A THESIS
ON
" A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE OF
HIMALAYAN BANK LIMITED AND EVEREST BANK LIMITED"

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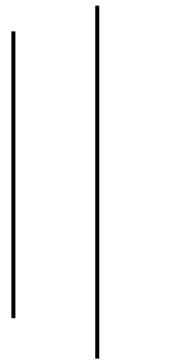**T.U. Registration No: 7-3-39-440-2004**

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"COMPARATIVE FINANCIAL PERFORMANCE ANALYSIS OF HIMALAYAN BANK LIMITED AND EVEREST BANK LIMITED"** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work for the partial fulfillment Degree of Master of Business Studies (M.B.S.) under the supervision of Shashi Kanta Mainali and Rabindra Bhattarai, Lecturer of Shanker Dev Campus, Putalisadak, Kathmandu.

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CHAPTER - I

INTRODUCTION

1.1 Background of the study:

Bank is a financial institution, and the backbone of a country for the economic development. Bank constitutes the important segment of the financial infrastructure of any country. In broad sense, bank can be said as important financial institution, which collects and safeguards the public money, disburses the collected money for the productive purposes, transfer funds, guarantees the credit worthiness and exchange of money. Banks are rendering a wide range of services to people.

Bank performs various types of services like collections of deposit from the public, granting loans to the investors, overdraft, guarantee against payment, letter of credit, discounting bills, and selling of shares agency functions. Banks collects money from public by attracting them with sound interest rate into their deposits and provides loans to the industry, business houses and needy people with some interest which is higher than the interest rate they provide in the deposit.

The commercial bank has its own role and contribution in the economic development. It is a source for economic development; it maintains economic confidence of various segments and extends credit to people. To meet the objectives, the overall performance of the bank should be soundly adjusted with each other. Only the well combined factors assist in well performance. When performance will be well, the output will generally be sound. It helps bank to proceed in its track. Commercial banks are extending the 3 percent fund in equity and providing wholesale loans to IMF (International Monetary Fund). At present, 29 commercial banks (Including Agricultural Development Bank) are extending credit to the deprived sector.

Since it collects cash from depositors and provides loans to the investors, we can say that the bank acts as an agent between the savers and investors. Therefore, we can say that the main game the bank is to play with money and through which it generates profit. The banking sector has now reached even to the most of the remote areas of the country and has contributed a good deal to the growth of the economy. By lending their resources in small-scale industries under intensive banking program, the banks have contributed to the economic growth of the economy.

The capital formulation leads to increase in the size of national output, income, employment and solving the problem of inflation and balance of payment by making the economy free from the burden of foreign debts. Banking sector plays pivotal role in the economic development of a country and formulate core of the money market in an advanced country. Capital formulation is one of the most important factors in economic development.

Banking institutions are inevitable for the resource mobilization and all-round development of the country. They have resources for economic development and they maintain economic confidence of various segments and extend credit to people *(Ronald;1983:87).*

Modern banking originated in Medieval Italy, despite strong Christian prohibitions against usury (the changing of interest) according to Canon Law. Florence, Genoa and Lucca became the centers of finance and trade in twelfth and thirteenth centuries. The first bank called " Bank of Venice" was established in Venice. Italy in 1157 to finance the monarch in his wars. Following its establishment, were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. The bankers of Lombardy were famous in England. Banking slowly spread to the rest of Europe, and by the late 13th century, in Barcelona, Spain even the clergy was engage in banking. The German and Swiss rose to pre-eminence in 1480s. England's banking system was well established by late 17th century. In England. the banking begin with the English goldsmith only after 1640. The Bank of Amsterdam was the great bank of 17th century and it enjoyed a prestigious position, no less important than is held currently held by Bank of England, for a long time in the sphere on

international commerce. In the word of Alfred Marshal, the bank of Amsterdam was all responsible for the counterpart of such of the work of modern stock exchanges.

History tells us that it was the merchant banker who first evolved the system of banking by trading in commodities than money. Their trading activities required the remittance of money from one place to another. For this, they issued different documents as the near substitutes of money called drafts or hundies in modern days.

Banking concept existed even in the ancient period, when the Merchant, Gold Smith and Money Lenders were performing the work i.e. accepting deposits, keeping valuable things in the custody and granting loans to the needy people. This was all their individual effort. Bank came into existence mainly with the objectives of collecting idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society where they are serving.

Financial Analysis is the process of identifying the financial strength and weakness of the firms by properly establishing relationship between the items of the balance sheet and the profit and loss account. Quality governance is impossible without effective analysis and evaluation of financial information

The study of performance of commercial banks and return to investors occupies an important role in the development of capital market. Development and expansion of capital market are essential for the rapid economic growth of the country. Capital market helps economic development by mobilizing long-term capital needed for productive sector. It is vital to long term growth and prosperity of the economy since it provides the channel through which needed funds can be raised *(Shrestha; 1993:32).*

The analysis of the performance is designed to make a careful study of the recent financial records of the financial companies in order to evaluate its performance. Performance evaluation must not be focused exclusively up to the criterion of short-term profitability or

any other signals but it should be done as per the standards, which may causes managers to act for the long-range interest of the company as a whole.

The proper analysis and interpretation of financial statements is felt necessary in our corporate banks, private enterprises and similarly other organizations to find out what information are indicated from this balance sheet and income statement and other accounting information. On the basis of these information, it becomes easy to chalk out the problem faced by the corporations. A capable financial manager must select best analytical tools (Ratio Analysis) to determine to liquidity, profitability, turnover and capital structure of the corporation.

The financial analysis is used to diagnose the strength and weakness in the corporation's performance. It provides a framework for financial planning and control. As there are a number of joint ventures banks in Nepal, the present aim is to analyze the comparative study of Himalayan Bank Limited (HBL) and Everest Bank Limited (EBL) just to assure whether they can put equal contribution in the economic growth of the country or not.

The financial performance is a quantitative analysis of organization's efficiency. The company's financial plan and policy are prepared and implemented by management and should be judged based on its financial performances.

After the introduction of liberal economic policy adopted by Nepal Rastra Bank, it has provided an opportunity for the banking institution to grow rapidly. As a result different joint venture bank and financial institutions were established rapidly and now there are 29 licensed commercial banks in the country within Mid October 2010 *(Source: www.nrb.org.np).*

1.2 Origin of banking system:
According to a French writer Revil Pout, Bank notes were in practice in Babylonia around 600 B.C. This could be considered as the first ever step to the inception of banking system. It has been assumed that the practice of modern banking functions such as exchange of

money, transfer of funds, note issue, accepting deposits, lending money etc. already began in Rome around the late 4th century. However, the banking development collapsed with the Roman civilization. The banking business revived in the 12th century as Jews conducted functions such as safe keeping of valuables, lending money at interest and similar other functions. The good profit lure so, the Italians too, extensively followed the suit.

As a result, bank of Venice, the first bank in the world come into existence in 1157 A.D. Prior to the development of modern banking system, the role of merchant, money lenders and gold smith was dominant in the society. Therefore, they can be considered as the three ancestors of modern banking. Gradually the function of accepting deposits and granting loans of accepting deposits were handed over from individual to the joint stock company.

Subsequently 'Bank of Barcelona' Spain was established as the first modern bank in 1401 A.D. After that, 'Bank of Amsterdam' Holland and 'Bank of Hamburg' Germany were established in 1607 A.D. and in 1619 A.D. respectively. The modern banks undertook the function of issuing notes, credit creations, accepting deposits, lending money, transfer of fund, accepting bills of exchange, promissory notes etc and only after that the central bank were authorized to issue the notes.

The European Industrial revolution of the 17th century brought about drastic increase in production, thereby lending to rise in marine transportation and overseas trade. Most of the European countries rushed for seeking new colonies. In the ground of the favorable economic environment, 'Bank of England' came into begins in 1694 A.D. The advent of Bank of England gave scientific shape to Modern banking. After the formulation of the act regarding 'Bank of England' in 1833 A.D., the prominence of Joint stock bank was further enhanced. From 1844 A.D., Bank of England was allowed to function as the central bank.

Around 1850, the 'Credit Mobilizes' was established in Paris as the first venture bank. The existence of many ventures banks facilitated industrialization in Europe. In the 19th century, commercial banks were opened in almost all countries in the world. Thus, development of the modern banking system gains full momentum and various monitory problems. Now

banks have been the vital part of economic and business life of each economy. The three ancestors of bank i.e. merchants, Money lenders and Gold Smith, were performing the work i.e. accepting deposits, keeps valuable things in the custody and granting loans those who needed. This was all their individual effort.

1.3 Development of banking system in Nepal:

Just as it assumed that banking practice has flourished in ancient Rome in the late 4th century, from around the same period about the beginning of the 5th century A.D.' regular history of coinage in Nepal is assumed to have begun. Most of the coins of that period bear images of animals and other religious symbols. According to historical records in 732 A.D. GunaKam Dev the king of Kathmandu, borrowed money from public to rebuild and rule Katmandu. After 57 years at the end of some century, a low cast merchant 'Shankhadhar' introduced Nepal Sambat by clearing the all the outstanding debts in the country.

In the 14th century Jayasthiti Malla, the king of Kantipur classified people into 64 casts on the basis of occupation. A group of people called 'Tanka Dhari' which is one of the 64 castes were engaged in the occupation of money lending, more or less similar to that of the modern banking. During the regime of Prithvi Narayan Shah 'Kaushi Tosha Khana' was installed. It was more of less similar to banking agency and many lay claims to be regard as the first step towards initiating banking development in Nepal. Like other countries Gold Smith, Merchants and Money Lenders were the ancient bankers of Nepal. However, in 1877 A.D (1933 B.S) during the tenure of the Prime Minister of Ranoddip Singh the establishment of 'Tejarath Adda', fully subscribed by the government may be regard as the first remarkable step in the institutional development of banking in Nepal. That is why it is also called the father of modern banking institution.Tejrath Adda did not collect deposits from the public but give loans to the employees and public against the bulletins.

The main purpose of setting this 'Adda' was to provide credit facilities to general public and government employees at a confessional rate of interest (i.e. at 5%) admits the dominance of local, money-lenders, merchants and landlord who were charging exorbitant rates of interest. The Tejrath Adda distributed credit facilities to the general public especially on the

collateral of gold and silver. Several branches were opened in different parts of country and running smoothly for flows decades.

At the Prime minister period of Chandra Sumsher the 'Tejarath Adda' extended its services by opening branches in some cities outside the valley. However, in the absence of saving mobilization 'Tejarath Adda' faced several financial problems making it impossible to cater the need of general population throughout the country. The main defects of this institution soughed as there was no other financial setup and no effort to expand the services. Above all the defects, this institution did not accept any deposits from public. After that again, for a long time, several unorganized bankers and indigenous moneylenders continued to flourish as the sole provider of the credit and services to the general public. The *'Treaty of peace and friendship'* concluded between the government of Nepal and government of Great Britain in 1932 A..D. facilitated the import trade free of duty via India. The devastating earthquake of 1934 A.D. may have expedited the need to establish a banking institution. Accordingly, Udhyodg Parisad' (Industrial Development Board) was constituted in 1936 A.D. with the major objectives of promoting and protecting the trade, commerce, industry and manufactures of Nepal. One year after its formation in 1937 A.D., the Udhyog Parisad formulated the "Company Act" and " Nepal Bank Act "under which Nepal bank limited with the co-operation of Imperial Bank of India come into existence as the first commercial bank in Nepal. Banking in the modern sense started with the inception of Nepal Bank Limited on B.S 1994.Nepal Bank Limited had a Herculean responsibility of attracting people toward banking sector from pre-dominant moneylenders' net and of expanding banking services. Nepal Bank Limited paid more attention to profit generating business and preferred opening branches at urban centers.

With a view to abolish dual monetary system, to stabilize the exchange rate, to facilitate the use of Nepalese currency throughout the kingdom and to mobilize the capital to encourage the development in industry and trade, Nepal Rastra Bank (NRB) was established on 14th Baishak 2013 B.S. (26th April 1956) under functioning as the Government's bank and has contributed to the growth of financial sector. On 7th Falgun 2016 B.S., Nepal Rastra Bank issued Nepalese currency note for the first time.

Integrated and speedy development of the country is possible only when competitive banking service reaches nooks and corners of the country. Keeping this in mind, government set up Rastriya Banijya Bank in B.S. 2022.10.10 as a fully government owned commercial bank. Industrial Development Centre was set up in 2013 with the chief objective to provide long term to industrial sector development. In 2016, Industrial Development Centre was converted to Nepal Industrial Development Corporation.

Similarly Agriculture Development Bank was established in B.S 2024.10.07 to provide finance for the agricultural products so that agricultural productivity could be enhancing by introducing modern agricultural techniques. Likewise, Co-Operatives came into begin in 2019 B.S. Moreover, Security Exchange Centre was established in 1976 to enhance capital market activities. Securities Exchange Centre was renamed Nepal Stock Exchange (NEPSE) in 1993. In the context of increasing commercial activities in the country, the service of merely two commercial banks (Nepal Bank Limited and Ratriya Banijya Bank) was realized insufficient.

With the establishment of Rastriya Banijya Bank and Agriculture Development Bank, banking service spread to both the urban and rural areas. Nepal Rastra Bank also gave incentive to Nepal Bank Limited to expand their branches to rural areas. This helped the common people reduce their burden of paying higher rate of interest to money lenders and absolved them from kowtowing before money lenders. It is natural expectations of customers keep on increasing. Once they got banking services they were expecting improvement and efficiency. However, excess political and bureaucratic interference and absence of modern managerial concept in these institutions was hurdle in this regard. Banking service to the satisfaction of customers was a far cry.

The inception of Nepal Arab Bank Limited (renamed as Nabil Bank Limited since 1st January 2002) in B.S. 2041.03.29 (12 July 1984) as a first joint venture bank proved to be a milestone in the history of banking. Being attracted by the success of NABIL bank and liberal economic policy adopted by the government after the restoration of Multiparty Democracy System in 2046 B.S. a number of commercial banks, came into Nepalese

financial Market. The banking sector in Nepal started with the establishment of Nepal Bank Limited. Nabil Bank gave a new ray of hope to the sluggish financial sector.

Today, we have 31 (Including ADB) commercial banks in operation in Mid October 2010 (Source: www.nrb.org.np).

Table 1

List of Licensed Commercial Banks Mid-July 2010

Lists of Commercial Banks in Nepal			
S.No.	**Names**	**Operation Date**	**Head Office**
1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu

3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Ltd.	1984/07/16	Kathmandu
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Ltd.	1993/06/05	Kathmandu
10	Everest Bank Ltd.	1994/10/18	Kathmandu
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
12	NCC Bank Limited	1996/10/14	Siddharthanagar
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh
14	NIC Bank Ltd.	1998/07/21	Biaratnagar
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski
16	Kumari Bank Ltd.	2001/04/03	Kathmandu
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	NMB Bank Ltd.	2008	Kathmandu
25	Development Credit Bank Ltd.	2008	Kathmandu
26	KIST Bank Ltd.	2009	Kathmandu
27	Janata Bank Nepal Ltd	2010	Kathmandu
28	Mega Bank Nepal ltd	2010	Kathmandu
29	Commerz and Trust Bank LTD	2010	Kathmandu
30	Civil Bank Ltd	2010	Kathmandu
31	Century Bank Ltd	2011	Kathmandu

(Source: Annex 1)

1.4 Profile of the Concerned Banks

Himalayan Bank Limited (HBL)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. It is the first commercial bank of Nepal with maximum share holding by the Nepalese private sectors. Besides commercial activities, the Bank also offers industrial and merchant banking.

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

Everest Bank Limited (EBL)

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

1.5 Focus of the Study (Optimal)

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

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

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

1.6 Statement of the Problem

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

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

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

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

The problem specially relates to financial performance of commercial banks in Nepal which are presented briefly as under:

- What are the existing situations of financial position of Joint Venture Banks i.e. Himalayan Bank Ltd. and Everest Bank Ltd.?

- Are the position of the Non Performing Assets of the selected banks are in line with the standard?
- Are the commercial banks utilizing the fund properly?
- What is the position of Liquidity of the selected banks?
- Are the trends of the different ratios of selected banks are satisfactory?
- What are the loan and advance position of two banks?

These are the burning issues that has influenced researcher to carry out the study. For this there is great need of such institutions, which can give valuable information that accelerates the stock investment and market efficiency. Moreover, in context of Nepal the information regarding the financial activities of the listed companies does not reflect at the share price movement. In this regard, the market is tilted towards asymmetrical market.

1.7 Objectives of the Study

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

- To study, analyze and compare the liquidity, profitability, stability and market value position of the selected banks.
- To analyze and compare the position of non performing assets of the concerned banks.
- To analyze the relationship between total deposit and to total investment.
- To analyze the total deposit, net profit and loan and advance trends of both the banks.

1.8 Significance of the study

The people's participation in security investment and stock trading is increasing unexpectedly. The recent trend and people's attitude towards common stock investment shows that there is a high potentiality in stock investment. It is important to increase financial and economic activities of the nation. The analysis of financial performance of the joint venture commercial banks is significant managerial decision from the viewpoint of investors. It influences the shareholders to gain full information on the performance of the company, make sound judgment and helps in significant forecasts of investment decisions. Consequently, financial analysis enables investors to select the right kind of security for investment depending upon the comparative analysis of

which company doing the best. Investors can form a correct opinion on predicting the riskiness of securities and likely the investors can take full advantage by buying them at low price and selling them when the price rises.

Thus, this study has tried to fulfill the aforementioned analytical need before purchasing or selling stock in the secondary share market. The study may also help for interested researchers in the area of investment on common stock. Apart from above, this study will be a matter of interest for academicians, students and private practices.

1.9 Limitation of the study

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

- Only two commercial banks are taken as the sample of the study among 29 commercial banks of Nepal.
- Only five years data are covered by the study.
- Due to constraint of time, limited books, thesis, annual reports of these banks, magazine and articles are reviewed.
- This thesis is based on secondary data collection of the concerned banks. So the result of this thesis is depended upon the data provided by them.
- This study uses limited tools and techniques to analyze the collected sources.

1.10   Organization of the Study

The present researcher has been organized into the following chapters.

Chapter 1: Introduction

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

Chapter II: Review of Literature

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

Chapter III: Research Methodology

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

Chapter IV: Presentation and Analysis of Data

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

Chapter V: Summary, Conclusion and Recommendation

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

CHAPTER - II
LITERATURE REVIEW

This chapter has been planned under the following parts:
- Conceptual framework
- Review of Journals and Articles
- Review of Thesis

2.1 Conceptual Framework

In this part, an attempt has been made to review basic literatures pertaining to concept, importance, measurement technique of financial performance, security pricing, role of financial performance to affect the stock price and relation between stock price and financial performance.

2.1.1 Financial Performance Analysis

"Profit is a lifeline of an organization. Every organization which is established as a commercial view of point aims to earn maximum profit for its survival and growth. Profit is an indicator of sound financial performance of any organization, but it is not the sole indicator. A financial performance of an organization also refers to its earning capacity, generating and mobilization of its capital funds, utilization of its overall physical facilities. In other words, financial performance is that managerial activity which has concern with the planning, organizing, controlling and administrating of financial resources of an organization" (*Pandey; 1995:103*). Moreover, it is basically concerned with analysis of various items of financial statement of an organization to ensure its comparative strength and weakness by using different tools and techniques.

2.1.1.1 Financial Performance

"Financial performance is a process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item of balance sheet and the profit and loss statements. It is also a study of relationship among various financial factors in a business as disclosed by a single set of statements and a study of the trend of these factors as shown in a series of statements. By establishing a strategic relationship between the items of a balance sheet and other operative data, the financial analysis unveils the meaning and significance of such items. Thus, financial performance analysis is required to take managerial and financial decisions". (*Van Horn; 1977:120*)

"Financial statement analysis includes the study of relationship within a set of financial statement at a point in time and with trends in these relationships over the time". (Foster*; 2002:58*)

"Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analyst is attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a rational and orderly way. If a firm does not achieve financial norms for its industry or relationships among data that seen

reasonable, the analysts note the deviations. The burden of explaining the apparent problems

may then be placed upon management". (*Hampton; 2006: 98*)

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

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

"The absolute accounting figures presented in the financial statements do not provide meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. Therefore, the relationship between two accounting figures must be expressed mathematically which is known as financial ratio. In other hand, a single ratio by itself does not indicate favorable or unfavorable condition of a firm until and unless it is compared to some appropriate standard. So, ratio by itself is not a conclusion, as they are only means and not an end".*(Shrestha, Poudel and Bhandari; 2005:183)*

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

2.1.1.3 Review of Accounting Statements
The analysis of a company's accounting statements is not an end in itself. Instead, it is a means to identify financial aspects of company that have direct relevance to understanding the intrinsic values and risks of the company's securities. The analyst will want to obtain access to a wide range of financial information about the company under reviews. Much of that information is found in the three primary accounting statements issued by the company in its annual report: the balance sheet, the income statement and the statement of cash flows.

2.1.1.3.1 Balance Sheet
As the name implies, the balance sheet lists balances that is, it has the characteristics that
Total Asset = Total liabilities + Capital

Hence, the balance sheet is a statement of the financial position at a specific point in time regarding assets, liabilities and stockholder's equity to balance debt and ownership position. The Balance Sheet is a statement of resources at the disposal of the firm and how they are put to use. In other words, the acquired assets at the disposal of the firm and liabilities that the firm has incurred and remains indebted to others. Furthermore, a Bank's balance sheet lists sources of Bank funds (liabilities) and uses to which they are put (assets) Bank obtain funds by borrowing and by issuing other liabilities such as securities and loans. Banks make profits by charging an interest rate in their holdings of securities and loans that is higher than the expenses on their liabilities.

Balance sheet has two sides:

2.1.1.3.2 Assets

An asset of the firm refers to the economic resources owned by the firm. Assets represent the company's economic resources. An asset is an item that has potential to generate economic benefits (that is, cash inflows) for the company in the future. For example, plant and equipment can produce goods and services that can be sold to customers for cash.

Other assets in the bank's balance sheet consist of items such as premises and fixed assets, other real estate owned (collateral seized on defaulted loans), investments in unconsolidated subsidiaries, intangible assets (i.e. goodwill and mortgage servicing rights) and other (i.e. deferred taxes, prepaid expenses, and mortgage servicing fees receivable). These accounts generally a small part of the bank's overall assets.

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

2.1.1.3.3 Liabilities

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

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

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

Some Bank separate core deposits from purchased funds on their balance sheets. The stable deposits of the bank referred to as core deposits. These deposits are not expected to be withdrawn over short periods of time and are therefore a permanent source of funding or the Bank. Core deposits generally are defined as demand deposits, current accounts, and saving accounts. Purchased funds are more expensive and/or volatile sources of funds are more likely to be immediately withdrawn or replaced as rates on interest to be paid. These items consists of

accrued interest, deferred taxes, dividends payable, and minority interest in consolidated subsidies and other miscellaneous claims.

2.1.1.3.4 Income Statement or Profit and Loss Account

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

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

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

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

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

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

2.1.1.3.5 Statement of Cash Flow

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

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

- Cash flow from operating activities

- Cash flow from investing activities

- Cash flow from financing activities

2.1.1.3.6 Additional Financial Statement Information

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

- Notes to the financial statements

- Management discussion and analysis

- Auditor's report

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

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

"The auditor's report presents the opinion of the company's independent auditor regarding the "fairness" of the company's financial statements. In the vast majority of cases, the auditor issues an unqualified opinion, stating that during the accounting period the company's financial statements fairly present, in all material respects, the financial position, results of operations, and the cash flows in conformance with Generally Accepted Accounting Principles (GAAP). A qualified opinion, indicating material departures from GAAP, is a rarity and may signal serious

problem with the company's disclosures. The mere threat that the auditor might issue a qualified opinion is usually sufficient to prevent a company from releasing intentionally incorrect reports. Note, however, that an unqualified opinion is related merely to the fairness of the disclosures; it does not imply any endorsement on the part of the auditor as to the quality of the company's business operations of the value of the company's securities". *(Alexander Sharpe and Bailey; 2002: 295-304)*

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

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

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

2.1.2.1 Gain Full Information on the Performance of the Company

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

2.1.2.2 Make Sound Judgment

Investors can form correct opinion with the help of analysis to make investment decision as correctly as possible. The power to make proper judgment is not possible without strong backing of financial analysis. At present, some investors are very conscious to make investment analysis

even in our growing stock market. Investors gradually know when to beat the market. The rational investors have been successful enough to make a line of demarcation between returns from good securities compared to other portfolios not providing return for a long period.

2.1.2.3 Help in Sound Forecasting

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

2.1.2.4 Selection of Good Security

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

2.1.2.5 Help in Risk Analysis

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

2.1.3 Roles of Financial Performance in Securities
2.1.3.1 It Helps to Determine Security Characteristics

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

2.1.3.2 It Helps to Identify mis priced Securities

This process entails identifying situations in which the financial analysts estimate the future earnings and dividends of the firm.

    i.   Differ substantially from consensus (i.e. average) estimates of others.

    ii.   Are viewed as being closer to the correct values then the consensus estimates.

    iii.   Are not yet currently reflected in the market price of the firm's estimates.

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

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

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

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

Whenever the analyst identifies the mispriced security, the analyst should try to correctly price the security and that is the thing, which should be overlooked during the analysis. Indeed, in an efficient market, this is precisely what will happen.

2.1.3.2 Conveying Advice on Beating the Market

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

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

2.1.4 Relation between Stock Price and Financial Performance

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

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

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

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

requires estimation of certain securities characteristics, thereby justifying the use of financial analysis.

2.1.5 Feature of Financial Performance Analysis

The performance report should possess: (*Welsch, Hiltnand and Gordan; 1992:1255*)

1. Tailored to the organizational structure and locus of controllability (that is, by responsibility center).

2. Designed to implement the management-by-exception principle.

3. Repetitive and related to short time periods.

4. Adapted to the requirements of the primary users.

5. Simple, understandable, and report only essential information.

6. Accurate and designed to pinpoint significant distinctions.

7. Prepared and presented promptly.

8. Constructive in tone

2.1.6 Purposes of Financial Performance Analysis

"Financial analysis is helpful in assessing the financial position and profitability of a concern. This is done through compression by ratio for the same concern over a period of years; or for one concern against another; or for one concern against the industry as a whole; or for one concern against the predetermined standards; or for one department of a concern against another of the same concern. In short, the main objectives of analysis of financial statements are to assess:

1. The present and future earning capacity or profitability of the concern.

2. The operational efficiency of the concern as a whole and of its various parts and departments.

3. The short term and long term solvency of the concern for the benefit of the debenture holders and trade creditors.

4. The comparative study in regard to one firm with another firm or one department to another department.

5. The possibility of development in the future by making forecast and preparing budgets

6. The financial stability of a business concern.

7.   The real meaning and significance of financial data.

8.   The long term liquidity of its funds". *(Jain and Narayan;1989:348)*

Uses of Financial Performance Analysis: *(Jain and Narayan; 1989:350)*
Information given in the financial statement is very useful to a number of parties and they are:
2.1.7.1 Owners: Owners provide funds for the operation of the business and they want to know whether their funds are being properly utilized or not. The financial statements prepared from time to time satisfy their curiosity.
2.1.7.2 Creditors: Creditors want to know the financial position of a concern before giving loans or granting credit. The financial statement helps them in judging such position.
2.1.7.3 Investors: Prospective investors, who want to invest money in a firm would like to make an analysis of the financial statements of that firm to know how safe their proposed investment will be.
2.1.7.4 Employees: Employees are interested in the financial position of the concern they serve, particularly when payment of bonus depends upon the size of the profits earned. They would like to know that the bonus being paid to them is correct; so they become interested in the preparation of correct profit and loss account.
2.1.7.5 Government: Central and state governments are interested in the financial statements because they reflect the earning for a particular period for the purpose of taxation.
2.1.7.6 Research Scholars: The financial statements, being a mirror of the financial position of the firm are of immense value to the research scholars who want to make study in the financial operation of a particular firm.
2.1.8.7 Consumers: Customers are interested in the establishment of goods accounting control so that cost of production may be reduced with the resultant reduction of the prices of goods they buy.
2.1.7.7 Managers: Management is the art of getting things done through others. This requires the subordinates to do the work properly. Financial statements are an aid in this respect because they serve the managers in appraising the performance of the subordinates. Actual result achieved by the employees can be measured against the budgeted performance they were expected to achieve and remedial action can be taken if the performance is not up to the mark".
2.1.8   Limitation of Financial Performance Analysis
2.1.8.1 Interim and not final reports: Financial statement does not depict the exact position and are essentially interim reports. The exact position can be only known if the business is closed.
2.1.8.2 Lack of precision and definiteness: Financial statements may not be realistic because they are prepared by following certain concepts and conventions. For example; going concern concept gives us an idea that the business will continue and assets are to be recorded at cost but the book value which the assets is showing may not be actually reliable.
2.1.8.3 Lack of objective judgment: Financial statements are influenced by the personal judgment of the accountant. He may select any method of depreciation, valuation of stock, etc. Such judgment if based on integrity and competency of the accountant will definitely affect the preparation of the financial statements.

2.1.8.4 Records only monetary facts: Financial statements disclose only monetary facts. Those transactions which can't be measured in monetary terms such as conflict between production manager and marketing managers may be very important for a business concern but not recorded in the business book.

2.1.8.5 Historical in nature: These statements are drawn after the actual happening of the events. They attempt to present a view of the past performance and have nothing to do with the accounting for the future. Modern management is forward looking but these statements do not directly help in making future estimates and taking decisions for the future.

2.1.8.6 Artificial view: These statements do not give a real and correct report about the worth of the assets and their loss of value as these are shown on the historical cost basis. Thus these statements provide artificial view in market or replacement value and the effect of the changes in the price level are completely ignored.

2.1.8.7 Scope of manipulation: These statements are sometimes prepared according to the needs of the situation or the whims of the management. A highly efficient concern may cancel its real profitability by disclosing loss or minimum profit whereas an efficient concern may declare dividend wrongly showing profit in the profit and loss account.

2.1.8.8 Inadequate information: There are many parties interested in the information given by the financial statements but their objectives and requirements differ. The financial statements as prepared under the provision of the company act fail to meet the needs of all. These are mainly prepared to safeguard the interest of shareholders.

2.2   Review of Journals and Articles

A number of studies are conducted to answer the straightforward question of whether the financial performance affects the trading activities and the price movements in the security market or not. Nevertheless, such studies differ in their areas of emphasis and conclude in their own manner. However, this section of this chapter aims to present the crucial part and theme of some research works conducted previously.

Hodlock and James *(2002)* has published an article *"Do Banks Provide Financial Slack ?"* state that banks have ability to accurately price financial claim, thus including a preference for undervalued firms to chose bank debt as their managerial financial source. They refers to this motivation for using bank debt as the information benefit will be weighted against a variety of contracting cost in a firm's ultimate financing choice.

Khatiwada *(2002)* has published an article "*Financial Sector Reforms and Corporate Governance in Nepal"* where he concluded that good governance has become a major challenge to attain desired objectives of development plans and programmers; it has hindered the effective delivery of public goods; it has marred the health of financial institutions; and it has prevented the creation of a competitive market economy. That is, governance has become a problem in every spectrum of the economic and business activity. Good governance comes, among others, from rule of law, transparency and accountability, democratic institutions, devolution of power and authority, people's participation, and social mobilization. Not all of these elements are

extremely necessary to ensure good corporate governance in the financial sector. An autonomous and able central bank with adequate legislative and regulatory mechanism, effective supervision, compliance to prudential norms, and adherence to the code of conduct and standards are sufficient to ensure it. The corporate governance measures, which are initiated in the process of banking and financial sector reform, are sufficient to ensure a healthy functioning of the financial system and providing efficient financial services. However, enforcement of the laws, regulations, and norms remains a challenge at the present state of business activities.

Krishnan, Ritchken and Thomson*(2005)* published an article *"Monitoring and controlling Bank Risk : Does Risky Debt Help"* concluded that whether risky debt issued by banks and bank holding companies (BHCs) enhances risk monitoring and helps control risk taking : In theory if investors accurately understand changes in a firm's risk condition and incorporate their assessment promptly into the prices of risky debt issued by a firm, then changes in credit spreads should provides useful information on how firm-specific risks have changed. In this way, risky debt may be less likely to adopt risk strategies in first place, because if they take excessive risks, debt prices may reflect the risk taken by the firm and make borrowing costlier for the firm. This is the preventative influence benefit of risk debt that serves to control risk taking.

Martani, Mulyono and Khairurizka *(2009)* held a study on *"The Effect of Financial Ratios, Firm Size and Cash Flow from Operating Activities in the Interim Report to the Stock Return"* .Their study found out that the result of regression on market adjusted return suggests that the NPM (Net Profit Margin), ROE, DER(Debt to Equity Ratio), and PBV(Price to Book Value) have positive effect. In contrast, CR (Current Ratio), TATO and CFO/Sales have negative correlation. the higher the firm's NPM . the higher the market adjustment return and abnormal return that can be resulted by the firm's stock because a higher NPM means higher profit obtained from every dollar revenue earned by the firm.ROE has significant positive correlation with the return. Therefore it can be concluded that investors will pay attention on NPM and ROE. ROE has positive correlation with stock price. Liquidity ratio in both market adjusted return and abnormal return have insignificant effect on stock return. The debt to equity ratio (DER) has positive correlation with stock return but not statically significantly Total asset turnover TATO has negative correlation with return. Cash flow from operation/ sales (CFO/Sales) has positive but insignificant correlation with both independent variables.

Based on regression result, it can be concluded that financial ratios , firm size, and cash flow from operating activities altogether affect market adjusted return and abnormal return. The variables which are consistently significant on adjusted return and abnormal return are profitability ratios (NPM and ROE), TATO and market value ratio (PBV). It shows that from investors' point of view financial ratios are useful in making decision on investment. This research also exposes that the movement of stock price is affected much by factors other than firm's financial performance.

Yap, Yong and Poon (2010) held a research on "*How well Do Financial Ratios Analysis predict Company Failure in Malaysia?"* The research found out that there is a conducive relationship between financial ratios and company's health and business failure. Financial ratios do have predictive power as to whether a company will be successful or fail. Results revel that the ratio that measures liquidity and profitability are most useful in predicting the company's success of failure.

2.3 Review of Thesis

Kadel (2001), conducted a study on "*A Comparative Study on the Financial Performance of Nepal Grindlays Bank Limited and Himalayan Bank Limited*" with the following objectives:

1. To analyze the financial strengths and weaknesses of these two joint venture banks namely Nepal Grindlays Bank Limited and Himalayan Bank Limited.

2. To examine the financial performance.

3. To study the comparative financial position of the two joint ventures banks.

4. To provide a package of suggestions and possible guidelines to improve the banking business based on the findings of the study.

The major findings of the study are :

1. Short-term solvency position of both the banks is found below than normal throughout the study period. In the fiscal year 1998/1999, short term solvency position is seems better in NGBL than in HBL.

2. NGBL has better position in utilizing its properties of deposits as compared with HBL. Debt to total assets ratio of HBL is better than that of NGBL. NGBL is successful to generate more return on its shareholders fund than that of HBL.

3. Both the banks have been able to generate profit from deposits. But the rate of profitability is unsatisfactory.

4. It is better from investor's point of view in NGBL. Both the banks EPS is found in decreasing trend after 1996/97. NGBL seems much better in term of offering dividends to its shareholders as compared with HBL.

5. There is higher percentage earnings in HBL as compared to NGBL. Also operating and non-operating income of NGBL is higher than HBL.

6. Dividend payout ratio of NGBL is more than HBL from the view of shareholders. NGBL has reflected better scenarios although it has also retained a higher position of earnings on an average.

Darshandhari *(2004),* in his study entitled *"Financial Performance Analysis of Everest Bank Limited"* evaluated the financial performance of the bank with the major objectives as:

1. To examine the financial statement of the bank.

2. To analyze liquidity, turnover and profitability ratios of the bank.

3. To evaluate the earning generating capacity of the bank.

The researcher came out with the following findings:

1. It indicates that the margin for safety for customers has not been maintained satisfactorily.

2. The cash and bank balance proportion with respect to the current assets is moderate.

3. More than 50 percent of current assets have been lent to the customers as loan and advances.

4. Liquidity position of the bank is good enough to meet the short-term obligations.

5. The fund mobilization of the bank has increased but it may fail to recover the mobilized funds which as consequences push back the bank towards negative profit.

Shakya *(2001),* conducted a study on *"A Financial Performance Analysis of Joint Venture Banks in Nepal, A Comparative Study of Nepal Grindlays Bank Limited and Himalayan Bank Limited"* with the followings objectives:

1. To analysis the present position of the two joint venture banks.

2. To analyze the profitability and liquidity position of the two banks.

3. To provide a package of suggestions to improve banking business based on the findings of the study.

The major findings of the study are:

1. The mean interest coverage ratio for NGBL is greater than HBL. It is 1.29 times for NGBL and 0.57 times for HBL. It reveals that NGBL's interest charge is covered by EBIT that will be paid as 1.29 times. From the viewpoint of investor, NGBL's ability to handle fixed charged liabilities is better than HBL.

2. The main ratio of earning per share and dividend per share of NGBL is significantly greater than that of HBL and the variability of the ratio of NGBL is also more homogeneous than that of HBL. This implies that NGBL's profitability of common shareholder's investment is better than that of HBL.

Bhandari *(2001),* conducted a study on the *"A Comparative Study on Financial Performance Analysis of NBL and NGBL''* with the followings objectives:

1.   To examine relative financial performance of banks.

2.   To evaluate effectiveness of monitoring and collecting policies of banks.

3.   To offer a package of suggestions to improve the financial performance of banks.

The major findings of the study are as follows.

1.   Liquidity position of both the banks is adequate to meet the short-term obligations.

2.   Total investments to total deposits ratio of NGBL is better than NBL.

3.   Turnover ratio of NGBL is better than NBL.

4.   Profitability of NGBL is satisfactory than NBL.

5.   Operating Expenses of NBL is greater than that of NGBL.

Paudel *(2001),* conducted a study on *"A Comparative Study on Financial Performance Analysis of NABIL and NGBL"* has got the followings objectives:

1.   To calculate necessary financial ratios.

2.   To compare the same type of ratios between NABIL and NGBL during the study period.

3. To find out the discrepancies if any.

4. To offer a package of suggestions to improve their financial performance.

The major findings of the study are as follows.

1.   Both the banks should be serious about unsatisfactory liquidity. NGBL should be more serious.

2.   Both the banks should maintain to improve mix of debt and owner's equity.

3.   Both the banks are unable to earn satisfactory level of profits.

4.   Both the banks must be accessible to all the customers.

Subedi *(2002)* conducted his master's thesis on *"A Comparative Study of Financial Performance between Himalayan Bank Limited and Everest Bank Limited"* with an objective of examining and comparing the financial performance of two joint ventures and has concluded that the current ratio of EBL is greater than that of HBL. The variability of the ratio of HBL is more uniform than that of EBL. The liquidity of bank may be affected by external internal factor such as

interest rate supply and demand position of loan and saving to investment situation. HBL has maintained the ratio of cash and bank balance to total deposit considerably lower than that of EBL. Comparatively HBL's profitability ratios like return on total assets, return on total deposit is not satisfactory in the both banks. HBL has lower capital adequacy ratio in comparison to directive issued by NRB. HBL's loan and advances to total deposit ratio are significant to lower than that of EBL.

Ghimire *(2003)* conducted his master's thesis on *"Financial Performance of Commercial Bank A Comparative Case Study of Nepal Bangladesh Bank Ltd, Himalayan Bank Ltd and Everest Bank Ltd"* with main objective of comparative analysis of the liquidity position, profitability status, leverage standing and activity of these bank and evaluate the trend and growth of loan , investment and total deposit patterns of these bank and reached to conclusion that current ratio of all the banks is always below the normal standard 2 percent which generally indicates unsatisfactory liquidity position but liquidity position of Everest Bank is comparatively better. Nepal Bangladesh Bank comparatively utilized their resource much satisfactory. Capital adequacy ratio of all the banks unsatisfactory except that of Everest Ltd. Himalayan Bank's return on net worth is higher than other two banks. Interest earned on total assets ratio of both Himalayan Bank Ltd and Nepal Bangladesh bank Ltd has recorded a falling.
In case of return on total assets ratios, the banks have earned about 1% or so. However the performance of Nepal Bangladesh Bank Ltd is relatively higher.

Yadab *(2004)* conducted his master's thesis on *"Financial Assessment of Joint Venture Bank in Nepal"* had main objectives to analyze the liquidity, examine the profitability position and find out the market price position of the joint venture banks, and conducted that current ratio of NSCB is more significant to meet the short-term obligation than other joint venture bank. Cash and bank balance to deposits and bank balance to deposits (excluding fixed deposits) ratio of NSBI has very sound position for ready to serve against its customer deposits than others TVC. It indicates that NSBI has followed conservative working capital policy and selective lending policy whereas other JVC have followed aggressive working capital policy and they have invested more assets for income generating purpose.
Similarly NSCB has high net profit to total assets ratio, net profit to total deposits ratio, return on net worth ratio, return on loan and advance ratio, earning per share

Bhattarai (2005) conducted his master thesis on "A Comparative Study of Financial Performance of Nepal SBI Bank Limited and Everest Bank Limited" had a objective to examine and evaluate the performance of two joint venture bank and reached to the conclusion that total deposit, total investment, loan and advance are net worth have been growing in faster pace in NSBIBL. But the growth rate of net profit seems faster in EBL Which will made the net profit of EBL exceed than that of NSBIBL after three year if past trend continues, the high growth rate of EPS and MVPS will make MVPS of EBL exceed than that of NSBIBL after three year.

Thakuri *(2009)* conducted his master thesis on *"Financial Performance of Standard Chartered Bank Nepal Limited"* with the following objectives:
1.   To study about the present position of the Standard Chartered Bank.

2.   To analyze the financial strengths and weaknesses of Standard Chartered Bank.

3.   To analyze the financial performance of Standard Chartered Bank .

The major findings of the study are as follows.

1. The bank has utilized its assets to generate more interest earning. So, the interest is in good position.
2. From the analysis of net profit to total assets, it is found that the bank is able to earn satisfactory income from the utilizing its assets.
3. The bank is paying interest to the deposit amount at the same time it also collect a good amount of interest form the loan and advances.
4. The image of a firm is its good in the market. The good will of the firm is very good.

Research Gap
The purpose of this research is to develop some expertise in one's area, to see what new contributions can be made and to receive some ideas, knowledge and suggestions in relation to financial performance of Everest Bank Limited and Himalayan Bank Limited. Thus, the previous studies cannot be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. This is how research gap will be fulfilled. In this regard, here we are going to analyze the different procedures of financial performance, which is considered only on Everest Bank Limited and Himalayan Bank Limited. Our main research problem is to analyze whether both the selected Joint Venture Banks of Nepal have the right level of profitability and liquidity as well as is it able to utilize its resources effectively or not. To achieve this main objective, various financial and statistical tools are used. Therefore, this study is expected to be useful to the concerned banks as well as to the different persons; such as shareholders, investors, policy makers, stockbrokers, state of government, etc.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

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

Research methodology describes the methods and process applied in the entire aspects of the study. It is the process of arriving to the solution of the problem through planned and systematic dealing with the collection, analysis and interpretation of fact and figure. "Research is a

systematic method of finding out solution to a problem where as research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view." (Kothari, C.R, 1989, P: 19) So, this chapter deals with the methodology used by the researcher to analyze and interpret the relevant data.

Research Methodology
- Is highly practical, with material organized in a logical progression directly related to the practicalities of research.

- Is easy to understand, with difficult procedures explained in a step-by-step manner.

- Contains sets of exercises to accompany each operational step to reinforce concepts and to help develop a research proposal. (Source: www.gogle.com)

3.2 Research Design

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

The study aims at portraying accurately upon the financial performance and stock price of two commercial banks viz. HBL and EBL. Keeping in this mind descriptive cum analytical research design will be followed. "Descriptive research includes survey and fact finding inquiries of different kinds. The main purpose of descriptive research is description of the states of affairs as it exists at present. This method assumes that the researcher has no control over the variables; he/she only report what has happened or what is happening. On the other hand, in analytical research, the researcher has to use facts or information already available and analyze these to make a critical evaluation of the materials".

3.3 Nature and Sources of Data

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

- Annual Reports
- Publications of the concerned companies

- Nepal Stock Exchange Ltd.

- Newspapers and Magazines

- Security Board of Nepal

- Publication of Finance Ministry

- Central Library T.U., Shanker Dev Campus Library

3.4 Population and Sample
The collection or the aggregate of objects or the set of results of an operation is called population. A representative part of population which we select for the purpose of investigation is called a sample. At present there are twenty three commercial banks operating in Nepal. Hence, these all twenty three commercial banks constitute the population of this study. Among of them two commercial banks HBL and EBL are selected as the sample banks for the purpose of this study.

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

3.5 Method of Data Analysis
In this research work, only descriptive tools are used to get meaningful result of the collected data and to meet the research objectives. For this purpose of study, the collected data are tabulated under various heads. Then the tabulated data are analyzed using various financial tools which are briefly discussed below:

3.5.1 Financial Methods
The financial tool employed in the study basically represents 'ratio analysis'.

3.5.1.1 Ratio Analysis
Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis.

3.5.1.1.1 Liquidity Ratio
Liquidity ratios are used to judge a firm's ability to meet short-term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. The liquidity ratio measures the ability of a firm to meet its short-term obligation. In order to ensure short-term solvency, the JVBs must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor high. If the liquidity ratio of the bank is not enough, it will result in bad credit ratings, less creditors, confidence, eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it wills unnecessary tied up in current assets. Thus the banks should endeavor to maintain proper balance between inadequate liquidity and

unnecessary liquidity for the survival and for avoiding the risk of insolvency. The following ratios are used to find out the short-term solvency of the banks.

a. Current Ratio

The current ratio indicates bank s liquidity and short-term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities.
Thus,

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

Current assets are those assets, which can be converted into cash with in short period of time normally, not exceeding one year. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable, debtors, bills purchased and discounted and miscellaneous are the examples of current assets. Similarly, current liabilities are those obligation which are payable with a short period. Sometimes it is called working capital ratio. Deposit and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous are the examples of current liabilities

Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bill and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance in case of seasonal business ratio and the nature of business.

b. Cash and Bank Balance to Current Deposits Ratio

This ratio is used to measure the bank's ability to meet the current obligation to its current depositors. It ratio examines the commercial bank liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the banks to make the quick payment of its customer deposits. This ratio is computed by dividing cash and bank balance by current Deposits. It is calculated by the following formula

$$Cash\ and\ Bank\ Balance\ to\ Current\ Deposits\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Current\ Deposits} \times 100$$

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice-versa. Both higher and lower ratios are not desirable. The reason is that if a finance company maintains higher ratio of cash, it has to pay interest on deposits and some earning may be lost. In contrast, if bank maintains low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

c. Cash and Bank Balance to Total Deposits

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by the following formula:

$$Cash\ and\ Bank\ Balance\ to\ Current\ Deposits\ Ratio = \frac{Cash\ and\ Bank\ Balance}{Total\ Deposits} \times 100$$

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher.

3.5.1.1.2 Leverage Ratio

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of debt and equity in financing. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. The following ratios are used for analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs

a. Debt to Equity Ratio

Debt-equity ratio examines the relative claims of creditors and owners against the bank's assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is computed by using the following formula:

$$Debt\ To\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Net\ Worth} \times 100$$

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger - tempting irresponsibility in the part of the owners.

b. Debt to Assets Ratio

This ratio reflects that the portion of outsider s fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. This ratio is calculated by using the following formula:

$$Debt\ To\ Assets\ Ratio = \frac{Total\ Debt}{Total\ Assets} \times 100$$

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice-versa. This ratio implies a commercial bank success in exploiting debt to be more profitable.

c. **Net Worth to Total Assets Ratio**

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund. This ratio is derived by dividing shareholders fund by total assets. This can be stated as,

$$Net\ Worth\ to\ Total\ Assets\ Ratio = \frac{Net\ Worth}{Total\ Assets} \times 100$$

Generally, this ratio measures the relative claims of owners of the commercial banks over the bank's assets. A high ratio indicates that out of total assets, shareholders have more controlled owner command and vice-versa.

3.5.1.1.3 Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

a. **Loan and Advance to Total Deposits Ratio**

This ratio is used to see extent to which the banks are successful to mobilize the outsider s funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. This ratio is calculated by using the following formula:

$$Loan\ and\ Advances\ to\ Total\ Deposits\ Ratio = \frac{Loan\ and\ Advances}{Total\ Deposits} \times 100$$

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa.

b. **Loan and Advances t o total working fund ratio**

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund.

$$Loan\ and\ Advancesto\ Total\ working\ Fund\ Ratio = \frac{Loan\ and\ Advances}{Total\ working\ Fund} \times 100$$

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

    c.   **Total Investment to Total Deposits Ratio:**

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the following formula:

$$Total\ Investments\ to\ Total\ Deposits\ Ratio = \frac{Total\ Investments}{Total\ Deposits} \times 100$$

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

3.5.1.1.4 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarding as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio better will be the financial performance of the commercial banks and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

    a.   **Net Profit to Total Assets Ratio**

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This is found by using the following formula:

$$Net\ Profit\ to\ Total\ Assets\ Ratio = \frac{Net\ Profit}{Total\ Assets} \times 100$$

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice- versa.

b. Total Interest Expenses to Total Interest Income Ratio

This ratio measures the percentage of total interest expenses against total interest income. It is calculated by the following formula:

$$Total\ Interest\ Expences\ to\ Total\ Interest\ Income = \frac{Total\ Interest\ Expences}{Total\ Interest\ Income} \times 100$$

The numerator consists of total interest expenses on total deposit, loan and advance, borrowing and other deposits. A high ratio indicates high interest expensed on total interest income.

c. Net Profit to total deposits (Return on Total Deposits)

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of profit. It is calculated by using the following formula

$$Net\ Profit\ to\ Total\ Deposits\ Ratio = \frac{Net\ Profit}{Total\ Deposits} \times 100$$

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call and short deposits and other. Generally, higher ratio indicates better utilization of total deposits and vice-versa.

d. Return on Net Worth Ratio

This ratio shows the capacity of the banks to utilize its owner s fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher ratio represents the sound management and efficient mobilization of owner s equity. It is calculated by the following formula:

$$Return\ on\ Net\ Worth\ Ratio = \frac{Net\ Profit}{Net\ Worth} \times 100$$

Here, net worth focuses not only the pain up capital but also include general reserve, capital

reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

e. Interest Earned to Total Asset Ratio

This ratio is used to measure the percentage of interest earned in relation to total assets of the banks. It signifies the mobilization of the bank's assets in interest generating purpose. Higher ratio signifies better efficiency in utilizing the resources in interest generating sectors. It is calculated by using following formula:

$$Interest\ Earned\ to\ Total\ Assets\ Ratio = \frac{Total\ Interest\ Earned}{Total\ Assets} \times 100$$

The numerator comprises total interest income from loans, advances, cash credit and overdrafts, government securities, inter commercial bank and other investment. A high ratio is an indicator of high earning power, and better performance of the JVBs on its total working fund and vice-versa.

f. Return on Investment Ratio

This ratio measures the percentage of return on total investment. It is calculated by using following formula:

$$Return\ on\ Total\ Investment\ Ratio = \frac{Net\ Profit}{Total\ Investments} \times 100$$

The numerator consists of investment of government securities, investment on debenture and bond, share in subsidiary companies and other investment. A high ratio indicates commercial bank efficiency is more beneficial on its investment.

g. Earning Per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over that period. EPS shows the profitability of the company of a per share basis. It is calculated by the following formula:

$$Earning\ Per\ Share = \frac{Net\ Profit\ After\ Tax}{No.Of\ Common\ Shares}$$

h. Dividend Payout Ratio (D/P Ratio)

This ratio reflects at what percentage of net profit is distributed term of dividend and what percentage is retained in the bank. It is calculated by the following formula:

$$Dividend\ Payout\ Ratio = \frac{Dividend\ per\ Share}{Earning\ per\ Share} \times 100$$

i. Price Earning Ratio (P/E ratio)

This ratio shows the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by the following formula:

$$Price\ Earning\ Ratio = \frac{Market\ Value\ per\ Share}{Earning\ per\ Share} \times 100$$

j. Market Value per Share to Book Value Per Share

This ratio shows the ratio of market value per share to the book value per share. The market value per share is divided by the book value per share. This ratio shows the price being paid by outsider for each rupee reported in balance sheet. It is calculated by the following formula:

$$Market\ Value\ per\ Share\ to\ Book\ Value\ per\ Share\ Ratio = \frac{Market\ Value\ per\ Share}{Book\ Value\ per\ Share} \times 100$$

3.5.1.1.5 Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments. The following ratios are used under the credit ratio:

a. Investment on Government Securities to Total Working Fund Ratio

This ratio shows that commercial bank investment on government securities in comparison to the total working fund. It is very significant to know the capacity of commercial bank to mobilize their working fund of different types of government securities to maximize the income. All the deposits of the commercial bank should not invest in loan and advances and other credit from security and liquidity point of view. Therefore, up to some extent, commercial banks seem to be invested to utilize their deposits by purchasing government securities. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

$$Investments\ on\ Government\ Securities\ to\ Total\ Working\ Fund\ Ratio = \frac{Investments\ on\ Government\ Securities}{Total\ Working\ Fund} \times 100$$

This ratio shows that out of total working fund, how much percentage of it has been occupied by the investment on government securities.

b. Total Investment to Total Deposits Ratio

This ratio shows the proportion of total deposits mobilization in the different investing areas. It is calculated by using the following formula:

$$Total\ Investments\ to\ Total\ Deposits\ Ratio = \frac{Total\ Investments}{Total\ Deposits} \times 100$$

This ratio shows that out of total deposits, how much percentage of it has been occupied by the investing in different areas.

3.5.2 Statistical Tools

The statistical tools selected for the comparative study of three banks (EBL and HBL) are as follows.

3.5.2.1 Arithmetic Mean

Average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observation is their sum divided by the number of observation (Gupta, S.C. 1995:331).

Mathematically, $\qquad\qquad\qquad\qquad\qquad\qquad\qquad\qquad\qquad\qquad \bar{X} = \frac{\sum x}{n}$

Where, $\bar{X} = Arithmetic\ Mean$
$\sum x = Sum\ of\ Values\ of\ Variables$
n= Number of variables

3.5.2.2 The Coefficient of Variation

For comparing the variability of two distributions, we compute the coefficient of variation. A distribution with smaller C.V. is said to be more homogenous or uniform or less variable than other and the series with greater C.V. is said to be more heterogeneous or more variable than others. The coefficient of variation is a relative measure which is useful in comparing the amount of variation in data group with different means:

Mathematically, $C.V. = \frac{S.D.}{\bar{X}} \times 100$

$$S.D. = \sqrt{\frac{1}{n}\sum (X - \bar{X})^2}$$

S.D. = Standard Deviation
$\bar{X}$= Mean
C.V. = Coefficient of variation

3.5.2.3 Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually

related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

Where,

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

n = number of observation of x and y
x = Sum of the observations in series X.
y = Sum of the observations in Series Y.
x^2 = Sum of square observations in series X.
y^2 = Sum of square observations in series Y.
xy = Sum of product of the observations in series X and Y.

3.5.2.4 Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. It is worked out as:

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

Where,
r = correlation of coefficient
n = No. of pairs of observations
r > PE (r) x 6 (correlation coefficient more than six times of probable error is significant)
r < PE (r) (Correlation coefficient less than six times of probable error is insignificant)

3.5.2.5 Trend Analysis

Trend Analysis of Total Deposit, Loans and Advances, Total Investment and Net Profit are done in this study

The straight line trend is given by the following formula:

Y = a+bx

Where,

Y = Value of dependent variable

a = Y intercept

b = Slope of the trend line

x = Values of independent variables

3.6   Method of Data Presentation

The researcher has accumulated all the necessary data and financial information. Collected data for five-year period (i.e. from 2004/2005 to 2008/2009) are presented in tabular form. Tables are prepared to show various financial ratios of the same period. These tables are accompanied by corresponding changes, averages and standard deviations.

Some important graphical presentation is also included as and when necessary. In appendix also the ratio analysis and bar diagram are stated. The appendix also included the computation table of master list of specific value chart for coefficient of correlation, averages and standard deviation. All the financial and statistical values are computed manually. Similarly, all the financial numerical values are determined under million of Nepalese rupees and expressed in a round figure. From the analysis of the financial statement, we find the financial performance and financial position of the selected banks.

CHAPTER – IV
DATA PRESENTATION AND ANALYSIS

This chapter deals with presentation and analysis of data collected from annual reports of the bank. The raw data collected has been organized and processed using various tools discussed in the previous chapter- "Research Methodology". In this chapter data and information are presented and analyzed using different financial and statistical tools in order to achieve the objectives of the study.

4.1. Financial Tools

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

4.1.1 Liquidity Ratio

For analyzing the financial performance of the banks, liquidity ratio is one of the powerful tools. Whether the company is able to meet its current obligation is judged by liquidity ratio.

A. Current Ratio

The current ratio is measure of the firms short -term solvency. It indicates the availability of current assets in rupees for each one rupee of current liabilities. A ratio of greater than one means that the firm has more current assets than current liabilities. Current ratio is calculated by dividing current assets by current liabilities. As conventional rule, a current ratio of 2 o 1 or more is considered satisfactory. Howe ever, an arbitrary standard of 2 to 1 should not be blindly followed. Firms with less than 2 to 1 current ratio may be doing well, while firms with 2 to 1 or even higher current ratios may be struggling to meet their obligation. This is so because the current ratio is a test of quantity, not quality. These ratios are presented in the table and graph as follows:

Table 4.1
Current Ratio of Sample Banks

Year	HBL	EBL
2005-2006	0.47	0.58
2006-2007	0.52	0.59
2007-2008	0.47	0.55
2008-2009	0.43	0.59
2009-2010	0.45	0.52
Mean	**0.47**	**0.57**
S.D.	**0.03**	**0.03**
C.V.	**7.12**	**5.35**

Source : Annex 3

HBL has an average current ratio of Rs. 0.47. The highest current ratio is Rs. 0.52 in the years 2006-2007. The standard deviation is 0.03 and coefficient of variation is 7.12% which indicates that the current ratio of HBL is moderate.

The average current ratio of EBL is Rs. 0.57 with the standard deviation of 0.03. The coefficient of variation is 5.35%, which indicates that there is low fluctuation than that CR of HBL. From the table 4.7, it can be seen that the HBL has the highest current ratio than that of EBL during the time period of study. The coefficient of variation indicates that among these two banks under study during the period no banks have the highest fluctuation.

B. Cash and Bank Balance to Current Deposits

This ratio indicates the ability of banks immediately funds to cover their current deposits. This ratio is calculated by dividing cash and bank balance by current deposits. The following table and figure shows the comparative cash and bank balance to current deposits ratio.

Table 4.2
Cash and Bank Balance to Current Deposits of Sample Banks

Year	HBL	EBL
2005-2006	0.34	1.36
2006-2007	0.31	1.43
2007-2008	0.3	1.07
2008-2009	0.95	1.27
2009-2010	1.03	1.87
Mean	0.59	1.40
S.D.	0.37	0.30
C.V.	62.74	21.10

Source : Annex 3

HBL within the period of study had an average cash and bank balance to current deposits 0.59. The standard deviation is 0.37 and the fluctuation of 62.74% in the cash and bank balance to current deposits ratio is seen during the period of study.

EBL within the period of study had an average cash and bank balance to current deposits 1.40. The standard deviation is 0.30 and the fluctuation of 21.10% in the cash and bank balance to current deposits ratio is seen during the period of study.

C. Cash and Bank Balance to Total Deposits

This ratio indicates the ability of banks immediately funds to cover their current margin calls, saving, fixed, call deposit and other deposits and vice versa. This ratio is calculated by dividing cash and bank balance by total deposits. The following table and figure shows the comparative cash and bank balance to deposits ratio.

Table 4.3
Cash and Bank Balance to Total Deposits of Sample Banks

Year	HBL	EBL
2005-2006	0.06	0.11
2006-2007	0.08	0.13
2007-2008	0.08	0.11
2008-2009	0.18	0.18
2009-2010	0.21	0.21
Mean	**0.12**	**0.15**
S.D.	**0.07**	**0.04**
C.V.	**56.64**	**29.96**

Source : Annex 3

HBL within the period of study had an average cash and bank balance to total deposits 0.12. The standard deviation is 0.07 and the fluctuation of 56.64% in the cash and bank balance to current deposits ratio is seen during the period of study.

EBL within the period of study had an average cash and bank balance to total deposits 0.21. The standard deviation is 0.04 and the fluctuation of 29.96% in the cash and bank balance to current deposits ratio is seen during the period of study.

4.1.2 Leverage ratio

Financial lever age or capital structure ratio is calculated to judge the long – term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. Generally, there should be an appropriate mix of debt and owners equity in financing the firm s assets. Administration of capital can smoothly by carried with the help of such ratios.

A. Total Debt to Equity Ratio

Debt-equity ratio examines the relative claims of creditors and owners against the bank's assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. The following table and figure shows the comparative Total Debt to Equity ratio.

Table 4.4
Total Debt to Equity Ratio of Sample Banks

Year	HBL	EBL
2005-2006	15.03	15.58

Year	HBL	EBL
2006-2007	14.00	16.84
2007-2008	12.67	13.13
2008-2009	11.12	15.75
2009-2010	10.94	14.00
Mean	**12.75**	**15.06**
S.D.	**1.78**	**1.48**
C.V.	**13.98**	**9.83**

HBL within the period of study had an average Total Debt to Equity Ratio 12.75. The standard deviation is 1.78 and the fluctuation of 13.98% in the Total Debt to Equity Ratio is seen during the period of study.

EBL within the period of study had an average Total Debt to Equity Ratio 15.06. The standard deviation is 1.48 and the fluctuation of 9.83% in the Total Debt to Equity Ratio is seen during the period of study.

B. Total Debt to Total Assets Ratio

This ratio reflects that the portion of outsider s fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. The following table shows that the relationship between total debt and total assets.

Table 4.5
Total Debt to Total Assets Ratio of Sample Banks

Year	*HBL*	*EBL*
2005-2006	90.08	93.97
2006-2007	89.65	94.39
2007-2008	88.02	92.92
2008-2009	88.18	94.03
2009-2010	88.05	93.33
Mean	**88.80**	**93.73**
S.D.	**0.99**	**0.59**
C.V.	**1.11**	**0.63**

HBL within the period of study had an average Total Debt to Total Assets Ratio 88.80. The standard deviation is 0.99 and the fluctuation of 1.11% in the Total Debt to Total Assets Ratio is seen during the period of study.

EBL within the period of study had an average Total Debt to Total Assets Ratio 93.73. The standard deviation is 0.59 and the fluctuation of 63% in the Total Debt to Total Assets Ratio is seen during the period of study.

C. Total Net worth to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund i.e. capital fund. This ratio is derived by dividing shareholders fund by total assets. The following table shows that the relationship between Total Net worth and Total Assets Ratio.

Table 4.6
Total Net worth to Total Assets Ratio of Sample Banks

Year	HBL	EBL
2005-2006	6.00	6.03
2006-2007	6.40	5.61
2007-2008	6.95	7.08
2008-2009	7.93	5.97
2009-2010	8.05	6.67
Mean	**7.07**	**6.27**
S.D.	**0.91**	**0.59**
C.V.	**12.86**	**9.43**

Source : Annex 3

HBL within the period of study had an average Total Net worth to Total Assets Ratio 7.07.The standard deviation is 0.91 and the fluctuation of 12.86% in the Total Net worth to Total Assets Ratio o is seen during the period of study.

EBL within the period of study had an average Total Net worth to Total Assets Ratio 6.27. The standard deviation is 0.59 and the fluctuation of 9.43% in the Total Net worth to Total Assets Ratio is seen during the period of study.

4.1.3 Activity Ratio

This ratio refers how efficiently the organization is managing its resources. Thus, this ratio measures the degree of effectiveness in use of resources or funds by a fir m. It is also known as turnover or efficiently ratio or assets management ratio. Turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets. The common activity ratios that are determined under this are as follows.

A. Loan and Advance to Total Deposits Ratio

Commercial banks utilize the outsiders fund for profit generation purposes. Loan and advances

to deposit ratio shows whether the banks are successful in utilizing the outsider funds (i.e. total deposit) for the profit generation purposes (i.e. loan and advances).

Table 4.7
Loan and Advance to Total Deposits Ratio of Sample Banks

Year	HBL	EBL
2005-2006	55.27	73.4
2006-2007	56.57	77.4
2007-2008	61.23	78.6
2008-2009	71.49	73.43
2009-2010	74.39	76.24
Mean	**63.79**	**75.81**
S.D.	**8.70**	**2.34**
C.V.	**13.64**	**3.09**

Source : Annex 3

HBL within the period of study had an average Loan and Advance to Total Deposits Ratio 7.07.The standard deviation is 0.91 and the fluctuation of 12.86% in the Loan and Advance to Total Deposits Ratio is seen during the period of study.

EBL within the period of study had an average Loan and Advance to Total Deposits Ratio 6.27. The standard deviation is 0.59 and the fluctuation of 9.43% in the Loan and Advance to Total Deposits Ratio is seen during the period of study.

B. **Loan and Advance to Total Working Fund Ratio**

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund.

Table 4.8
Loan and Advance to Total Working Fund Ratio of Sample Banks

Year	HBL	EBL
2005-2006	49.7	61.41
2006-2007	50.71	63.75
2007-2008	53.9	67.55
2008-2009	63.04	64.70

2009-2010	65.50	66.59
Mean	**56.57**	**64.80**
S.D.	**7.25**	**2.42**
C.V.	**12.82**	**3.73**

HBL within the period of study had an average Loan and Advance to Total Working Fund Ratio 56.57% .The standard deviation is 7.75% and the fluctuation of 12.82% in the Loan and Advance to Total Working Fund Ratio is seen during the period of study.

EBL within the period of study had an average Loan and Advance to Total Working Fund Ratio 64.80%. The standard deviation is 2.42 and the fluctuation of 3.73% in the Loan and Advance to Total Working Fund Ratio is seen during the period of study.

C. **Total investments to Total Deposits ratio**

Banks invest money in different forms. They are loans, overdraft, cash credit, discounting bills of exchange, investment in government securities, investment in share of well – established industrial concerns and money at call and short notice. In this analysis investment in government scurrilities, shares and also investment in foreign banks is included to calculate the ratio. Total deposits include saving, current, fixed and call deposit of the respective banks. The ratio of total investment to total deposit has been presented below.

Table 4.9
Total investments to Total Deposits ratio of Sample Banks

Year	*HBL*	*EBL*
2005-2006	41.1	30.43
2006-2007	39.35	27.41
2007-2008	41.89	21.1
2008-2009	25.12	17.85
2009-2010	22.45	13.56
Mean	**33.98**	**22.07**
S.D.	**9.40**	**6.88**
C.V.	**27.67**	**31.19**

HBL within the period of study had an average Total investment to Total Deposits ratio 33.98%. The standard deviation is 9.49% and the fluctuation of 27.67% in the Total investments to Total Deposits ratio is seen during the period of study.

EBL within the period of study had average Total investments to Total Deposits ratio 22.07%. The standard deviation is 6.88% and the fluctuation of 31.19% in the Total investments to Total Deposits ratio is seen during the period of study.

4.1.4 Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. This ratio measures the proportion of each components of operating income to total operating income. The main components of operating income are interest earned, commission and discounts, exchange income and other income, bank receives interest from loans and advances, cash credit, overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-bank loan and others. Bank receives commission by discounting bills of exchange, remittance, foreign currency fluctuation etc. Under this, following ratios are used.

A. Net Profit to Total Assets Ratio

Net profit refers to profit after interest and taxes. Total assets comprise of those assets that appear on the assets side of the balance sheet. A higher degree of ratio shows that total assets of the banks have been utilized in profit earnings. The following table and chart shows the ratio of net profit to total assets.
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Table 4.10
Net Profit to Total Assets Ratio of Sample Banks

Year	HBL	EBL
2005-2006	1.5	1.5
2006-2007	1.47	1.4
2007-2008	1.76	1.7
2008-2009	1.91	1.73
2009-2010	1.19	2.09
Mean	**1.57**	**1.68**
S.D.	**0.28**	**0.27**
C.V.	**17.76**	**15.80**

Source : Annex 3

HBL within the period of study had an average Net Profit to Total Assets Ratio 1.57%. The standard deviation is 28% and the fluctuation of 17.76% in the Net Profit to Total Assets Ratio is seen during the period of study.

EBL within the period of study had average Net Profit to Total Assets Ratio 1.68%. The standard deviation is 27% and the fluctuation of 15.80% in the Net Profit to Total Assets Ratio is seen during the period of study.

B. Net Profit to Total Deposits Ratio

This ratio of selected banks measure of NPAT earned by using total deposits. This ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank s overall financial performance as well as its success in profit generation. Because of the deposit made by its customer s is the major source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following table and chart.

Table 4.11
Net Profit to Total Deposits Ratio of Sample Banks

Year	HBL	EBL
2005-2006	1.73	1.72
2006-2007	1.64	1.63
2007-2008	2	1.88
2008-2009	2.17	1.92
2009-2010	1.35	2.25
Mean	**1.78**	**1.88**
S.D.	**0.32**	**0.24**
C.V.	**17.93**	**12.66**

Source : Annex 3

HBL within the period of study had an average Net Profit to Total Deposits Ratio 1.78%. The standard deviation is 32% and the fluctuation of 17.93% in the Net Profit to Total Deposits Ratio is seen during the period of study.

EBL within the period of study had average Net Profit to Total Deposits Ratio 1.88%. The standard deviation is 24% and the fluctuation of 12.66% in the Net Profit to Total Deposits Ratio is seen during the period of study.

C. Total Interest Expenses to Total Interest Income Ratio

This ratio measures the percentage of total interest expenses against total interest income. This ratio is presented by following table.

Table 4.12
Total Interest Expenses to Total Interest Income Ratio of Sample Banks

Year	HBL	EBL
2005-2006	39.89	-44.43
2006-2007	43.22	-26.6
2007-2008	41.95	40.85
2008-2009	39.91	46.32
2009-2010	49.34	50.70
Mean	**42.86**	**13.37**
S.D.	**3.89**	**45.20**
C.V.	**9.07**	**338.08**

Source : Annex 3

HBL within the period of study had an average Total Interest Expenses to Total Interest Income Ratio 42.86%. The standard deviation is 3.89% and the fluctuation of 9.07% in the Total Interest Expenses to Total Interest Income Ratio is seen during the period of study.

EBL within the period of study had average Total Interest Expenses to Total Interest Income Ratio 13.37%. The standard deviation is 45.20% and the fluctuation of 338.08% in the Total Interest Expenses to Total Interest Income Ratio is seen during the period of study.

D. Return on Net Worth Ratio

This ratio revels how profitably the banks have utilized the owner funds. For the commercial banks, the objective is to earn maximum profit so as to provide reasonable return to the owners. Higher this ratio indicates sound and efficient management. It also indicates towards the favorable condition of wealth maximizations of the bank.

Table 4.13
Return on Net worth Ratio of Sample Banks

Year	HBL	EBL
2005-2006	25.90	24.65
2006-2007	22.91	24.67
2007-2008	25.30	23.49
2008-2009	24.13	28.99
2009-2010	14.79	30.15
Mean	**22.61**	**26.39**
S.D.	**4.52**	**2.97**
C.V.	**19.97**	**11.25**

Source : Annex 3

HBL within the period of study had an average Return on Net worth Ratio 22.61%. The standard deviation is 4.52% and the fluctuation of 19.97% in the Return on Net worth Ratio is seen during the period of study.

EBL within the period of study had average Return on Net worth Ratio 22.39%. The standard deviation is 2.97% and the fluctuation of 11.25% in the Return on Net worth Ratio is seen during the period of study.

E. Net Interest Earned to Total Assets Ratio

This ratio measures how much interest has been earned in different years by mobilizing the overall assets of the bank. Interest income is main source of income of the banks. Generally, banks generate interest income through the loan and advances, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. A higher ratio represents the better efficiency in mobilizing its resources for the purpose of generating interest income. This ratio has been presented by following table and chart.

Table 4.14
Net Interest Earned to Total Assets Ratio of Sample Banks

Year	HBL	EBL
2005-2006	2.20	5.66
2006-2007	2.29	9.07
2007-2008	2.28	5.70
2008-2009	2.38	5.92
2009-2010	3.64	7.50
Mean	**2.56**	**6.77**

S.D.	**0.61**	**1.49**
C.V.	**23.71**	**22.05**

HBL within the period of study had an average Net Interest Earned to Total Assets Ratio 2.56%. The standard deviation is 61% and the fluctuation of 23.37% in the Net Interest Earned to Total Assets Ratio is seen during the period of study.

EBL within the period of study had average Net Interest Earned to Total Assets Ratio 6.77%. The standard deviation is 1.49% and the fluctuation of 22.05% in the Net Interest Earned to Total Assets Ratio is seen during the period of study.

F. Return on Investment Ratio

This ratio measures the percentage of return on total investment. This ratio has been presented by following table and chart.

Table 4.15
Return on Investments of Sample Banks

Year	*HBL*	*EBL*
2005-2006	4.20	5.65
2006-2007	4.16	5.95
2007-2008	4.77	8.92
2008-2009	8.64	10.74
2009-2010	6.02	16.61
Mean	**5.56**	**9.57**
S.D.	**1.88**	**4.47**
C.V.	**33.83**	**46.68**

HBL within the period of study had an average Return on Investments 5.56%. The standard deviation is 1.88 and the fluctuation of 33.83% in the Return on Investments is seen during the period of study.

EBL within the period of study had average Return on Investments 9.57% The standard deviation is 4.47 and the fluctuation of 46.68% in the Return on Investments is seen during the period of study.

G. Earnings per share

Earnings per share is one of the most widely quoted statistics when there is a discussion

of company s performance or share value, it is profit after tax (NPAT) figure that is divided by the number of common share to calculate the value of earning per share. This figure tells what profit the common shareholder for every share hold has earned. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically after carrying per share.

Table 4.16
Earnings Per Share of Sample Banks

Year	HBL	EBL
2005-2006	59.24	62.78
2006-2007	60.66	78.42
2007-2008	62.74	91.82
2008-2009	61.90	99.99
2009-2010	31.80	100.16
Mean	55.27	86.63
S.D.	13.19	16.01
C.V.	23.86	18.48

Source : Annex 3

HBL within the period of study had an average Earning Per Share 55.27%. The standard deviation is 13.19 and the fluctuation of 23.86% in the Earning Per Share is seen during the period of study.

EBL within the period of study had average Earning Per Share 86.63% The standard deviation is 16.01 and the fluctuation of 18.48% in the Earning Per Share is seen during the period of study.

H. Dividend payout ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table and figure.

Table 4.17
Dividend Payout ratio of Sample Banks

Year	HBL	EBL
2005-2006	0.51	0.40

2006-2007	0.25	0.13
2007-2008	0.40	0.22
2008-2009	0.19	0.30
2009-2010	0.37	0.30
Mean	**0.34**	**0.27**
S.D.	**0.13**	**0.10**
C.V.	**37.18**	**37.41**

Source : Annex 3

HBL within the period of study had an average Dividend Payout ratio 34%. The standard deviation is 13% and the fluctuation of 37.18% in the Dividend Payout ratio is seen during the period of study.

EBL within the period of study had average Dividend Payout ratio 27% The standard deviation is 10% and the fluctuation of 37.41% in the Dividend Payout ratio is seen during the period of study.

I.   Price earning Ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table and figure.

Table 4.18
Price Earning ratio of Sample Banks

Year	*HBL*	*EBL*
2005-2006	17.52	21.97
2006-2007	22.19	30.99
2007-2008	21.56	34.11
2008-2009	17.60	24.55
2009-2010	8.15	16.27
Mean	**17.40**	**25.58**
S.D.	**5.61**	**7.12**
C.V.	**32.24**	**27.84**

Source : Annex 3

HBL within the period of study had an average Price Earning ratio 17.40%. The standard deviation is 5.61% and the fluctuation of 32.24% in the Price Earning ratio is seen during the period of study.

EBL within the period of study had average Price Earning ratio 25.58% The standard deviation is 7.12% and the fluctuation of 27.84% in the Price Earning ratio is seen during the period of study.

J. Market Value per Share to Book Value Per Share

This ratio shows the ratio of market value per share to the book value per share. The market value per share is divided by the book value per share. This ratio shows the price being paid by outsider for each rupee reported in balance sheet. This ratio has been presented by following table and figure.

Table 4.19
Market Value per Share to Book Value Per Share of Sample Banks

Year	HBL	EBL
2005-2006	4.81	8.39
2006-2007	6.57	17.73
2007-2008	7.99	18.51
2008-2009	6.86	18.70
2009-2010	3.60	10.58
Mean	5.97	14.78
S.D.	1.75	4.91
C.V.	29.25	33.22

Source : Annex 3

HBL within the period of study had an average Market Value per Share to Book Value Per Share 5.97%. The standard deviation is 1.75% and the fluctuation of 29.25% in the Market Value per Share to Book Value Per Share is seen during the period of study.

EBL within the period of study had average Market Value per Share to Book Value Per Share 14.78% The standard deviation is 4.91% and the fluctuation of 33.22% in the Market Value per Share to Book Value Per Share is seen during the period of study.

4.1.5 Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments. The following ratios are used under the credit ratio:

A. Investment on Government Securities to Total Working Fund Ratio

This ratio shows that commercial bank investment on government securities in comparison to the total working fund. It is very significant to know the capacity of commercial bank to mobilize their working fund of different types of government securities to maximize the income. All the deposits of the commercial bank should not invest in loan and advances and other credit from security and liquidity point of view. Therefore, up to some extent, commercial banks seem to be invested to utilize their deposits by purchasing government securities. This ratio is calculated by dividing investment on government securities by total working fund. This ratio has been presented by following table and figure.

Table 4.20

Investment on Government Securities to Total Working Fund Ratio of Sample Banks

Year	HBL	EBL
2005-2006	15.73	22.49
2006-2007	19.26	17.33
2007-2008	19.89	17.76
2008-2009	10.71	13.94
2009-2010	2.45	10.52
Mean	**13.61**	**16.41**
S.D.	**7.23**	**4.48**
C.V.	**53.09**	**27.33**

Source : Annex 3

HBL within the period of study had an average Investment on Government Securities to Total Working Fund Ratio 13.61%. The standard deviation is 7.23% and the fluctuation of 53.09% in the Investment on Government Securities to Total Working Fund Ratio is seen during the period of study.

EBL within the period of study had average Investment on Government Securities to Total Working Fund Ratio 16.41% The standard deviation is 4.48% and the fluctuation of 27.33% in the Investment on Government Securities to Total Working Fund Ratio is seen during the period of study.

4.2 Statistical Tools

Under this heading some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

4.2.1 Coefficient of correlation Analysis:
   A. Coefficient of correlation between total deposit and total investment.

Coefficient of correlation 'r' between Total deposit and total investment measure the degree of relation between these two variables. Here deposit is independent variable (X) and total investment is dependent variable (Y) the purpose of computing co-efficient of correlations between deposit and total investments to find whether deposit is significant used as the investment or not.

The following table shows the variable of r, (r^2), P.E. and 6 P.E. Between deposit and total investment for the study period FY 2005/06 to 2009/10.

Table No. 4.21
Correlation between Total Investments and Total Deposits

		Evaluation Criterions		
	r	r^2	P.E.	6 P.E.
EBL	0.23	0.05	0.29	1.72
HBL	-0.61	0.37	0.19	1.14

(Source : 5-i)

From the above table 4.21, we find that coefficient of correlation between Investments (dependent) and Total Deposits (Independent) value of EBL and HBL is 0.23 and -0.61respectively. It shows positive relationship between two variables however by application of coefficient of determination the value of (r^2) is also 0.05 and 0.37. Probable Error of EBL and HBL is 0.29 and 0.19 respectively. 6PE is 1.72 and 1.14

B. Coefficient of correlation between total deposit and Loan & advances.

Deposits have played a very important role in performance of a commercial bank and similarly loan and advances are important to mobile the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between their two variables.

In this analysis, deposit is independent variable (X) and Loan & advances is dependent variables (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used on loan & advances in a proper way or not. The following table shows the value of 'r', r2 probable Error (P.E.) and 6 P.E. Between deposit and loan & advances for the study period FY 2005/06 to 2009/10.

Table No. 4.22
Correlation between Loan & advances and Total Deposits

		Evaluation Criterions		
	r	r^2	P.E.	6 P.E.
EBL	0.47	0.22	0.24	1.41
HBL	0.98	0.96	0.01	0.07

From the above table 4.22, we find that coefficient of correlation between Loan and Advances (dependent) and Total Deposits (Independent) value of EBL and HBL is 0.47 and 0.98 respectively. It shows positive relationship between two variables however by application of coefficient of determination the value of (r^2) is also 0.22 and 0.96. Probable Error of EBL and HBL is 0.24 and 0.01 respectively. 6PE is 1.41 and 0.07.

C. Coefficient of correlation between Net profit and total assets

Net profit play important role in any organization for its survival for long period of time. Profit can be earned by investing the total deposit in the productive sectors. So total deposit is the main sources of fund collected of the bank when there is increase in the total deposit, there is increase in the current assets of the banks. Coefficient of correlation relationship between net profit and total assets measure the degree of two variables. In this analysis Net profit is independent variable (X) and a total asset is dependent variable (Y). The main objective of this analysis is to find out whether the total assets are invested in proper way to earn profit or not.

The table 4.15 shows the variable of r, r^2, P.E. and 6P.E. between net profit and total assets for the study period FY 2005/06 to 2009/10.

Table No. 4.23
Correlation between Net Profit and Total Deposits

		Evaluation Criterions		
	r	r^2	P.E.	6 P.E.
EBL	0.32	0.10	0.40	1.62
HBL	0.43	0.19	0.24	1.47

From the above table 4.23, we find that coefficient of correlation between Net Profit (dependent) and Total Deposits (Independent) value of EBL and HBL is 0.32 and 0.43 respectively. It shows positive relationship between two variables however by application of coefficient of determination the value of (r^2) is also 0.10 and 0.19. Probable Error of EBL and HBL is 0.40 and 0.24 respectively. 6PE is 1.62 and 1.47.

4.2.2 Trend Analysis
A. Trend Analysis of Total Deposit.

Under this topic, an effort has been made to calculate the trend value of deposit for five years from FY 2005/06 and forecast for next five years till next FY 2014/15.
The following Table shows the trend value of 10 years from 2005/06 to2014/15.

Table No. 4.24
Trend Value of Total Deposit of EBL

Year	Trend Value HBL	Trend Value EBL

2005-06	26760195502	12964766114
2006-07	29447654540	19104408389
2007-08	32135113578	25244050664
2008-09	34822572616	31383692939
2009-10	37510031654	37523335214
2010-11	40197490692	43662977489
2011-12	42884949730	49802619764
2012-13	45572408768	55942262039
2013-14	48259867806	62081904314
2014-15	50947326844	68221546589

(Source : 4-i

From the above tables and figure 4.21we can calculate that the total deposit of EBL and HBL has been changed every year. According to the above trend analysis and from growth rate it can be calculated that the both Banks deposit collection position is growing year by year. If the banks utilized its increasing deposit its financial position will be better.

B. Trend Analysis of Net Profit

Under this topic the trend values of net profit have been calculated for five years from FY 2005/06 to 2009/10 and the forecast for next five years up to 2010/11 to 2014/15.

Table No. 4.25
Trend value of Net Profit

Year	Trend Value HBL	Trend Value EBL
2005-06	496617846	184828870
2006-07	532987128	337956157
2007-08	569356410	491083444
2008-09	605725692	644210731
2009-10	642094974	797338018
2010-11	678464256	950465305
2011-12	714833538	1103592592
2012-13	751202820	1256719879
2013-14	787572102	1409847166
2014-15	823941384	1562974453

(Source : 4-ii

From the above tables and figure 4.21 we can calculate that the Net profit of HBL and EBL have been good in profit from the FY 2005/06 to 2009/10. Through Trend analysis the net profit is growing for 10 years.

Trend Analysis of Loan & Advance

Under this topic the trend values of Loan & advances have been calculated for five years from FY 2005/06 to 2009/10 and the forecast for next five years up to 2009/10 to 2014/15.

Table No. 4.26
Trend value of Loan & Advance

Year	Trend Value HBL	Trend Value EBL
2005-06	13888112896	9502963178
2006-07	17335242559	14076032044
2007-08	20782372222	18649100910
2008-09	24229501885	23222169776
2009-10	27676631548	27795238642
2010-11	31123761211	32368307508
2011-12	34570890874	36941376374
2012-13	38018020537	41514445240
2013-14	41465150200	46087514106
2014-15	44912279863	50660582972

(Source : 4-iii)

From the above tables and figure 4.22 we can calculate that the loan & advance of HBL and EBL has been increasing every year. Through trend analysis the loan and advances is also increasing every year.

D. **Trend Analysis of Total Investments**

Under this topic the trend values of Total Investments have been calculated for five years from FY 2005/06 to 2009/10 and the forecast for next five years up to 2009/10 to 2014/15.

Table No. 4.27
Trend value of Total Investments

Year	Trend Value HBL	Trend Value EBL
2005-06	12241666017	4524284956

2006-07	11441612369	4782259999
2007-08	10641558721	5040235042
2008-09	9841505073	5298210085
2009-10	9041451425	5556185128
2010-11	8241397777	5814160171
2011-12	7441344129	6072135214
2012-13	6641290481	6330110257
2013-14	5841236833	6588085300
2014-15	5041183185	6846060343

(Source : 4-iv)

From the above tables and figure 4.23 we can calculate that the Total Investments of HBL and EBL where, the trend of HBl in decreasing but the EBl Trend is increasing every year.

4.3 Major Findings of the Study

From the above data analysis based the researcher found that the main findings areas are as follows:

Liquidity Ratio: It is found that the bank is able to maintain liquidity position to meet the daily cash requirement or meet its short-term obligations.

Activity Ratio: The researcher found that bank has strong position regarding the mobilization of total deposit as loan and advances. Hence, the bank seems to be successful in making investment in profitable sectors other than loan and advances.

Profitability Ratio: Regarding the profitability of the bank, the researcher found that Operating efficiency of the bank is quite fair enough.

➢ The bank has utilized its assets to generate more interest earning. So, the interest is in good position.

➢ From the analysis of net profit to total assets, it is found that the bank is able to earn satisfactory income from the utilizing its assets.

➢ The bank is paying interest to the deposit amount at the same time it also collect a good amount of interest from the loan and advances.

➢ The image of a firm is its good in the market. The good will of the firm is very good.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter consists of summary, conclusion and recommendation. After completion of analysis chapter, one should have to enlist his/her finding and should make necessary suggestions on the basis of the study. The entire study has no meaning until and unless the researcher summarizes, concludes and provides his/her recommendation in the respective field.

5.1 Summary

The economic development of a country cannot be imagined without the development of commerce and industry. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle resources from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector, promote trade and industrialization in the country there by raising the employment opportunity and earned to the labors and materials suppliers to such industries and traders.

Commercials banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must reasonable profitability

Under this study, I have tried to cover the various aspects of selected joint venture banks covering the period of five years from 2005/06 2006/07, 2007/08, 2008/09 and 2009/10. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned banks, general concepts of financial statement and the statement of problem, objectives of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are compiled in the second chapter titled "Review of Literature" of this report.

For this study, I have gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock

Exchange is used for necessary data analyze the financial performance of selected banks (1) Financial ratios to calculate various ratios (2) Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc. are followed for this research work in third chapter titled "Research Methodology".

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are compiled in the fourth chapter titled "Data Presentation and Analysis" of the study.

Finally, the summary, conclusion and the recommendation are presented in the current chapter titled "Summary, Conclusion and recommendations."

5.2 Conclusion

This study reveals that the current ratio of all samples banks i.e. EBL and HBL is less than 1 but EBL has the highest current ratio. It means EBL's solvency position is better than HBL. The cash and bank balance of EBL with respect to total deposit is more liquidity than other sample bank. It indicates that EBL is able to make immediate payments to its depositor.

Among the sample banks, EBL has the lowest ratio of net profit to total assets. It means EBL has not mobilized its assets into profit generating projects as compared to HBL i.e. HBL has been able to make profit by the proper use of its available assets. But in case of mobilized the funds of shareholders efficiently into profit generating projects, EBL has been successful in providing more rate of return to its shareholders by the proper use of their available funds than others. From the sample banks, HBL has slightly higher mobilization of its assets into interest generating projects (i.e. income from loans, advances, cash credit and overdrafts, government securities, inter commercial banks other investment). HBL with the highest ratio has been successful in generating more interest income by the proper use of its available assets.

In term of loan and advances against total deposits, EBL has used more percentage of its total deposits into loan and advances than other sample bank. From all the sample banks, HBL has mobilized highest percentage of its total deposit into total investment (i.e. investment into government securities, debentures and bonds, shares in subsidiary commercial bank, companies and other investments). From leverage ratio, HBL has high debt to total assets ratio represents a greater risk to creditor and shareholders than other sample bank.

Earnings per share of EBL have the highest than other selected joint venture banks. Similarly, with the highest dividend payout ratio of HBL refers that the bank provides maximum amount of dividend to its shareholders. HBL has highest price earnings ratio than other sample bank. From income analysis, HBL has highest net interest income than other bank. Similarly, exchange income of HBL is greater than other selected JVB. Likewise, commission and discount income of EBL is higher than other sample banks. From expenditure analysis, an interest expense is highest on HBL. EBL has been paying highest amount of staff expenses as salary, allowance and gratuity funds to its staff. From correlation analysis, both EBL and HBL have positive correlation between net profit and total deposit.

5.3 Recommendation

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as below:

Based on liquidity ratio analysis it is found that selected joint venture banks so not have the standard current ratio (2:1). However, from aggressive working capital point of view it is not considered so bad. HBL seem to have held more cash and bank balance rather than EBL. To maintain liquidity in perfect, all commercial banks have to follow the mid-way i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.

The profitability ratio in case of HBL has lowest with the result of lower profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Since by

decreasing costs, profit of any bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.

In case of both the banks EBL and HBL, debt financing has always exceeded 80% of the total assets over the review period, which indicates the excessively use of debt finance to total assets. Nevertheless, extensive use of debts capital with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the JBVs to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.

Expenses are the vital determinations to increase or decrease the profitability of the banks. Interest expenses on deposits also affect the profitability of the banks. Thus, it is recommended that banks should try to reduce the amount of high interest bearing deposits like fixed deposits, saving deposit and others. Instead they should concentrate of non- interest bearing deposit like current deposit, margin deposit etc. At the same time, bank should try to reduce the operating expenses to increase the profitability.

Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. To some extent, EBL has been successful in providing a better return on equity than HBL. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders. Low market price of share and less earning per share of commercial banks indicated the poor performance in the market. Similarly low dividend payout ratio also discourages the shareholders.

ABBREVIATIONS

ADB	:	Agriculture Development Bank
CA	:	Current Assets
CAR	:	Capital Adequacy Ratio
CBB	:	Cash and Bank Balance
CBs	:	Commercial Banks
CFO	:	Cash FromOperating Activities
CL	:	Current Liabilities
CR	:	Current Ratio
CV	:	Coefficient of Variation
DER	:	Debt to Equity Ratio
DP	:	Dividend Payout
DPS	:	Dividend per Share
EBIT	:	Earning Before Interest and Tax
EBL	:	Everest Bank Limited
EPS	:	Earning per Share
FD	:	Fixed Deposit
FY	:	Fiscal Year
GAAT	:	General Accepted Accounting Principles
HBL	:	Himalayan Bank Limited
IMF	:	International Monetary Fund
LA	:	Loan and Advances
LTD	:	Long Term Debt
MPS	:	Market Price per Share
NRB	:	Nepal Rastra Bank
NEPSE	:	Nepal Stock Exchange
NP	:	Net Profit
NPM	:	Net Profit Margin
PBV	:	Price to Book Value Ratio
P/E	:	Price Earning
QA	:	Quick Assets

QR	:	Quick Ratio
ROA	:	Return on Assets
ROE	:	Return on Equity
SCBNL	:	Standard Chartered Bank Nepal Limited
SD	:	Standard Deviation
TA	:	Total Assets
TATO	:	Ttotal Assets Turnover Ratio
TD	:	Total Deposit
TI	:	Total Investment
TL	:	Total Loan

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Annex – 1

	Lists of Commercial Banks in Nepal		
S.No.	Names	Operation Date	Head Office
1	Nepal Bank Ltd.	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Ltd.	1984/07/16	Kathmandu
5	Nepal Investment Bank Ltd.	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Ltd.	1987/01/30	Kathmandu
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Ltd.	1993/06/05	Kathmandu
10	Everest Bank Ltd.	1994/10/18	Kathmandu
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu
12	NCC Bank Limited	1996/10/14	Siddharthanagar
13	Lumbini Bank Ltd.	1998/07/17	Narayangadh
14	NIC Bank Ltd.	1998/07/21	Biaratnagar
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, Kaski
16	Kumari Bank Ltd.	2001/04/03	Kathmandu
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	NMB Bank Ltd.	2008	Kathmandu
25	Development Credit Bank Ltd.	2008	Kathmandu
26	KIST Bank Ltd.	2009	Kathmandu
27	Janata Bank Nepal Ltd	2010	Kathmandu
28	Mega Bank Nepal ltd	2010	Kathmandu
29	Commerz and Trust Bank LTD	2010	Kathmandu
30	Civil Bank Ltd	2010	Kathmandu
31	Century Bank Ltd	2011	Kathmandu

Annex – 2

Balance Sheet of Everest Bank Limited for Study period (2005/06 – 2009/10)

Share Capital and Liabilities	2005/06	2006/07	2007/08	2008/09	2009/10
Share Capital	518,000,000	518,000,000	831,400,000	838,821,000	1,279,607,490
Reserve and Surplus	444,808,301	683,515,266	1,089,837,580	1,364,804,055	1,479,530,365
Debenture and Bonds	300,000,000	300,000,000	300,000,000	300,000,000	300,000,000
Loan and Borrowings				312,000,000	404,600,000
Deposit Liabilities	13,802,444,988	18,186,253,541	23,976,298,535	33,322,946,246	36,932,310,008
Bills Payable	15,805,995	26,776,480	49,429,700	148,655,592	145,514,679
Proposed and unpaid Dividend	114,666,758	68,146,323	140,790,370	230,524,766	276,252,832
Income Tax Liabilities		15,278,110	41,143,107	20,522,280	-1,136,458
Other Liabilities	763,558,645	1,634,604,580	720,443,592	378,574,715	566,081,795
Total	**15,959,284,687**	**21,432,574,300**	**27,149,342,884**	**36,916,848,654**	**41,382,760,711**
Assets					
Cash in Hand	259,347,645	534,996,791	822,989,425	944,695,793	1,091,500,407
Balance with Nepal Rastra Bank	1,139,514,873	1,178,198,197	1,080,914,554	4,787,163,541	5,625,113,849
Balance with Other Banks and Financial Instituions	154,104,976	678,225,606	764,067,851	432,511,829	1,102,200,747
Money at Call and Short Notice	66,960,000		346,000,000		
Investments	4,200,515,220	4,984,314,586	5,059,557,544	5,948,480,273	5,008,307,589
Land and Advances and Bills Purchased	9,801,307,676	13,664,081,664	18,339,085,562	23,884,673,616	27,556,356,032
Fixed Assets	152,089,805	170,097,452	360,512,480	427,157,451	463,094,391
Non Banking Assets	7,436,642				
Other Assets	178,007,850	222,660,004	376,215,468	492,166,151	536,187,696
Total	**15,959,284,687**	**21,432,574,300**	**27,149,342,884**	**36,916,848,654**	**41,382,760,711**

Balance Sheet of Himalayan Bank Limited for Study period (2005/06 – 2009/10)

Share Capital and Liabilities	2005/06	2006/07	2007/08	2008/09	2009/10
Share Capital	772,200,000	810,810,000	1,013,512,500	1,216,215,000	2,000,000,000
Reserve and Surplus	993,975,616	1,335,689,655	1,499,479,102	1,903,665,537	1,439,205,130
Debenture and Bonds	360,000,000	360,000,000	860,000,000	500,000,000	500,000,000
Loan and Borrowings	144,624,897	235,967,811	83,177,973		
Deposit Liabilities	26,490,851,640	30,048,417,756	31,842,789,356	34,682,306,863	37,611,202,274
Bills Payable	73,577,730	91,303,206	102,669,796	31,847,391	216,158,879
Proposed and unpaid Dividend	238,409,026	130,939,748	263,076,319	162,096,954	189,473,600
Income Tax Liabilities		11,913,476	19,131,036	10,163,115	
Other Liabilities	386,750,763	494,099,459	491,695,555	823,836,963	761,084,730
Total	**29,460,389,672**	**33,519,141,111**	**36,175,531,637**	**39,330,131,823**	**42,717,124,613**
Assets					
Cash in Hand	305,428,144	177,242,226	278,183,489	473,759,695	514,223,569
Balance with Nepal Rastra Bank	1,096,253,097	1,272,543,067	935,841,697	2,328,405,821	2,604,790,901
Balance with Other Banks and Financial Instituions	315,671,095	307,555,959	234,117,704	246,361,272	747,476,214
Money at Call and Short Notice	1,005,280,000	1,710,023,859	518,529,500	1,170,793,650	308,840,000
Investments	10,889,031,449	11,822,984,558	13,340,176,785	8,710,690,646	8,444,910,165
Land and Advances and Bills Purchased	14,642,559,555	16,997,997,046	19,497,520,482	24,793,155,269	27,980,628,760
Fixed Assets	540,824,021	574,060,430	726,068,462	952,196,395	1,061,870,757
Non Banking Assets	21,732,523	12,766,060	10,306,683	22,694,688	
Other Assets	643,609,788	643,967,906	634,786,835	632,074,387	1,054,384,247
Total	**29,460,389,672**	**33,519,141,111**	**36,175,531,637**	**39,330,131,823**	**42,717,124,613**

Annex – 3

Current Ratio of Sample Banks		
Year	HBL	EBL
2005-2006	0.47	0.58
2006-2007	0.52	0.59
2007-2008	0.47	0.55
2008-2009	0.43	0.59
2009-2010	0.45	0.52
Mean	0.47	0.57
S.D.	0.03	0.03
C.V.	7.12	5.35
Sources: Annual Report of Respective Bank		

Cash and Bank Balance to Current Deposits Ratio of Sample Banks		
Year	HBL	EBL
2005-2006	0.34	1.36
2006-2007	0.31	1.43
2007-2008	0.3	1.07
2008-2009	0.95	1.27
2009-2010	1.03	1.87
Mean	0.59	1.40
S.D.	0.37	0.30
C.V.	62.74	21.10
Sources: Annual Report of Respective Bank		

Cash and Bank Balance to Total Deposits Ratio of Sample Banks		
Year	HBL	EBL
2005-2006	0.06	0.11
2006-2007	0.08	0.13
2007-2008	0.08	0.11
2008-2009	0.18	0.18
2009-2010	0.21	0.21
Mean	0.12	0.15
S.D.	0.07	0.04
C.V.	56.64	29.96
Sources: Annual Report of Respective Bank		

Total Debt to Equity Ratio		
Year	HBL	EBL
2005-2006	15.03	15.58
2006-2007	14	16.84
2007-2008	12.67	13.13
2008-2009	11.12	15.75
2009-2010	10.94	14.00
Mean	12.75	15.06
S.D.	1.78	1.48
C.V.	13.98	9.83
Sources: Annual Report of Respective Bank		

Total Debt to Total Assets Ratio		
Year	HBL	EBL
2005-2006	90.08	93.97
2006-2007	89.65	94.39
2007-2008	88.02	92.92
2008-2009	88.18	94.03
2009-2010	88.05	93.33
Mean	88.80	93.73
S.D.	0.99	0.59
C.V.	1.11	0.63
Sources: Annual Report of Respective Bank		

Total Net worth to Total Assets Ratio		
Year	HBL	EBL
2005-2006	6.00	6.03
2006-2007	6.40	5.61
2007-2008	6.95	7.08
2008-2009	7.93	5.97
2009-2010	8.05	6.67
Mean	7.07	6.27
S.D.	0.91	0.59
C.V.	12.86	9.43
Sources: Annual Report of Respective Bank		

Loan & Advances to Total Deposits		
Year	HBL	EBL
2005-2006	55.27	73.4
2006-2007	56.57	77.4
2007-2008	61.23	78.6
2008-2009	71.49	73.43
2009-2010	74.39	76.24
Mean	63.79	75.81
S.D.	8.70	2.34
C.V.	13.64	3.09
Sources: Annual Report of Respective Bank		

Loan & Advances to Total Working Fund		
Year	HBL	EBL
2005-2006	49.7	61.41
2006-2007	50.71	63.75
2007-2008	53.9	67.55
2008-2009	63.04	64.70
2009-2010	65.50	66.59
Mean	56.57	64.80
S.D.	7.25	2.42
C.V.	12.82	3.73
Sources: Annual Report of Respective Bank		

Total Investment to Total Deposit Ratio		
Year	HBL	EBL
2005-2006	41.1	30.43
2006-2007	39.35	27.41
2007-2008	41.89	21.1
2008-2009	25.12	17.85
2009-2010	22.45	13.56
Mean	33.98	22.07
S.D.	9.40	6.88
C.V.	27.67	31.19
Sources: Annual Report of Respective Bank		

Net Profit To Total Assets Ratio		
Year	HBL	EBL
2005-2006	1.5	1.5
2006-2007	1.47	1.4
2007-2008	1.76	1.7
2008-2009	1.91	1.73
2009-2010	1.19	2.09
Mean	1.57	1.68
S.D.	0.28	0.27
C.V.	17.76	15.80
Sources: Annual Report of Respective Bank		

Total Interest Expenses to Total Interest Income Ratio		
Year	HBL	EBL
2005-2006	39.89	-44.43
2006-2007	43.22	-26.6
2007-2008	41.95	40.85
2008-2009	39.91	46.32
2009-2010	49.34	50.70
Mean	42.86	13.37
S.D.	3.89	45.20
C.V.	9.07	338.08
Sources: Annual Report of Respective Bank		

Net Profit to total deposits		
Year	HBL	EBL
2005-2006	1.73	1.72
2006-2007	1.64	1.63
2007-2008	2	1.88
2008-2009	2.17	1.92
2009-2010	1.35	2.25
Mean	1.78	1.88
S.D.	0.32	0.24
C.V.	17.93	12.66
Sources: Annual Report of Respective Bank		

Return on Net worth		
Year	HBL	EBL
2005-2006	25.90	24.65
2006-2007	22.91	24.67
2007-2008	25.30	23.49
2008-2009	24.13	28.99
2009-2010	14.79	30.15
Mean	22.61	26.39
S.D.	4.52	2.97
C.V.	19.97	11.25
Sources: Annual Report of Respective Bank		

Interest Earned to Total Assets Ratio		
Year	HBL	EBL
2005-2006	2.20	5.66
2006-2007	2.29	9.07
2007-2008	2.28	5.70
2008-2009	2.38	5.92
2009-2010	3.64	7.50
Mean	2.56	6.77
S.D.	0.61	1.49
C.V.	23.71	22.05
Sources: Annual Report of Respective Bank		

Return on Investments		
Year	HBL	EBL
2005-2006	4.20	5.65
2006-2007	4.16	5.95
2007-2008	4.77	8.92
2008-2009	8.64	10.74
2009-2010	6.02	16.61
Mean	5.56	9.57
S.D.	1.88	4.47
C.V.	33.83	46.68
Sources: Annual Report of Respective Bank		

Earning per Share		
Year	HBL	EBL
2005-2006	59.24	62.78
2006-2007	60.66	78.42
2007-2008	62.74	91.82
2008-2009	61.90	99.99
2009-2010	31.80	100.16
Mean	55.27	86.63
S.D.	13.19	16.01
C.V.	23.86	18.48
Sources: Annual Report of Respective Bank		

Dividend Payout Ratio		
Year	HBL	EBL
2005-2006	0.51	0.40
2006-2007	0.25	0.13
2007-2008	0.40	0.22
2008-2009	0.19	0.30
2009-2010	0.37	0.30
Mean	0.34	0.27
S.D.	0.13	0.10
C.V.	37.18	37.41
Sources: Annual Report of Respective Bank		

Price Earning Ratio		
Year	HBL	EBL
2005-2006	17.52	21.97
2006-2007	22.19	30.99
2007-2008	21.56	34.11
2008-2009	17.60	24.55
2009-2010	8.15	16.27
Mean	17.40	25.58
S.D.	5.61	7.12
C.V.	32.24	27.84
Sources: Annual Report of Respective Bank		

Market Value per Share to Book Value Per Share		
Year	HBL	EBL
2005-2006	4.81	8.39
2006-2007	6.57	17.73
2007-2008	7.99	18.51
2008-2009	6.86	18.70
2009-2010	3.60	10.58
Mean	5.97	14.78
S.D.	1.75	4.91
C.V.	29.25	33.22
Sources: Annual Report of Respective Bank		

Investments on Government Securities to Total working fund		
Year	HBL	EBL
2005-2006	15.73	22.49
2006-2007	19.26	17.33
2007-2008	19.89	17.76
2008-2009	10.71	13.94
2009-2010	2.45	10.52
Mean	13.61	16.41
S.D.	7.23	4.48
C.V.	53.09	27.33
Sources: Annual Report of Respective Bank		

Annex 4 – i

Year	Time(t)	X	Total Deposit (Y)	X^2	XY	YC=a+bx
			Trend analysis of total deposit for the period ending 2005/06 to 2014/15 of EBL			
2005-06	1	-2	13,802,444,988	4	-27,604,889,976	12964766114
2006-07	2	-1	18,186,253,541	1	-18,186,253,541	19104408389
2007-08	3	0	23,976,298,535	0	0	25244050664
2008-09	4	1	33,322,946,246	1	33,322,946,246	31383692939
2009-10	5	2	36,932,310,008	4	73,864,620,016	37523335214
	15	**0**	**126,220,253,318**	**10**	**61,396,422,745**	
2010-11	6	3				43662977489
2011-12	7	4				49802619764
2012-13	8	5				55942262039
2013-14	9	6				62081904314
2014-15	10	7				68221546589

where, n=5

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum XY}{\sum x^2}$$

$$a = \frac{126,220,253,318}{5}$$

$$b = \frac{126,220,253,318}{10}$$

$$a = 25244050664$$

$$b = 6139642275$$

			Total Deposit			
Year	Time(t)	X	(Y)	X^2	XY	YC=a+bx
2005-06	1	-2	26,490,851,640	4	-52,981,703,280	26760195502
2006-07	2	-1	30,048,417,756	1	-30,048,417,756	29447654540
2007-08	3	0	31,842,789,356	0	0	32135113578
2008-09	4	1	34,682,306,863	1	34,682,306,863	34822572616
2009-10	5	2	37,611,202,274	4	75,222,404,548	37510031654
	15	**0**	**160,675,567,889**	**10**	**26,874,590,375**	
2010-11	6	3				40197490692
2011-12	7	4				42884949730
2012-13	8	5				45572408768
2013-14	9	6				48259867806
2014-15	10	7				50947326844

Trend analysis of total deposit for the period ending 2005/06 to 2014/15 of HBL

where, n=5

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum XY}{\sum x^2}$$

$$a = \frac{160,675,567,889}{5}$$

$$b = \frac{26,874,590,375}{10}$$

$$a = 32135113578$$

$$b = 2687459037$$

Annex 4 – ii

Year	Time(t)	X	Loan and Advances (Y)	X^2	XY	YC=a+bx
			Trend analysis of Loan and Advances for the period ending 2005/06 to 2014/15 of EBL			
2005-06	1	-2	9,801,307,676	4	-19,602,615,352	9502963178
2006-07	2	-1	13,664,081,664	1	-13,664,081,664	14076032044
2007-08	3	0	18,339,085,562	0	0	18649100910
2008-09	4	1	23,884,673,616	1	23,884,673,616	23222169776
2009-10	5	2	27,556,356,032	4	55,112,712,064	27795238642
	15	**0**	**93,245,504,550**	**10**	**45,730,688,664**	
2010-11	6	3				32368307508
2011-12	7	4				36941376374
2012-13	8	5				41514445240
2013-14	9	6				46087514106
2014-15	10	7				50660582972

where, n=5

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum XY}{\sum x^2}$$

$$a = \frac{93,245,504,550}{5}$$

$$b = \frac{45,730,688,664}{10}$$

$$a = 18649100910$$

$$b = 4573068866$$

| | | | Trend analysis of Loan and Advances for the period ending 2005/06 to 2014/15 of HBL | | | |

Year	Time(t)	X	Loan and Advances (Y)	X^2	XY	YC=a+bx
2005-06	1	-2	14,642,559,555	4	-29,285,119,110	13888112896
2006-07	2	-1	16,997,997,046	1	-16,997,997,046	17335242559
2007-08	3	0	19,497,520,482	0	0	20782372222
2008-09	4	1	24,793,155,269	1	24,793,155,269	24229501885
2009-10	5	2	27,980,628,760	4	55,961,257,520	27676631548
	15	**0**	**103,911,861,112**	**10**	**34,471,296,633**	
2010-11	6	3				31123761211
2011-12	7	4				34570890874
2012-13	8	5				38018020537
2013-14	9	6				41465150200
2014-15	10	7				44912279863

where, n=5

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum XY}{\sum x^2}$$

$$a = \frac{103,911,861,112}{5}$$

$$b = \frac{34,471,296,633}{10}$$

$$a = 20782372222$$

$$b = 3447129663$$

Annex 4 – iii

Year	Time(t)	X	Total Investments (Y)	X^2	XY	YC=a+bx
			Trend analysis of Total Investments for the period ending 2005/06 to 2014/15 of EBL			
2005-06	1	-2	4,200,515,220	4	-8,401,030,440	4524284956
2006-07	2	-1	4,984,314,586	1	-4,984,314,586	4782259999
2007-08	3	0	5,059,557,544	0	0	5040235042
2008-09	4	1	5,948,480,273	1	5,948,480,273	5298210085
2009-10	5	2	5,008,307,589	4	10,016,615,178	5556185128
	15	**0**	**25,201,175,212**	**10**	**2,579,750,425**	
2010-11	6	3				5814160171
2011-12	7	4				6072135214
2012-13	8	5				6330110257
2013-14	9	6				6588085300
2014-15	10	7				6846060343

where, n=5

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum XY}{\sum x^2}$$

$$a = \frac{25,201,175,212}{5}$$

$$b = \frac{2,579,750,425}{10}$$

$$a = 5040235042$$

$$b = 257975043$$

Trend analysis of Total Investments for the period ending 2005/06 to 2014/15 of HBL						
Year	Time(t)	X	Total Investments (Y)	X^2	XY	YC=a+bx
2005-06	1	-2	10,889,031,449	4	- 21,778,062,898	12241666017
2006-07	2	-1	11,822,984,558	1	- 11,822,984,558	11441612369
2007-08	3	0	13,340,176,785	0	0	10641558721
2008-09	4	1	8,710,690,646	1	8,710,690,646	9841505073
2009-10	5	2	8,444,910,165	4	16,889,820,330	9041451425
	15	**0**	**53,207,793,603**	**10**	**-8,000,536,480**	
2010-11	6	3				8241397777
2011-12	7	4				7441344129
2012-13	8	5				6641290481
2013-14	9	6				5841236833
2014-15	10	7				5041183185

where, n=5

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum XY}{\sum x^2}$$

$$a = \frac{53,207,793,603}{5}$$

$$b = \frac{53,207,793,603}{10}$$

$$a = 5040235042$$

$$b = -800053648$$

Annex 4 – iv

Trend analysis of Net Profit for the period ending 2005/06 to 2014/15 of EBL

Year	Time(t)	X	Net Profit (Y)	X^2	XY	YC=a+bx
2005-06	1	-2	237,290,936	4	-474,581,872	184828870
2006-07	2	-1	296,409,281	1	-296,409,281	337956157
2007-08	3	0	451,218,613	0	0	491083444
2008-09	4	1	638,732,757	1	638,732,757	644210731
2009-10	5	2	831,765,632	4	1,663,531,264	797338018
	15	**0**	**2,455,417,219**	**10**	**1,531,272,868**	
2010-11	6	3				950465305
2011-12	7	4				1103592592
2012-13	8	5				1256719879
2013-14	9	6				1409847166
2014-15	10	7				1562974453

where, n=5

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum XY}{\sum x^2}$$

$$a = \frac{2,455,417,219}{5}$$

$$b = \frac{1,531,272,868}{10}$$

$$b = 491083444$$

$$a = 153127287$$

Trend analysis of Net Profit for the period ending 2005/06 to 2014/15 of HBL

Year	Time(t)	X	Net Profit (Y)	X^2	XY	YC=a+bx
2005-06	1	-2	457,457,696	4	-914,915,392	496617846
2006-07	2	-1	491,822,905	1	-491,822,905	532987128
2007-08	3	0	635,868,519	0	0	569356410
2008-09	4	1	752,834,735	1	752,834,735	605725692
2009-10	5	2	508,798,193	4	1,017,596,386	642094974
	15	**0**	**2,846,782,048**	**10**	**363,692,824**	
2010-11	6	3				678464256
2011-12	7	4				714833538
2012-13	8	5				751202820
2013-14	9	6				787572102
2014-15	10	7				823941384

where, n=5

$$a = \frac{\sum Y}{n}$$

$$b = \frac{\sum XY}{\sum x^2}$$

$$a = \frac{2{,}846{,}782{,}048}{5}$$

$$b = \frac{363{,}692{,}824}{10}$$

$$a = 569356410$$

$$b = 36369282$$

Annex 5 – i

	Correlation Coefficient and Regression between Total Investments and Total Deposits									
	EBL					HBL				
Year	Total Investments(X)	Total Deposits(Y)	X^2	Y^2	XY	Total Investments(X)	Total Deposits(Y)	X^2	Y^2	XY
2005-06	4201	13802	17648401	190495204	57982202	10889	26491	118571006	701765221	288459717
2006-07	4984	18186	24840256	330730596	90639024	11823	30048	139782964	902907410	355261979
2007-08	5060	23976	25603600	574848576	121318560	13340	31843	177960317	1013963234	424788439
2008-09	5948	33323	35378704	1110422329	198205204	8711	34682	75876132	1202862409	302106846
2009-10	5008	36932	25080064	1363972624	184955456	8445	37611	71316508	1414602536	317623224
Total	**25201**	**126219**	**128551025**	**3570469329**	**653100446**	**53208**	**160676**	**583506926**	**5236100810**	**1688240205**

	EBL	HBL
$\overline{X}$	5040	10642
$\overline{Y}$	25244	32135
Coefficient Correlation $r = \dfrac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum x)^2}\sqrt{n\sum Y^2 - (\sum Y)^2}}$	0.23	-0.61
Coefficient Determination (r^2)	0.05	0.37
Standard Error of Coefficient Correlation $r = \dfrac{(1-r^2)}{\sqrt{n}}$	0.42	0.28
Probable error $\quad\quad P.Er = .06745X\dfrac{(1-r^2)}{\sqrt{n}}$	0.29	0.19
6PE	1.72	1.14

Annex 5 – ii

Correlation Coefficient and Regression between Loan and Advances and Total Deposits										
	EBL					HBL				
Year	Loan and Advances(X)	Total Deposits(Y)	X^2	Y^2	XY	Loan and Advances(X)	Total Deposits(Y)	X^2	Y^2	XY
2005-06	9801	13802	96065632	190495204	135277649	14643	26491	214404550	701765221	387893873
2006-07	13664	18186	186707128	330730596	248494989	16998	30048	288931904	902907410	510762916
2007-08	18339	23976	336322059	574848576	439697915	19498	31843	380153305	1013963234	620855438
2008-09	23885	33323	570477634	1110422329	795908979	24793	34682	614700548	1202862409	859883819
2009-10	27556	36932	759352758	1363972624	1017711341	27981	37611	782915586	1414602536	1052385088
Total	93246	126219	1948925211	3570469329	2637090873	103912	160676	2281105893	5236100810	3431781134

	EBL	HBL
$\overline{X}$	18649	20782
$\overline{Y}$	25244	32135
Coefficient Correlation $r = \dfrac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum x)^2}\sqrt{n\sum Y^2 - (\sum Y)^2}}$	0.47	0.98
Coefficient Determination (r^2)	0.22	0.96
Standard Error of Coefficient Correlation $r = \dfrac{(1-r^2)}{\sqrt{n}}$	0.35	0.02
Probable error $P.\,Er = .06745X\dfrac{(1-r^2)}{\sqrt{n}}$	0.24	0.01
6PE	1.41	0.07

Annex 5 – iii

Correlation Coefficient and Regression between Net Profits and Total Deposits										
	EBL					HBL				
Year	Net Profit(X)	Total Deposits(Y)	X^2	Y^2	XY	Net Profit(X)	Total Deposits(Y)	X^2	Y^2	XY
2005-06	237	13802	56307	190495204	3275089	457	26491	209268	701765221	12118444
2006-07	296	18186	87858	330730596	5390499	492	30048	241890	902907410	14778500
2007-08	451	23976	203598	574848576	10818417	636	31843	404329	1013963234	20247827
2008-09	639	33323	407980	1110422329	21284492	753	34682	566760	1202862409	26110045
2009-10	832	36932	691834	1363972624	30718768	509	37611	258876	1414602536	19136512
Total	2455	126219	1447577	3570469329	71487266	2847	160676	1681122	5236100810	92391328

	EBL	HBL
$\overline{X}$	491	569
$\overline{Y}$	25243	32135
Coefficient Correlation $r = \dfrac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum x)^2}\sqrt{n \sum Y^2 - (\sum Y)^2}}$	0.32	0.43
Coefficient Determination (r^2)	0.10	0.19
Standard Error of Coefficient Correlation $r = \dfrac{(1-r^2)}{\sqrt{n}}$	0.40	0.36
Probable error $P.\,Er = .06745X\dfrac{(1-r^2)}{\sqrt{n}}$	0.27	0.24
6PE	1.62	1.47