CHAPTER-I
INTRODUCTION

1.1 Background of Study

Nepal surrounded by India in south, east and west by China in north. Both country have well-developed economic condition. Nepal is developing country. Development and expansion of financial institution are essential for the economic growth of the country. The pace of development of any country in this modern era largely depends on the level of financial development. Financial institutions provide capital to develop trade, industry and business. Bank finance companies' co-operative societies, insurance company's stock exchange helps in the economic development of the country.

As financial institution, commercial bank is on of the major median the frame works of every economy because they collect scattered saving and provides loan to the various sector according to the need of client. When Bank provides loan new business and industries is established which helps in the development of the country. In this way whole infrastructure of national development direction of economy rate of progress is strengthen by banking system. The primary issue of development is to increase the investment in productive sector of economy such as industrial and commercial, production, trade and commerce, international business, generation of individual income and expenditure, government revenue etc.

Generally, Bank refers to a commercial Bank at present. Therefore, the activities of a commercial Bank are synonymous to banking. A commercial bank refers to such types of bank, which deals in money exchange, accepting deposit, advancing loans. The pace of time has changed the portfolio of banking business from it's primary function too. Other function such as merchant banking, credit card business, documentary credit, travels cheque business, home banking etc.

Banking institutions are inevitable for the resource mobilization and the all round development of the country. They have resources for economic development and they maintain economic confidence of various segment and extend credit to people (Ronalso, 1993:87)

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

This is the main reason for accepting banks since ancient time in some form. Previously gold smith performed this task but now various types of banks have taken over this task.

Various commercial banks give different types of service to people the organization set up of finance company is new to Nepal. Finance companies are the effective instruments for mobilizing public. Private and external financial resources and challenging them into productive areas as short term loan, long term loan in different commercial business activities. "There has been mushroom growth of finance companies about registration with wide diversified function of various age groups. Capital size, national and international joint venture features, professional expertise, management background and experience determine the nature scope and volume of financial activities and services net works". [Shrestha, 1997:23]

When the opinion finance company act 1985 and democratic movement act 1989, Nepalese government has formally adopted the economic liberalization policy. This policy has been more emphasis to the private sector and international investors to invest in Nepal, as encouraging factor of sustainable economic growth. The new policy has already resulted that the establishment of finance companies is as encouraging trend . The main objective of the finance companies is to collect deposit and to provide loan and also mobilizing scattered saving through various schemes and deploy them in different sector of the economy for the economic development of the country, the aim of the finance company act 1985 is to guide the economic in right direction as giving services where commercial banks and other financial institution mentioned where are but available. After the short background the study concentrate on the whole energy and effort to finance companies regarding now, they achieve financial performance and it's impact on economic development financial performance is to combination of the two words "finance" and "performance" and it gives an integrated meaning.

The financial performance is a quantities analysis of firm's efficiency the company financial plan and policy prepared and implemented by management should judge on the basis of it's financial performance.

Conceptually, vocabulary financial performance concerns with the measurement and analysis of financial operation of a firm. Through ratio analysis, correlation and regression analysis trend analysis and test of hypothesis approaches.

"The basis financial statement are the balance sheet and profit and loss account, the information contained in these statement is used by management, creditors investors and other to judge about the operation performance of the firm [Pandy, 1978:500] the analysis of the performance is designed to make a careful study of recent financial record of financial companies. In order to evaluate its performance financial statement are analyzed. Performance evolve must not be focused exclusively up to the criterion of short term profit ability or any other signal standard which many causes managers to act contrary to the long range interest of the company as a whole. The balance sheet reflecting the assets and liabilities as capital of a certain rate and the income statement showing the results of operation during certain period. thus it is evident that financial statement can not profit and loss account and balance sheet.

Similarly, "the analysis of financial statement consist of a study of relationship and trends to determine whether or not to financial position and result operations and financial progress, of the company are satisfactory or unsatisfactory [Kennedy, 1973:205] the first and most important function of financial statement is, of our to serve those who control and direct the business, to the end of securing the profit and maintaining a sound financial condition. questions as low efficiency the capital of the business is being utilized, now well credit standard are being observed and whether the financial conditions is being improved may be answered from the financial statement therefore the analysis of statement will helps the management at self appraisal and the very statements help the shareholders to judge the performance of management.

The proper analysis and interpretation of financial statement is a felt necessary in our corporation bank, private enterprises, and similar other organization to find out what information's are indicate from this balance sheet, income statement and other accounting information. Of the basis of these information, it becomes easy to chalks out the problems faced by corporation of Nepal. A capable financial manager if he wards to prove this competence must select the best analytical tools to determine the liquidity, profitability, turnover and capital structure of the corporation and capital structure of the corporation and enterprises. [Shrestha, 1980:188] In this way the main objective of financial performance and interpretation is high lighting the strength and weakness of the business undertaken by regrouping and analyzing the figure contained in financials statement and by making comparison of varies components and by examine their contexts comparative financial statement is returned as horizontal analysis as it involves comparison showing how individual items charge from year to year. [Goyal, 1972:266]

The history of development of financial institution in Nepal was very long. The first commercial bank is Nepal bank limited, established in 1994 B.S. is none government sector, then the Nepal Rastra bank is 2013 B.S.was a significant dimension in the development of banking sector the second commercial bank is Nepal Rastriya BaniJya Bank limited which was established is 2001 B.S., a fully wondered of government bank. Then after other banks were established gradually.

According to Nepal commercial bank ltd 2031 B.S. a commercial bank is the one which exchange money, deposit money accept deposit, grant loan and performs commercial banking function and which is not a bank meant for co-operative agriculture industries as for such specific purposes.

When the government adapted liberal and market oriented economic policy since mid-1995, Nepal allowed foreign banks on joint venture basis to operate in the country after getting the approval from Nepal Rastra bank. These foreign joint venture bank are allowed 50% foreign equity participation. As result first only three joint venture bank namely, Nepal arab Bank limited ,Nepal Indo.suez Bank limited and Nepal griendly bank limited were established in 2041,2042,2043 respectively.

According to Banking and financial statistics mid Jan. 2005 there are seventies commercial banks operation in Nepal among them two are under government control and other bank are not government and joint venture bank , One the most important achievement of the growth of commercial bank of domestic saving. Joint venture bank gave a new horizon to the financial sector of the country they were expected to bring the foreign capital, technology, experience, healthy competition, expertise and skills in Nepal. Listed of commercial bank in Nepal by 2005 has been below.

Table-1
List of commercial Banks

S.N.	Name of Banks	Establishment
1	Nepal bank ltd.	1994/07/30
2	Rastriya Banijya Bank	2022/10/10
3	Nepal Arab bank ltd.	2041/03/29
4	Investment bank ltd	2042/11/16
5	Standard chartered Bank Nepal ltd	2043/10/16
6	Himalayan bank ltd	2049/10/05
7	Nepal Bangladesh Bank ltd.	2050/02/23
8	Nepal SBI bank ltd	2050/03/23
9	Everest bank ltd	2051/07/01
10	Bank of Kathmandu ltd	2051/11/28
11	Nepal credit and commerce bank ltd.	2053/06/28
12	Lumbini bank ltd	2055/04/01
13	HIC bank ltd	2055/04/05
14	Machhapuchhre bank ltd	2056/06/16
15	Kumari bank ltd	2056/08/24
16	Laxmi bank ltd	2058/06/11
17	Siddartha bank ltd	2058/06/12

Sources: Banking and financial statistics mid-Jan.2005

1.2 Focus of the Study

Joint venture commercial banks plays a tremendous role in a development of developing nations also helps in the economic sector of the country. Typically, commercial banks main motive is to make providing quality services to the customers in Nepal there exist. Commercial banks releasing their service and 14th of them are joint venture banks have managed to perform better then other local commercial banks within short span of time they have been facing a neck to neck competition against the another this research is based on mainly two joint venture banks. Normally Himalayan bank ltd and Everest bank ltd.

The main objective of this research is to analyze the financial performance through use of appropriate financial tolls, so this research focused mainly to highlight and examine the profit ability position of the selected banking ignoring other aspect of bank transaction.

To highlight the financial position of the banks the research is based on the appropriate financial tools such as ratio analysis.

1.3 Statement of the Problem

Present banking setup is the result of liberalization of economy, requirement and globalization in 1990s, the development of banking in both quality and quality was satisfactory. However subsequent development of commercial banks in quality has not been satisfactory. The joint venture banks are not interested in granting loan to the priority sector, joint venture banks have concerned their operation only on urban areas. The number of commercial bank and other financial institution are increasing in recent time. Non of commercial banks in long run can survive without implementing effective credit policy and practices. Commercial banks in Nepal have been facing various challenges and problem. Some of them arising due to confused policy of government and many of them arising due default of borrowers.

After liberalization in economic in banking sector there are various opportunities. In banking sector volume of deposit and loan increased. Joint venture bank are able to earn high profit. Now due to high competition among the bank interest rates in saving as well as in long is decreasing trend non performing assets have become a large problem to the commercial banks . Due to NRB rules commercial banks has to keep certain percent of profit for provision on bad loan and non performing assets, Due to the high provision and economic situation of country banks are not able to get high profit.

In Nepal, the profitability rate, operating expenses and dividend distribution rate among the share holder has been found different in the financial performance of the joint venture bank in different period of time. The problem of the study will ultimately find out the reason about difference financial performance. A comparative analysis of financial performance of the banks would be highly beneficial for pointing out their strength and weakness.

The following specific problems have been identified.

1. Have the sample banks i.e. Himalayan bank and Everest bank ltd, been success to maintain and manage their liquidity asset and capital structure efficiency?
2. Is the financial performance adopted by commercial banks in good position?
3. How the commercial banks manage their financial performance?
4. These banks have not been able to raise their productivity to the satisfactory limit?

1.4 Objective of the Study

Basic objective of the study is to examine the financial performance of Himalayan Bank Ltd and Everest Bank Ltd, the study has the following specific objectives

a) to analyze financial performance of selected banks through the use of appropriate financial tools.
b) to show the relationship of deposit between liquidity and its effect on financial position of these banks
c) to examine the past and present financial performance of these bank
d) to highlight the financial perform and to recommend for future improvement to the stakeholders for improving financial position of the selected banks.

1.5 Significance/Importance of the Study

This study is expected to be beneficial to the concerned the banks as well as other interested parties, especially, the management of the banks, lenders and borrower, planers, shareholder, customers of these bank and researchers.

1.6 Limitation of the Study

Despite ample effort on the part of the researcher, this study is also not free from limitation. This is mainly due to time and resources constraints on the part of the researcher. The study has following limitation.

1. The study has covered the fiscal year from 2002 to 2006 only.
2. This study covers the financial performance of only two banks i.e. Himalayan bank limited and Everest bank limited.
3. The study has been mainly based on secondary data collected from Annual report of this bank, journal & other related magazine etc.
4. The standard normal financial ratio is not available especially in the Nepalese context so researcher has to depend upon his judgment and interpreting data. In this context, concerned experts were concluded.

1.7 Chapter Plan of the Study

The present researcher has been organized into the following chapters.

CHAPTER -1
Introduction

This chapter introduced the subject matter of the Research and includes the background of the study, focus of the study statement of the problem objective of the study significance of the study and limitation of study.

CHAPTER-2
Review of the Literature

This chapter deals with the existing literature on the concept of banking concept of commercial bank concept of joint venture banks Development of banking system in Nepal a brief profile of Himalayan bank limited and Everest bank limited and review of earlier studies and opinion of financial performance of these bank.

CHAPTER-3
Research of the Methodology

This chapter includes introduction research design, population and simple, sources of information used, period of study, financial indicator, statistical tools and method of data analysis.

CHAPTER-4
Presentation and Analysis of Data

This is the main chapter importance part of research and data have been systematically presented analysis and interpreted, various financial and statistical techniques have been used to analyze and interpret the data.

CHAPTER-5
Summary, Conclusion and Recommendations

This chapter briefly represents the summary of the whole study made and conclusion so made and the recommended for the effective and smooth running of the concerned commercial bank i.e. Himalayan bank Ltd. & Everest bank Ltd. under the study.

At the end of the study bibliography and appendixes have also been incorporated.

CHAPTER-II
REVIEW OF LITERATURE

This chapter deals with the literature to this study, this Part of thesis is essential to know about finding of other researcher which is appropriate to the study. The first part consists of conceptual framework and the remain parts consists the review of reports articles, journals and dissertation.

More specifically in this section, the following areas have been reviewed. Theatrical review concept of banking concept for commercial bank joint venture bank development of banking system in Nepal a brief profile of Himalayan bank Ltd. And Everest bank Ltd. Financial performance of these banks review of related literature reviewed during the course of conducting research.

2.1 Theoretical Review

Early banking system served mainly as depositories for funds while more modern system has considered the supply of credit their purpose. A bank not accepts money on deposit but also lends money and creates and lends its own credit. There are several types of bank but among them commercial banks play significance contribution in the financial system of the country. They pool together the saving of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from public on the condition that they are repaid on demand or on short notice. Their business is confined to financing the short term and medium term needs of trade and industry such as working capital financial.

The class of financial institution could commercial Banks has one important characteristics than distinguishes. It from all other kinds of financial institution. This important distinction is that it alone can hold deposits to be drawn upon by cheques. It has the power to create and destroy money within limits through the use of loans and demand deposit commercial bank lend money by creating demand deposits and retire loans by canceling demand deposits.

2.1.1 Concept of Banking System

Bank is financial institution. Which plays the significance role in the development of a country? The history of banking transaction is a old as our civilization. People use to save and keep their money with the persons having some credibility for security and for use in their old age. In ancient time gold smith use to keep people valuable goods for nominal charges against the deposit than people deposited their gold and valuable goods for the sake of security rather than earning interest. Mostly at that time gold smith performed this task, but now various types on bank has been acting in this field.

In England, gold smith was the bankers are an ancient period. They used to lend money to government and also at time emergency to keep deposits safety purpose people used to keep their ornaments with gold smiths for safety in ancient time the function of foreign exchange about used money lenders (Regmi 1969:01)

The business is banking is one of the collecting found from the community and extending making loans to people for useful purpose. Banking has played a vital role in moving money from lenders to borrowers. Banking is profit seeking business not a community charity as a profit seeker it is expected to pay dividends and otherwise add to the wealth of its share holder.

In the present Nepalese context three types of bank have been separately performing their activities in different sector, such as central bank, commercial bank development bank three types of commercial bank have been operating in Nepal in the public sector like Nepal bank ltd. The joint venture bank with foreign banks like Himalayan bank ltd, by private participation like lumbini bank ltd etc.

Nepal bank ltd is the first bank of Nepal which was established under Nepal bank limited act1994. This is the first organization bank of Nepal. Under Rastra bank act 2013. Nepal Rastra **B**ank was established as the central bank of Nepal after commercial bank act 2031 was enacted; other commercial banks developing banks were established.

2.1.2 Concept of Commercial Bank

Commercial banks are those financial institutions that deal in accepting deposits of persons that deal in accepting deposits of persons and institution and give loan against security they meet working capital needs for trade and industry and even of agriculture sector. More over commercial banks provide technical and administrative assistance to industries, trade and business.

" Bank of England" is the first commercial banks in the world established in 1794 A.D. as a central bank of Britain.

Commercial Banks are the heart of the Financial system. They hold the deposit of many persons government establishment and business units. They make fund available throw their landing and investing activities to borrowers, individual business firms and services from the produce to customers and for the to government too. These facts show that the commercial banking system of the nation is an important the functioning of the economy.

The commercial banks have its own role and contribution in the economic development. it is the sources for economic confidence to various segment and extends credit to people [R.Growing 1991:87]

Nepal commercial bank act 2031 B.S. defines "A commercial bank is one which exchanges money, deposits money, accept deposit, grant loan and performs commercial banking function and which is not a bank meant for co-operation agriculture industries for such specific purpose.

Commercial banks obtain deposit from customers under different account such as saving fixed and current commercial banks also provide short term drawing as necessary for trade and commerce e.g. hypothecation, against stock guarantee against any deviation in performing tasks, purchasing and selling of securities, discounting bills exchange promissory notes, overall drafts facilities, treasury bills, foreign currencies. Performing such task on the behalf of requited as person.

Central banks main task is to monitor. Direction and control the lending activities in the country. In Nepal commercial banks perform their function under the rules and regulation of the Nepal Rastra bank as the central bank of Nepal.

To sum up a bank is defined as financial institution, which perform widest range of economic and financial function of only business firm in the country. The commercial banks is that financial institution which collects scattered saving of the people and provides loans against proper securities for their productive purpose. Moreover they also provide technical help and suggestion administrative suggestion, safe keeping of valuable, collection of bills, cheques and overdraft facilities to industries and commerce.

2.1.3 Function of Commercial Banks

According to definition of commercial bank there are some functions of commercial banks, which are operated by such banks. Beginning with simple function of accepting. Deposit for the purpose of making loans. Commercial banking has progressively assumed wider function and greater responsibility in the economic area. It may be possible to give and exhaustive account all its function and services. However some of the fundamental function usually discharged by commercial bank is as indicated follows

- Receiving deposit for public
- Making loan and advance.
- Money creation
- Agency services
- General utility services
- facilities foreign trade
- Payment mechanism

"The two essential functions of commercial banks may best summarize as the borrowing and lending money they borrow money by taking all kinds of deposits. Deposits may be received on current account whereby the banker incurs the obligation of paying legal tender after the expiry period or on deposit account whereby the banker undertakes to pay the customer and agreed rate of interest on it in return for withdraws. Thus a commercial banker, whether it be through current account or fixed deposit account loan or by discharging this function efficiently, a commercial banker renders very valuable services to the community by increasing the productivity capacity of the country of and thereby accelerating this function efficiently, a commercial banker render very valuable services to the community by increasing the productive capacity of the country of and thereby accelerating the place of economic development. He gathers the small savings of people thus reducing to the lowest limits idle money. Then he combines their small holding in amount large enough to be profitably employed. In those enterprises where there are most called for and most needed. Here he makes capital effective and gives industry the benefits of capital both of which otherwise would have remained idle. Take for instance the practice of discounting bills by converting future claims into present money the commercial banker's bridge and the time element between the sale and actual payment of money. This enable the seller to carry as his business without any hindrance and the buyer will get enough time to realize the money thus we have seen that a baker receives deposits. Which he has to repay according to his promise and makes them deposits between the borrower and his own vaults here in lies the most delicate of the function of commercial bank" [K.C Shekhar:1997:6-7]

2.1.4 Concept of Joint Venture Banks

A joint venture bank is the joint entrepreneurship of two or more then two enterprises for the purpose of carrying out a specific operation i.e. industrial and commercial investment production of trade. [Gupta 1984:15]

When two or more independent firms mutually decided to participate in a business venture contribution to the total equity of more or less capital and establish a new organization it is knows as joint venture.

Nepalese commercial banks are classified as state owned commercial banks and private owned commercial banks state owned or semi owned commercial banks are Nepal bank limited and Rastriya Banijya bank who are suffering from huge loss so they are struggling to their existence with foreign management.

The foreign joint venture banks with full fledged banking function in Nepal are formed under the act 2021 B.S. and operated under the Banijya bank act 2031 B.S. Joint venture bank have been established for trading to achieve mutual exchange of goods and services for sharing comparative advantage by performing joint investment schemes between Nepalese investors, financial and non financial institutions as well as private investors and their parent banks. The parent banks that have experience in highly mechanized and efficient modern banking services in the many parts of the world have come to Nepal with superior technology, advanced management skills and international network of banking institution.

The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial bank. The increased competition has laid to improve their quality and caused and extension of saving by simplifying procedures and training.

The concept of joint venture bank is a new innovation in finance and it is at a growing stage mostly in developing countries. Joint venture banks in Nepal are expected to be the medium of economic development and uplift the community under the guidance operates under the supervisions controlling and directions of Nepal Rastra Bank. Nepal Arab bank ltd is the first joint venture bank of Nepal established in 2041 Ashadh 29th B.S. JVBs are expected to mobilize the passive fund toward trade and commerce to provide economic assistance to entrepreneurs and to create saving habits to public.

Role of Joint Venture Banks

Joint venture banks pose serious challenge to the existence of the inexistent native banks. But some challenges can be taken by the domestic banks as a opportunity to modernize the selves and sharpen their competitive position [Sharma, 1998:37]

Realizing the needs of imported capital in banking sector, Nepalese government has allowed JVBs in Nepal. How JVBs have posed serious challenge to the existence of the inefficient domestic bank but same challenges can be taken by the domestic bank as an opportunity to modernize themselves and sharpen there competitive zealous. JVBs are playing dynamic and vital role in the economic development for the country, which are summarizing below.

i. Provide more Resource for Investment

The JVBs have played a significant role channeling Additional resources for investment for the development of the country. They act as mediator between foreign investors and native promotion of the trade and commerce in the prevailing market those resources would have been mobilizes by any other domestic institutions and they are concentrated only in profitable and they are concentrated only in profitable and region (i.e. urban areas and profitable sector) nevertheless they have mobilized net additional resources; if they tap so untapped resources in the local market.

ii. Creation the Competitive Environment

Costumers can be benefited either by higher rate of interest in their deposits or by lower rate of lute rest on credit, it is possible only under competitive environment after the arrival of JVBs old banks has also been competitive fail competition among banks is desirable for not only the economy but also in fair personal management and efficient financial performance.

iii. National Economy

Joint venture banks comparatively have been adopting new banking system. They have already been established and have been contributed to financial garments agriculture and housing needs and playing a significant role to contribute to the national economy.

iv. To Link the International Market

The JVBs are usually bettered placed to raise resources international for viable projects in a developing country like Nepal mainly due to their credibility in and easier access to international market. It means our potential projects are globally recognized so that opportunity of financial and technical assistant will be high.

v. To Apply the New Methods , Services and Technology in Banking System.

The JVBs have invited a new era of banking in the nation. They are export and efficient for practice new methods of doing banking business like that 24 hours banking services, automatic teller machine, premium saving account , computerization and other attractive facilities.

2.1.5 Historical Development of Banking System in Nepal

In the context of Nepal formally depositing and lending is new phenomenon where as informally. It was existed from the very beginning. The historical record shows that Gunakam dev. The king of kathmadu borrowed money to rebuild his kingdom in 723 A.D. After 57 Years a merchant shankhadher' introduced Nepal sambat by clearing all the indebt ness of the people in 880 A.D. this is proof for the practice of money lending prevalent that time.

After Jayasthi Malla's classification and declaration 'Tanakdharu' as the people engaged in money lending business. Money lending business became quite popular. Thus the role of Tanakdhary was similar to that of banking agent. Even through the practice of Tanakdharu activities was not free of problem. The history of banking Nepal may be described as a component of the gradual and orderly evaluation in the financial and economic sphere of Nepalese line. The existence of an organized money market consisting landlord, Shanukars, shopkeepers and other indigeneous individual money lenders has acted as barrier to institutionalized credit.

During the prime minister of Ranodip singh around 1877 A.D. 'Tejarath Adda ' fully subscribed by the government was established in kathmandu. This is the first financial institution of the country. The primary tasks of the 'Tejarath Adda was granting of loans and safe guarding of total national deposits. At that time Indian currency was commonly using in most part of Terai. The primary task of 'Tejarath Adda' was to attract deposit in government exchequer at the beginning but letter on general public were also allowed to take the loan at same rate of interest with gold and silver ornaments as security or collateral. Although this institution did not accept any deposit and had played an important role in development process of banking system in Nepal. However the institution of Kausi Toshi Kana as a banking agency during the regime of king prithhvinarayan shah could also claim to be regarded as the first step forward initiation banking development in Nepal.

So the eliminate these drawbacks in 1937 A.D. Tejarath Adda was replaced by commercial bank. Nepal bank limited which the beginning of a new era in the history of modern banking of Nepal. The time of Rana prime minister 'Judha Shamsher' he was established as a semi government bank with the authorized capital of Rs 10 million and the paid of capital 8.42 lakhs Nepal bank limited however was controlling by the private shareholder till 1951 A.D. in 1952, HMG/ Nepal increased its share ownership in Nepal bank limited up to 51 percent in the total share capital of bank in order to hold to control over it management.

Sadar MulukiKhana started to issue currency notes since 1945 A.D. After that Nepal Rastra bank as the central bank is established in 14 Baisakh 2013 under Nepal Rastra bank act 2012 . The main objective of NRB is to ensure to facilities and to maintain economic interest of general public for safeguarding the issue of paper money to secure country. Wise circulation of the Nepalese currency to achieve stable system in its exchange rate and to develop banking system in its exchange rate and to development system in the country hence NRB a regulatory body is the banks of the loans which provide necessary directives to the other bank.

After a long gap, the second commercial bank was established in 1964 A.D. as Rastriya Banijya bank with fully government ownership. It's authorized capital of Rs 10 millions and paid of capital of Rs 3 million of course the purpose of bank is to provide facilities and help economic welfare of the general public likewise for the purpose of developing agriculture sector government established agriculture development bank in 2024 A.D.

When the government adopted liberal and market oriented economic policy in 2041 B.S since joint venture commercial banks are welcomed in Nepal in early three joint venture bank like Nepal Arab bank ltd, Nepal Indosuez. Bank (Renamed investment bank Nepal grind-lays bank (renamed standard chartered bank) limited was established at present there are 21 commercial banks in Nepal.

2.1.6. Regulation of Commercial Banks.

Commercial bank is a profit-making business corporation. Ganking has a strong flavors of public service about it had hedged about by restrictions imposed by law and supervisory authorities [Hand and Kener 1961:33]. So they are under the obligation to conduct their affair with an eye to the public interest as well as to their own profit. The highly significant difference in the case of the banking industry is of course that here the public interest in directly and pervasively involve in a unique way [Vickers 1985:143] the behaviour of the commercial banks directly impact on the interest of the civil society so the make favorable whole economy, government agencies should regulate and promote the commercial banks in proper way. The basic objectives of banks are to maintain a safe, efficient, stable and competitive commercial banks system in the context of Nepal the formation establishment and operation commercial banks rules of game are mainly Government by company act 1977, commercial bank. Act 1914, Bonus act 1974 and foreign investment and technology transfer act 1992 as well as other regulatory bodies are NRB inland Revenue department (IRD) Department of commerce.

The company act is enacted in 1997 to make necessary arrangements for the registration and regulation of joint stock companies. It covers procedures of company formation share and debentures issues, meeting and business managing agent accounts and records system audit etc.

The commercial bank act was first promulgated in 1974 to ensure the economic interest and convenience of the public to facilitate the supply of credit to agriculture industry and commerce and to make available banking service in the country. There are 54 sections in which the establishments, board of directors, share capital voting procedures, meeting functions prohibitions and restriction, provision of audit the power of Nepal Rastra Banks and the procedures for liquidations are explained.

The bonus act is also enacted in the same year 1974 in relation to the distribution of bonus, to the worker and the employees working in the organization. There are altogether 23 section 5 of this act stipulate that all profit earning organization gave to set a side a side 10 percent of total profit for employee's bonus.

It is stated in the foreign investment and technology transfer act 1992 that has expedient to promote foreign investment and technology transfer making the economy viable , dynamic and competitive though the maximum mobilization of the limited capital human and the other natural resources. There are sections in the act.

Nepal Rastra Bank regulation, supervisor and monitor commercial banking activities to get better agree of overall financial stability and to manage more emerged intensive degree of competition NRB regulate the commercial banks of flowing main point.

a. Establishment of commercial bank
b. capital fund
c. capital adequacy ratio
d. cash reserve ratio
e. reserve
f. directive credit
g. branch and counter expansion
h. interest spread
i. loan classification and loan less provisioning.

2.1.7 Profile of Concern Banks

2.1.7.1 Himalayan Bank Limited

Introduction

Himalayan bank ltd was incorporated in 1992 A.D. by a new distinguished business personalities of Nepal is partnership with employees provident fund and Habib bank limited one of the largest commercial bank of Pakistan. Banking operation commenced from Jan. 1993. It is the first commercial bank of Nepal. Whose maximum shares is hold by the Nepalese private sector. Besides commercial banking services the bank also offers industrial and merchant banking services. The bank has five branches in Kathmandu valley. In addition the bank also has ten other branches outside Kathmandu valley. The bank also operates a counter in the premises of the Royal place. The bank will be aggressively opining new branches at different parts of a kingdom to server its customers better. The promoters and their share holding pattern of Himalayan bank ltd are as follows.

Nepal promoters	51%
Habib Bank of Pakistan	20%
Karmachari Sanchayakosh	15%
General public	14%

Share capital a Himalayan Bank limited

a. Authorized Capital

1,00, 00,000 ordinary shares of Rs 100 each Rs 1,00,00,00,000.

b. Issued Capital

7722000 ordinary share of Rs 100 each Rs 772200000.

c. Paid up Capital

7722000 ordinary share of Rs 100 each Rs 772200000

Services of Function of Himalayan Bank limited.

Himalayan bank has always been committed to provide a quality services to its valued, Customers with personal touch. All customers are treated with almost courtesy as valued client. The bank, where ever possible offers of failure made facilities to its clients based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Himalayan bank has adopted the latest banking technology. The bank already offers unique services. Such as sms banking and internet banking system.

a) Accepting deposit
b) Bills discount and purchase
c) Letter of credit and bank guarantee
d) Exchange of foreign currency supported by Nepal Rastra bank
e) Transferring of fund
f) Extends of credit facilities by the way of long term and short term loan.

2.1.7.2 Everest Bank Limited

Introduction

Everest bank ltd is a joint venture commercial bank with Punjab National bank of India which was established is 1993 A.D. Under the company act 1964 and the bank is listed in Nepal stook exchange board in 1995 A.D. Its head office is located in New Baneshwor now lajimpat Kathmandu . Now the bank operated it branches in Nepal. The promoters and their holding pattern of Everest bank limited are as follows.

Nepal promoters	50%
General public	30%
Punjab National bank	20%

Share Capital of Everest Bank

A. Authorized Capital

a. 4500000 ordinary share of Rs 100 each	450000000
b. 1500000, 9% cumulative irredeemable preference share of Rs 100 each	150000000

B. Issued Capital

a. 3798000 ordinary share of Rs 100 each	379800000
b. 1500000, 9% comlative irredeemable Preference share of Rs 100 each	150000000

C. Paid up Capital

a. 3780000 ordinary share of Rs 100 each	378000000
b. 1400000, 9% cumulative	
Irredeemable preference Share of Rs. 100 each	140000000

Function of Everest Bank Limited

a. Accepting the deposit [i.e. current, fixed, saving deposit and other call deposit accounts.
b. Exchange of foreign currency supported by Nepal Rastra Bank.
c. Helps the banking services to import and export business.
d. Bills discount and purchase.
e. Traveler cheque issued and discount.
f. Extend credit facilities by the way of term loan working capital.
g. Bank guarantee.
h. Transferring of fund by other countries.
i. It provides lockers facilities.

2.1.8 Financial Analysis and Appraisal.

The study of financial statement is called financial analysis. It helps in evaluating the relationship between different items constituting the financial statement and obtains a better understanding about the financial position and the performance of the firm. Financial analysis is the process of identifying the financial strength and weakness, judging profitability and overall efficiency of a firm. The analysis of financial statement is done to obtain a better insight into a firm's positions and performance. The analysis of financial statement is an attempt to determine the significance and meaningful of a financial statement data. So a forecast may be made up the prospects for future earning ability to pay interest and debt maturities and probability is a sound dividend policy. Financial analysis is a process of a evaluation the relationship between component part of the financial statement to obtain a better understanding of affirms position and performs once. Financial analysis starts where the summarization of financial data in the firm of profit and loss account and balance sheet and financial appraisal being where financial analysis ends.

Financial analysis is a preliminary step towards the final evaluation of the result drawn by the analysis or management account. A complete financial analysis and interpretation of financial involves the assessment of past business performance an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired result. Much can be learnt about business performance and financial performance through an appraisal of financial statement. The appraisal or analysis of financial statement spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worth ness that would have otherwise been buried in maze of detail. “Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of business enterprises. It is a technique of x-raying the financial performance as well as process of a concern.

Financial evaluation or appraisal is the end of continuous cycle, which starts with the classification, recording, summarizing, presentation and analysis of data ends with the interpretation of result obtained from critical analysis there of by highlighting strength and weakness of the firm.

Hence financial appraisal of evaluation is the process of scientifically making a proper critical and comparative evaluation of the profitability and financial performance of a given concern through the application of the techniques of financial statement analysis.

2.2 Review of Literature Related to the Study

As the purpose of this study, the relevant thesis works which were completed by the thesis workers regarding the financial aspect of commercial banking sector especially HBL and EBL are captured under the following paragraphs.

Dhital R (2004) conducted a thesis” A complete study on investment policy of standard chartered Bank ltd and bank of Kathmandu ltd.

The main ratios cash and bank balance of total deposit ratio of SCBL are lower in comparison to BOKL of Kathmandu ltd. SCBL has better liquidity position than of the BOKL. The mean ratio of loan and advance to current assets of SCBL is lower than that of BOKL. SCBL ratio is less consistency in comparison to bank. The mean ratio of loan and advance to total deposit of SCBL in lower than that of BOKL and the ratios of total investment of to total deposit of SCBL is lower than that of BOKL. The mean ratio of return on loan and advance of SCBL mean ratio is less than that of BOKL. The ratios of SCBL are more variability in comparison to BOKL. The mean ratio of return of total working fund of SCBL is higher than BOKL. The mean ration of total interest earned to total outside assets of SCBL is greater than BOKL the mean ratio of total interest paid to total working fund of SCBL is lower in comparison to BOKL. The liquidity risk ratio of SCBL is less than that of BOKL. The mean ratio of credit ratio of SCBL is less than of BOKL and SCBL ratio are less variability comparison to BOKL.

Dev Raj Adhikari (1993) conducted in his study evaluating the financial performance of Nepal Bank ltd. He had concluded that investment portfolio of he banks have not been managed so efficient to maximize the return. Therefore the banks have suffered from series of operational efficiency. Which was not satisfactory likewise allocation of loan and advanced by the bank was not so meaningful as the productive sector had little share in the loan portfolio. Similarly lower return on investment and lower market value of the bank share as against the book value was reflection of the banks nothing was satisfactory except liquidity position of Nepal bank ltd.

Ganesh Prasad Awasthi(2003) in this thesis " A comparative study on financial performance between HBL and EBL "having the objective to analysis and examine the financial performance Identify the financial position and recommended the suggestion conduct a research. He used the descriptive analytical research design. Using the financial as well as statistical tools dated from f/y 1997/98 to 2001/2002. He concluded that liquidity position. Of both banks were not satisfactory whereas liquidity position and effecting of utilization resource in HBL was relatively better and HBL was more successful to general more return on its shareholder found then that of BOKL. Comparatively interest Constitutes higher portion In income and payment to then BOKL than HBL and commission and staff expenses constitute higher portion in income and expenses of HBL then BOKL.Thus HBL has comparatively superior financial performance. He recommended improving current ratio and increasing the investment by total deposit ratio for both banks. To enhance the profitability, idle money should be invested and to reduce finally, for banking development they have to obey to directive of Nepal Rastra bank by establishing its branches in rural region and invest in priority sector.

Surendra deoja (2001) “ a comparatively study of the financial performance of Nepal SBI bank limited and Nepal Bangladesh bank ltd "Analyzed different ratio of NSBL and HBBL for the period of 5 year till fiscal year 2000 concludes that liquidity position of there two banks is sound. NBB is better utilization of resources in income generating activity than NSBL. They are on decreasing trend while interest earns to total assets and return on net worthratio of NBB is better then NSBL. It seems overall profitability position of NBB is better than NSBL and both bank highly leveraged.

Sanjay Subedi,(2002) conducted a research work " financial sources of Nepalese commercial bank" to get thread equate information about the financial soundness of commercial banks. The research objectives were to judge the financial health, analyze and evaluated solvency and probability position of SCBN, HBL,NSBL, the research design was descriptive-cum analytical and use financial as well as statistical tools. He concluded through inter banking analysis that the liquidity position of above banks was poor especially in HBL. Capital structure of all banks was increasing especially in HBL. Which indicator the maintaining the financial rise NSBL is the best performance regarding the investment turnover. The profitability position of SCBN was better in comparison, NSBL was advance hence SCBN, using above tools, was the strongest in overall financial position prospective.

Ganesh Regmi (2001)" A comparative study of financial performance of Himalayn bank limited and Nepal Bangladesh bank limited"comcludes that HBL is more levered both of there two banks are utilizing their deposit fund through loan and advance to generate revenue efficiency but comparatively NBB is doing utilization of resources is short term investment and NBB has more non-earning idle assets as cash and bank balance . Profitability position of NBB is not unsatisfactory one. The bank has shown improvement trend on this regard. NBB has better financial performance than HBL.

Preema Sharma, (2001) conducted a research work "An appraisal of financial aspects of bank of Kathmandu ltd." To observed the financial performance and position of book. The main objective of the research was to examine the financial performance of the bank in term of different ratio performance of the bank in term of different ratio (liquidity, Activity, average, profitability) and recommended suggestion to improve the financial soundness. The research was description-com-analytical designed has used financial tools to analyze the data the study period was 2052/53 to 2056/57. She found the poor and fluctuating liquidity position but efficient earning power of the bank. Sufficient attention has been given for loans loss provision by the banks two sequential fiscal year bank had operated at loss and afterward, making profit. Good utilization of deposit, whereas capital adequacy ratio was below the NRB directives the bank had violated the directives of NRB time and again. Hence the bank was improving the financial performance and position gradually. To improve the overall financial status she had forward following suggestion. Liquidity position and capital adequacy ratio should be maintained shortly. Mobilize idle deposit to improve profitability, increase capital fund. Similarly, to improve social legitimacy, contribute in social welfare program. Obey the directive of Nepal Rastra bank extents the branches in rural area and invest in priority sector etc.

Gopal Prasad Ghimire (2003) " A comparative case study of the financial performance of commercial banks between NBBL, HBL and EBL " to observe ability to mobilize the resources into investment ability to maintain and manage liquidity, assets capital, structure, efficiency, productive and financial risk, the research objective were to highlight financial performance to analyze and evaluate liquidity profitability, leverage activity, trend and growth of loans, investment and total deposit pattern of these bank and finally recommend suggestions for improvement. The research design was descriptive and analytical where both financial and statistical tools was used to analyze the data. The study was from 1996/097 to 2000/ 001. He concludes that current ratio of all the banks was below the normal standard even comparatives better in EBL.

Prakash Chandra Parajuli in this thesis "A comparative study of the financial performance of joint venture banks in Nepal" had set the main objective to evaluate effectiveness of monitoring and collecting policies of banks. The researcher had specialized study of Nepal grindlays banks ltd. and Nepal Arab bank limited. The analysis of liquidity ratio reveals that the liquidity position is relatively higher in case of NABIL. As indicated by the activity ratio. NABIL has better performance than grind lays bank limited. While might be the consequence of better lending policy of NABIL bank. Regarding the portfolio ratio. Almost of the profitability ratio of NGBL is higher than those of NABIL in percentage which reveals that NGBL is relatively greater efficiency is mobilizing its resource. Profitability ratio which measures the bank capacity to earn the means of substance is different in those two banks. During the study time frame, NGBL has better result in respect of net profit to total assets ratio. Net profit to total deposit , return an network, return on assets and EPS. of NGBL than NABIL but DPS tax per share and dividend pay-out ratio of NABIL is better than NGBL thus .It may be conducted that NGBL may have bright future than that of NABIL because it is quite efficient in generating the means of substance.

Bhoj Raj Bohara (2002) " The thesis of" comparatively study of the financial performance of Nepal Arab bank limited and Nepal Indosuez bank ltd" the researcher's main objective was to highlight of the function and policies a joint venture banks. The researcher had found the average current ratio. Loans and advance to the current assets ratio are higher than NABIL. Although the current asset of these banks is adequate to discharge current liabilities. Almost all profitability ratio of NABIL are better then NBL. Thus NIBL is adopting more aggressive lending investment and borrowing policy to generate profit than NABIL. Higher EPS of NABIL than NIBL. However the faster increasing EPS of NIBL indicates the banks settler performance in the following year dividend create positive attitude of the share holder towards the enterprises, which consequently helps to increase the market value of the share and the thesis dividend per share of NIBL is higher then NABIL.

Activity ratio revealed that all the banks have been able to utilize the resources satisfactory the capital structure of all banks indicates highly leveraged capital structure return on network was higher in HBL whereas return on total deposit was higher in NBBL interest paid to interest. Income ratio of HBL and EBL was in decreasing trend's intern of EPS sand DPS HBL was superior to that two bank. He suggested that improvement of liquidity and leverage position was the most to solvency and financial stability. NRB directives regarding capital adequacy ratio should be maintained improvement and efficiency was required for NBBL and EBL. EBL should pay the dividend to the common shareholder. Likewise installed modern banking facilities and fulfillment of social responsibility were recommended.

In this section, Different views expressed by expressed by eminent Scholar's authors executives in their publications regarding the operation, function, financial performance, legal provision etc. Nepalese commercial banks have been reviewed.

M.R. sharma explains in his article, Joint venture banks in Nepal co-existing or crowding out that would be definitely unwishful for Nepal not to let JVBs to operate in the country and not to be take advantage of additional means of resources mobilization as well as harbinger of new era in banking. But it will certain be unfortunate for the country to let the development of the JVBs at the cost of domestic banks so far one should admit frankly. No differential treatment has been made to the domestic and joint venture banks at least from the latters bargaining.

If the JVBs show strength and brickness to come forward so share the trails and tribulation of this poor country both types of banks will collapse ands co-exist complementing each other contributing to the nations accelerated development.

On the contrary if the joint venture banks use their Strength against treading to the cumbersome path of development along with the domestic banks and government, they will eventually through out the domestic banks from the more profitable and lucrative urban sector unless reincarnated rein car lasted by the determination of the government [sharma 1988:3.42].

Mr. sharma has made a comparative study of two different nature of banks, especially on nature of transaction and expertise in banking network. JVBs basically were oriented in urban areas whereas the local banks are set up and conducted their transaction both in urban and rural areas.More over a number of commercial banks are situated in rural rather than in urban areas.

Mr. R.R. Bajracharya expressed his view in this article entitled RBB, a study comparative performance study as deposit growth in commercial banks is not consistent. There is slow growth deposit in local banks as compared to joint venture banks whereas local banks are better in terms of mobilization of rural saving .In term of credit expansion, Joint venture banks are more efficient than local banks. Credit deposit ration is better in joint venture banks. The ratio of non performing local is greater in JVBs. The competition between the local and joint venture banks is not healthier [Bajracharya; 2047:125-133]

In this observation, he clearly states that there is no ground of comparison between local commercial banks banks and private commercial regarding their performance.

In the business age, Rameshwar Yadav "the growing trend of consumer banking" summarized some newly adopted policy by the commercial banks in favors of consumers while long term investment opportunities remain uncertain in the country. The Nepalese banks are starting to diversity the loans in order to reduce excess liquidity and other financial risks. Nepalese banks are moving towards a new era of banking so that the relatively recent concept of consumer banking is swiftly becoming popular and flourishing among the middle to high level job holder private companies to corporate houses and national to multinational companies. The banks are offering all kind of personal as well as commercial facilities. These days, Nepalese banks are coming up with new product and consumer package on a regular basis. They are increasing collaborating with the international banks too, embracing their banking models learning lesson from their traditional and latest concept and keeping up to data with the new technology coming in, hence giving added facilities to the consumers too, Nepalese banks rapidly expanding their reach through the country are expanding their service hours keeping the customer's convenience in mind.

Govinda Bahadur Thapa in his article “Nepalese banking system can on the mess be managed” ? started that the joint venture banks have been earning a huge profit not from fund based lending but from investing outsides. That is why, there banks have been less interested to lending aggressively in the domestic market. economics activities have slowed down in Nepal for several year. However commercial bank have not lowered their lending rate to revitalize the economy on the contrary, the commercial banks have been discouraging the deposit to get rid of excess liquidity. And new avenue that is investing aboard bas been opened for the commercial banks to earn profit rather then motivating then to invest locally.

This is a big irony that a country, with such low saving rate and need of unlimited investment in investing huge amount of resources in developed countries and is pilling up international reserves. Therefore it can be inferred that Nepalese banking system has not been made and motivated to contribute to the promotion of the economic activities in the countries as it should do.

Sunita Shrestha[1995] “ Portfolio behavior of commercial banks in Nepal” is readable books to all the student researcher’s banks, general public etc. This book covers all the aspect of the commercial banks in Nepal, such as introduction of banking system, financial performance of the commercial banks in Nepal. Investment operation of commercial banks portfolio behaviour of commercial banks etc.

The authors have concluded about the financial performance of the commercial banks in Nepal as below. Capital adequacy ratio reveals that Nepalese banks are below the standard set by NRB. Foreign, banks have higher capital adequacy ratio but has been declining every year. Debit equity ratios to commercial banks are more than standard.It leads to concluded that the commercial banks are highly leveraged and highly risky. Return of assets of all the banks show that most of the time foreign banks have higher return then Nepalese banks. The performances evaluation of different commercial banks show that the local banks have very poor performance and both banks (NBL and NRB) have low capital base and heavy amount of non-performing assets. But on the other hand, newly opened foreign based commercial banks have better financial performances than the domestic banks operating under same environment. The reasons behind it lie not only in their financial decision making system but many other internal factor namely the organization, staffing, work technology, work culture and the attitud of staffs. It has been found that human resources management has been the main problem of Nepalese banks and these deficiencies are obviously reflected in their financial performance.

Although a number of article and research works have been published and concluded about commercial banks and JVBs but that are either insufficient or out dated to broad study on the topic of comparative financial appraise of JVBs. This is the reason that necessitated the present study.

CHAPTER-III
RESEARCH METHODOLOGY

3.1 Introduction

Research methodology adopted in this chapter is the set of various instrumental approach used in achieving the predetermined objective as stated in the earlier chapters. It count on the resources and to the extent of their reliability and validity in this research. The research methodology has primarily sought the evaluation of the financial performance. The research methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objective of the research. Research methodology refers to the various sequential steps along with a rationable of each such step to be adopted by researcher in studying a problem with certain objectives in view.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically it is necessary for the researcher to know not only the research methods but also the methodology. When we talk about the research methodology we not only talk of research methods but also consider the logic behind the methods. We use in the context of our research study and explain why we are using a particular method or techniques and why are not using other so that research result are capable of being evaluated either by the researcher himself or by others. The study of research methodology gives the student the necessary training in gathering material and arranging them participating in the field work which required, and also training in techniques for collection of data appropriate to particular problem in the use of statistics and controlled experimentation and in recording evidence sorting it out and interpreting [C.R. Kothari,"Research methodology:10-13]

In this study is to comparatively evaluate the financial performance of the HBL, EBL for comparative of services activities and tools should be followed. The research methodology adopted in this study is mentioned below. The main heading of methodology is research design, population and sample, nature of sources of data and financial tools and techniques of analysis in this study.

3.2. Research Design.

Decision regarding, what were, when how much by means concerning an enquiry or a research study constitute a research design “ A research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure " In fact the research constitute the blue print for the collection, measurement and analysis of data as such the design includes an outline of what the researcher will do writing the hypothesis and its operational implications to the final analysis of data. The study is both descriptive and analytical this study is based on secondary data. Secondary data are collected from their respective annual report other publication and journals of the related banks published by Nepal Rastra Bank, Nepal stock exchange and other related magazines.

3.3. Population and Sample.

A population in most studies usually consists of large group because of its large size it is fairly difficult to collect detailed information from each number of population Rather than collecting information from each number, a sub group is chosen which is believed to be representative of population, this subgroup is called a sample and the method of choosing this subgroup is done by sampling, the sampling allows the researcher more time to make an intensive study of a research problem.

At present 21 commercial banks are in operation in Nepal, out of them two commercial bank selected from the purpose of the study. Financial statement from 2002 to 2006 has been taken for the purpose of the study.

The Samples selected are:

Everest Bank limited

Himalayan Bank limited

3.4. Nature and Sources of Data

Data are considered as integral part of research. The present Study is mainly conducted on the basis of secondary data. The secondary data are collected from the Nepal Rastra banks, website, Nepal stock exchange, especially comparative balance sheet profit and loss account, income statement and other publications like books, journal periodicals magazine, banking and financial statistics mid-jan 2005 and news paper etc.

3.5 Method of Data Analysis.

The data were first collected and tabulated into separate tables systematically. The data were tabulated for simple statistical analysis, such as average and percentages and these have been presented and analyzed into descriptive way. Necessarily graphs and charts have also been presented to interpret the data. Appropriate tools of financial analysis and statistical tools have been used.

3.5.1 Financial Analysis.

Analysis of financial statement helps to take managerial and financial decisions. To make rational decisions in line with the objective of the firm, the financial manager must have certain analytical tools to analyze the financial health. The analysis of financial statement is done to obtain of better insight into a firm’s position and performance. Analysis of financial statement is a process of evaluating the relationship between the component parts of the financial statement to obtain better understanding of a firm's position and performance. In the present research, various financial tools have been employed for the sake of analysis. The ratio analysis involves comparison for useful interpretation of financial statement. The quantities judgment regarding the financial performance of firms can be dine with the help of ratio analysis. The following ratio is calculated for the study purpose.

3.5.1.1 Ratio Analysis.

Ratio analysis is very powerful tools of financial analysis; financial ratio help to us find the symptoms of problem. The case of any problem may be determined only after the location of symptoms. A financial ratio is the relationship between accounting figures, expressed mathematically. The term “ratio” refers to the numerical of quantitative relationship between two variables.

There are more then two hundred ratio but all are not applicable in one situation. Western and Brigham have classified ratio into six fundamental types, there are

Liquidity ratio
Leverage ratio
Activity ratio
Profitability ratio
Growth ratio
Valuation ratio

In the book "financial management and policy van horn writes about ratio cam be grouped into five types

Liquidity ratio
Debt ratio
Profitability ratio
Coverage ratio
Value ratio

Only one ratio can not give complete information by which the financial condition and performance of a firm can be judge. By analysis a group of ratio, reasonable judgment in this in this regard can be made. We must be sure to take into account any seasonal character of a business understanding trend may be assessed only throw a comparison of raw figure and ratio at the same time of the year. The technique of the ratio analysis is a part of the whole process of the analysis of financial statement of any business industrial concern especially to take out put and credit decision.

These types of relationship can be expressed by a number of relations that help to summarize the large quantities of financial data and to make quantitative judgment about the firm's financial performance.

3.5.1.2 Liquidity Ratio

The ability of a firm to meet its short term obligation is known as liquidity. It reflects the short term financial strength of the business. These ratios are used to know the capacity of the concern to repay its short term liability. Poor liquidity position reduce the credit worth ness customer confidence and finality collapse the bank following ratio will be used to measure liquidity position of the bank.

a. Current ratio
b. Cash and bank balance to total deposit ratio
c. Cash and bank balance to total deposit ratio
d. Saving deposit to total deposit ratio

3.5.1.3 Leverage Ratios

The second classification of the financial ratio is the Solvency ratio. It is also termed as solvency ratio of capital structural ratio the leverage ratios are calculated to judge the long term financial position of a business. These ratio measures the enterprise’s ability to pay the interest regulatory and to repay the principle on maturity. The following ratios are included in leverage ratio.

a. Debt equity ratio
b. Debt to total capital ratio
c. Fixed coverage ratio
d. Interest coverage ratio
e. Long term debt to total asset ratio
f. Capital adequacy ratio
g. Net worth to total assets ratio

3.5.1.4 Activity Ratio

The relationship between sales and resources is indicated by Turnover ratios. These ratios reflect how efficiently the company is managing its resources. These ratio measures the degree of effectiveness in use of resources of funds by a firm. Following important activity ratios have been used in this research.

a. Loan and advance to total deposit ratio
b. Loan and advance to fixed deposit ratio
c. Inventory turnover ratio
d. Loan and advance to total assets ratio
e. Short term investment to total deposit ratio

3.5.1.5 Profitability Ratios.

Maximization of profit is the main objective of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern according to Lord Keynes profit is the engine that drives the business enterprises. The profit is also important to preserve the existence of business as well as strengthen and expand it following ratio are used to identify the profitability position.

a. Return on net worth ratio
b. Return an total assets ratio
c. Return on total deposit ratio
d. Interest earned total assets ratio

3.5.1.6 Other Ratio

Analysis of bank performance and position from the different angle (i.e. market based,shareholder confident,dividend distribution) are concluded with the help of flowing ratio.

a. Earning per share
b. Dividend per share
c. Dividend payout ratio
d. Dividend yield ratio
e. Earning yield ratio
f. Operating income analysis
g. Interest paid to interest income ratio

3.5.2 Statistical Tools.

Statistics is body of methods of obtaining and analyzing data in order to base decision of them. It is a branch of scientific method used in dealing with phenomena that cam be described numerically either by counts or by measurement. Thus the word statistics refer a method of dealing with quantities information. There are many statistical tools to analyze and interpret but to the our study coefficient correlation has been studied.

3.5.2.1 Probable Error.

Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliable of the calculated value 'r' if 'r' be the calculated value 'r' from sample of N pair of observation, then P.E. defined by P.E. = 0.6745 x SE (r) Probable error of r is very useful tools that the value of r and is worked out as Karl Pearson's' coefficient of correlation.

The above mentioned financial and statistical tools and techniques have been used for this study's.

CHAPTER-IV
PRESENTATION AND ANALYSIS OF DATA

Data presentation and analysis is core of any research study without this part study remain incomplete in sense that the above set objective in chapter one can not be meet conclusion and finding present study has been undertaken with the objectives of making comparative evaluation of the financial performance of the selected commercial banks in Nepal with special reference to HBL and EBL, keeping in mind the objectives of the study relevant data have been tabulated first and financial performance, ratio analysis, capital structure and profitability ratio and other ratio have been used.

4.1. Analysis of Liquidity Position

Liquidity ratio is measures the ability of the firm to meet its obligations. Liquidity ratio establishes a relationship between current assets and current liabilities and provides a quick measurement of liquidity. A firm should ensure that it does not suffer from liquidity problem and should that it does not have excess liquidity as will. The failure of company to meet its short obligation due to insufficient liquidity will result in poor credit worth ness, loss of creditors, confidence or even in legal suits resulting in the closure of the company at the extreme.

A very high degree of liquidity is also not desirable, as idle assets earn nothing. the firms fund will be unnecessary tied up in current assets. Therefore it is necessary to strike a proper balance between high liquidity and insufficient liquidity, Liquidity position of HBL and EBL are analyzed using following relevant liquidity ratio.

4.1.1. Current Ratio.

Current ratio shows the relationship between the current assets and current liabilities. The current ratio is calculated by dividing current assets by current liabilities. The objective of this ratio is to measure the ability of the firm to meet its short term obligation.

The following formula can be used to ascertain this ratio.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

There are two components in current ratio. The first component' current assets' are those assets which can be converted into cash within a short period of time normally not exceeding one year the current assets include cash in hand , cash at bank, prepaid expenses, loan and advance, inventories, marketable securities, work in progress, bills receivable, sundry debtors less reserve considered as current assets.

The second component is current liabilities which mean the obligation which are payable within a short period. Those liabilities which are expected to be matured within a year is termed as current liabilities. In current liabilities includes the creditors, cash credit, bank over draft, bills payable outstanding expenses, income tax payable, short term loan provision for tax, accrued interest.

Higher the current ratio, better the liquidity position is for many of business 2:1 is considered to be an satisfactory. If the current ratio of a business is less than 2:1 it means the business has difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return.

The following table and figure shows the current ratio of the bank.

Table 4.1

Current ratios of HBL and EBL (Rs. in million)

Financial Year	HBL			EBL		
	C.A.	C.L	Ratio	C.A.	C.L.	Ratio
2002	14165.33	19433.87	0.73	6359.66	6063.87	1.05
2003	16881.45	21899.93	0.77	7836.89	7420.73	1.06
2004	18495.96	23030.89	0.88	9299.95	8928.24	10.5
2005	17365.96	26302.95	0.66	8725.66	10578.67	0.83
2006	14881.32	27694.22	0.54	10395.67	14582.02	0.71
Average			0.72			0.94

Source: - Comparative balance sheet of annual report

Fig. 4.1

Current Assets and Current Liabilities

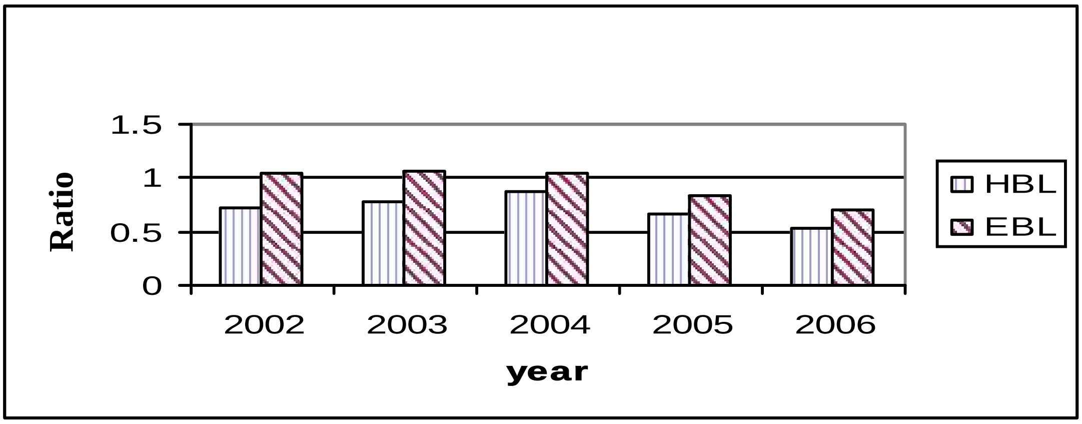


Table 4.1 clearly shows that the current ratio of the blanks is always less than the standard ratio (2:1). Further more, HBL the current ratio of HBL less than 1:00 and of EBL is equal 1 in year 2002 to 2004 and after the 2004. The current ratio is decreasing and this trend shows an un-satisfactory liquidity position of these banks.

More especially, the current ratio of HBL is ranged between 0.54 to 0.88 times over the study period and average ratio is less than 1. Whereas the increase of EBL the ratio is between 0:71 to 1:06 times the over the study period which indicates satisfactory function than HBL. Comparatively the average ratio of EBL is better than the HBL. Though the current ratio of these banks is below the normal standard. If cannot be concluded that the liquidity position is poor because the ratio is only the ratio of quantity. A company could be getting into cash problem and still have a strong current ratio, quick ratio generally used in the banking sector this ratio is called cash and bank balance to total deposit ratio.

4.1.2. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio measure the liquidity through the cash and bank balance to total deposit ratio, five years data of the sample banks has been taken and its measures the capacity of bank too meet unexpected demand made by depositors i.e. correct account holders saving depositors, call and other deposit ratio is compacted by using following formula.

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Total cash and bank balance}}{\text{Total deposit}} \times 100$$

Cash and bank balance including cash in hand, foreign currency in hand/cheques and other cash item, with domestic bank and balance held aboard the total deposits includes current deposit, saving deposits, fixed deposits money at call short notice and other deposits.

Higher cash and banks balance to total deposit indicates higher liquidity position and ability to cover the deposits and vice-versa.

The following table and figure shows the comparative ratio of cash and bank balance to total deposits.

Table 4.2

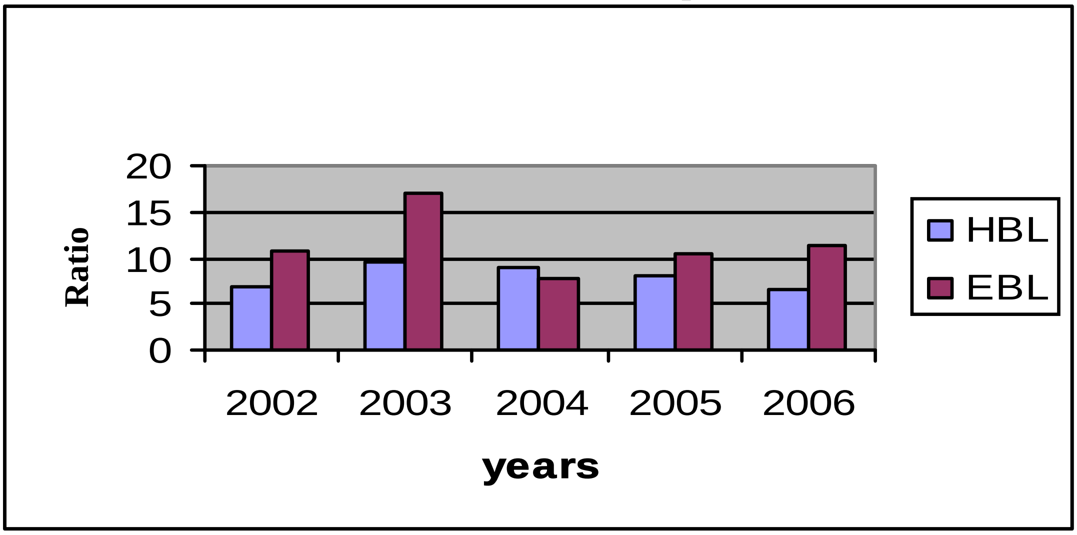
Cash and Bank Balance to Total Deposit Ratio(Rs. in million)

Financial year	HBL bank balance	HBL total deposit	HBL ratio %	EBL bank balance	EBL total deposit	EBL ratio%
2002	1264.67	1861.38	6.8	592.76	5466.61	10.8
2003	1979.21	21007.37	9.42	1139.57	6694.96	17.03
2004	2001.19	22010.34	9.09	631.81	8063.90	7.8
2005	2014.47	24814.01	8.12	1049.99	10097.69	10.39
2006	1717.35	26490.85	6.48	1552.97	13802.44	11.25
Average			7.98			11.45

Sources: balance sheet of annual report

Fig. 4.2

Cash and Bank Balance to Total Deposit Ratio



The above table 4.2 and multiple bar diagram shows that cash at bank Balance to total deposit of the HBL and EBL. The ratio has fluctuated during the period of study in case of the banks.

More specially, cash and bank balance to total deposit ratio of HBL bank is highest ratio in fiscal year 2003 and the lowest ratio is fiscal year 2002. This table shows that the ratio is decreasing the fiscal year 2005 and 2006 than 2004. The average ratio is 7.98 of HBL bank of this study of five years fiscal year.

Like wise the ratio of EBL bank is highest cash and bank balance to total deposit ratio is 17.03 in fiscal year 2003 and the ratio is fiscal year 2004 and increasing the ratio in fiscal year 2005 than 2004 but this ratio decreasing in 2006, the overage ratio is 11.45 in this period.

It is concluded from the above analysis that cash and bank balance percentage with respect to total deposit in the case of EBL certainly better then the HBL and the liquidity position is good of EBL than HBL.

4.1.3. Fixed Deposit to Total Deposit Ratio

Fixed deposit to total deposit ratio is calculated to major the proportion of fixed deposit in total deposit. High fixed deposit to total deposit ratio indicates high possibility of investment of money in long term investment of money short term investment.

Fixed deposit is a long term and high interest bearing deposit. More fixed deposit may be advantages. If it can be invested in long term credit fixed deposit is long term deposit. So bank can mobile them on loans and advantages thus ratio can be computed as follows.

$$\text{Fixed deposit to total deposit ratio} = \frac{\text{Fixed deposit}}{\text{Total deposit}} \times 100$$

Fixed deposit includes only fixed account which has fixed time period to mature total deposit included saving, current fixed call and other deposit.

The following table and multiple diagrams show the comparative fixed deposit to total deposit ratio.

Table 4.3

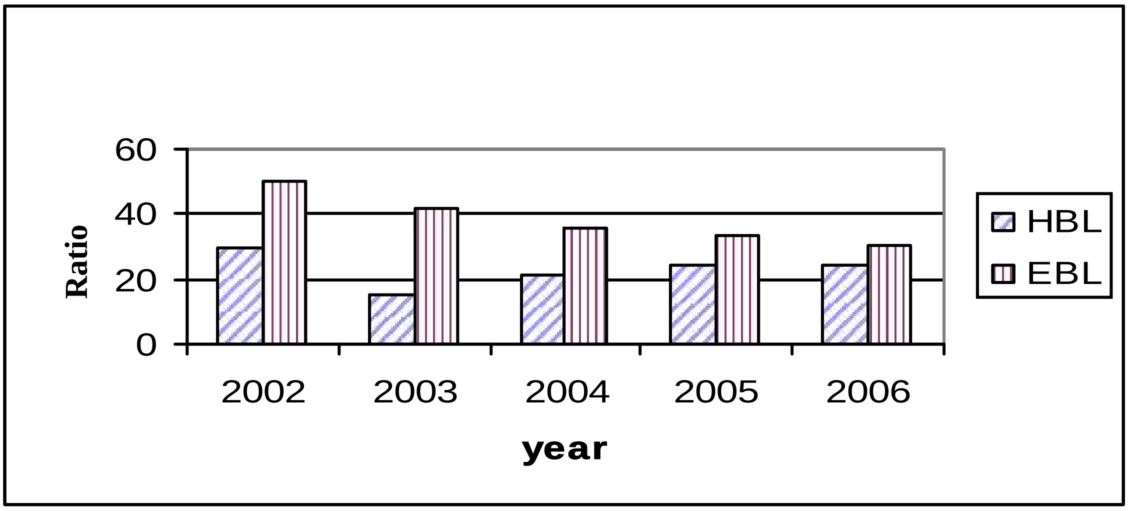
Fixed Deposit to Total Deposit Ratio(Rs. in million)

Financial year	HBL			EBL		
	fixed deposit	total deposit	ratio	fixed deposit	total deposit	ratio
2002	5480.84	1819.38	29.44	2711.58	5466.61	49.90
2003	3205.37	21007.37	15.26	2794.74	6694.96	41.74
2004	4710.18	22010.34	21.40	2897.96	8063.90	35.71
2005	6107.43	24814.01	24.61	3403.96	1000.96	33.71
2006	6350.20	26490.85	23.97	4242.35	13802.44	30.73
Average			22.93			38.30

Sources: - Annual report of banks

Fig. 4.3

Fixed Deposit to Total Deposit Ratio



The above table 4.3 shows that fixed deposit and total deposit ratio of selected to banks. The ratio is not fluctuated over the study period. Specially, the ratio is decreasing in this period. It means that the banks provide the sufficient loan to business and other enterprises.

HBL bank is lowest deposit ratio is 2003 and the highest deposit ratio is 2002 .HBL bank can provide sufficient short term and long term loan in this study period. Fixed deposit to total deposit ratio is 24.61 in 2005 and the decreasing in 2006. The average ratio is 22.93 in this study period.

Likewise the EBL bank has been decreasing in year 2003, 2004, 2005, and 2006 the highest ratio is 2002 (49.60) the average ratio is EBL bank is 38.30.

The above analysis shows that the EBL has the higher fixed deposit to total deposit ratio of all the liquidity position of Everest bank limited is better than of Himalayan bank limited.

4.1.4. Saving Deposit to Total Deposit Ratio.

Saving deposit to total deposit ratio is calculated to measure the proportion of saving deposit in total deposit. High saving deposit to total deposit ratio indicates low possibility of investment in long term basis generally short term deposit is now beneficial to the banks the ratio is calculated as follows.

$$\text{Saving deposit to total deposit ratio} = \frac{\text{Saving deposit}}{\text{Total deposit}} \times 100$$

Saving deposit is short-term interest bearing deposit, which has medium rate of interest saving deposit, is generally regarded as short-term obligation as it can be with draw without prior notice or with short notice. Therefore lower ratio shows higher short term liquidity position of the bank. It includes only local currency body corporate individual and others.

Total deposit includes saving, fixed, current (calls) and other deposit.

The following table and multiple diagrams show the comparative saving deposit to total deposit ratio of the selected banks.

Table 4.4

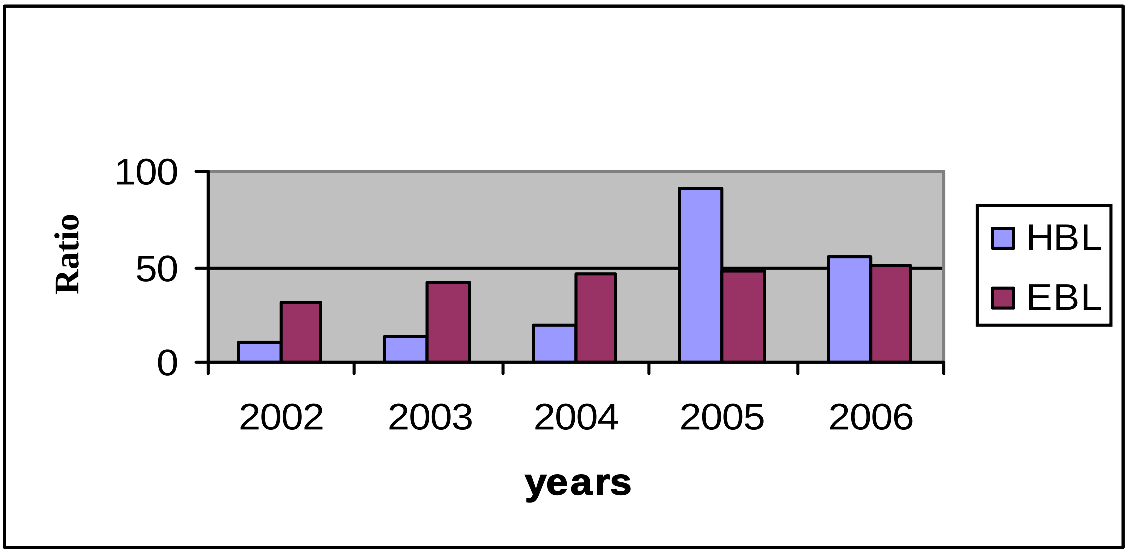
Saving Deposit to Total Deposit Ratio (fig. in million)

Financial year	HBL			EBL		
	saving deposit	total deposit	ratio	saving deposit	total deposit	ratio
2002	2086.89	18643.10	11.19	1735.37	5466.61	31.74
2003	2933.35	21007.37	13.96	2757.95	6694.95	41.19
2004	4245.34	22010.34	19.29	3730.61	8063.90	46.26
2005	12852.41	24814.01	91.79	4806.83	10097.69	47.60
2006	14582.86	26490.85	55.04	6929.22	1380.44	50.20
Average			30.25			43.40

Sources: - Comparative balance sheet and annual report

Fig. 4.4

Saving Deposit to Total Deposit Ratio



The table 4.4 and multiple bar diagram shows that the saving deposit to total deposit ratio of HBL is 2002, 2003, 2004, 2005 and 2006 is 11.19, 13.96, 51.79, 55.07 respectively. Its shows the ratio of HBL is 2002 to 2003, 2003 to 2004 slowly increasing slowly and 2005 and 2006 is highly increasing.

Likewise the ratio of EBl shows that 2002, 2003, 2004, 2005, 2006 is 31.74, 41.19, 46.26, 47.60 and 50.20 respectively. It means that the saving deposit to total deposit ratio is slowly increasing.

The above analysis shows that the saving deposit and total deposit ratio of EBL is higher than the HBL in year 2002, 2003 and 2004 but the 2005 and 2006 the ratio of HBL is higher than the EBL. The average ratio of HBL has been higher than EBL. Since the saving deposit is the short-term obligation. It means the liquidity position of HBL has been better than EBL.

4.2. Analysis of Operational Efficiency

Activity ratio is employed to evaluate the efficiency with which the corporation manages and utilize its assets. In other words the ratio measures the extent to which the banks are successful in mobilizing them for the purpose of profit generation. It reflects the firm's efficiency in utilizing its assets. Thus, it is called utilization ratio too. It is also called turnover ratio because it indicates the speed of collection of fund and utilization of those funds to increase revenue by providing loan and advances investments and other services rendered by the banks.

the greater ratio indicates the more efficiency in utilization of resources and vice-versa.

So, it measures how properly the firm has employed and managed its resources for realizing its economic goals under this category, the following ratios are computed.

4.2.1. Loan and Advance to Total Deposit Ratio

It measures the extend to which the bank is successful is utilizing the outsider's fund for income generation purpose through loans and advanced. It indicates how quickly the total collected deposit it converted into loan and advance. High ratio is the symptom of higher/ proper utilization of funds and low ratio is the signal of idle balance of fund. It is calculated as follows.

$$\text{Loans advance to total deposit ratio} = \frac{\text{Loan and advance}}{\text{Total deposit}} \times 100$$

Loan and advance high earning assets includes total sum of loan, advances, credit, overdraft loans foreign bill purchase and discounted, total deposit includes total outsiders fund as deposit or sum of all kind of deposit comparative efficiency evaluation can be shows the based on industrial harms. The table clearly shows the loan and advance to total deposit ratio.

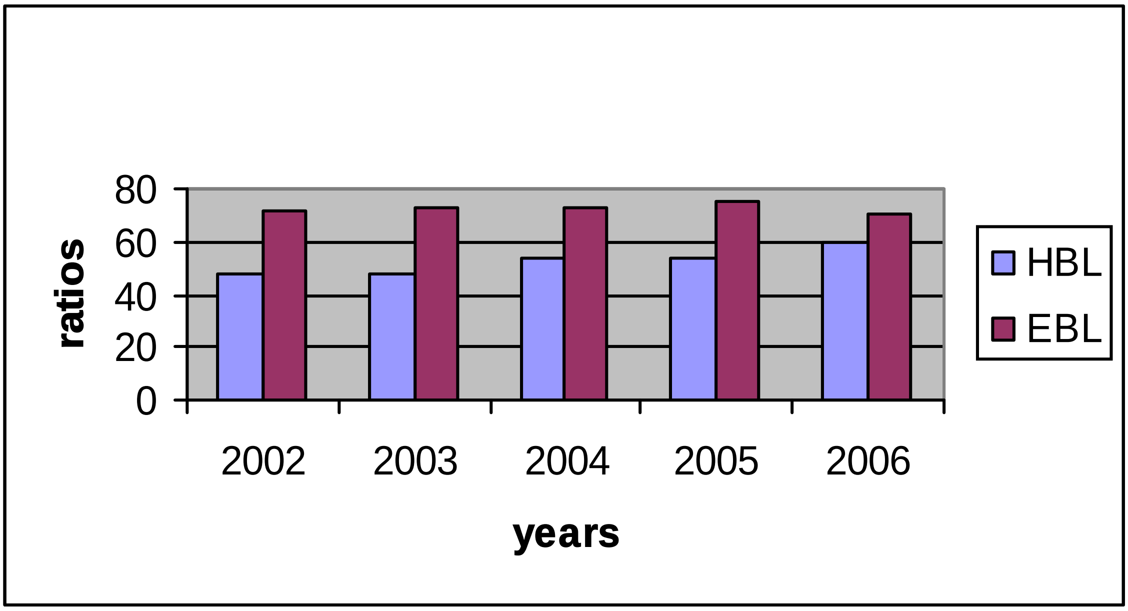
Table 4.5

Loan and advance to total deposit ratio (Rs. in million)

Financial year	**HBL**			**EBL**		
	saving deposit	total deposit	ratio	saving deposit	total deposit	ratio
2002	8913.73	18619.38	47.87	3948.48	5466.61	72.23
2003	10001.85	21007.37	47.61	4908.46	6694.95	73.32
2004	11951.87	22010.34	54.30	5884.12	8063.90	72.96
2005	13451.17	24814.01	54.21	7618.67	10097.69	75.45
2006	15761.98	26490.85	59.50	9801.31	13802.44	71.01
Average			52.70			72.99

Sources: comparative balance sheet of selected bank

Fig. 4.5
Loan and advance to total deposit ratio



The above table and multiple diagram reveals HBL is lower investment in loan and advance EBL is higher investment in loan and advance. The ratio of HBL is 47.87% to 59.50% it means the higher ratio is 59.50% and lower ratio is 47.87, which indicates very low ratio.

Similarly the EBL is 72.96% to 75.45%, it means the highest efficiency in fiscal year 2005 and lowest efficiency in fiscal year 2006.

Comparatively the above analysis help to conclude that EBL is more efficiency than HBL in mobilizing its total deposit in high return yielding assets but the HBL ratio and EBL ratio is more differentiate.

4.2.2 Loan and Advance to Fixed Deposit Ratio

Loan and advance to fixed deposit ratio indicates, how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable deposit and is payable only after certain date. Hence, the bank must utilize the fixed deposit properly loan and advance to fixed deposit ratio indicates how properly the fixed deposit has been utilized. the ratio is calculated by dividing loan and advance by fixed deposit.

$$\text{Loan and advance to fixed deposit ratio} = \frac{\text{Loan and advance}}{\text{Fixed deposit}} \times 100$$

Loan and advance high earning assets includes total sum of loan and advance, credit overdraft etc. Fixed deposit includes that the local currency body corporate, individual and others which has fixed time period to maturity a high ratio indicates more efficiency in utilized their deposit and vice-versa.

The following table and multiple bar-diagram display and the ratio of loan and advance to fixed deposit ratio

Table 4.6

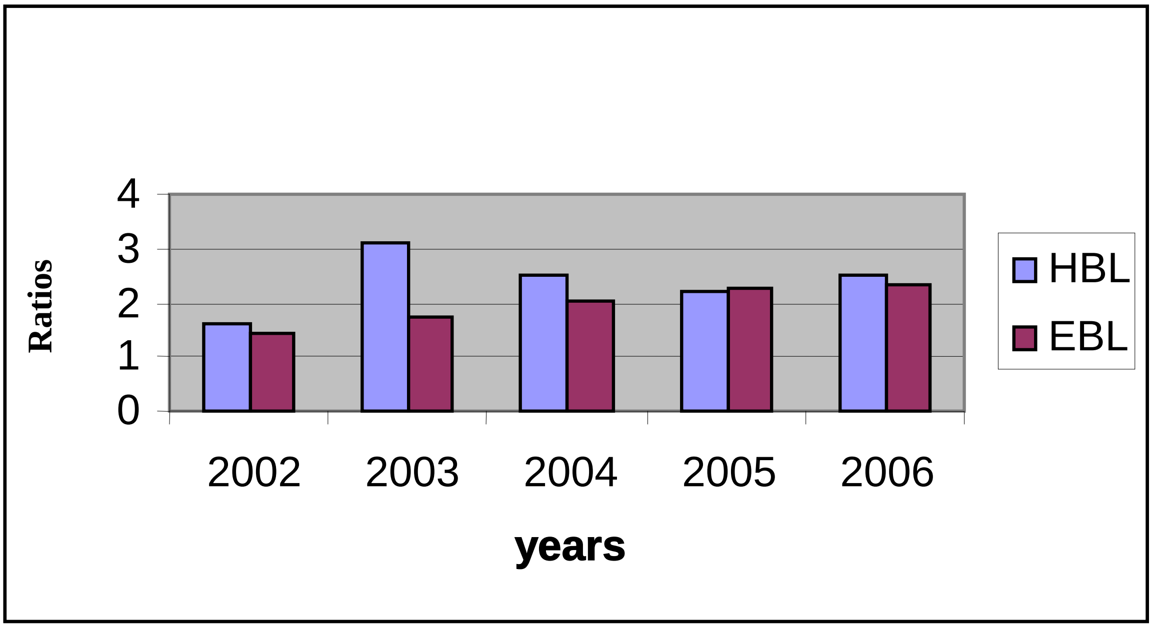
Loan and advance to fixed deposit ratio (Rs. in million)

Financial year	HBL			EBL		
	saving deposit	total deposit	ratio	saving deposit	total deposit	ratio
2002	8913.73	5480.89	1.63	3948.48	2711.58	1.46
2003	10001.85	3205.37	3.12	4908.46	2794.76	1.76
2004	11951.87	4710.18	2.53	5884.12	2897.90	2.03
2005	13450.17	6107.43	2.20	7618.67	3403.96	2.24
2006	15761.98	6350.20	2.48	9801.31	4242.35	2.31
Average			2.39			1.96

Source: Comparative balance sheet and annual report

Fig. 4.6

Loan and advance to fixed deposit ratio



In case of HBL, the ratio between 1.63 to 3.12 it means that 1.63 is lowest ratio and the 3.12 is highest ratio in fiscal year in 2002 and 2003 respectively. HBL bank more efficiency in fiscal year 2003 and lower efficiency in fiscal year 2002. Average ration of HBL is 2.39.

Similarly, in case of EBL the ratio lies between 1.46 to 2.31 and the lowest ratio is 1.46 in fiscal year 2002, the highest ratio is 2.31 in fiscal year 2006. It means that the ratio of EBL is increase in this study period.

Thus, the study period of 2002 to 2006 it seems from the table that loan and advance to fixed deposit ratio of HBL is better than the EBL because HBL ratio is greater than EBL [2.39>1.96]

In other words both banks are able to utilize the fixed deposit properly. However, the HBL seems better in this regard. But only loan and advance to fixed deposit ratio can not measure the efficiency of the banks completely. It is necessary to calculate loan advance to total assets ratio.

4.2.3 Loan and Advance to Total Assets Ratio

It reflects the extend on which the banks are successful in mobilizing their total assets on loan advance for the purpose of income generation. It measures firm's efficiency in mobilizing or converting its assets with regard to loan and advance. As earlier mention, loan and advance are higher interest yielding assets. higher ratio represents higher efficiency in assets mobilizing and vice-versa, it is calculated as follows.

$$\text{Loan and advance to total assets ratio} = \frac{\text{Loan and advance}}{\text{Total assets}} \times 100$$

Loan and advance includes total sum of loan and advance, credit overdraft, local and foreign bill purchase and discounted, total assets includes cash at bank, loan and advance, investment on share, assets fixed assets and other assets.

A high ratio is more desirable to the bank and indicates more successful to mobilize the total assets.

The following table and diagram displays the loan and advance to total assets ratio.

Table .4.7

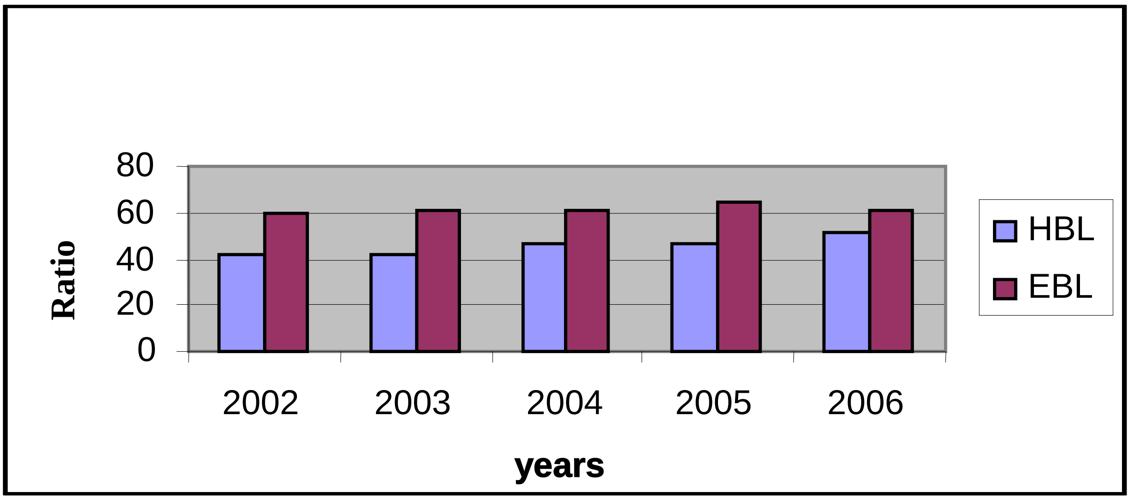
Loan and advance to total assets ratio (Rs. in million)

Financial year	HBL			EBL		
	saving deposit	total deposit	ratio	saving deposit	total deposit	ratio
2002	8913.73	21315.85	41.82	3948.48	6607.18	59.76
2003	10001.85	24197.97	41.33	4908.46	8052.20	60.96
2004	11951.87	25729079	46.45	5884.46	9608.56	61.24
2005	13451.17	28871.34	46.59	7618.67	11732.52	64.93
2006	15761.98	30579.81	51.54	9801.31	15959.28	61.41
Average			45.55			61.66

Sources: comparative balance sheet

Fig. .4.7

Loan and advance to total assets ratio



In above table 4.7 shows that the HBL the loan and advance to total assets ratio is lies between 41.33 to 51.54 percentage high loan and advance to total asset ratio in fiscal year 2006 and the low ratio in fiscal year 2003. The average ratio of HBL is 45.66 percentages which is satisfactory.

Similarly, the EBL the loan and advance to total assets ratio is lies between the 59.76 to 64.93 percentages, the highest ratio in fiscal year 2005 and the low ratio in fiscal year 2002, average ratio of Everest bank limited is 61.66 percent of the study period.

Similarly, both banks are satisfactory, loan and advance to total assets ratio because there is no highly fluctuate in this study period. Comparatively says that the average ratio of EBL is more than the HBL. So, can say that the EBL is more desirable and more successful to mobilize the total assets than HBL. [61.66 >45.55]

4.2.4 Short –Term Investment to Total Deposit Ratio

Commercial banks utilize the fund for their profit generation purpose. Investment is the most important part of banking sector. Bank can't utilize whole of its fund in advancing loans only. So the bank goes for short term investment such as government securities, treasury bills etc. This ratio measures the extent to which banks have been successful in mobilizing total deposit on investment.

Short term investment to total deposit ratio has calculated by applying this formula.

$$\text{Short term investment to total deposit ratio} = \frac{\text{Short term investment}}{\text{Total deposit}} \times 100$$

Investment includes government treasury bills; development bonds other company's shares and other short term investment. Total deposit includes current deposit, fixed deposit, saving deposit, and all kinds of all and short deposits. These types of deposits the banks to pay the small interest.

A high ratio includes banks efficiency in term of secured investment and lower ratio indicates banks in ability to investment in liquid investment because it helps to maintain a sound liquidity position but higher ratio indicates low efficiency in term of low interest yielding investment.

In the following table & figure investment to total deposit ratio have been presented.

Table 4.8

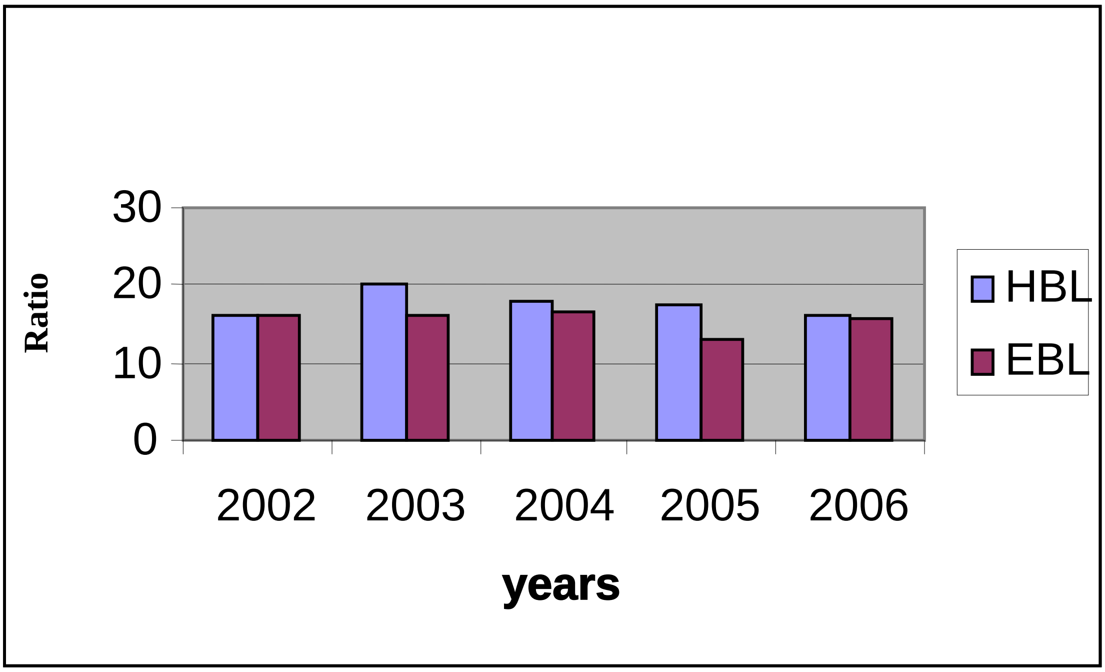
Investment to total deposit ratio. (Rs. in million)

Financial year	HBL			EBL		
	saving deposit	total deposit	ratio	saving deposit	total deposit	ratio
2002	9157.10	18619.18	49.18	1653.98	5466.61	30.25
2003	10175.43	21007.37	48.44	2535.66	6694.61	37.87
2004	9292.11	22010.34	42.22	2128.93	8063.90	26.90
2005	11692.34	24814.01	47.12	4201.32	10097.69	41.67
2006	10889.031	26490.85	41.10	4985.12	13802.44	36.12
Average			45.61			34.45

Source:- comparative balance sheet annual report

Fig. 4.8

Investment to total deposit ratio



Since above table shows that the investment to total deposit ratio is 49.18 percentage, then after 48.44 percentage, 42.22 percent 47.12 percent and 41.10 percent in fiscal year 2002, 2003, 2004, 2005 and respectively of HBL. HBL bank highly investment in fiscal year 2002 and the low investment in fiscal year 2006.

Investment lies between 41.10 to 49.18 percent of the study period 2002 to 2006 of HBL.

Likewise the EBL banks investment ratio is lies between 26.25 to 41.61 percentage investment to total deposit ratio of EBL is high in fiscal year 2005 [41.61] and the low ratio in fiscal year 2004.

From the above analysis the size of investment of HBL is fluctuating but the similarly slightly increase of EBL. Average investment to total deposit ratio is HBL 45.61> EBL 34.45 so , the investment policy is better of HBL than EBL but the liquidity position of EBL better than HBL in this way the HBL can earn more interest than the EBL because the investment policy is better.

4.3 Analysis of Long Term Solvency Position

Another classification of the financial ratio it is also termed as solvency ratio or capital structure ratio indicates proportionate relationship between debt and equity. Leverage is concerned with the long term solvency of the banks and shows the proportion of outsiders fund and shareholder fund of the bank. It provides information of about the banks ability to cover all the obligation, margin of safety offered to the creditors, extent of control of the shareholder over the banks and potential earning from the loan funds, when the organizations are able to generate for outsiders fund, debt financing will be better from the shareholder prospective and vice-versa.

The firm has a legal obligation to pay interest to debt holder or losses incurred by the firm. Second use of debt is advantages for shareholder in two ways.

a. They can retain control over from with the limited stake.
b. Their earning will be magnified i.e. when the firm earns a rate of return on capital employed higher debt financing on result in higher return of equity.

However, leverage can work in opposite direction as will if the cost of debt is higher then the firms over all rate of return the earning of shareholders will be reduced in addition, there is the threat of in solvency too. The financial ratios are used following ratio.

4.3.1 Debt Equity Ratio

The relationship between long term debts and owner's equity is known as debt-equity ratio. It is a popular measure of the long term financial solvency of a firm. The appropriate ratio of debt to equity varies according to the nature of the business and the volatility of cash flows. This ratio brings out the ratio between total debt and equity funds it is determine to measure the firm long term financial solvency.

Total debt to total equity ratio can computed by using the following formula.

$$\text{Debt to equity ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

Total debt includes to current liabilities short term loan bills payable tax provision, staff bonus, dividend payable and other current liabilities and total equity includes share capital, reserve. This measure tells us the relative importance of debt in the capital structure. The ratio computed here has been based on book value figures, it is some times useful to calculate this ratio using market value us.

A high ratio shows the large share of financing by the creditors as compared to that of owners. It indicates the margin of safety to the owners but the unfavorable to the business. The creditors prefer low debt equity ratio. A low debt equity ratio implies larger safety margin fir creditors. A high ratio is more risky than low ratio. Higher ratio shows that more of the funds invested in the business are provide by the outsider. The lower ratio shows that more of the funds invested in the business are provided by the owners. Similarly low debt to equity ratio is also unfavorable from the shareholders points of view as it affects their profitability. They want this ratio to be high; so that they can get more profit with less capital employment of debt in the business is considered beneficial when the interest are less than the overall return and vice versa.

The following table displays the debt to total equity ratio of the banks.

Table 4.9

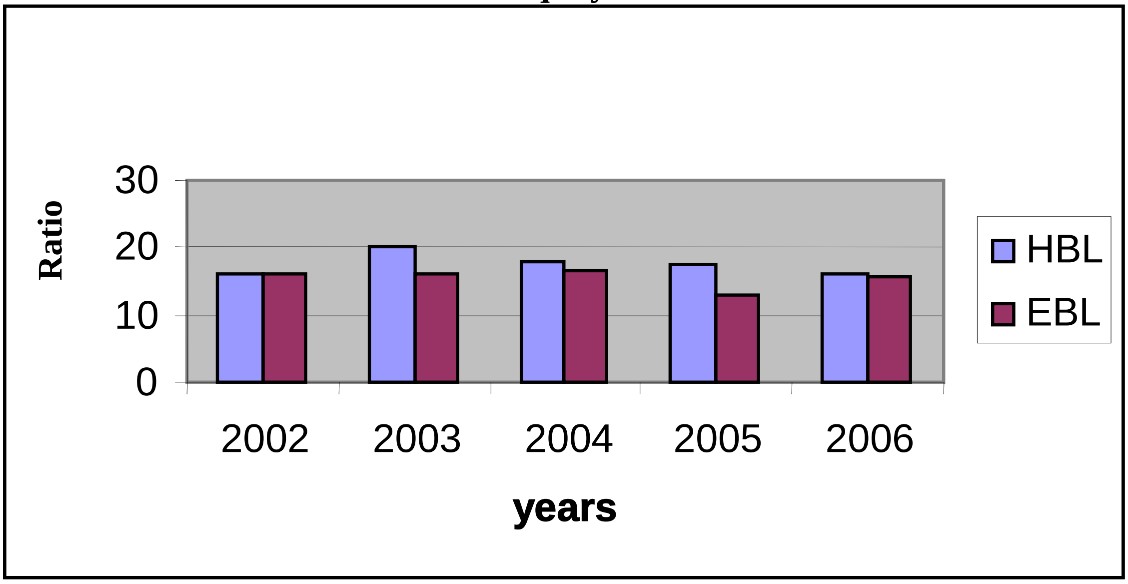
Debt to equity ratio (Rs. in million)

Financial year	HBL			EBL		
	saving deposit	total deposit	ratio	saving deposit	total deposit	ratio
2002	13814.32	858.11	16.09	6216.27	390.91	15.9
2003	22292.09	1063.13	20.10	7579.37	472.83	16.03
2004	23437.87	1324.17	17.70	9068.24	540.33	16.78
2005	26649.28	1541.74	17.28	10743.87	832.60	12.90
2006	28162.4	1766.17	15.95	14885.79	962.80	15.46
Average			17.42			15.46

Sources:-balance sheet and annual report

Fig. 4.9

Debt to equity ratio



Since the debt equity ratio of HBL is highest in 2003 [20.10] and the lowest ratio is 2006 (15:95). It means that the 2003 is unfavorable to business because the 2003 is highest debt equity ratio and the 2006 is unfavorable for shareholder because the lowest ratio in this year. Debt to equity ratio of HBL lies between 15.95 to 20.10.

Similarly the debt equity ratio is not more fluctuate of EBL than HBL. The ratio of EBL lies between the 12.90 to 16.78 which is the highest ratio in fiscal year 2004 and the lowest ratio in fiscal year 2005. It means that the business benefited in 2005 but the shareholder benefited in 2004.

Comparatively the debt to equity ratio of HBL is the higher than the EBL and the average 17.42 times equity funds has been the amount of debt financing which is very high in normal cases but being the banks business. This ratio cannot be considered to dangerous.

4.3.2. Total Debt to Total Assets Ratio

Total debt to total assets ratio consider the financial contribution of the outsider to the assets of the firm. It measures the financial securities to the outsider. It helps to judge whether the firm has adopted aggressive of conservative financing policy. Higher ratio (aggressive financing policy) implies a bank is success in exploiting debt to be more profitably but it is also implies riskier capital structure and vice-versa. The ratio is calculated by dividing total debt by total assets.

$$\text{Total debt to total asset ratio} = \frac{\text{Total debt}}{\text{Total assets}} \text{ X } 100$$

Total debt includes to current liabilities, short term loan, bills payable, tax provision, staff bonus, dividend payable and other current liabilities, Similarly total assets includes cash in hand and bank balance, bills purchase, fixed assets, investment, non banking assets and other miscellaneous assets etc. higher the debt ratio higher the financial risk as well as increasing claims of outsider in total assets. On the other hand lower the ratio lowers the financial risk as well as decreasing claims of outsider. The ratio of 1.2 is considered satisfactory. The table and chart shows the total debt to total assets ratio is follows.

Table 4.10

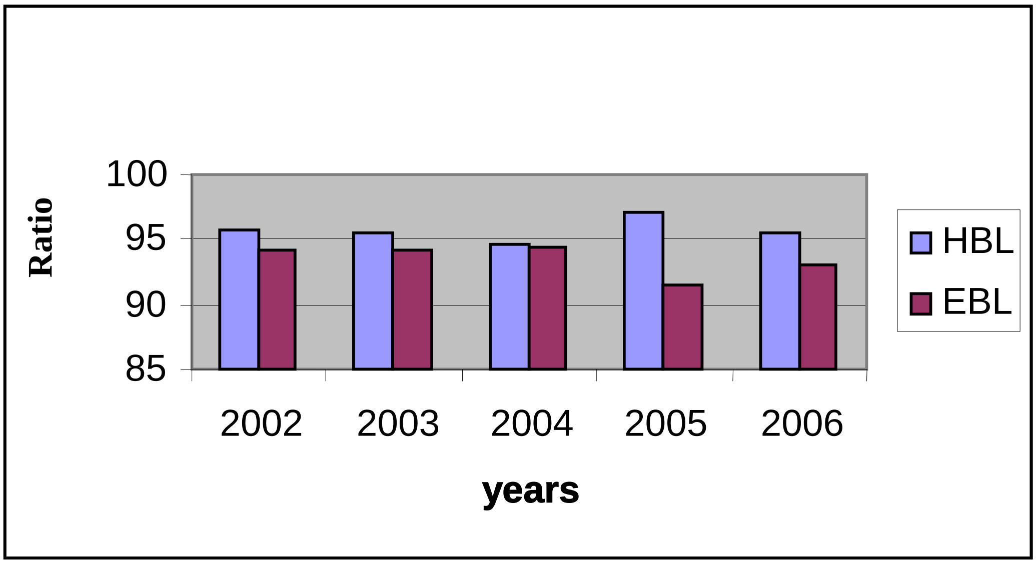
Total debt to total assets ratio (Rs. in million)

Financial year	HBL			EBL		
	saving deposit	total deposit	ratio	saving deposit	total deposit	ratio
2002	13814.32	14412.44	95.85	6216.27	6607.18	94.08
2003	22292.09	23355.23	95.45	7579.37	8052.20	94.12
2004	23437.87	24762.04	94.65	9068.27	9608.56	94.38
2005	26649.28	27418.17	97.19	10743.87	11735.52	91.55
2006	28162.4	29460.39	95.60	14885.79	15959.28	93.12
Average			95.75			93.45

Source: comparative balance sheet and annual report

Fig. 4.10

Total debt to total assets ratio



From table 4.10 and figure 4.10 it shows that such debt financing constitute major portion in total assets of banks and similar pattern in trend line.

More specially, the ratio of HBL has ranged between 94.65 to 97.19 and average ratio is 95.75. The ratio of HBL is 95.85 in fiscal year 2002, 95.45 in fiscal year 2003 and the decreasing 2004 the ratio is 94.65 and the maximum ratio is 97.19 fiscal year 2005 after this year decreasing in fiscal year 2006 which is 95.60.

Similarly incase of EBL the range of ratio 91.55 to 94.38 the average ratio is 93.45 the ratio has constant over the study period and the average rate is 1:1 times the maximum ratio of fiscal year 2004 which is 94.38 and low ratio in fiscal year 2005 which is 91.55. In this study period the ratio of EBL is not fluctuating.

From the above analysis the table and multiple bar diagram clearly indicates that this rate in two banks are almost constant i.e. 1:1 times through out the study period of course there are some in significance variation compared to the standard of 1:2 this ratio indicate high leverage ness in case the Banks i.e. more capital has been used than it's reasonable. it may be concluded from the above analysis . That debt to assets ratio of these banks are not satisfactory because the ratio 1:2 times where is considered satisfactory has not been maintained like either of the banks

4.3.3 Long Term Debt to Total Assets Ratio.

Long term debt to total assets ratio reflects the percentage of total assets that have been financed by long-term debt, if the firm uses more long-term debt, it is said to have adopted conservative financing policy and it has less risk of facing the problem of shortage of found. if the firm uses less long –term debt and more short-term debt it is said to have adopted aggressive financing policy. An aggressive financing policy makes the firm more risky. The ratio of 1:1 is considered to be satisfactory in term of modern banking astrometry total long-term debt to total assets ratio Computed by using the following formula.

$$\text{Long term debt to total Assets ratio} = \frac{\text{Long term Debt}}{\text{Total Assets}}$$

Long term debt secludes fixed deposit loan from banks &total assets includes the total amount a right side or balance sheet. The following table displays the ratio of long term debt to total assets of the banks.

Table 4.11

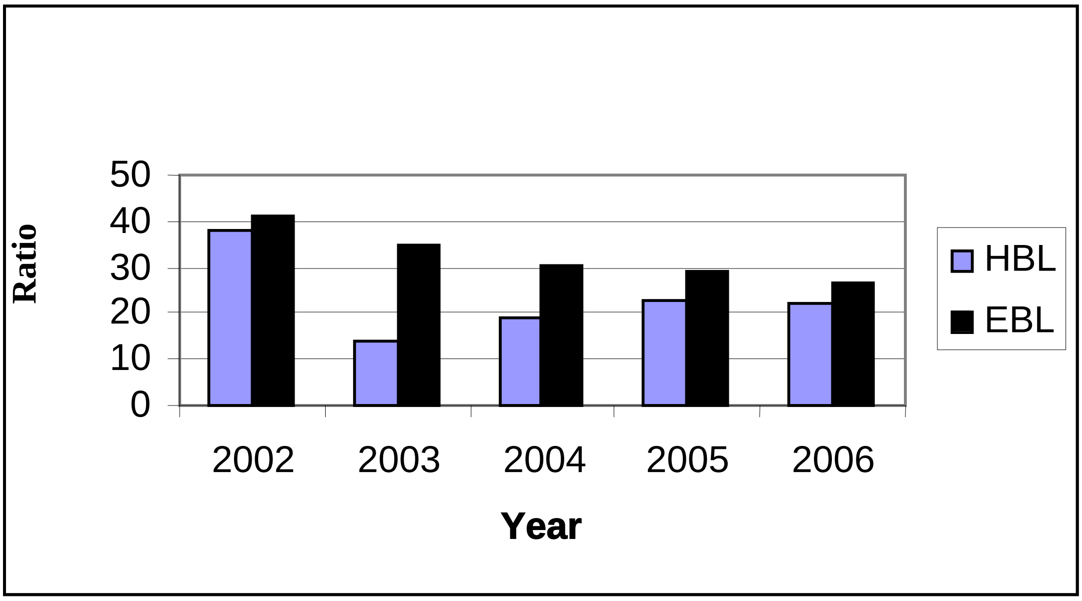
Long-term debt to tax assets ratio (Rs. in million)

Financial Year	HBL			EBL		
	Long-term Debt	Total Assets	Ratio %	Long term Debt	Total Assets	Ratio %
2002	5480.84	14412.44	38.03	2711.58	6607.18	41.04
2003	3205.37	23355.23	13.72	2794.74	8052.20	34.70
2004	4710.18	24762.04	19.02	2897.96	9608.56	30.16
2005	6207.43	27418.17	22.63	34.3.96	11735.52	29.00
2006	6496.20	29460.39	22.05	4242.35	15959.24	26.58
Average			23.09			32.29

Source: - Annual report of banks.

Fig. 4.10

Total debt to total assets ratio



Since the ratio of HBL has ranged between 13.72 to 38.02 percent and the average ratio has 23.09. The maximum ratio in 2002 is 38.03 and the minimum ratio in 2003 is 13.72. It means that the more fluctuate in this period and there is no fluctuate in fiscal year 2004, 2005 & 2006.

Similarly in case of EBL the ratio has ranged between 26.58 to 41.04 which is maximum ratio is 41.04 in fiscal year 2002 & minimum ratio is 26.58 in fiscal year 2006 the trend of ratio of EBL is decreasing in the study period.

In this study period the long term debt to total assets ratio is not satisfactory of HBL or EBL.

4.3.4 Capital Adequacy Ratio

If the commercial bank operation betters to maintain their adequate capital holding too much capital may result in lower return. From their investment and holding too little capital though result higher return yet may not comely with the rules of the central banks.

In this context, Nepal Rastra bank has issued directives to all commercial banks. That every commercial banks is required to maintain at teats 8% capital fund of total deposit mid 1992 and there after.

Bank has been directed to meet any short fail in capital adequacy ratio by transferring part of profit to general reserve and they are by increasing equity fund. Capital adequacy ratio computed by using the following formula.

$$\text{Capital adequacy ratio} = \frac{\text{Capital fund}}{\text{Total deposit}}$$

Capital fund includes paid up capital general reserve and undistributed profit & total deposit includes current deposit saving & fixed deposit and all kinds of all call deposit.

The following table multiple bar-diagram of capital adequacy ratio of these banks.

Table 4.12

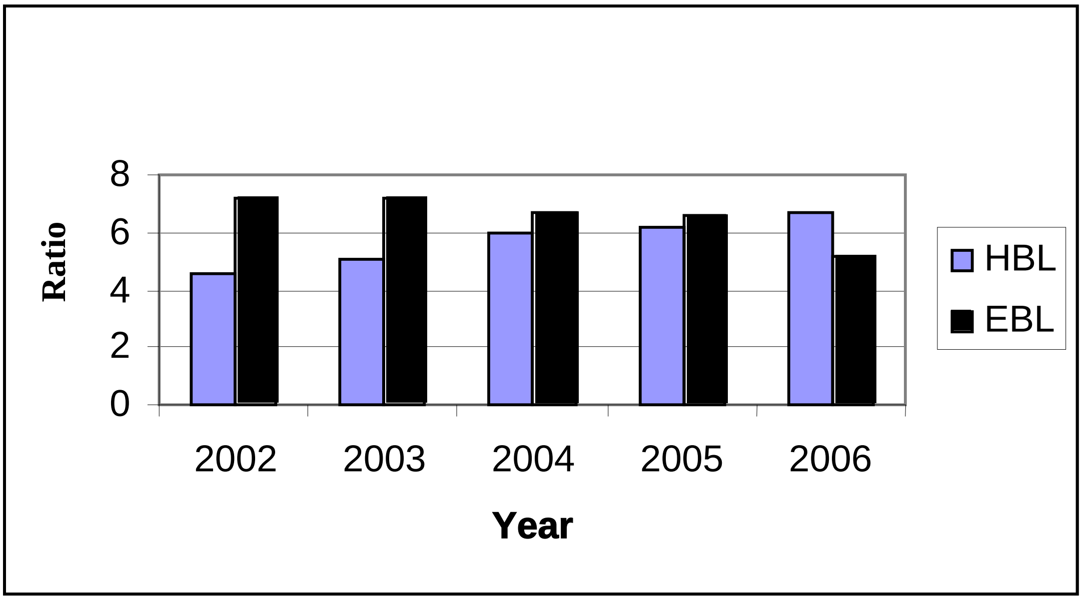
Capital adequacy ratio (Rs. in million)

Financial Year	HBL Capital fund	Total deposit	Ratio %	EBL Capital fund	Total deposit	Ratio %
2002	858.11	18619.38	4.6	390.91	5466.61	7.15
2003	1063.13	21007.37	5.06	479.40	6694.95	7.16
2004	1324.17	22010.34	6.02	540.33	8063.90	6.70
2005	1541.75	24814.01	6.21	661.16	10097.69	6.55
2006	1765.17	26490.85	6.66	715.43	13802.44	5.18
Average			5.72			6.55

Source: Annual report a banks & B/S

Fig 4.12

Capital adequacy ratio



Since the capital adequacy ratio of HBL is increasing trend in this study period. Like that 4.6 to 6.66 percent. The average ratio is 5.72 percent. Minimum ratio is 4.6 and maximum ratio is 6.66 percent.

Similarly, the adequacy ratio is EBL lies Between 5.18 to 7.16 the maximum ratio of EBL is 7.16 in fiscal year 2003 and the minimum ratio is 5.18 in fiscal year 2006. it mean that the adequacy ratio is decreasing trend of EBL. EBL not able to maintain the prescribed capital adequacy ratio. As the highest rate is 7.16 percent and this ratio also is not adopted any particular trend over the period.

Comparatively can say that the according to above analysis that the adequacy ratio of EBL is better than HBL but it is not also satisfy ratio of capital adequacy.

4.3.5 Net Worth to Total Assets Ratio

Net worth to total ratio measures the proportion a shareholder fund of total assets. the net worth to total assets ratio indicate that the high contribution of shareholders in financing assets and the low financing risk higher shareholders contribution assure deposits & creditors for the repayment of their due. Net worth to total assets ratio is calculated as follows.

$$\text{Net worth to total asset Ratio} = \frac{\text{Net worth}}{\text{Total assets}} \times 100$$

Net worth includes the paid capital, share premium, non-redeemable preference share, general reserve, surplus the right side assets of balance sheet. Standard ratio between net worth to total assets is varies according to the nature of industries. In banking business it can be judged in industrial norms. The following table & chart display the ratio of bank.

Table 4.13

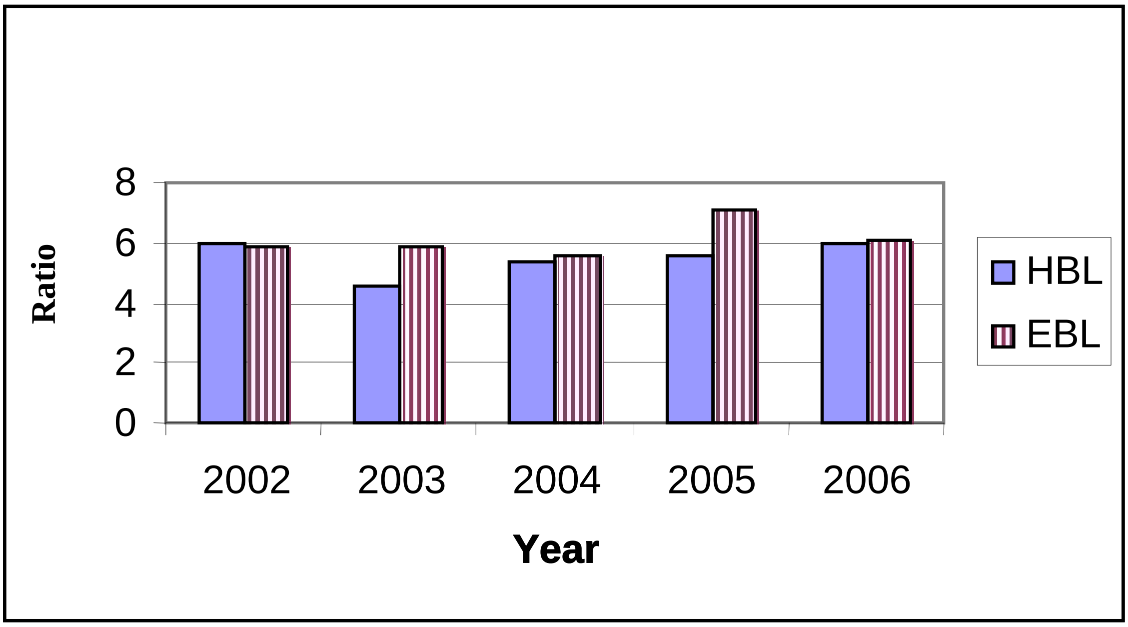
Net worth to total assets ratio (Rs. in million)

Financial	HBL			EBL		
Year	Net worth	Total Assets	Ratio %	Net worth	Total Assets	Ratio %
2002	858.11	14412.44	5.95	390.91	6607.18	5.91
2003	1063.13	23355.23	4.55	472.83	8052.20	5.87
2004	1324.27	24762.04	5.34	540.33	9608.56	5.62
2005	1541.75	27418.27	5.62	832.62	11735.52	7.09
2006	1766.18	29460.39	5.99	962.81	15959.24	6.03
Average			5.49			6.10

Source: - Comparative B/S & Annual Report.

Fig. 4.13

Net worth to total assets ratio



In case the ratio of HBL in 2002 is 5.95 and the fiscal year 2003 is 4.55 but in there after the fiscal year ratio is slightly increasing in 2004, 2005, 2006 respectively. The ratio of HBL is lies between 4.55 to 5.99 it means that the HBL shareholder’s contribution is increasing and the deducting the financial risk.

Likewise the net worth to total assets ratio of EBL is lies between 5.87 to 7.09 which is the maximum ratio is 7.09 in financial year 2005 and the minimum ratio is 5.87 in financial year 2003 in this study period. Ratio of EBL is increasing trend. It means that the less contribution of the shareholder in financial year 2006. Average ratio of EBL is 6.70 percent.

Thus, it has been concluded from the above analysis that EBL has less uniform than HBL. HBL able to perform well ever with low capital base as compared as EBL.

4.4 Analysis of Profitability

Maxiization of profit is the main objective of each and every business concern it is very necessary to earn maximum profit for the successful running of a business concern. According to Lord Keynes, profit is the engine that drives the business enterprises. The profit also important to preserve the existence of business as well as strength and expand it.

The profitability ratio, main financial indicates gives answer to now effectively the banks are being managed. The aim of study is to comparatively evaluate the financial position so better profitability position beside the management of the company creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly. Owners want to get reasonable rate of return of their investment company employs also want the sufficient staff bonus. This is possible only when the company earns enough profits.

The profitability ratio is related to profit. It shows the overall efficiency of the business concern the earning capacity of a profitability of a business cancer may be measured in two ways.

i. profitability in relation to sale
ii. Profitability in relation to investment.

4.4.1 Return on Net Worth.

This ratio shows the relation between the net profit after tax and shareholder funds & return on net worth reflect shows wall the firm has used there sources of the owners in fact this ratio is one of the most important relationship in financial analysis. the earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. Though the rate of divided id not fixed the earning may be distributed to shareholder or retained in the business, nevertheless the net profit after taxes represented the return. Return on the net worth ratio is known as total equity ratio on shareholders equity. it is calculated by dividing profit after tax by net worth.

$$\text{Return on equity} = \frac{\text{NPAT}}{\text{Net worth}}$$

Net profit after tax refers to net profit after tax as per profit and loss account and net worth includes the share capital reserves & surplus reserve funds, general reserve, capital reserve & share premium. The fictitious & accumulated losses should be deducted from total net per finding out this ratio.

The ratio of net profit to owner's equity reflects the extent to which social responsibility towards owners has been accomplished. This ratio is those of great interest to present as well as prospective shareholders & great concern to management. Higher the ratio of more efficiency the management and utilization of shareholder fund.

The following table and trend line exhibit the total equity ratio of the banks.

Table 4.14

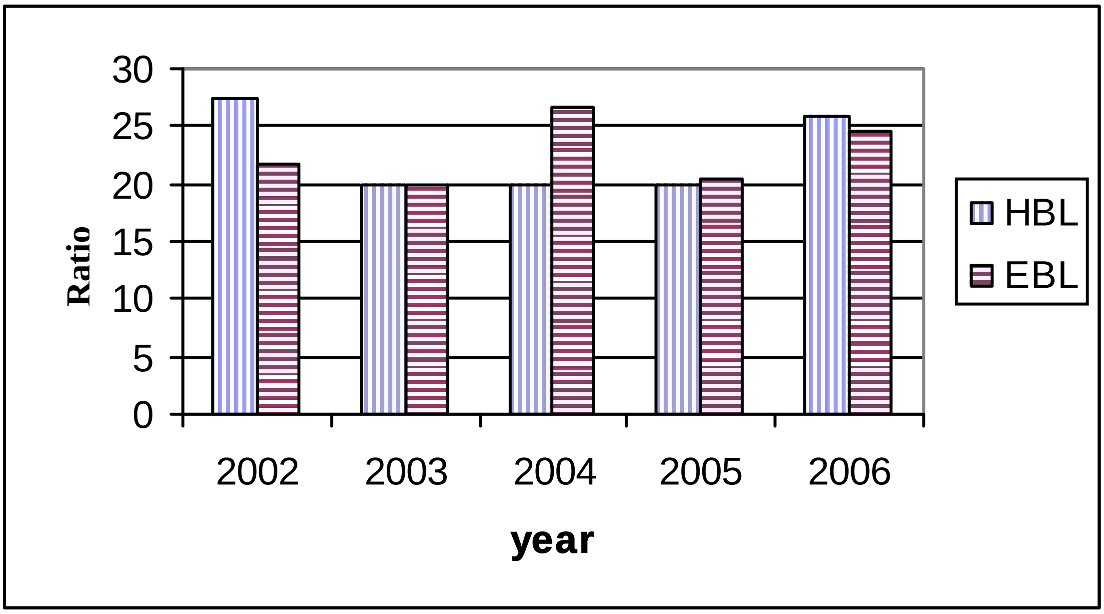
Return on net worth (Rs. in million)

Financial	**HBL**			**EBL**		
Year	NPAT	Net worth	Ratio %	NPAT	Net worth	Ratio %
2002	235.02	858.11	27.39	85.33	390.91	21.82
2003	212.12	1063.13	19.95	94.17	472.83	19.92
2004	263.05	1324.27	19.86	143.57	540.33	26.57
2005	308.27	1541.75	19.99	170.81	832.62	20.52
2006	457.46	1766.18	25.90	237.38	962.81	24.65
Average			22.62			22.70

Source: - Comparative B/S & Annual Report.

Fig. 4.14

Return on net worth



In above analysis shows that the HBL's ratio lies between the 19.86. to 27.39 It means that higher efficiency of HBL is in fiscal year 2002 and the lowest efficiency of HBL in fiscal year 2004. Average ratio of HBL is 22.62.the highest ratio of HBL is 27.39 in fiscal year 2002 but the after this year decreasing & the 2004, 2005 & 2006 is decreasing trend of ratio.

Similarly, the ratio of EBL is 21.82, 19.92.26.57.2052, &24.65 in fiscal year 2002 to 2006 respectively. It's show that the highest ratio of 26.57 in fiscal year 2004 & lowest ratio 19.92 in fiscal year 2003.average ratio of EBL is 22.70.

Comparatively the ratio of HBL &EBL is not more difference but the average ratio of HBL is 22.62 and EBL is 22.70.it means that the high ratio can say that the high efficiency. So the EBL ratio is 22.70 higher than the ratio of HBL 22.62 the efficiency of EBL better than HBL.

4.4.2 Return on Total Assets Ratio.

This ratio establishes the relationship between net profit and total assets. This ratio is also called profit to assets ratio it is shown in percentage return. On total assets to explain the contributing of assets to generating net profit. This ratio indicates efficiency to word of assets mobilization. In others words return to total assets ratio is an overall profitability ratio which measures earning power and over all operation efficiency of a firm. This ratio is a good measure of earning power as much as it is an extension of the input output analysis. These ratios also help the management in identifying the factor that has a bearing an overall performance of the ratio a total amounts is calculated by dividing net profit after tax by total assets of the company.

$$\text{Return on total assets ratio} = \frac{\text{Net profit after tax}}{\text{Total Assets}} \times 100$$

Net profit after tax refer to net profit after tax and interest as per profit and loss account and total assets refer to the total assets as per balance high return on total assets indicate the higher efficiency in the affiliation total assets and vice-versa.

Table 4.15

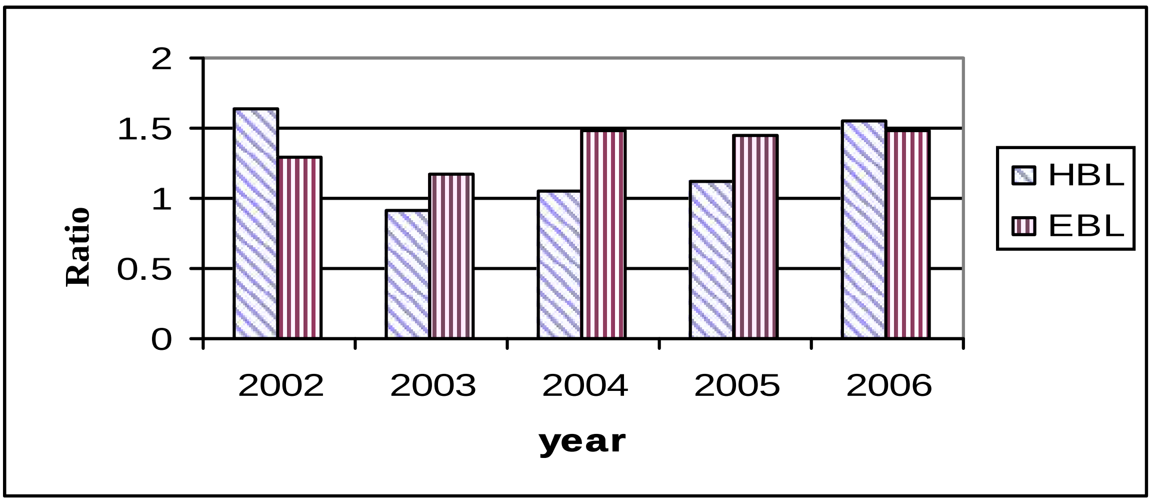
Return on total assets ratio (Rs. in million)

Financial Year	HBL			EBL		
	NPAT	Total Assets	Ratio %	NPAT	Total Assets	Ratio %
2002	235.02	14412.44	1.63	85.33	6607.18	1.29
2003	212.12	23355.23	0.91	94.17	8052.20	1.17
2004	263.05	24762.04	1.06	143.57	9608.56	1.49
2005	308.27	27418.27	1.12	170.81	11735.52	1.45
2006	457.46	29460.39	1.55	237.38	15959.24	1.48
Average			1.26			1.38

Source: - Comparative B/S & Annual Report

Fig. 4.15

Return on total assets ratio



Since the above table and shows that the return on total assets ratio of HBL is between 0.91 to 1.63 and the average ratio of HBL is 1.26. Minimum ratio in fiscal year 2003 and the maximum ratio of HBL in fiscal year 2002 which is 1.63. It means that the highest efficiency of HBL in fiscal year 2002 and the lowest efficiency of HBL in fiscal year 2002. It can say that the ratio of HBL increasing trend the financial year off 2004, 2005&2006.

Similarly, incase of EBL ratio lies between 1.17 to 1.49 the average return on total assets ratio is 1.38 the ratio of HBL like that the slowly fluctuate in this study period. Which is the fiscal year 2002 the ratio is 1.29 and then decresing the 1.17 then the fiscal year 2004 is increasing the ratio then decreasing (1.45) &then fiscal year 2006 is increasing 1.48. In above analysis shows that the financial performance of EBL is better than the HBL and the more efficiency of EBL than HBL. The good position of EBL than HBL.

4.4.3 Return of Total Deposit Ratio.

Return on total deposit ratio measure how efficiency the deposit has been mobilized. it reveals the relationship between the net profit after tax and the total deposit an explanation of the ability of management in efficient utilization of deposit. The ratio is calculated as.

$$\text{Return on total deposit ratio} = \frac{\text{NPAT}}{\text{Total deposit}} \times 100$$

Net profit after tax refers net profit after tax and interest. A total deposit refers to fixed deposit, saving deposit, call deposit & certificate deposit. The ratio is a mirror of banks overall financing performance deposit are outsiders. A capital fund that entails paying fixed interest, this affects NPAT ultimately, and shareholder deposit and management are concerned with this ratio. the ratio and multiple bar diagramed as below.

Table 4.16

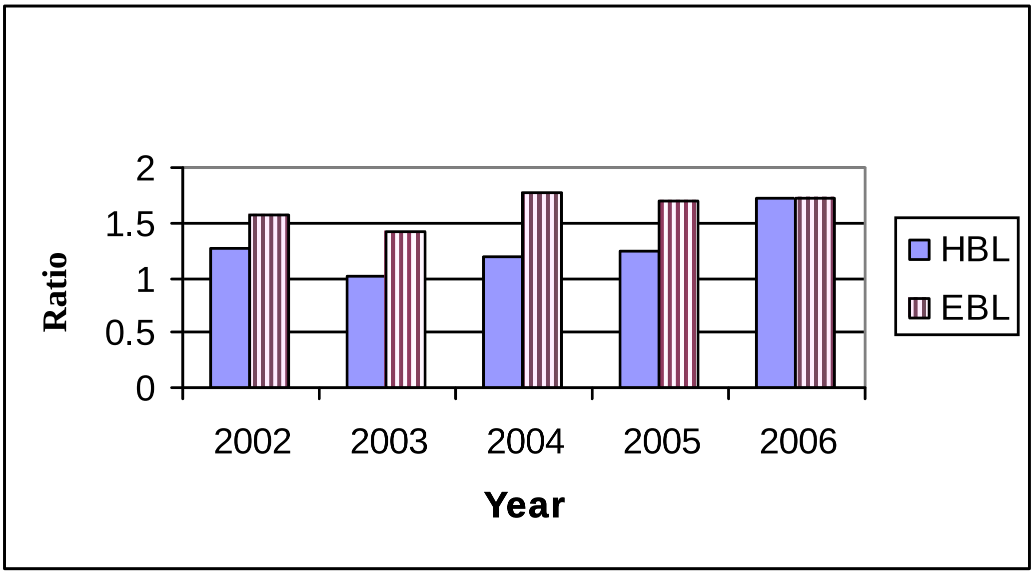
Return on total deposit ratio (Rs. in million)

Financial Year	HBL			EBL		
	NPAT	Total deposit	Ratio %	NPAT	Total deposit	Ratio %
2002	235.02	18619.38	1.26	85.33	5466.61	1.56
2003	212.12	21007.37	1.01	94.17	6694.95	1.41
2004	263.05	22010.34	1.19	143.57	8063.90	1.78
2005	308.27	24814.01	1.24	170.81	10097.69	1.69
2006	457.46	26490.84	1.72	237.38	13802.44	1.72
Average			1.28			1.63

Source:- Comparative B/S & Annual Report

Fig. 4.16

Return on total deposit ratio



Similarly the above table analysis that the HBL ranged of ratio between 1.01 to 1.72 maximum ratios of HBL is 1.72 in financial year 2006 & the minimum ratio is 1.01 in financial year 2003. Average ratio of HBL is 1.28

In case EBL the ratio ranged between 1.41 to 1.78 which is the maximum ratio is 1.78, in financial year 2004 & the minimum ratio is 1.41 in financial year 2003 the average ratio of EBL is 1.63 I n this study period.

From the above analysis it can say that the return on total deposit ratio is a mirror of banks overall financing performance. The average ratio of EBL is greater than HBL (1.63>1.28). So the EBL is better than HBL.

4.4.4 Interest Earned to Total Assets Ratio

Interest earned and total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Generally banks earn interests through the provision of loan & and interest through the provision of loan and advanced over drafts and investment in securities. the ratio is calculated as below.

$$\text{Interest earned total assets ratio} = \frac{\text{Interest earned}}{\text{Total Assets}}$$

Interest earned includes the total interest shown in the income side of profit and loss account and total assets represent the total of balance sheet. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice versa.

By using the formula the following table and multiple bar-diagramed as below

Table 4.17

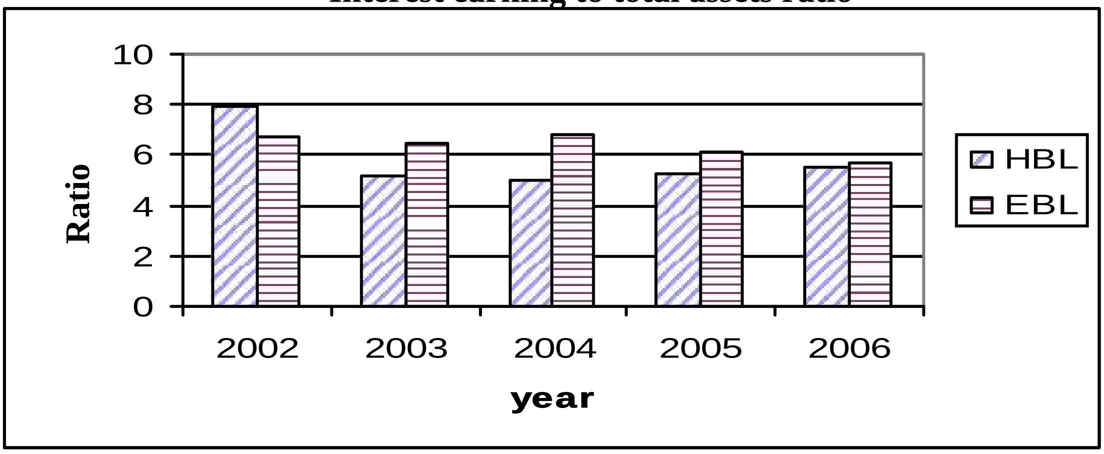
Interest earning to total assets ratio (Rs. in million)

Financial Year	**HBL**			**EBL**		
	Interest earned	Total Assets	Ratio %	NPAT	Total earning	Ratio %
2002	1149.00	14412.44	7.97	443.82	6607.18	6.71
2003	1201.29	23355.23	5.14	520.17	8052.20	6.46
2004	1245.84	24762.04	5.03	657.25	9608.56	6.84
2005	1446.47	27418.17	5.27	719.30	11735.52	6.12
2006	1626.47	29460.39	5.52	603.41	15959.24	5.66
Average			5.79			6.36

Source: - Balance sheet and P/L account.

Fig 4.17

Interest earning to total assets ratio



The above analysis shows that the interest earned total assets ratio of HBL is decreasing and increasing trend of this study period. It seems that the interest earned to total assets ratio lies between the 5.03 in financial years 2004 to 7.97 in financial year 2002. The average ratio of HBL is 5.79

Likewise the interest earned to total assets ratio of EBL is fluctuating in this study period. In this study period the ratio of EBL is 2002 to 2006 is 6.71, 6.46, 6.84, 6.12, 5.66 respectively. The average ratio of EBL is 6.36.

Comparatively it seems that the EBL is always higher than the HBL out of this study period. It means that the EBL able to earn more interest in relation to total assets and efficiency utilization of total assets for earning purpose so the EBL is better than HBL.

4.5 Other Financial Ratios.

In additional to above ratio there are other widely used ratio related to the financial aspect of the company some of which has been discussed have in the section to supplement the analysis.

4.5.1 Interest Paid to Interest Income Ratio

Interest paid to interest income ratio reveals the proportionate relationship between interest paid on difference liabilities and interest income from different source.

Higher ratio indicates that bank has paid higher amount of interest on liabilities in relation to interest income and vice-versa this ratio can be calculate by using the following formula.

$$\text{Interest paid to interest income ratio} = \frac{\text{Interest paid}}{\text{Interest income}}$$

In this present study, total interest expenses includes interest paid on deposit and borrowing “interest income” includes the interest from loan and advance cash credit and over draft government securities inter bank and other investments.

The ratio of these banks over the study period has been tabulated below.

Table 4.18

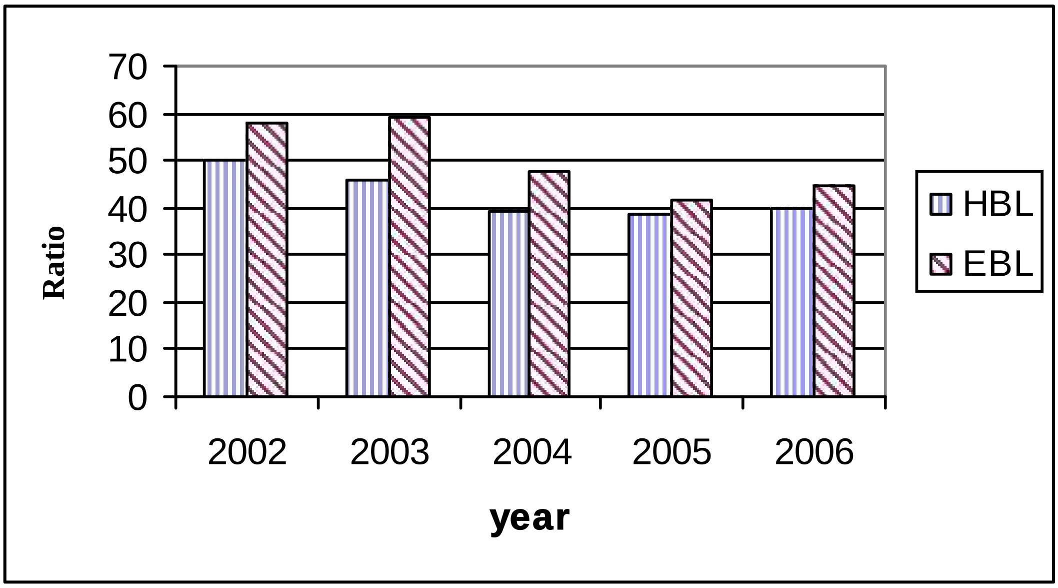
Interest paid interest ratio (Rs. in million)

Financial Year	HBL Interest paid	HBL Interest income	HBL Ratio %	EBL Interest paid	EBL Interest income	EBL Ratio %
2002	578.13	1149.00	50.32	257.05	443.17	58.00
2003	554.13	1201.23	46.13	307.41	520.17	58.90
2004	491.54	1245.89	39.46	314.44	657.25	47.84
2005	561.96	1446.47	38.85	299.57	719.30	41.65
2006	648.84	1626.47	39.89	401.39	903.41	44.43
Average			42.92			50.16

Source: - Financial summary & profit & loss account of selected bank.

Fig. 4.18

Interest paid interest ratio



In this above analysis is that the HBL ratio is lies between 38.85 to 50.32 which is the maximum ratio is 50.32 and the minimum ratio is 38.85. It means that indicate the HBL is paid the highest interest in fiscal year 2002 and the minimum interest paid in fiscal year 2005 on liabilities in this bank the ratio is decreasing trend. The average ratio of HBL is 42.92 in this study period.

Likewise the EBL ratio is lies between the 58.90 to 41.65 the minimum ratio is 41.65 & the maximum ratio is 58.50 in fiscal year 2005 & 2003 respectively. EBL is maximum interest paid in fiscal year 2003 & the minimum interest paid in fiscal year 2005. The average ratio of EBL is 50.16. The ratio EBL is decreasing & increasing trend.

Similarly the interest paid to interest income ratio indicates that the high ratio is high amount paid on liabilities and the low ratio is indicate the low amount paid on liabilities so the comparatively that the EBL is more paid interest on liabilities than HBL.

4.5.2 Divided Per Share

The net profit after taxes belongs to shareholder. but the income which they really receive is the amount of earning distributed as cash dividends. Therefore, a large number of present and potential investors may be interested in dividend per share rather then earning per share. EPS is the earning distributed to ordinary share outstanding the ratio is calculated as below.

$$\text{Dividend per share} = \frac{\text{Earning paid to equity shareholder}}{\text{No. of equity shares}}$$

Since there is no standard recommended DPS so if has to be compared with previous year of with that of other banks. Higher ratio shows good performance in term of payment of more dividends and there by attracting more ordinary shareholder but if also indicted fewer funds available for the further expansion of business.

Table 4.19

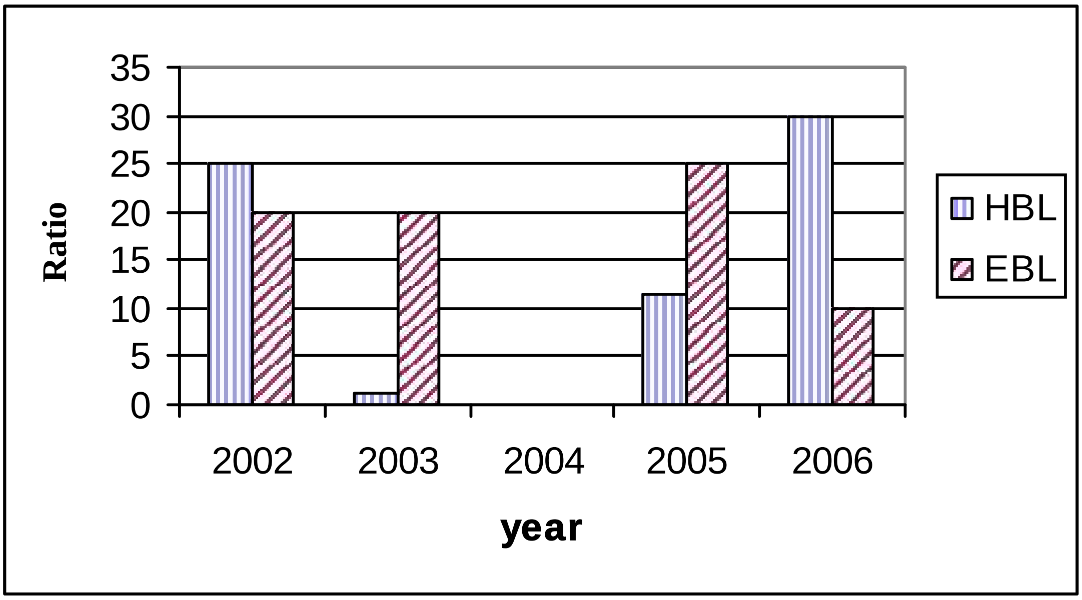
Divided per Share

Financial year	HBL	EBL
	ratio per share Rs.	Ratio per share Rs
2002	25.0	20.00
2003	1.32	20.00
2004	0.00	0.00
2005	11.58	25.00
2006	30.00	10
Average	13.58	10.00

Source:- Annual Report of key & principle Indicators of selected banks

Fig. 4.19

Divided per Share Ratio



The above table 4.19 shows that divided per share ratio of HBL has been decreasing in first three year 2002,2003&2004 respectively but then year 2005 & 2006 is ratio per share increasing trend of this study period. Average DPS of HBL Rs13.58 which higher DPS than EBL.

Similarly the divided per share ratio of EBL is Rs. 20,constant in fiscal year 2002&2003 but the fiscal year 2004 there is no divided per share and the 2005,2006 is divided per share Rs 25 and Rs 10 respectively average DPS Rs.10 of EBL.

In this above analysis that the ratio of HBL is more than EBL the ratio is promising and attracts most of the potential Nepalese shareholders.

4.5.3 Earning Per Share

The profitability of common shareholder's investment can be measured in many other ways the income of per common share can be known from the earning per share. The earning per share is calculated by dividing the net profit after taxes less preference divided by the total number of common shares.

The formula for calculating this ratio is below:

$$\text{Earning per share} = \frac{\text{Net profit after tax-preference dividend}}{\text{No. of common share}}$$

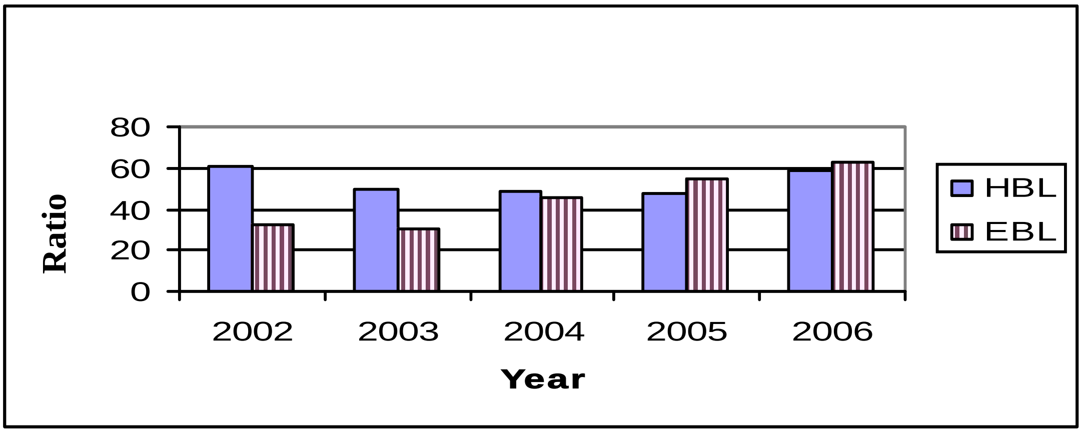
Earning per share calculated over the years indicated whether the earning power on per share basis has changed over that period or not the EPS. of the company should be compared with the industry average or the earning per share of other firm to be of some relevance's. EPS simply shows the profitability of the firm on a per share basis, it does not reflect how much is paid as dividend and how much is retained in the business. But as profitability, index, it is a valuable and widely used ratio.

Table 4.20
Earning per share

Financial year	HBL	EBL
	Ratio per share Rs	Ratio per share Rs
2002	60.26	32.91
2003	`49.45	29.90
2004	49.05	45.58
2005	47.91	54.22
2006	59.24	62.78
Average	53.182	45.78

Source: - Annual Report of key & principle Indicators of selected banks

Fig. 4.20
Earning per share Ratio



In this above table 4.20 shows that the earning per share ratio of HBL lies between the 47.91 to 60.26. The maximum earning per share ratio in financial year 2002 and the minimum earning per share ratio in financial 2005. The earning per share ratio of HBL is decreasing trend financial year 2002 to 2005 and the increasing earning per share in financial year 2006. The average earning per share ratio is Rs 53.182.

In case of EBL the earning per share ratio lies between 29.90 to 62.78 The maximum earning per share ratio in financial year 2006 & the minimum earning per share ratio in financial year 2003. decreasing trend the earning per share ratio of EBL in first two financial year then the increasing trend in financial year 2004,2005&2006 average earning per share ratio of EBL is 45.078 comparatively the high earning per share ratio is HBL than EBL which is 53.182>45.078 it means that the more per share return of HBL than EBL.

4.5.4 Operating Income Analysis.

Income refers to the financial return from one's business, labor or invested capital. This return is usually used for money received by an individual organization, Whether earned through work or otherwise income is an important indicator of financial performance of banks so it will be relevant to analyze the source of income of the selected banks.

The basis source of income of a commercial bank is interest earned from various heads of investment title i.e. loan and advances overdrafts, government securities, commission and discount dividend received. Foreign exchanges, gain in foreign exchanges fluctuation and other miscellaneous items.

1. Income from interest.
2. Income from commission and discount.
3. Exchange income.
4. Other income.

1. Income From Interest

Interest income earned from loan & advances, overdraft, Investment on government securities, investment on debenture money at short call interest & bank loans. Since interest reflects the operational efficiency of banks higher ratio indicator higher efficiency. Interest income is obtained by using the following formula.

$$\text{Interest income ratio} = \frac{\text{Interest income}}{\text{Total operating}}$$

2. Commission and Discount

"Commission and discount" includes income relieved as commission. Besides, the commission relieved from letter of credit drifts, bank transfer, guarantee commission, selling share, remittance charges, other charge and commission are other prominent items commission and discount. it is calculated as below

$$\text{Commission \& discount income ratio} = \frac{\text{Commission discount income}}{\text{Total income}}$$

3. Foreign Exchange Income Ratio

These commercial banks have been authorized by Nepal Rastra Bank to deal in foreign exchange and to generate income by dealing in foreign exchange. It earns not only by gain and on sale of foreign currency but also by gain in revaluation of the currency which is as below

$$\text{Foreign exchange \& income ratio} = \frac{\text{Foreign exchange}}{\text{Total income}}$$

4. Other Income Ratio

"Other income" consists of net income from sale of investment and assets non banking assests,subsidy from Nepal Rastra Bank fixed assets written back income from lockers facilitates etc which as below.

$$\text{Other income ratio} = \frac{\text{Other income}}{\text{Total income}}$$

Table 4.21

The table & pie chart as following

Fiscal year	2002	2003	2004	2005	2006	average
Interest income						
HBL	82.82	83.21	82.16	82.30	79.69	82.036
EBL	82.22	82.35	83.92	84.03	84.94	83.49
Commission & Discount						
HBL	7.33	7.1	8.17	7.55	8.12	7.65
EBL	6.81	2.70	9.49	9.12	9.10	7.45
Exchange income						
HBL	7.53	7.6	7.4	7.81	9.17	8.01
EBL	8.4	5.1	3.56	3.16	1.35	4.31
Other income						
HBL	2.30	2.08	2.24	2.35	2.56	2.31
EBL	2.55	3.2	3.04	3.68	4.59	3.41

Source: - profit & loss account of banks.

Aggregately the interest income ratio commission & discount ratio exchange income & other income ratio is 100% & to show the following pie-chart

Fig. 4.21
Average income of Himalayan bank ltd.

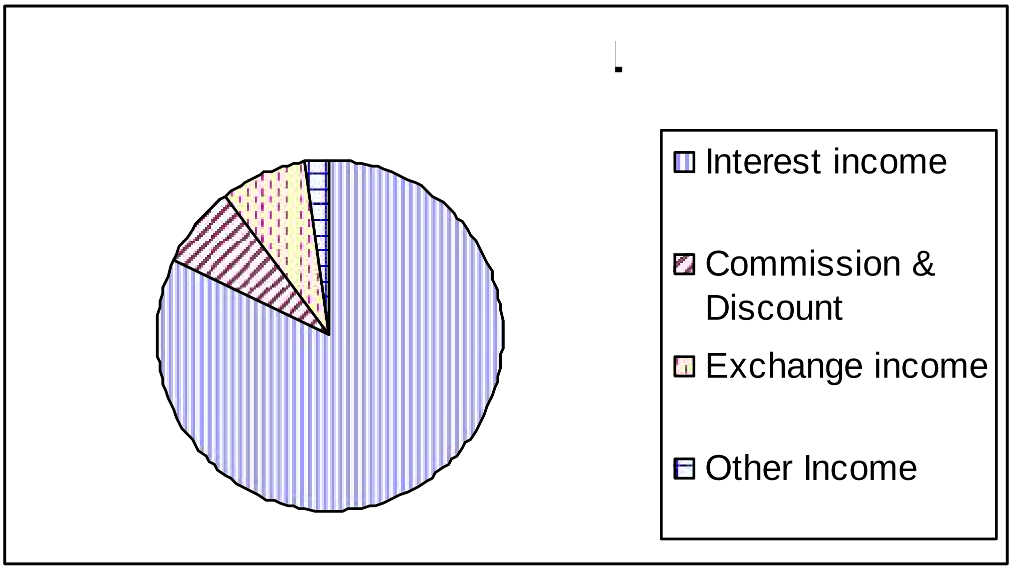
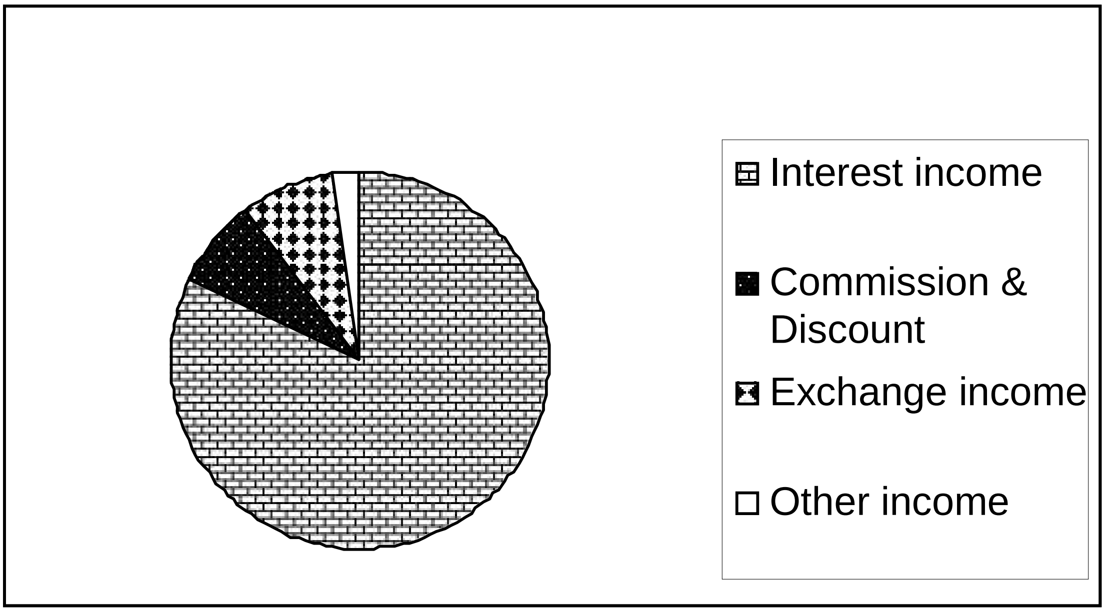


Fig. 4. 22
Average income of Everest Bank ltd.



The above table and pie-chart shows the maximum earned from the interest of both banks. Interest income of both banks is 82.036 and 83.49 of HBL and EBL respectively. Commission and discount income is more than the exchange income of EBL but the exchange income is more than the commission and discount of HBL. Other income resource of HBL & EBL is 2.31 & 3.41 respectively.

Thus, operating income analysis shows that interest-earning component has been highest component of selected banks in this study period of financial year 2002 to 2006.

4.6 Determination of Relationship Between Net Worth and Return

To supplement the above analysis an attempt has been made to analysis the data to shed some more significant light and interoperation. For this some relevant statistical tools have been used.

Karl's Pearson's coefficient of correlation Measures the intensity or degree of linear relationship between two variables Karl's-person (1861-1936) a British biometrician develop formula called correlation coefficient. Correlation between two random variables x and y. usually denoted by r(x,y) or simply r(x,y) is a numerical measure of linear relationship.

1. Probable Error.

The probable error of the coefficient of correlation helps in interpreting its value. It helps to determine the reliability of the coefficient.
The probable Error of the coefficient is obtained as follows.

$$P(r) = 0.6745 \frac{1 Z r^2}{\sqrt{N}}$$

Where,
r=coefficient of correction
N= number of observation

i. If value of r is less than the probable error there is not evidence of correction i.e. the value of r is not at all significant.
ii. If the value of r is more than problem error, the coefficient of correlation is practically certain i.e. the value of r is significant
iii. In other word & situation can be calculated with certainly

Statistics interpretation of correlation coefficient as below.

i. correlation coefficient lies always between +1 and – 1
ii. When r= +1 there is perfect positive correlation.
iii. When r= -1 there is perfect negative correlation.
iv. When r=0 there is no correlation
v. When r lies between 0.7 to 0.999 there is degree of position correlation
vi. When r lies between 0.5 to 0.699 there is a moderate degree of correlation
vii. When r is less than 0.5 there is low degree of correlation

By using the above formula coefficient of correlation between “return and net worth” and probable error of Himalayan bank ltd. And Everest bank ltd.

Table 4.22

Net worth and return of Himalayan bank ltd.

Year	Net worth (x)	Return (y)
2002	858.11	235.02
2003	1063.13	212.12
2004	1324.17	263.05
2005	1541.75	308.27
2006	1766.18	457.46

Source:- Comparative balance return & annual report

Calculation of coefficient of correlation of HBL analysis of net worth and return.

Year	X	Y	X²	Y²	Xy
2002	858.11	235.02	736352.77	55234.40	201673.01
2003	1063.13	212.12	1130245.40	44994.84	225511.14
2004	1324.13	263.05	1753320.26	69195.30	348312.40
2005	1541.75	308.27	2376993.06	95030.40	475275.27
2006	1766.18	457.46	3119391.80	209269.65	807956.70
N=5	6553.3	1475.92	9116303.28	473724.64	2058728.52

We have attempted to calculated the liner relationship between return and net worth of HBL & EBL it is calculated to justify. Whether net worth is significant in generation more return or not.

In this context coefficient of correlation is calculated by the method of deviation taken from a actual mean and the formula

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

Where,

r = coefficient of correlation variable x & y.

n = number of year.

x = values of first variable (net worth).

y = values of 2nd variation n (return).

x = Sum of the deviation x series.

y = sum of the deviation of x series.

x^2= sum of the squares of the deviation of x series

y^2= sum of the squares of the deviation of y series

Again

y^2= 911630.28

y^2= 473724.64

xy= 2058728.52

x= 6553.3

y= 1475.92

N= 5

Substituting the values in the formula

$$rxy = \frac{2058728.32 - \frac{6553.3 \times 1475.92}{5}}{\sqrt{9116303.28 - \frac{(6553.3)^2}{5}}\sqrt{473724 - \frac{(1475.92)^2}{5}}}$$

$$= \frac{124299.22}{141638.28}$$

= 0.878

Computation of probable error

$$P.Er = 0.6745 \frac{1 - (0.878)^2}{\sqrt{5}}$$

= 0.6745 x 0.1024

= 0.069

The calculation shows that the coefficient of correlation between return and net worth of HBL is 0.787 which is less than 1 but between the 0.7 to 0.999 so, there is degree of positive correlation between two variables.

Since the values of "r" is with the limit of r± P.Er or the value of r is more than six time the problem error [6x0.0069] the value of r is significance in further warrants that deploying more net worth in the capital structure seems to be beneficial in terms of profitability for HBL.

Table 4.23

Net worth and return of Everest bank ltd.

Financial year	Net worth (x)	Return (y)
2002	390.91	85.33
2003	472.83	94.17
2004	540.33	143.57
2005	832.62	170.81
2006	962.91	237.78

Source:- from balance sheet

Year	X	Y	X^2	Y^2	Xy
2002	390.91	85.33	152810.63	7281.80	33356.35
2003	472.83	94.17	223568.21	8867.98	44526.40
2004	540.33	143.57	291956.51	20612.34	77576.60
2005	832.62	170.81	693256.06	29176.05	142219.82
2006	962.91	237.78	927195.60	56539.33	228960.73
N=5	3199.6	731.66	2288787.07	122476.43	526638.92

Where,

N= 5

x=3199.6

y=731.66

x^2=2288787.07

y^2=122476.43

xy=526638.92

Substitute the value in the fund

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

$$= \frac{526638.92 - \frac{3199.6 \times 731.66}{5}}{\sqrt{2288787.07 - \frac{(3199.06)^2}{5}}\sqrt{122476.43 - \frac{(731.666)^2}{5}}}$$

$$\frac{58435.053}{\sqrt{241299.03}\sqrt{15411.15}}$$

$$\frac{58435.053}{491.22 \times 124.14}$$

$$r = 0.958$$

Competitive of probable error of EBL

$$Per = 0.6745 - \frac{1-(0.958)^2}{\sqrt{5}}$$

= 0.6745 x 0.0367

=0.024

Since the value of "r" is with in the limit of r + P.E.r or the value of r is more than 6 times probable error [6x0.024=0.144] the value of r is significant in further warrants that deploying more net worth in the capital structure seems to be beneficial in terms of profitability for EBL.

2. Solvency Position.

Capital structure ratio of both banks indicates & highly leverage of capital structure total debt to equity ratio of both banks reveals that the claims of the outsiders exceed for more than those of the owners equity. over the banks assets comparatively Himalayan bank limited has more levered capital structure.

Similarly total debt to total assets ratio of both the bank is not satisfactory being highly leveraged than normally accepted standard measures very high long-term debt to total assets ratio reflects the aggressive financial policy of both banks which has exposed them to more risky. High leveraged capital structure is profitable as risky.

Like-wise, the long term- debt to total assets ratio of EBL is not satisfactory because an aggressive financial policy makes the firm more riskier This is more risky the standard ratio.

As per the directives of Nepal Rastra Bank minimum of 8 percent capital adequacy ratio should be maintained. The capital ratio of both banks is unsatisfactory. But the Everest bank limited is better then Himalayan bank ltd. But the Everest bank ratio has not reached the standard position. It is also below 8 percent. In terms of net worth to total assets ratio Everest bank limited has more fluctuation and Himalayan bank limited has more uniform ratio.

3. Operational Efficiency.

Analysis of activities ratio reveals that both bank have been able to utilize the resources satisfactory. In an average loan and advance to total deposit ratio is EBL highest recorded than HBL bank. But incase of loan to total deposit ratio of EBL and advance to fixed Assets has HBL also highest. Loan and advance to total assets ratio also EBL has recorded highest, like wise short term investment to total deposit ratio also EBL has highest than HBL during the study period. Comparatively Everest bank limited has utilized their resources must satisfactory.

4. Earning Capacity and Utilization of Profit

Profitability ratio indicates the degree of success in achieving profit level. In terms of absolute net profit after interest and taxes Himalayan bank limited has is higher, however the trend line is decreasing pattern over the study period indicting not good position but better than EBL. The ratio of EBL is fluctuating however the trend line shows sign of improvement immediately.

In case of return of total assets ratio the banks have earned about 1 percent or assets. However Everest bank limited is relatively higher over the study period.

In terms of return on total deposit EBL is doing better (1.38%). But HBL have not adopted any particular trend during the study period.

In terms of interest paid to interest income the ratio of both banks has recorded a decreasing trend over the study period. The ratio stands as on average range between 39.46 to 58.90. comparatively average ratio to EBL is highest (50.10%) than HBL (42.92%).

Dividend per share Himalayan bank limited is highest [13.58%] than EBL [10.00%] during in this period but these banks paid no divided in year 2004. similarly EBL also not paid dividend in fiscal year 2004.

Regarding earning per share, Himalayan Bank limited has been decreasing trend in fiscal year 2002 to 2005. But the increasing in fiscal year 2006. However the earning per share of HBL is higher than EBL [53.182>45.078] % in this study period.

Operating income of both banks has been increasing rapidly howler Everest bank ltd. have generated more operating income than Himalayan Banks Ltd. [83.44>82.036] %.

Analysis of coefficient of correlation between return and net worth of each of the banks indicate positive correlation. This means that the management can increase the owner’s capital base to increase the return and value of firm.

CHAPTER-V
SUMMARY, CONCLUSION, AND RECOMMENDATIONS

The present study has been designed to overcome the issues relation to "comparative study of financial performance of Himalayan bank limited and Everest bank limited. This chapter briefly explains the summary of the study, tries to fetch out finding and conclusion and attempts to offer suggestions and recommendations for strengthen the financial position of HBL and EBL.

5.1 Summary

The first chapter of the study deals about basic introduction of the study. It highlighting the concept and significance of the study it has also presented research problem, objective of the study, and focus of the study and background of the study. Lastly it discusses about the limitation of the study.

Second chapter helped the researcher to provide knowledge about the development and progress made by the earlier researchers.

On the concerned topic of the study. It helped to know the research work undertaken by them. Moreover it summarized the previous finding of the study to provide knowledge about the background of the work done by them, lastly, an attempt is made to review the findings of the study related to concept.

Third chapter discussed about various research methodologies used for the study. Basically, research methodology here signifies research design, sources of data population and sample data collection methods.

Further chapter of the study dealt about data presentation and analysis. It first presented the generated data in tabular form and analyzed. It systematically as per objective mentioned above data were analyzed through figure also wherever necessary. At present, 25 commercial banks have been operation in Nepal, which is result of the liberal financial policy of government. They have been rendering various quality banking services to their clients.

In this comparative study have been undertaken to evaluate the financial performance of Himalayan bank limited and Everest bank limited. Financial statement of previous five years [f/y 2002 to 2006] have been used in the study. This study is mainly based on secondary data with included published annual report especially, balance sheet, profit and loss account and other publications of the banks related information were gathered from the concerned bank, website of related banks etc. the data have been analyzed by using financial and statistical tools like ratio analysis, correlation coefficient, pie chart multiple bar diagram etc.

5.2 Major Finding of the Study.

1. Liquidity position: - The study reveals that the ratio of both is below the normal standard of 2:1 in this study period, which generally indicates poor liquidity position. Poor liquidity is existed in HBL but it can not be assumed that the liquidity position of both banks are poor because current ratio is only a test of quantity not a test quality of liquidity position and more over banking sector in is different than other general sector. In this study period, the liquidity position of EBL is comparatively better than HBL.
2. Other liquidity ratio analyzed & interpreted in terms of liquidity position of cash & bank balance with respect to total deposit Everest bank limited is comparatively better than HBL(11.45>7.78) cash and banks balance to total deposit ratio is commonly called quick ratio in financial term and 1:1 is considered reasonable for general business. But banks being financial institutions and dealing in cash may not requite to maintain 1:1 proportion. In the presents study no bank has maintained this criterion of 1:1.
3. In term of fixed deposit to total deposit ratio Everest bank limited is performance 38.30% than other Himalayan bank ltd. More proportionate fixed assets the opportunity to invest in more productive sector like marketable securities, treasury bills and other loan and advance.

In an average, saving deposit to total deposit ratio of Himalayan bank ltd. has been recorded the lowest. It indicates better liquidity position of both banks to meet short-term obligation.

5.3 Conclusions

The researcher has concluded that both banks have gained normal position of different financial ratio. This main topic of conclusion of this research as below.

Both banks liquidity position is lower and highly leveraged capital structure and lower liquidity position is profitable as long as more risky.

Himalayan bank has performed better in terms of absolute net profit during in this period.

Both banks are able to earn above 1.20% return on total assets and to mobilize deposit properly.

In case of dividend both banks are able to pay regular dividend to their shareholder but both banks are unable to pay dividend in fiscal year 2004 to their shareholders in this study period.

Regarding earning per share of Himalayan bank limited is decreasing pattern in fiscal year 2002 to 2005 but the fiscal year 2006 is increasing. Everest bank limited earning per share is fluctuation in this study period. Comparatively, the Himalayan bank limited earning per share is better than Everest bank limited.

In case of interest income is Everest bank limited is better than Himalayan bank limited. commission and discount is Himalayan bank limited better than Everest bank limited and exchange income is Himalayan bank limited better than Everest bank limited, comparatively, the operating income is HBL better than EBL in this study period.

Finally, researcher concludes that management can increase the owner's capital base to increase the return and value of the firm.

5.4 Recommendations

The findings of the study will provide important information for those who are concerned directly or indirectly with financial performance of these banks on the basis of analysis and finding of the study following suggestion are recommendation can be outline.

1) The commercial banks should consider seriously about the unsatisfactory liquidity position and should ascertain whether this situation is a threat or normal in banking sector.
2) Loan and advance to total assets ratio measure the volume in loans and advance in the structure of total assets. A high ratio is indicate better performance but the ratios for concerns banks seems to be fluctuating, so , it is suggestion to improve ratio in increasing trend by increasing proportionate interest in loan and advance.
3) Everest bank limited should be more concerned for efficiency utilizing the deposits in loan and advance of other more profit generating sector.

4) The capital adequacy ratio should be maintained as per Nepal Rastra Bank directive. For this both banks should raise the amount of deposit in Nepal Rastra Banks to 8% of total deposit.
5) The Banks should do lot of exercise in more credit creation and reducing the interest rate for loan and advance. This helps them to remain more competitive.
6) These banks have mainly focused their investment specially on big cities and for big companies and big enterprises like multi-national companies, large scale industries, manufacturing of garments and carpets exporters, small enterprise have not been benefited by their investment, so as part of discharging their social responsibility, these banks should sanctity loans to small enterprises also.
7) Banks should band the policy of nepotism and favoritism. On the basis of capability and efficiency, employee’s recruitment, placement and promotion should be executed for better performance of the bank in overall sectors.
8) These banks could do better by offering modern banking facilities like card system, global banking internal banking and branch banking concept facilities.
9) These banks can do better if they do exercise to extend their loans to more and more foreign investors who want to do business here in Nepal. The foreign investors and industrialists are unfamiliar with the indigenous rules and regulation, customers and other country specific situation. So the banks can help foreign investors and industrialists in their regard who in turn create more productive assets, more employment opportunities and contribute to national development process.
10) Banks play important and significant role to mobilize the public savings into productive use for the growth for overall economy in the nation although banks should fulfill some social obligations by extending their resource to rural area and promoting the development of poor and disadvantages group to up lift their livings standard. In order to so, they should not only concentrate on central place but also should open their branches in the remote areas by setting their objective of providing banking services at cheaper prices.

APPENDIXES:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Cash and bank balance to total deposit Ratio} = \frac{\text{Total cash and bank balance}}{\text{Total deposit}}$$

$$\text{Fixed deposit to total deposit ratio} = \frac{\text{Fixed deposit}}{\text{total deposit}} \times 100$$

$$\text{Saving deposit to total deposit ratio} = \frac{\text{Saving deposit}}{\text{Total deposit}} \times 100$$

$$\text{Loan and advance to total deposit ratio} = \frac{\text{Loan and advance}}{\text{total deposit}} \times 100$$

$$\text{Loan and advance to fixed deposit ratio} = \frac{\text{Loan and advance}}{\text{fixed deposit}} \times 100$$

$$\text{Loan and advance to total assets ratio} = \frac{\text{Loan and advance}}{\text{total assets}} \times 100$$

$$\text{Short term investment to total deposit ratio} = \frac{\text{Short term investment}}{\text{total deposit}}$$

$$\text{Debt-equity ratio} = \frac{\text{Total debt}}{\text{Total equity}}$$

$$\text{Total debt to total assets ratio} = \frac{\text{Total debt}}{\text{Total assets}} \times 100$$

$$\text{Long term debt to total assets ratio} = \frac{\text{Long term debt}}{\text{Total assets}}$$

Capital adequacy ratio $= \dfrac{\text{Capital fund}}{\text{Total deposit}}$

Net worth to total assets ratio $= \dfrac{\text{Net worth}}{\text{Total assets}} \times 100$

Return on equity $= \dfrac{\text{NPAT}}{\text{Net worth}}$

Return on total assets ratio $= \dfrac{\text{NPAT}}{\text{total assets}} \times 100$

Return of total deposit ratio $= \dfrac{\text{NPAT}}{\text{total deposit}} \times 100$

Interest earned to total assets ratio $\dfrac{\text{Interest earned}}{\text{Total assets}}$

Interest paid to interest income ratio $= \dfrac{\text{Interest paid}}{\text{interest income}}$

Dividend per share $= \dfrac{\text{Earning paid shareholder}}{\text{No. of share}}$

Earning per share $= \dfrac{\text{Profit after tax}}{\text{No. of common share}}$

Interest income $= \dfrac{\text{Interest income}}{\text{Total income on operational}}$

Commission and discount income $= \dfrac{\text{Commission and discount income}}{\text{Total income}}$

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

Where ,

r= coefficient of correlation between variable x and y

xy = sum of the deviation of x and y series from an actual mean

x = value of first variable (Net worth)

y = value of the second variable (return)
x = sum of the deviation if x series
y = sum of the deviation of y series.
x^2 = sum of the square of the deviation of y series.
y^2 = Sum of the square of the deviation of y series.

p (Er) =0.6745 $\frac{1 Z r^2}{\sqrt{N}}$

Where,
r = coefficient of correlation
N = Number of observation

Summary of Financial indicators.

Ratio	2002		2003		2004		2005		2006	
	HBL	EBL	HBL	EBL	HBL	EBL	HBL	EBL	HBL	EBL
Current ratio	0.75	1.05	077	1.06	0.88	1.05	0.66	0.83	0.54	0.71
Cash & Bank Balance to total deposit	6.8	10.8	9.42	17.03	9.09	7.8		10.39	6.48	11.25
Fixed deposit total deposit ratio	29.44	49.60	15.26	41.74	21.40	35.71	24.61	33.71	23.97	30.73
Saving deposit to total deposit ratio	11.39	31.74	13.96	41.19	13.29	46.26	51.79	47.60	55.04	50.20
Loan & advance to tot6al deposit ratio	47.87	72.23	47.61	73.32	54.30	72.96	54.21	75.45	59.50	71.01
Loan & advance to total assets ratio	41.82	59.76	41.33	60.96	46.45	61.24	46.59	69.93	51.54	61.41
Short term investment to total deposit ratio	49.18	30.25	48.44	37.87	42.22	26.40	47.12	41.61	41.10	36.12
Debt equity ratio	16.09	15.90	20.10	16.03	17.70	16.78	17.28	12.9	15.95	15.46
Total debt to total assets ratio	95.85	94.08	95.45	94.12	94.65	94.38	97.19	91.55	95.60	93.12
Long term debt to total assets ratio	38.03	41.04	13.72	34.7	19.02	30.16	22.63	29.0	22.05	26.58
Capital adequacy ratio	4.6	7.15	5.06	7.16	6.02	6.70	6.21	6.55	6.66	5.18
Net worth to total assets ratio	5.95	5.91	4.55	5.87	5.34	5.62	5.62	7.09	5.99	6.03
Return on net worth ratio	27.39	21.82	19.95	19.92	19.86	26.57	19.99	20.52	25.90	24.65
Return on total deposit ratio	1.26	1.56	1.01	1.41	1.19	1.78	1.24	1.69	1.72	1.72
Interest earned to total assets ratio	7.97	6.71	5.14	6.46	5.03	6.84	5.27	6.12	5.52	5.66
Dividend per share	25.0	20.0	1.32	20.0	0.0	0.0	11.58	25.0	30.0	10.0
Earning per share	60.26	32.91	49.45	29.90	49.05	45.58	47.91	54.22	59.24	62.78
Interest paid to interest income ratio	50.32	58.00	46.13	58.9	39.46	47.84	38.85	41.65	39.89	44.43
Loan advance to fixed deposit ratio	1.63	1.46	3.12	1.76	2.53	2.03	2.20	2.24	2.48	2.31
Return on total assets ratio	1.63	1.29	`0.91	1.17	1.06	1.49	1.12	1.45	1.55	1.48

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