of simple regression between market price and NWPS of the sampled companies by using the method of t-test. The regression coefficient (b) of NABIL, SCBNL and EBL are positive of 26.075, 36.840 and 13.685 respectively. They

indicate that there exists positive relationship between market price and NWPS. If market price increases by 26.075, 36.840 and 13.685 unit then leads to increase NWPS by 100% and vice-versa.

But increase of HBL the value of 'b' is negative i.e. -2.782, which means that there exists negative relationship between market price and NWPS which demonstrate that if NWPS (independent variable) decrease by -2.782 unit then it leads to increase MPS by 100% and vice-versa. In case of slope if one variable increase than other variable decreases.

The prediction of MPS is strong for NABIL, SCBNL, HBL and EBL because the respective coefficient of determination (r^2) are 0.8141, 0.9859, 0.5057and 0.9092 which indicates that the change in MPS is due to change of NWPS are 0.8141, 0.9859, 0.5057and 0.9092 units respectively and the remaining variables is due to the effect of other factor.

In case of t-test, the calculated value of t < tabulated value of t in case of HBL, which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that MPS and NWPS are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

An exceptional case is recorded in the case of NABIL, SCBNL and EBL where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of NABIL, SCBNL and EBL. It shows that MPS and NWPS are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

4.4.2.3 Regression Equation of Market Price on DPS by Using the Method of t-Test (MPS = a + bDPS)

Table 4.29

Regression Equation of Market Price on DPS by Using the Method of t-Test (MPS = a + bDPS)

Name of Company	Regression Coefficient					
	Constant (a)	Slope (b)	r^2	Calculated Value (t)	Tabulated Value (t)	Result
NABIL	-1986.190	49.905	0.9901	17.332	3.182	Significant
SCBNL	-6928.241	84.824	0.6056	2.146	3.182	Insignificant
HBL	632.755	17.303	0.8295	3.821	3.182	Significant
EBL	1539.120	-27.414	0.1477	0.721	3.182	Insignificant

Source: Appendix 6(i-iv)

Table 4.29 deficits the major output of simple regression between market price and DPS of the sampled companies by using the method of t-test. The regression coefficient (b) of NABIL, SCBNL and HBL are positive of 49.905, 84.824 and 17.303 respectively. They indicate that there exists positive relationship between market price and DPS. If market price increases by 49.905, 84.824 and 17.303 units then leads to increase DPS by 100% and vice-versa.

But incase of EBL the value of 'b' is negative i.e. -27.414, which means that there exists negative relationship between market price and DPS which demonstrate that if DPS (independent variable) decrease by -27.414 units then it leads to increase MPS by 100% and vice-versa. In case of slope if one variable increase than other variable decreases.

The prediction of MPS is strong only for NABIL, SCBNL and HBL because the respective coefficient of determination (r^2) are 0.9901, 0.6056 and 0.8295 which indicates that the change in MPS is due to change of DPS are 0.9901, 0.6056 and 0.8295 units respectively and the remaining variables is due to the effect of other factor.

In case of t-test, the calculated value of t < tabulated value of t in case of SCBNL and EBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance and their H_o is accepted. The acceptance of Null Hypothesis shows that MPS and DPS are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country.

An exceptional case is recorded in the case of NABIL and HBL where the calculated value t > tabulated value of t at 0.05 level of significance and their H_1 (Alternative Hypothesis) is accepted in this case of NABIL and HBL. It shows that MPS and DPS are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

4.4.3 The Multiple Regression Analysis of MPS on EPS, DPS and NWPS

$MPS = a + b_1EPS + b_2DPS + b_3NWPS$

Table No. 4. 30

Multiple Regression Analysis of MPS on EPS, DPS and NWPS

Banks		a	b_1	b_2	b_3	r^2	SEE	F-Value	Sig-F
NABIL	Coeff-Value	-818.774	33.480	55.110	-15.46	0.975	276.53373	52.624	0.101
	Std. Error	1748.717	46.751	10.714	20.481				
	't' Value	-0.468	0.716	5.144	-0.755				
	Sig. t-Value	0.721	0.604	0.122	0.588				
SCBNL	Coeff-Value	-12447.267	-16.619	-2.631	41.786	0.976	278.413	54.846	0.099
	Std. Error	1729.903	24.184	22.156	5.326				
	't' Value	-7.195	-0.687	-0.119	7.846				
	Sig. t-Value	0.088	0.617	0.925	0.081				
HBL	Coeff-Value	-3820.954	10.251	15.286	16.445	0.609	237.92867	3.073	0.392
	Std. Error	2232.033	18.687	11.076	9.498				
	't' Value	-1.712	0.544	1.380	1.731				
	Sig. t-Value	0.337	0.681	0.399	0.333				
EBL	Coeff-Value	-1204.902	20.796	55.938	-0.758	0.991	73.29531	153.95	0.059
	Std. Error	182.570	7.667	9.159	2.982				
	't' Value	-6.60	2.712	6.108	-0.254				
	Sig. t-Value	0.096	0.225	0.103	0.842				

Source: Annex 7 (i-iv)

The above table shows the multiple regression analysis of MPS on EPS, DPS and NWPS of the sampled company. The major results of the analysis have been interpreted briefly for each institution separately.

NABIL

The multiple regression coefficients of EPS (b_1) and DPS (b_2) are 33.488 and 55.110, which shows that an increase in one rupee in EPS and DPS will raise MPS by 33.488 and 55.110 rupees on average if other factors held constant. Where as the regression coefficient of NWPS (b_3) is -15.46, which indicate that increases of one rupee in NWPS will also decrease MPS by 15.46 rupees on average if other factor held constant. The multiple regression coefficients discussed above are not significant according to the t-static. The coefficient of determination (r^2) is 0.975, which implies that 97.50% of variation MPS is explained by the variation in EPS, DPS and NWPS out of these variables, NWPS has the significant impact on MPS. And indicated by t-value of regression coefficient -0.755. Likewise the standard error (SEE) is 276.53373 which states that the regression model of MPS on EPS, DPS and NWPS are statistically insignificant because the significant F-value is higher than standard.

SCBNL

The multiple regression coefficients of EPS (b_1), DPS (b_2) and NWPS (b_3) are -6.619, -2.631 and 41.786, which shows that an increase in one rupee in EPS and DPS will reduce MPS by 16.619 and 2.631 and increase in one rupee in NWPS will increase MPS by 41.786 rupees on average if other factors held constant. The estimate of b_1, b_2 and b_3 are 24.184, 22.156 and 5.326 may vary by 24.184, 22.156 and 5.326 respectively as indicated by the standard error. As far as t-statistics are concerned, the regression coefficient values discussed above are not significant at all. The coefficient of determination (r^2) is 0.976 which indicate that 97.60% of variation in MPS is explained by the variation in EPS, DPS and NWPS. Likewise the standard error (SEE) is 278.413, which state that the prediction of this model yields a variation of about 278.413 rupees. The multiple regression model of MPS on EPS, DPS and NWPS are statistically not significant because the significant F-value (0.099) is greater than standard i.e. 0.05

HBL

The multiple regression coefficients of EPS (b_1), DPS (b_2) and NWPS (b_3) are 10.251, 15.286 and 16.445 which indicate that an increase of one rupee in EPS, DPS and NWPS will also increase MPS by 10.251, 15.286 and 16.445 rupees on average if other factor held constant. The estimate of b_1, b_2 and b_3 are 18.687, 11.076 and 9.498 may vary by 18.687, 11.076 and 9.498 respectively as indicated by the standard error. The multiple regression coefficients discussed above are not significant according to the t-static. The coefficient of determination (r^2) is 0.609, which implies that 60.9% of variation MPS is explained by the variation in EPS, DPS and NWPS. Likewise the standard error (SEE) is 237.92867 which states that the regression model of MPS on EPS, DPS and NWPS are statistically insignificant because the significant F-value is higher than standard.

EBL

The multiple regression coefficients of NWPS (b_3) are -0.758, which shows that an increase in one rupee in NWPS will reduce MPS by 0.758 rupees on average if other factors held constant. Like wise the regression coefficient of EPS (b_1) and DPS (b_2) are 20.796 and 55.938 which indicate that an increase of one rupee in EPS and DPS will also increase MPS by 20.796 and 55.938 rupees on average if other factor held constant. The estimate of b_1, b_2 and b_3 are 7.667, 9.159 and 2.982 may vary by 7.667, 9.159 and 2.982 respectively as indicated by the standard error. As far as t-statistics are concerned, the regression coefficient values discussed above are not significant at all. The coefficient of determination (r^2) is 0.991 which indicate that 99.10% of variation in MPS is explained by the variation in EPS, DPS and NWPS. Likewise the standard error (SEE) is 73.29531, which state that the prediction of this model yields a variation of about 73.29531 rupees. The multiple regression model of MPS on EPS, DPS and NWPS are statistically not significant because the significant F-value (0.059) is greater than standard i.e. 0.05

4.5 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. A comprehensive summary of the major findings of this study is presented below;

Liquidity Ratio

The liquidity position of NABIL, SCBNL, HBL and EBL reveals that:

- From the analysis of current ratio it is found that the mean of ratio of EBL is higher than that of NABIL, SCBNL and HBL. It means EBL has maintained the higher liquidity. And lower risk in compare to other banks. The ratio of EBL is more consistent than HBL and less consistent than NABIL and SCBNL.
- The mean ratio of cash and bank balance to total deposits of NABIL is lower than SCBNL, HBL and EBL, It states that cash and bank balance in liquidity position of NABIL lower than other three banks. And the ratio of NABIL is less consistent than that of SCBNL, HBL and EBL.
- The mean ratio of cash and bank balance to current assets of NABIL is lower than SCBNL, HBL and EBL. It states that the liquidity position of NABIL is poorer than that of SCBNL, HBL and EBL and the ratio of NABIL is more variable than that of other three banks.
- In overall, the mean ratio of investment in govt. securities to current assets ratio of SCBNL is higher than that of EBL, HBL & NABIL. It means SCBNL had invested its higher portions of current assets on government securities, than other three banks. On the other had C.V in ratios of NABIL is greater than that of EBL, SCBNL & HBL. Which means the variability's of ratios of NABIL is less consistent than that of EBL, SCBNL & HBL.
- While examining the mean ratio of loan and advances to current assets, NABIL has maintained 64.70 which is slightly higher than EBL i.e. 64.07 and higher than SCBNL i.e. 39.33 and lower than HBL i.e. 65.34. On the other side co-efficient of variation of NABIL 11.45% is lower than SCBNL and higher than HBL and EBL i.e. 16.74>11.45>6.12>2.55.

Assets Management Ratio (Activity Ratio)

The assets management ratio of NABIL, SCBNL, HBL and EBL reveals that.

- In over all mean ratio of loan & advances to total deposit of EBL is higher than that of NABIL, SCBNL & HBL. In case of co-efficient of variation of above banks, EBL has 2.44%, which is comparatively lower than NABIL, SCBNL and HBL i.e. 8.89%, 14.84%, 5.24% respectively.
- The mean ratio of total investment to total deposit of SCBNL is higher than NABIL, HBL and EBL. The variability of ratios is lower than that of HBL and EBL.
- The mean ratio of loan and Advances to total working fund of EBL is higher than NABIL, SCBNL and HBL. The variability of ratios is lower than NABIL, SCBNL and HBL.
- The mean of investment on government securities to total working fund ratio of SCBNL is higher than NABIL, HBL and EBL. However NABIL seems to have more variable ratios than that of three compared banks.
- The mean ratio of Investment on share and debentures to total working fund of NABIL is higher than SCBNL, HBL and EBL and also NABIL is more consistent and homogeneous than SCBNL, HBL and EBL.
- From the above findings it helps to conclude that SCBNL and EBL, is comparatively successful in its on balance sheet operation is compared to NABIL and HBL. It predicts that SCBNL and EBL has successfully maintained and managed its assets towards different income generating activities.

Profitability Ratio

The profitability ratio of NABIL, SCBNL, HBL and EBL reveal that:

- NABIL has the mean ratio of return on total working fund is higher than SCBNL, HBL and EBL. On the other hand NABIL is more consistent and homogeneous than HBL and EBL and less than SCBNL.

- The mean ratio of total interest earned to total outside Assets of SCBNL is higher than NABIL, HBL and EBL. The variability of the ratio of SCBNL is higher in comparison to NABIL, HBL and EBL.
- The mean ratio of return on loan and advances of SCBNL is higher than of NABIL, HBL and EBL is more consistent than HBL and more consistent than NABIL and EBL.
- The mean ratio of total Interest earned to total working fund of EBL is higher than that of NABIL, SCBNL and HBL. The ratio of NABIL is more consistent than that of other three banks.
- EBL has the mean ratio of total interest pays to total working fund is higher than NABIL, SCBNL and HBL. HBL ratio is more consistent than other banks.
- In the mean ratios of return on equity, it is observed that NABIL has the average mean value i.e., 32.88 which is less than 35.42 of SCBNL and higher than 24.52 and 17.97 of HBL and EBL. The co-efficient of variation of NABIL is less than other banks i.e., 4.32%< 5.86%<15.26%<30.10%.
- From the above findings of profitability ratios, it can be concluded that the SCBNL and EBL is comparatively in higher position than that of NABIL and HBL So, the profit earning capacity of SCBNL and EBL is high in comparison to other two banks.

Return to Investors

- The average closing MPS of SCBNL is the highest and that of HBL is the lowest. Similarly the standard deviation of SCBNL is highest and HBL is the lowest. The coefficient of variation of these banks shows that there is an above moderate level of fluctuations in the MPS. It can be seen that NWPS of SCBNL is the highest and that of EBL is the lowest. Similarly the standard deviation of NABIL is highest and HBL is the lowest. The coefficient of variation of these banks shows that there is an above moderate level of fluctuations in the NWPS.
- The average EPS of SCBNL is the highest and that of HBL is the lowest. Similarly the standard deviation of NABIL is highest and

HBL is the lowest. The coefficient of variation of these banks shows that there is an above moderate level of fluctuations in the EPS. SCBNL has the highest average DPS and EBL has the lowest. The C.V indicates that among the banks under study during the period no bank has the highest consistency in paying dividend whereas the DPS of NABIL and HBL are highly fluctuating.

- HBL has the highest average P/E Ratio and NABIL has the lowest. The C.V indicates that among the banks under study during period, HBL has the highest consistency in P/E Ratio whereas the P/E Ratio of NABIL is highly fluctuating. The average DY of NABIL is the highest and that of HBL is the lowest. Similarly the standard deviation of NABIL is the highest and EBL is lowest. The coefficient of variation of these banks shows a high level of fluctuation in the DY.
- The mean HPR of NABIL is greater where as the mean HPR of HBL is less among the banks. The HBL has negative return on the year 2002/03. But all other banks have positive return.
- The C.V. of HBL is 174.04% which is higher among other banks which is taken for the study, the return of HBL is more variance where as the C.V. of EBL is 52.61% lies less among them, the return comparing to other.

Correlation and Regression Analysis

- Correlation coefficient of MPS with EPS, there exist high degree of positive correlation in NABIL, SCBNL, HBL, and EBL. Such an increasing value of MPS with EPS is healthy indicator of the financial activities of companies in the least developed countries like Nepal. But the value of 'r' is less than six times P.E. in case of HBL. This states that there is not significant. In case of NABIL, SCBNL and EBL the value of 'r' is greater than 6P.E. which shows that the correlation coefficient is significant.
- Correlation coefficient of MPS with NWPS, there exist high degree of positive correlation in NABIL, SCBNL and EBL. There is moderate degree of correlation in HBL. Such an increasing value of MPS with NWPS is healthy indicator of the financial

activities of companies in the least developed countries like Nepal. The value of 'r' is less than six times P.E. in case of HBL. This states that there is no significant. In case of NABIL, SCBNL and EBL the value of 'r' is greater than 6P.E. which shows that the correlation coefficient is significant.

- Correlation coefficient of MPS with DPS there exist high degree of positive correlation in NABIL, SCBNL, HBL and EBL. Such an increasing value of MPS with DPS is healthy indicator of the financial activities of companies in the least developed countries like Nepal. There exists high degree of positive correlation in NABIL, SCBNL, HBL and EBL. In other words, if independent variables (EPS, NWPS & DPS) increase then it causes to increase dependent variable (MPS) by 100% and vice-versa in case of positive correlation. Again if independent variable (EPS, NWPS & DPS) decreases than it causes to decrease dependent variable (MPS) by 100% and vice-versa in case of negative correlation.
- The regression coefficient (b) of NABIL, SCBNL, HBL and EBL are positive. Which indicate that there exist positive relationship between market price and EPS. In case of slope if one variable increase than other variable decreases. In case of t-test, the calculated value of t < tabulated value of t in case of NABIL, SCBNL, HBL and EBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance.
- The regression coefficient (b) of NABIL, SCBNL and EBL are positive. They indicate that there exists positive relationship between market price and NWPS. But in case of HBL, the value of 'b' is negative, which means that there exists negative relationship between market price and NWPS. In case of t-test, the calculated value of t < tabulated value of t in case of HBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance. An exceptional case is recorded in the case of NABIL, SCBNL and EBL, It shows that MPS and NWPS are significantly correlated.
- The regression coefficient (b) of NABIL, SCBNL and HBL are positive. They indicate that there exists positive relationship between market price and DPS. In case of EBL, the value of 'b' is

negative, which means that there exists negative relationship between market price. In case of t-test, the calculated value of t < tabulated value of t in case of SCBNL and EBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance. Alternative Hypothesis is accepted in case of NABIL and HBL. It shows that MPS and DPS are significantly correlated.

- The multiple regression coefficients of NABIL, EPS (b_1) and DPS (b_2) are 33.488 and 55.110, which shows that an increase in one rupee in EPS and DPS will raise MPS by 33.488 and 55.110 rupees on average if other factors held constant. Where as the regression coefficient of NWPS (b_3) is -15.46, which indicate that increases of one rupee in NWPS will also decrease MPS by 15.46 rupees on average if other factor held constant. The multiple regression coefficients discussed above are not significant according to the t-static.
- The multiple regression coefficients of SCBNL of EPS (b_1), DPS (b_2) and NWPS (b_3) are -16.619, -2.631 and 41.786, which shows that an increase in one rupee in EPS and DPS will reduce MPS by 16.619, 2.631 and increase in one rupee in NWPS will increase MPS by 41.786 rupees on average if other factors held constant. The estimate of b_1, b_2 and b_3 are 24.184, 22.156 and 5.326 may vary by 24.184, 22.156 and 5.326 respectively as indicated by the standard error. As far as t-statistics are concerned, the regression coefficient values discussed above are not significant at all.
- The multiple regression coefficients of HBL of EPS (b_1), DPS (b_2) and NWPS (b_3) are 10.251, 15.286 and 16.445 which indicate that an increase of one rupee in EPS, DPS and NWPS will also increase MPS by 10.251, 15.286 and 16.445 rupees on average if other factor held constant. The estimate of b_1, b_2 and b_3 are 18.687, 11.076 and 9.498 may vary by 18.687, 11.076 and 9.498 respectively as indicated by the standard error. The multiple regression coefficients discussed above are not significant according to the t-static.

- The multiple regression coefficients of EBL of NWPS (b_3) are -0.758, which shows that an increase in one rupee in NWPS will reduce MPS by 0.758 rupees on average if other factors held constant. Like wise the regression coefficient of EPS (b_1) and DPS (b_2) are 20.796 and 55.938 which indicate that an increase of one rupee in EPS and DPS will also increase MPS 20.796 and 55.938 rupees on average if other factor held constant. The estimate of b_1, b_2 and b_3 are 7.667, 9.159 and 2.982 may vary by 7.667, 9.159 and 2.982 respectively as indicated by the standard error. As far as t-statistics are concerned, the regression coefficient values discussed above are not significant at all.

CHAPTER – V
SUMMARY CONCLUSIONS & RECOMMENDATIONS

This is the final chapter that involves summary, conclusions and recommendations of the research work. The facts and findings from secondary data analysis are presented in this chapter. Besides summarizing and concluding research work, recommendations are made to concerned persons and organizations.

5.1 Summary

Finance plays a vital role for successful operation of any industry or organization. The capital structure decision is one of the most crucial complex areas of financial decision making. Capital markets provide a channel where the saving of small individual is directed towards productive sector. Barter system, which started with the civilization of human race, still operates in the era of development in a difficult process. So, barter system can be taken as the foundation of the today's financial markets. Financial market brings borrowers and lenders to the same place, where both parties fulfill their needs. Borrowers receive fund from the lender having excess funds by promising to pay certain return in future. Securities are the major tool of investment for the lender where as it is one of the important sources of collecting funds for institutions. The fund users must use the fund efficiently so that they could earn justifiable return from the investment. The securities issued on exchange of fund are liquid assets, which are traded in the stock market. The price of the liquid assets is determined by performance of the institutions. This research has been focused on these two aspects that are financial performance and rate of return to investors.

The first chapter has focused on the objective of the study defining the problem. Being very specific the study has been initiated to determine the financial performance and its effect on the stock price, which determines the return to investors.

Second chapter is the survey on the area of study. It includes conceptual review and review of related studies. Conceptual review based on text book has portrayed the theoretical concept of the related area. It consists discussion on financial performance and indicators the concept of return and the techniques of measuring return. Related to these areas, such as investment environment, includes a glance on securities. Financial markets and investment strategies, which play a vital role determining, return. The second section deals with the relevant studies conducted in this area.

Even though there were no more study on this topic has found but there were some studies related to this study. Their finding has been presented in this section if it is applicable. Similarly journal review, independent studies, article studies were also found relevant and extracted on this section.

Research and methodology in the third chapter is the main heart of the study. It is designed in that way so that it could give the total method of analysis starting from research design. Population and sample sources of data, limitation of the methodology and the most important data analysis tools are also presented. The analysis methodology ranges from financial analysis, statistical analysis to significance test.

Above mentioned tools of analysis have been implemented in the fourth chapter. The data has covered a five year period starting from 2002/03 to 2006/07. Relation between the pre determined variables, which represent financial performance and return are tried to unfold. First of all statistical analysis using correlation analysis and regression analysis has been calculated. At the end significance test using 't' test statistics has been done to test the significance of the study. The second part of the study has outlined the major findings of the study.

5.2 Conclusion

EBL is capable to pay their current obligations in comparison to NABIL, SCBNL and HBL. Comparatively NABIL has maintained low ratios, it shows some difficulties to meet the demand of its customers on their deposit to pay at any time but it may be earning more by investing cash to different sectors. But it should ensure to have enough liquid funds to serve its customer. NABIL is low capable to maintain cash & bank balance is comparison to other three banks. SCBNL has invested its more portions of current assets as government securities than that of NABIL, EBL & HBL. SCBNL liquidity portion from the point of view of investment on government securities is better than that of other three banks. NABIL has succeeded to invest its fund in loan and advances in comparison to SCBNL but seen little weak in comparison to HBL and EBL in point of view of mean & C.V.

From the analysis of assets management ratio EBL has strong position regarding the mobilization on loan and advances to the total deposit and acquiring higher profit with compare to NABIL, SCBNL & HBL. EBL is in weak condition to mobilize its deposits by investing in different sectors in comparison of other three banks. So that EBL fund mobilization in terms of loan & advances with respect of total working fund is more satisfactory than that of other three banks. NABIL's fund mobilization in terms of government securities with respect of total working fund is not more satisfactory than that of other three banks. And NABIL is not satisfactory of ratios point of view is fund mobilizing term and less homogeneous. NABIL has invested more portion of its total working fund on shares & debentures than other three banks. And also NABIL is more consistent and homogeneous than SCBNL, EBL & HBL.

In profitability ratio, it can be concluded that NABIL is in strong position in the earning capacity by utilizing available resources than other banks. It's more consistent and homogeneous than HBL and EBL & less than SCBNL. NABIL is in strong position is earning high interest income from its total outside assets is comparison to SCBNL & HBL is view point of mean & C.V ratio. Moreover, SCBNL and EBL is comparatively efficient to earn high interest income from outside

assets than other banks. The ratio of total interest earned to total working fund ratio of NABIL is satisfactory is compared to other banks. That means the total interest earned to total working fund ratio of NABIL is stable in comparison to EBL, SCBNL & HBL. SCBNL is in better position from payment of interest point of view (less expenses generate the high income generate theory). It seems to be successful to collect its working fund from less expensive sources in comparison to NABIL, HBL and EBL. NABIL is significantly able to earn high return on its loan and advances are comparison of other three banks is point of view of average mean & low C.V ratio. The average mean and lower C.V it can be concluded that comparatively NABIL has mobilized its equity capital more efficiently than other banks. So, NABIL has sound investment policy on equity capital more over its lower C.V shows its more homogenous during the study period.

From the investor analysis, it is found that common stocks of sampled banks are dependent mainly on the financial performance. However, the analyses are not exactly reflected in the share price. This may be due to lack of analysis in the movement and relationship of the MPS with reference to various variables. It can be inferred that the investors are still investing in the shares based on the rumor rather than financing on a realistic picture.

The regression coefficient (b) between MPS and EPS of NABIL, SCBNL, HBL and EBL are positive. NABIL, SCBNL, HBL and EBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance. The regression coefficient (b) between MPS and NWPS of NABIL, SCBNL and EBL are positive which indicate that there exists positive relationship between market price and NWPS. But in case of HBL, the value of 'b' is negative, which means that there exists negative relationship between market price and NWPS which demonstrate that if NWPS (independent variable) increase then it leads to decrease MPS by 100% and vice-versa. In case of slope if one variable increase than other variable increases. In case of t-test, the calculated value of t<tabulated value of t in case of HBL which

indicates that the relationship is not statistically significant of t at 0.05 level of significance. An exceptional case is recorded in the case of NABIL, SCBNL and EBL, It shows that MPS and NWPS are significantly correlated, which can be recognized as a positive indicator of the development of the entire sector in the country.

The regression coefficient (b) between MPS and DPS of NABIL, SCBL and HBL are positive. They indicate that there exists positive relationship between market price and DPS. If market price increases then it leads to increase DPS by 100% and vice-versa. But in case of EBL, the value of 'b' is negative. Which means there exist negative relationship between market price and DPS, which demonstrate that if DPS (independent variable) decrease then it leads to increase MPS by 100% and vice-versa. In case of slope if one variable increase than other variable decreases. In case of t-test, the calculated value of t<tabulated value of t in case of SCBNL and EBL which indicates that the relationship is not statistically significant of t at 0.05 level of significance. The acceptance of Null Hypothesis shows that MPS and DPS are not significantly correlated such a situation is not a healthy indicator for the entire sector in the country. Alternative Hypothesis is accepted in this case of NABIL and HBL. It shows that MPS and DPS are significantly correlated which can be recognized as a positive indicator of the development of the entire sector in the country.

The multiple regression coefficients of NABIL, EPS (b_1) and DPS (b_2) are 33.488 and 55.110, which shows that an increase in one rupee in EPS and DPS will raise MPS by 33.488 and 55.110 rupees on average if other factors held constant. Where as the regression coefficient of NWPS (b_3) is -15.46, which indicate that increases of one rupee in NWPS will also decrease MPS by 15.46 rupees on average if other factor held constant. The multiple regression coefficients discussed above are not significant according to the t-static. The multiple regression coefficients of SCBNL of EPS (b_1), DPS (b_2) and NWPS (b_3) are -16.619, -2.631 and 41.786, which shows that an increase in one rupee in EPS and DPS will reduce MPS by 16.619, 2.631 and increase in one rupee in NWPS will increase MPS by 41.786 rupees on average

if other factors held constant. The estimate of b_1, b_2 and b_3 are 24.184, 22.156 and 5.326 may vary by 24.184, 22.156 and 5.326 respectively as indicated by the standard error. As far as t-statistics are concerned, the regression coefficient values discussed above are not significant at all. The multiple regression coefficients of HBL of EPS (b_1), DPS (b_2) and NWPS (b_3) are 10.251, 15.286 and 16.445 which indicate that an increase of one rupee in EPS, DPS and NWPS will also increase MPS by 10.251, 15.286 and 16.445 rupees on average if other factor held constant. The estimate of b_1, b_2 and b_3 are 18.687, 11.076 and 9.498 may vary by 18.687, 11.076 and 9.498 respectively as indicated by the standard error. The multiple regression coefficients discussed above are not significant according to the t-static. The coefficient of determination (r^2) is 0.609, which implies that 60.9% of variation MPS is explained by the variation in EPS, DPS and NWPS. Likewise the standard error (SEE) is 237.92867. The multiple regression coefficients of EBL of NWPS (b_3) are -0.758, which shows that an increase in one rupee in NWPS will reduce MPS by 0.758 rupees on average if other factors held constant. Like wise the regression coefficient of EPS (b_1) and DPS (b_2) are 20.796 and 55.938 which indicate that an increase of one rupee in EPS and DPS will also increase MPS 20.796 and 55.938 rupees on average if other factor held constant. The estimate of b_1, b_2 and b_3 are 7.667, 9.159 and 2.982 may vary by 7.667, 9.159 and 2.982 respectively as indicated by the standard error. As far as t-statistics are concerned, the regression coefficient values discussed above are not significant at all.

5.2 Recommendation

Based on the research work, the researcher has reached the following recommendations

- Market performance of the banking sector is very strong. The share prices of the banks are always on the rise except in some years. Investors assuming any strategy will not regret if invested in this sector.
- A continuous flow of information should be made available to the investors, which will help the investors to accurately value the shares.
- Good management uplifted the performance of company. Shareholders are the owner but neither can take part actively in the management nor can control the management of the company. Management is answerable to shareholder through directors. Hence for the best performance board should design appropriate policies and monitor the performance of the managers in implementing them.
- Investors are unaware of financial markets. Programs creating awareness among the investors should be conducted, which is the foremost duty of the Nepal Stock Exchange.
- Certain measures should be conducted by the NEPSE that would try to increase the participation of number of shareholders in share trading.
- Only performing well is not an end, in an efficient market the basic goal is to make the market aware of the performance. So, certain steps which can bring their performance idea in the investors mind are very necessary.

  It is recommended to carry out further research study on financial performance and its impact in the stock price furthermore to educate the investors regarding the relevancy of financial performance. There is a crying need of a separate body made up of financial experts and chartist to provide financial suggestions to public investors

BIBLOGRAPHY

Books

Bhalla, V. K. (2001). *Investment Management*. New Delhi: S. Chand & Company Limited.

Cheney, John M. and Mosses, Edward A. (1993). *Fundamentals of Investments*. New York: West Publishing Company.

Francis, J. C. (1986). *Investments: Analysis and Management*. New York: McGraw Hill Publication.

Francis, J. Pant, Prem R. and Wolff, Howard K. (2003). *A Hand Book for Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Enterprises.

Gitman L.T. & Jochnk (1990). *Fundamentals of Investing.* New York: Harper & Row Publishers.

Gupta, S. P. (2000). *Statistical Methods*. New Delhi: Sultan Chand & Sons Publishers.

Khan, M and Jain, P.K. (1999). *Financial Management.* Third Edition, New Delhi: Tata McGraw Hill Publishing Co. Ltd

Kothari, C. R. (1994). *Quantitative Techniques*. New Delhi: Vikas Publishing House Pvt. Ltd.

Kothari, C. R. (1999). *Research Methodology: Method and Techniques. New Delhi: Vishwa Prakashan.*

Pandey, I.M. (1999). *Financial Management. New Delhi: Vikas Publishing House Pvt. Ltd.*

Sharpe, William F.; Alexander, Gordon J; and Bailey, Jeffery V. (2002). *Investments*. New Delhi: Prentice Hall of India.

Shrestha, K. N. and Manandhar, K. D. (1994). *Statistics and Quantitative Technique for Management*. Kathmandu: Valley Publishers.

Van Horne, James C. (2002). *Financial Management and Policy*. New Delhi: Prentice Hall of India.

Van Horne, James C. and Wachowicz, Jr. John M. (1997). *Fundamentals of Financial Management*. USA: Prentice Hall Inc.

Weston, J. F. and Brigham, E. F. (1987). *Essentials of Managerial Finance*. Singapore: Hold Sounders International Editions.

Weston, J. Fred and Thomas, E. Copeland (1992). *Managerial Finance*. New York: The Dryden Press.

Wolff, H.K. & Pant, P.R. (2005). *Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Enterprises Private Limited

Journals and Reports and Articles

A. H. Robert & L.B. Nardin. (Summer, 1996). *Commonality in the determinants of expected stock returns*. The Journal of Financial Economics.

Fama, Eugene Fredaric. (1965). *The behavior of stock market price*. Journal of Business.

IMF Working Paper. (1997). *Determinants of stock prices: the case of Zimbabwe*.

Kafle, Deepak Raj. *Capital market in Nepal*. Newsletter NCA.

Mahat, R.S. (1981). *Capital market, financial flow & industrial finance in Nepal*. Sajha Prakashan.

Poudel, Narayan Prasad, (2053). *Financial Statement Analysis: An Approach to Evaluate Bank's Performance*. NRB Samachar. Kathmandu: Nepal Rastra Bank.

Pradhan, R. S.(Summer 1993). *Stock market behavior in a small capital market: a case study of Nepal*. Kathmandu: The Nepalese Management Review. Vol. IX.

Sharma, Murari Raj. (1998). *Joint-Venture Banks in Nepal Co-existing and CrowdingOut*. PRASHAN Yearly. Kathmandu:Vol.35

K.C., Raj Kumar. (June 6, 2003). *Financial sector reforms – still a long way to go*. The Rising Nepal.

Business Age International (January 2005). *Psychological pressure for willful defaulters*.

Official Publications

Annual Reports of sampled listed companies Under Studies from Fiscal Year 2002/03 to 2006/07

Business Age (Various issues), Monthly Magazine

HMG/N, (2007), Economic Survey, Kathmandu

NEPSE Trading Reports, Vol. I - XI

NRB Bulletin – 2007

The Kathmandu Post, English Daily

The Rising Nepal

Annual Reports of SEBO/N, from Fiscal Year 2002/03 to 2006/07

Thesis

Aryal, Mukti (1995). *The general behavior of the stock market prices*. An Unpublished Master Level Thesis, Central Department of Management, Tribhuvan University.

Joshi, Archana (2002). *A comparative study on financial performance of Nepal SBI bank ltd & Nepal Bangladesh bank ltd*. An Unpublished Master Degree Thesis, Shanker Dev Campus.

Joshi, Suchita (2006). *Financial Performance of Joint Venture Banks in Nepal with Special Reference to Everest Bank Limited.* An Unpublished Master Degree Thesis, Shanker Dev Campus.

Luintel, Nabin Kishore (2003). *A study on financial performance analysis of Nepal bank limited*. An Unpublished Master Degree Thesis, Shanker Dev Campus.

Maharjan, Sunil (2007). *A Comparative Study of Financial Performance of Commercial Banks, with Reference to Himalayan Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited.* An Unpublished Master Degree Thesis, Central Department T.U.

Neupane, Apar (2004). *Determinants of stock price in NEPSE*. An unpublished Masters Level Thesis. Central Department of Management: Tribhuvan University.

Ojha, K. P. (2002). *Financial performance and common stock pricing*. A mini Research: Central Department of Management: Tribhuvan University.

Saud, Gokul Bahadur (2006). *A Study of Financial Performance of Selected Commercial Bank in Nepal (Himalayan Bank, NB Bank and Everest Bank).* An Unpublished Master Degree Thesis, Shanker Dev Campus.

Shrestha, Birendra. (2003). *A comparative analysis of financial performance of the selected joint-venture banks*. An Unpublished Master Degree Thesis, Shanker Dev Campus.

Upadhaya, Sudeep (2002). *Risk and return on common stock investment of commercial bank in Nepal*. An Unpublished Master Degree Thesis, Central Department T.U.

Web Site

www.business.com
www.emraldinside.com
www.nepalstock.com.np
www.nrb.org.np
www.sebonp.com
www.teachmefinance.com

ANNEXURE - 1

i. Current Ratio Times

NABIL

Fiscal year	2002/03	2003/04	2004/05	2005/06	2006/07
Current Assets	13868307	14244337	14971801	18133814	22829535
Current Liabilities	12997476	12961180	13451753	16896957	19765831
Ratio	**1.067**	**1.099**	**1.113**	**1.0732**	**1.155**

SCBNL

Fiscal year	2002/03	2003/04	2004/05	2005/06	2006/07
Current Assets	17084409	20093715	19322679	21472350	22025802
Current Liabilities	17594654	20740829	18895638	21888227	23283089
Ratios	**0.971**	**0.9688**	**1.0226**	**0.981**	**0.946**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Current Assets	16297019	18602009	21326260	23153115	27775530
Current Liabilities	19083160	18733141	19422823	20991038	19208530
Ratio	**0.854**	**0.993**	**1.098**	**1.103**	**1.446**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Current Assets	7887993	9420968	11569805	15147861	20982793
Current Liabilities	4644642	6030291	5769540	7652593	14236250
Ratio	**1.70**	**1.56**	**2.00**	**1.98**	**1.47**

ii. Cash and Bank Balance to Total Deposit Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1144767	970486	559380	556176	1383821
Total Deposit	13447661	14119032	14586608	19347399	23342850
Ratio	**8.51**	**6.87**	**3.83**	**2.87**	**5.93**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1512304	2023164	1111117	1276241	2021021
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	**8.06**	**9.56**	**5.75**	**5.53**	**8.21**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1979209	2001184	2014471	1717352	1757341
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	**9.42**	**9.092**	**8.12**	**6.84**	**5.85**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1139569	819250	1049989	1552968	2391421
Total Deposit	6694963	8063902	10097691	13802445	18186253
Ratio	**17.02**	**10.16**	**10.40**	**11.25**	**13.15**

iii. Cash and Bank Balance to Current Assets Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1144767	970486	559380	556176	1383821
Current Assets	13868307	14244337	14971801	18133814	22829535
Ratio	**8.25**	**6.81**	**3.74**	**3.07**	**6.06**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1512304	2023164	1111117	1276241	2021021
Current Assets	17084409	20093715	19322679	21472350	22025802
Ratio	**8.85**	**10.07**	**5.529**	**5.94**	**9.18**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1979209	2001184	2014471	1717352	1758191
Current Assets	16297019	18602009	21326260	23153115	27775530
Ratio	**12.14**	**10.76**	**9.45**	**7.42**	**6.33**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Cash and Bank Balance	1139569	819250	1049989	1552968	2391421
Current Assets	7887993	9420968	11569805	15147861	20982793
Ratio	**14.45**	**8.70**	**9.08**	**10.25**	**11.40**

iv. Investment on Government Securities to Current Assets Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Got. Securities	3588772	3672626	2413939	2301462	4808348
Current Assets	13868307	14244337	14971801	18133814	22829535
Ratio	**25.87**	**25,78**	**16.12**	**12.69**	**21,06**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Got. Securities	6581348	7948217	7203066	8635875	7107937
Current Assets	1708440	20093715	19322679	21472350	22025802
Ratio	**38.52**	**39.56**	**37.28**	**40.22**	**32.27**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Got. Securities	3347102	3431728	5469729	5144312	6454873
Current Assets	16297019	18602009	21326260	23153115	27775330
Ratio	**20.54**	**18.45**	**25.65**	**22.22**	**23.24**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Got. Securities	1599350	2466429	2100290	3548617	4704632
Current Assets	7887993	9420968	11569805	15147861	20982793
Ratio	**20.28**	**26.18**	**18.15**	**23.43**	**22.42**

v. Loan and Advances to Current Assets Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	7755951	818992	10586170	12922543	15545778
Current Assets	13868307	14244337	14971801	18133814	22829535
Ratio	**55.93**	**57.50**	**70.71**	**71.26**	**68.11**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Current Assets	17084409	20093715	1932679	21472350	22025802
Ratio	**33.34**	**31.90**	**42.14**	**41.61**	**47.68**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	10844599	12919631	13451168	15761977	16997997
Current Assets	16297019	18602009	21326260	23153115	27775330
Ratio	**66.54**	**69.45**	**63.07**	**68.08**	**61.20**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	4908461	5884123	7618671	9801308	13664082
Current Assets	7887993	9420968	11569805	15147861	20982793
Ratio	**62.23**	**62.46**	**65.85**	**64.70**	**65.12**

vi. Loan and Advances to Total Deposit Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	7755952	8189993	10586170	12922543	15545779
Total Deposit	13447661	14119032	14586608	19347399	23342285
Ratio	**57.67**	**58.00**	**72.57**	**66.76**	**66.61**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	**30.36**	**30.30**	**42.12**	**38.75**	**42.61**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	10844599	12919631	13451168	15761977	16997797
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	**51.62**	**58.70**	**54.21**	**59.50**	**56.57**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	4908461	5884123	7618671	9801308	13664082
Total Deposit	6694963	8063902	10097691	13802445	18186253
Ratio	**73.32**	**72.97**	**75.45**	**71.01**	**75.13**

vii. Total Investment to Total Deposit Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Investment	6031175	5835948	4269657	6178533	8945310
Total Deposit	13447661	14119032	14586608	19347399	23342285
Ratio	**44.85**	**41.33**	**29.27**	**31.93**	**38.32**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Investment	10216199	11360328	9702553	12847536	13553233
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	**54.47**	**53.68**	**50.18**	**55.71**	**55.10**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Investment	10175435	9292103	11692342	10889031	11822985
Total Deposit	21007379	22010333	24814012	26496852	30048418
Ratio	**48.44**	**42.22**	**47.20**	**41.10**	**39.35**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Investment	1653977	2535658	2128932	4200515	4984314
Total Deposit	6694963	8063902	10097691	13802445	18186253
Ratio	**24.70**	**31.44**	**21.08**	**30.43**	**27.41**

viii. Loan and Advances to Total Working Fund Ratio (Rs. in 000)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	7755952	8189993	10586170	12922543	15545779
Total Working Fund	16562624	16745486	17186331	22329971	27253393
Ratio	**46.82**	**48.91**	**61.60**	**57.87**	**57.04**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	**27.24**	**21.11**	**37.19**	**34.67**	**36.73**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	10844599	12919631	13451168	15761977	16997997
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	**44.82**	**50.21**	**46.60**	**51.54**	**49.53**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Loan and Advances	4908461	5884123	7618671	9801308	13664082
Total Working Fund	8052209	9608571	11792126	15959285	21432574
Ratio	**60.96**	**61.24**	**64.61**	**61.41**	**63.75**

ix. Investment on Government securities to Total Working Fund Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Govt. Securities	3588772	3672626	2413939	2301462	4808348
Total Working Fund	16562624	16745486	17186331	22329971	27253393
Ratio	**21.67**	**21.93**	**14.04**	**10.31**	**17.64**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Govt. Securities	6581348	7948218	7203066	8644855	7107937
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	**31.47**	**33.62**	**32.90**	**33.54**	**24.85**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Govt. Securities	3347102	3431729	5469729	5144313	6454873
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	**13.82**	**13.34**	**18.94**	**16.82**	**18.81**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment Govt. Securities	1599350	2466429	2100290	3548617	4704632
Total Working Fund	8052209	9608571	11792126	15959285	21432574
Ratio	**19.86**	**25.67**	**17.81**	**22.24**	**21.95**

x. Investment on Share and Debenture to Total Working Fund Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment on S& D	22220	22220	440282	104192	286957
Total Working Fund	16562624	16745486	17186331	22329971	27253393
Ratio	**0.13**	**0.13**	**2.56**	**0.47**	**1.05**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment on S& D	11195	11195	13348	15348	44943
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	**0.05**	**0.05**	**0.06**	**0.06**	**0.06**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment on S& D	34266	34266	39909	39909	73424
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	**0.14**	**0.13**	**0.14**	**0.13**	**0.21**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Investment on S& D	17114	17114	19387	19887	19887
Total Working Fund	8052209	9608571	11792126	15959285	21432574
Ratio	**0.21**	**0.18**	**0.16**	**0.12**	**0.09**

xi. Return Total Working Fund Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	416236	455311	518336	635263	673959
Total Working Fund	16562624	16745486	17186331	22329971	27253393
Ratio	**2.51**	**2.72**	**3.01**	**2.84**	**2.47**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	506932	537800	539204	658756	691668
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	**2.424**	**2.27**	**2.46**	**2.55**	**2.42**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	212132	263052	308277	457458	491823
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	**0.88**	**1.02**	**1.06**	**1.50**	**1.43**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	94180	143567	168215	237291	296409
Total Working Fund	8052209	9608571	11792126	15959285	21432574
Ratio	**1.17**	**1.49**	**1.43**	**1.49**	**1.38**

xii. Total Interest Earned to Total Outside Assets Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	1017872	1001616	1068746	1309998	1587749
Total Outside Assets	13787127	14025942	14853403	19101076	24491089
Ratio	**7.38**	**7.14**	**7.20**	**6.86**	**6.50**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	1001359	1042175	1058677	1189603	1411942
Total Outside Assets	6722023	17770570	17845761	21782954	24055870
Ratio	14.90	5.86	5.93	5.46	5.87

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	1201233	1245895	1446468	1626474	1775583
Total Outside Assets	21020034	22211734	25143510	26651008	29616709
Ratio	**5.71**	**5.61**	**5.75**	**6.10**	**6.10**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	520173	657249	719298	903411	1144408
Total Outside Assets	6562438	8419781	9747603	14001823	18648396
Ratio	**7.93**	**7.81**	**7.38**	**6.45**	**6.14**

xiii. Return on Loan and Advances (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	416236	455311	518336	635263	673959
Loan and Advances	7755951	8189992	10586170	12922543	15545778
Ratio	**5.37**	**5.56**	**4.90**	**4.92**	**4.33**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	506932	537800	539204	658756	691668
Loan and Advances	5695823	6410242	8143208	8935418	10502637
Ratio	**8.9**	**8.41**	**6.62**	**7.37**	**6.6**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	212132	263052	308277	457458	491823
Loan and Advances	10844599	12919331	13451168	15761977	16997997
Ratio	**1.96**	**2.03**	**2.30**	**2.90**	**2.89**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	94180	143567	168215	237291	296409
Loan and Advances	4908461	5884123	7618671	9801308	13664082
Ratio	**1.92**	**2.44**	**2.21**	**2.42**	**2.17**

xiv. Total Interest Earned to Total working fund Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	1017872	1001616	1068746	1309998	1587749
Total Working Fund	16562624	16745486	17186331	22329971	2723393
Ratio	**6.15**	**5.98**	**6.22**	**5.87**	**5.83**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	1001359	1042175	1058677	1189603	1411982
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	**4.81**	**4.41**	**4.83**	**4.61**	**4.94**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	1201233	1245895	1446468	1626474	1775583
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	**4.96**	**4.84**	**5.01**	**5.32**	**5.17**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Earned	520173	657249	719298	903411	1144408
Total Working Fund	8052209	9608571	11792126	15959285	21432574
Ratio	**6.46**	**6.84**	**6.10**	**5.66**	**5.34**

xv. Total Interest Paid to Total Working Fund Ratio (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Paid	317348	282948	243545	347161	555710
Total Working Fund	16562624	16745486	17186331	22329971	27253393
Ratio	**1.91**	**1.10**	**1.42**	**1.55**	**2.04**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Paid	255154	275809	254127	303198	413055
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	**1.22**	**1.2**	**1.16**	**1.20**	**1.44**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Paid	554128	491543	561964	648842	167411
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	**2.31**	**1.91**	**1.95**	**2.12**	**2.24**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Total Interest Paid	307639	316366	299565	401397	517166
Total Working Fund	8052209	9608571	11792126	15959285	21432574
Ratio	**3.82**	**3.29**	**2.54**	**2.52**	**2.41**

xvi. Return on Equity Ratio (ROE) (%)

NABIL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	416236	455311	518336	635263	273959
Equity Capital	1165221	1479880	1656875	1873203	2055115
Ratio	**35.72**	**30.77**	**31.30**	**33.91**	**32.79**

SCBNL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	506932	537800	539204	658756	691668
Equity Capital	1368976	1495739	1582415	1754139	2116353
Ratio	**37.03**	**35.96**	**33.89**	**37.55**	**32.68**

HBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	212132	263052	308277	457458	491823
Equity Capital	1905883	2291928	2568395	2885593	2146538
Ratio	**11.13**	**11.47**	**12**	**15.85**	**22.91**

EBL

Fiscal Year	2002/03	2003/04	2004/05	2005/06	2006/07
Net Profit	94180	143567	168215	237291	296409
Equity Capital	612825	680319	1132617	1262808	1501515
Ratio	**15.37**	**21.10**	**14.85**	**18.79**	**19.74**

Source: Annual report of related banks.(2002/03-2006/07)

APPENDIX - 2

i. Calculation of Holding Period Return of NABIL

Year	Closing Price	Dividend	Annual (Rj)%
2001/02	700		
2002/03	735	50	12.14
2003/04	1000	65	44.90
2004/05	1505	70	57.50
2005/06	2240	85	54.48
2006/07	5050	140	131.17

ii. Calculation of Holding Period Return of SCBNL

Year	Closing Price	Dividend	Annual (Rj)%
2001/02	1575		
2002/03	1640	100	10.48
2003/04	1745	110	13.11
2004/05	2345	110	40.69
2005/06	3775	140	66.95
2006/07	5900	130	59.74

iii. Calculation of Holding Period Return of HBL

Year	Closing Price	Dividend	Annual (Rj)%
2001/02	1000		
2002/03	836	1.32	-16.27
2003/04	840	20	2.87
2004/05	920	20	11.90
2005/06	1100	35	23.37
2006/07	1740	55	63.18

iv. Calculation of Holding Period Return of EBL

Year	Closing Price	Dividend	Annual (Rj)%
2001/02	405		
2002/03	445	20	14.81
2003/04	680	20	57.30
2004/05	870	20	30.88
2005/06	1379	25	61.38
2006/07	2430	40	79.11

APPENDIX – 3

i. Correlation Between MPS and EPS

Fiscal Year	NABIL		SCBNL		HBL		EBL	
	MPS	EPS	MPS	EPS	MPS	EPS	MPS	EPS
2002/03	735	84.66	1640	149.3	836	49.45	445	29.9
2003/04	1000	92.61	1745	143.55	840	49.05	680	45.6
2004/05	1505	105.49	2345	143.14	920	39.92	870	54.2
2005/06	2240	129.21	3775	175.84	1100	59.24	1379	62.8
2006/07	5050	137.08	5900	167.35	1740	60.66	2430	78.4
r		**0.8770**		**0.7638**		**0.7078**		**0.9432**
r^2		**0.7692**		**0.5835**		**0.5010**		**0.8896**
P.E.		**0.0696**		**0.1256**		**0.1505**		**0.0333**
6P.E.		**0.4178**		**0.7539**		**0.9032**		**0.1998**

ii. Correlation Between MPS and NWPS

Fiscal Year	NABIL		SCBNL		HBL		EBL	
	MPS	NWPS	MPS	NWPS	MPS	NWPS	MPS	NWPS
2002/03	735	267.3	1640	403.15	836	247.82	445	150.1
2003/04	1000	301.37	1745	399.25	840	246.93	680	171.52
2004/05	1505	337	2345	422.37	920	239.59	870	219.88
2005/06	2240	381	3775	468.22	1100	228.72	1379	217.67
2006/07	5050	418	5900	512.12	1740	264.74	2430	292.75
r		**0.9023**		**0.9929**		**0.6187**		**0.9535**
r^2		**0.8141**		**0.9859**		**0.3828**		**0.9092**
P.E.		**0.0561**		**0.0042**		**0.1862**		**0.0274**
6P.E.		**0.3364**		**0.0254**		**1.1171**		**0.1643**

iii. Correlation Between MPS and DPS

Fiscal Year	NABIL		SCBNL		HBL		EBL	
	MPS	DPS	MPS	DPS	MPS	DPS	MPS	DPS
2002/03	735	50	1640	100	836	1.32	445	20
2003/04	1000	65	1745	110	840	20	680	20
2004/05	1505	70	2345	110	920	20	870	20
2005/06	2240	85	3775	140	1100	35	1379	25
2006/07	5050	140	5900	130	1740	55	2430	40
r		**0.9950**		**0.7782**		**0.9108**		**0.9693**
r^2		**0.9901**		**0.6056**		**0.8295**		**0.9396**
P.E.		**0.0030**		**0.1190**		**0.0514**		**0.0182**
6P.E.		**0.0179**		**0.7138**		**0.3086**		**0.1093**

APPENDIX - 4

i. Regression Equation of Market Price on EPS of NABIL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877[a]	.769	.692	966.83520

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9344859.103	1	9344859.103	9.997	.051[a]
	Residual	2804310.897	3	934770.299		
	Total	12149170.000	4			

a Predictors: (Constant), EPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5277.360	2374.871		-2.222	.113
	EPS	67.238	21.266	.877	3.162	.051

a Dependent Variable: MPS

ii. Regression Equation of Market Price on EPS of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.764[a]	.583	.445	1334.76076

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7486711.160	1	7486711.160	4.202	.133[a]
	Residual	5344758.840	3	1781586.280		
	Total	12831470.000	4			

a Predictors: (Constant), EPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-11231.259	7007.250		-1.603	.207
	EPS	91.842	44.802	.764	2.050	.133

a Dependent Variable: MPS

iii. Regression Equation of Market Price on EPS of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.708[a]	.501	.335	310.20130

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	289802.252	1	289802.252	3.012	.181[a]
	Residual	288674.548	3	96224.849		
	Total	578476.800	4			

a Predictors: (Constant), EPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-551.720	954.523		-.578	.604
	EPS	31.723	18.279	.708	1.735	.181

a Dependent Variable: MPS

iv. Regression Equation of Market Price on EPS of EBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	EPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.943[a]	.890	.853	302.60737

a Predictors: (Constant), EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2211869.138	1	2211869.138	24.155	.016[a]
	Residual	274713.662	3	91571.221		
	Total	2486582.800	4			

a Predictors: (Constant), EPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1053.367	470.403		-2.239	.111
	EPS	40.867	8.315	.943	4.915	.016

a Dependent Variable: MPS

APPENDIX – 5

i. Regression Equation of Market Price on NWPS of NABIL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	NWPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.902[a]	.814	.752	867.57762

a Predictors: (Constant), NWPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9891097.196	1	9891097.196	13.141	.036[a]
	Residual	2258072.804	3	752690.935		
	Total	12149170.000	4			

a Predictors: (Constant), NWPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6784.021	2482.889		-2.732	.072
	BVPS	26.075	7.193	.902	3.625	.036

a Dependent Variable: MPS

ii. Regression Equation of Market Price on NWPS of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	NWPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.993[a]	.986	.981	245.21634

a Predictors: (Constant), BVPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12651076.835	1	12651076.835	210.392	.001[a]
	Residual	180393.165	3	60131.055		
	Total	12831470.000	4			

a Predictors: (Constant), NWPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-13166.085	1125.467		-11.698	.001
	NWPS	36.840	2.540	.993	14.505	.001

a Dependent Variable: MPS

iii. Regression Equation of Market Price on NWPS of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	NWPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711[a]	.506	.341	308.73551

a Predictors: (Constant), NWPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	292523.952	1	292523.952	3.069	.178[a]
	Residual	285952.848	3	95317.616		
	Total	578476.800	4			

a Predictors: (Constant), NWPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2058.650	571.462		3.602	.037
	NWPS	-2.782	1.588	-.711	-1.752	.178

a Dependent Variable: MPS

iv. Regression Equation of Market Price on NWPS of EBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	NWPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.954[a]	.909	.879	274.33025

a Predictors: (Constant), NWPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2260811.535	1	2260811.535	30.041	.012[a]
	Residual	225771.265	3	75257.088		
	Total	2486582.800	4			

a Predictors: (Constant), NWPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1718.292	539.424		-3.185	.050
	NWPS	13.685	2.497	.954	5.481	.012

a Dependent Variable: MPS

APPENDIX – 6

i. Regression Equation of Market Price on DPS of NABIL

Variables Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	DPS(a)	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.995[a]	.990	.987	200.10513

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12029043.810	1	12029043.810	300.410	.000[a]
	Residual	120126.190	3	40042.063		
	Total	12149170.000	4			

a Predictors: (Constant), DPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1986.190	252.492		-7.866	.004
	DPS	49.905	2.879	.995	17.332	.000

a Dependent Variable: MPS

ii. Regression Equation of Market Price on DPS of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.778[a]	.606	.474	1298.81184

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7770733.426	1	7770733.426	4.606	.121[a]
	Residual	5060736.574	3	1686912.191		
	Total	12831470.000	4			

a Predictors: (Constant), DPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6928.241	4699.580		-1.474	.237
	DPS	84.824	39.522	.778	2.146	.121

a Dependent Variable: MPS

iii. Regression Equation of Market Price on DPS of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.911[a]	.830	.773	181.31318

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	479853.387	1	479853.387	14.597	.032[a]
	Residual	98623.413	3	32874.471		
	Total	578476.800	4			

a Predictors: (Constant), DPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	632.755	143.957		4.395	.022
	DPS	17.303	4.529	.911	3.821	.032

a Dependent Variable: MPS

iv. Regression Equation of Market Price on DPS of EBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPS[a]	.	Enter

a All requested variables entered.
b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.715[a]	.511	.349	636.39266

a Predictors: (Constant), DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1271595.952	1	1271595.952	3.140	.175[a]
	Residual	1214986.848	3	404995.616		
	Total	2486582.800	4			

a Predictors: (Constant), DPS
b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	333.835	546.633		.611	.585
	DPS	39.379	22.224	.715	1.772	.175

a Dependent Variable: MPS

APPENDIX – 7

i. Multiple Regression Analysis of MPS on EPS, DPS and NWPS of NABIL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	NWPS, DPS, EPS[a]	.	Enter

a All requested variables entered.

b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997[a]	.994	.975	276.53373

a Predictors: (Constant), NWPS, DPS, EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12072699.095	3	4024233.032	52.624	.101[a]
	Residual	76470.905	1	76470.905		
	Total	12149170.000	4			

a Predictors: (Constant), NWPS, DPS, EPS

b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-818.774	1748.717		-.468	.721
	EPS	33.480	46.751	.437	.716	.604
	DPS	55.110	10.714	1.099	5.144	.122
	NWPS	-15.460	20.481	-.535	-.755	.588

a Dependent Variable: MPS

ii. Multiple Regression Analysis of MPS on EPS, DPS and NWPS of SCBNL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	NWPS, EPS, DPS[a]	.	Enter

a All requested variables entered.

b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997[a]	.994	.976	278.41300

a Predictors: (Constant), NWPS, EPS, DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12753956.202	3	4251318.734	54.846	.099[a]
	Residual	77513.798	1	77513.798		
	Total	12831470.000	4			

a Predictors: (Constant), NWPS, EPS, DPS

b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12447.267	1729.903		-7.195	.088
	EPS	-16.619	24.184	-.138	-.687	.617
	DPS	-2.631	22.156	-.024	-.119	.925
	NWPS	41.786	5.326	1.126	7.846	.081

a Dependent Variable: MPS

iii. Multiple Regression Analysis of MPS on EPS, DPS and NWPS of HBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	NWPS, DPS, EPS[a]	.	Enter

a All requested variables entered.

b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.950[a]	.902	.609	237.92867

a Predictors: (Constant), NWPS, DPS, EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	521866.749	3	173955.583	3.073	.392[a]
	Residual	56610.051	1	56610.051		
	Total	578476.800	4			

a Predictors: (Constant), NWPS, DPS, EPS

b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3820.954	2232.033		-1.712	.337
	EPS	10.251	18.687	.229	.549	.681
	DPS	15.286	11.076	.559	1.380	.399
	NWPS	16.445	9.498	.570	1.731	.333

a Dependent Variable: MPS

iv. Multiple Regression Analysis of MPS on EPS, DPS and NWPS of EBL

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	NWPS, DPS, EPS[a]	.	Enter

a All requested variables entered.

b Dependent Variable: MPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999[a]	.998	.991	73.29531

a Predictors: (Constant), NWPS, DPS, EPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2481210.598	3	827070.199	153.954	.059[a]
	Residual	5372.202	1	5372.202		
	Total	2486582.800	4			

a Predictors: (Constant), NWPS, DPS, EPS

b Dependent Variable: MPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1204.902	182.570		-6.600	.096
	EPS	20.796	7.667	.480	2.712	.225
	DPS	55.938	9.159	.614	6.108	.103
	NWPS	-.758	2.982	-.053	-.254	.842

a Dependent Variable: MPS