

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Bank are the financial institutions that offer the widest range of financial services especially credit, savings, payment services, and perform the widest range of financial functions of any business firm in the economy. This multiplicity of bank resource and functions has led to banks being labeled financial supermarkets and to familiar advertising slogans as ‘Your Bank – a full service financial institution. Banking institutions are largely responsible for collecting household saving in terms of different types of deposits and regulating them in the society by lending them in different sectors of the economy. This sector has now reached even to the most 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.

Banks are basically concerned with the transcends of money; however, today's banks are established for specific purposes. Different types of banks focus different types of services to their customers although the basic principle is the same. Banking concept existed even in the ancient periods when the gold smiths and the rich people used to issue receipt to the common people against the promise to safe keeping of their valuable items on the presentation of the receipt, the depositors would get back their gold and valuable after paying a small amount for the safe-keeping and savings.

In Nepal the formal banking system commenced with the establishment of Nepal Bank Limited as a semi government ownership in 1937 A.D. The establishment of Nepal Rastra Bank, Central Bank of Nepal, in 1957 A.D. was a significant dimension in the development of banking sector. The second commercial bank with the government ownership i.e. Rastriya Banijya Bank

Ltd. was established in 1966 A.D. There after other banks were established gradually.

In the 1980's Nepalese Government adopted open liberalized and market oriented policy and the financial reforms with a view to enhance efficiency in the financial services. The liberalization policy and the financial reforms programme laid the rapid development in the domestic financial system. Major structured changes happened not only in the institutional development of the financial sector but also at the policies, regulations and supervision practices of the financial sector. Nepalese Government opened the door for domestic private sector to invest in the financial sector and at the same period foreigners were also allowed to invest in the financial sector. This led development of numbers of the banks in Nepal. At present 31 commercial banks are there in operation.

1.2 Statement of the Problem

A well functioning banking system is an essential element in economic growth. A good banking system is supposed to mobilize savings from households and business in low cost of financing activities and channel funds to the most productive investment opportunities. Though banks could maintain their position in the banking industry, it cannot be predicted that the banks would continue to maintain its profitability and stability of earnings because of the tough competition in this sector. Financial institution in Nepal has been facing several problems like lack of smooth functioning of economy, different policies and guidelines on Nepal Rastra Bank , political instability, security problems, poor information system, over liquidity caused by lack of good lending opportunity, increasing NPAs. etc. In the present context where Nepalese commercial banks are facing the problem of increasing NPAs, more amount has to be allocated for loan loss provision. As earlier mentioned, the provision amount is taken out by deducting from the profit of the bank; the profit of the bank might come down.

This study attempts to evaluate the financial performance of selected commercial banks of Nepal by using various measuring financial and statistical tools such as financial ratios, income and expenditure statement analysis and other necessary analysis. It gives the answer to these issues:

- a. What are the comparative liquidity, profitability, efficiency, and leverage position between selected two commercial banks?
- b. What is the credit risk ratio of sample banks?
- c. To what extent is the bank distributing the dividend?

1.3 Objective of the Study

The basic objective of the study is to comparison between Himalayan Bank Limited and Everest Bank Limited on the ground of financial performance. The objective has been further specified in the following sub-objectives:

- a. To analyze and compare the liquidity, profitability, efficiency and leverage positions between two commercial banks.
- b. To examine the credit risk ratio of the banks in terms of non-performing assets.
- c. To analyze the dividend policy of the banks.

1.4 Significance of the Study

To success in the long run, the bank needs to have sound financial stability. The study concentrates on the liquidity, profitability, efficiency and leverage positions of the banks. Thus, this study is primarily important to the management of the company for making detecting the weakness and for making the strategy.

Further, the study will be equally germane to the depositors of the bank, since the depositors needs to have information on the mobilization of their savings. In addition, the study will be significant to the investors of the bank, because the prime objective of the investors is to achieve capital gain from stock

investment. Finally, the study will be important to the general public to examine the financial performance of the bank.

1.5 Limitations of the Study

The limitations of the study are given below:

-) The study focuses only on the financial analysis and hence does not touch the other financial aspects.
-) The study is totally dependent on the secondary data analysis. And the secondary data entirely depends upon the reliability of the annual reports of HBL and EBL.
-) The study covers only five years data, i.e. from the fiscal year 2005/06 to 2009/10.
-) Only two commercial banks, HBL and EBL, have taken which may not represent the entire population.

1.6 Organization of the Study

The study has been organized mainly into five chapters;

Chapter – I: Introduction

The first chapter deals with the background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

Chapter – II: Review of Literature

The second chapter confines the review of literature of related studies in journals and review of related studies in Nepal with reference to previous thesis and policies of the government.

Chapter – III: Research Methodology

The third chapter describes the research methodology employed in the study. Mainly research design, nature and sources of data, statistical and financial tools used are described.

Chapter – IV: Data Presentation and Analysis

The fourth chapter presents and analyzes the data collected for study and thus fulfills the objectives of the study. At the end of the fourth chapter, the major findings drawn are presented.

Chapter – V: Summary, Conclusion and Recommendations

And, the last chapter contains summary and conclusions of the study. It also offers recommendations on the basis of findings.

Eventually, Bibliography and Appendices are presented at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Financial Performance

“Financial performance means financial activities of the company directed towards achieving its value maximizing objective. For the better financial activities, effective and efficient decisions are necessary and those better financial activities contribute to excellent financial performance which in turn in results to growth of the organization.” (Ezra, 1996: 67) Financial performance can be defined as the heart of financial decision. The growth and development of an enterprise is fully affected by financial performance and financial performance of an enterprise is correct when true facts and figures are sort out.

“Financial performance as a part of the financial management is the main indicator of success and failure of the firm. Its decision plays a vital role to increase the profitability by analyzing past performance and efficiency of the firm from accounting data and financial statements. The volume of profit earned by the firm is one of the major indicators of good financial performance of the firm. Profit is essential for a firm to survive, grow in long run as well as to maintain capital adequacy through retained earning. However profit cannot be solely predicting the financial performance of the firm.” (Paul, 1996: 78)

Since, financial performance as a part of management, there are different institutions that affect or are affected by the decision of the firm. Financial condition of business, firm should be sound from point of view of shareholders, debenture holders, financial institution and nation as whole.

Though, the types of analysis varies according to the specific interest of the party involve, shareholders of the firm are concerned principally with the

present and expected future earnings, the stability of the earnings as well as their variations with the earning of other enterprises. This indicates that they concentrate their analysis on the profitability of the firm.

“Management of the firm is interested in all aspects of financial analysis is to adopt good financial management system for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the cash flow ability of enterprise to service debt over long run. Similarly, all the concerned groups are directly or indirectly interested about the financial performance of the firm.” (Ronald, 1951: 19)

The absolute accounting figures are reported in the financial statement - balance sheet, profit and loss account and other statements do not provide a meaningful understanding of the performance and financial position of the firm. An accounting figure conveys meaning when it is related to some other relevant information. “A qualitative judgement about the firm's financial position and performance should be made from the point view of a firm's investment. Thus financial analysis is the main qualitative judgement process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account.” (Crosse, 1963: 91)

Joint venture banks in Nepal are profit making business institutions. So the profit earned by a joint venture commercial bank in Nepal is the main financial performance indicator of the bank. However, it can not be exclusively forecast the performance of the bank by analyzing the profitability status only. Every aspect of the financial analysis is to be considered for financial performance of the bank. An analysis of income and bankruptcy score of the bank is also the important indicator of the bank's performance.

In the financial world, a bank's performance has mainly focused on financial performance decision. A commercial bank's performance is to be examined for various reasons. Bank regulators identifying banks that are experiencing severe problems so that they can give remedy to them.

2.1.2 Financial Analysis

“Financial analysis involves the use of various financial statements, the first is the balance sheet, which represents the firm's financial position at a moment in time and next is the income statement that depicts a summary of the firms profitability over time.” (Van Horne and Wachowicz, 1997: 120)

“Analysis of interpretation of financial statements is an attempt to determine the financial performance of any organization so that a forecast may be made of the prospects of future earning, ability to pay interest, debt maturity and probability of sound dividend policy.” (Weston and Copeland, 1991: 49)

In the world of Myers, “financial statement analysis is largely a study relationship among the various financial factors in a business a disclosed by a single set of statement and study of trends of these factors as shown in a series of statements.” (Myers, 1961, 14) “It is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account.” (Pandey, 1994: 96)

“It is also the analytical and judgemental process that helps answer question that have posed. Therefore, it is means to end apart from the specific analytical answers, the solutions to financial problems and issues depend significantly on the views of the parties involved in the related issues and on the nature and reliability of the information available.” (Helfert, 1992: 22)

Besides, it can be taken as the starting point of making plans, before using any sophisticated forecasting and planning procedures, financial data can be used to analyze a firm's past performance and assess its present financial strength. Management of the firm would be particularly interested in knowing the financial strengths to make their best use and to spot out the financial weaknesses to take corrective actions.

“The analysis makes an attempt to dissect the financial statements into their components on the basis of the purpose on one hand and between individual components and total of these items on the other. In course of studying and evaluating the financial position of the organization, a study of trends of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization.” (Srivastav, 1993: 56)

“Financial statement analysis involves a comparison of a firm's performance with that of other firm's in the same line of business, which is often, identified by the firm's industry classification.” (Weston, Besley and Brigham, 1996: 78)

“Financial analysis is process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet which represents analysis snapshot of the firm's financial position analysis at analysis moment in time and text, income statement that depicts analysis summary of the firm's profitability overtime.” (Van Horne & Wachowicz, 1997: 120)

“With respect to the problems identified from the analysis, pertinent care should be made to distinguish between the cause and symptom of problem.” (Hampton, 1998: 99) “Thorough the application of analytical tools, profitability and financial health of concerns is evaluated in a proper, critical and scientific manner.” (Jain, 1996: 36) The analysis of transactions determines the solvency of business and the measure of efficiency of operations as

compared to similar concerns. The analysis reveals how far the dream and ambition of the top management have been converted into reality during each financial Year. The analysis, being techniques of x raying the financial position as well as progress of concern it enables managers and investors take decision that will affect the company's future.

“Most of users of financial statements are interested in assessing the bank's overall performance. Following factors affect the evaluation of bank's overall performance.” (Read & Smith, 2006: 67)

-) The structure of balance sheet and profit & loss account.
-) Operating efficiency and internal management system.
-) Managerial decisions taken by the top management regarding interest rate, lending policies, exchange rates etc.
-) Environmental changes such as changes in technology, government, competition, economy etc.

There are various methods or techniques used in analyzing the financial statements. One of them is the ratio analysis which is regarded as most powerful tool of financial analysis to make quantitative judgement about the financial position and performance of the banks. Financial ratios themselves do not indicate position of the institution, a standard or norm is needed to judge them. Mostly used criterion is analyzing trend in performance and making comparison over time with similar banks by computing trends, industry average and a peer group ratings.

2.1.3 Commercial Bank

2.1.3.1 Meaning of Commercial Bank

Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial banks can be of various forms such as Deposit Banks, Saving Bank, Industrial Banks, Mixed Banks, Exim Banks etc.

Commercial banks it would have been impossible to meet the financial needs of the country. Commercial Bank Act 1974 defines a commercial bank 'A commercial bank means bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions"

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.” (Gitman, 1988: 127) “A commercial banker is dealer in money such as a Cheque and bills of exchanges. He also provides a variety of financial services.” (Kohn, 1999: 271)

Commercial banks are the heart of the financial system; they hold the deposits of many persons, government establishment and business unit. They make funds available through their lending and investing activities to borrowers, individual's business firms and government establishment units. Therefore, commercial banks are those banks that pool together the savings of community and arrange for their productive use. They supply the financial needs of modern business by various means. “Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry. They can not finance in fixed assets. Apart from financing, they also lender services like collection of bills, and cheques, safe depositing of valuables, financial advising, etc. to their customer’s.” (Vaidhya, 2002: 24)

“A commercial bank is one which exchanges money, accepts deposits, grant loan and performs commercial banks functions and which is not a meant for co-operation, agriculture, Industries, or specific purpose.” (Nepal commercial Bank Act 2031 B.S.) Under Nepal commercial Bank Act 2031 B.S., some sales and functions of commercial Bank have been defined and emphasized commercial Bank provides short term trade and commerce. They except deposits from public, and grants loans in different forms. They purchase and

discount bills of exchange, promissory notes, exchange foreign currency etc. However, Central bank is the main bank of the any nation that directs and controls all the banks whose existence is the country in Nepal, Nepal Rastra Bank is the Central bank of the country. The entire commercial banks perform their functions under rules, regulations and the directions provided by Nepal Rastra Bank.

The major functions of commercial bank are explained in brief:

I. Accepting Deposit

According to Sir John Paget, “It is a fair deduction that no person of body, corporate or otherwise, can be bankers who does not 1) take deposit account, 2) take current account, 3) issue and pay cheques and 4) collect cheques for his customers.” All are related to the acceptance of deposit. Therefore, accepting the deposits by the banks is the oldest function.

II. Creating Money

One of the major functions of commercial banks that separate it from other financial institution is the ability to create money and to destroy money, which is accomplished by the lending and investing activities. The power of commercial banking system to create money is of great economic significance. It results in the elastic credit system that is necessary for economic progress at a relatively steady rate of growth.

III. Payment Mechanism

Providing for payment mechanism or the transfer of fund is one of the important functions performed by commercial banks and it is increasing in importance, as greater reliance is placed on the use cheques and credit cards. Moreover, banks credit cards can be used to withdraw cash from a depositors account make deposits and loan payment and transfer funds between a depositor's saving and checking account.

IV. Pooling of National Saving

Commercial banks perform vital services to all sector of economy by providing facilities for the pooling national saving and making them available for economically and socially desirable purpose. The saver is rewarded by the payment of interest on his saving. These pooled funds are made available to businessmen, who use them for the expansion of their productivity capacity and customers for such items as housing and customer goods.

V. Extension of Credit

The major function of commercial bank is the extension of credit to worth borrower bank lending is very important to the economy for it makes possible the financing of the agriculture, commercial and industrial activities of the country. Moreover, the provision of bank credit provides for the smooth operation of government such as capital improvements for building of school and hospitals and purchasing of fire trucks, construction of highway and dams, and the nation's defence.

VI. Facilities of the Financing of Foreign Trade

The other primary function of commercial bank is to make necessary arrangement for the amount of foreign exchange needed by business organizations to pay in the foreign country. Bank provides more satisfactory guarantee to an individual or firms bought the issuance of a commercial letter of credit, drafts, telegraphic transfer (T.T) and accepting traveller's letter of credit or traveller's cheques.

VII. Trust Service

Increased income have made possible, the accumulation of wealth, which in turn has contributed to the growth of trust services of commercial banks. Trust development serve as trustees in connection with bond issues and as transfer agents and register for co-operation. They may also administer sinking funds

and perform other related activities associated with the issuance and redemption of bonds and stocks.

VIII. Safe Keeping of Valuables

The safe keeping of valuables is one of the ablest services provided by commercial banks. The protection of valuables fall into two areas: department of banks, safe deposit boxes and safekeeping. Safe deposit boxes are made available to customer on rental basis that may be useful and provides a place for securities, deeds, insurance policies and personal items of valuable only to owner. In other hand safekeeping differs from safe deposits box services in that the bank has custody of the valuables and acts as an agent for the customer.

IX. Agency Services

A bank also performs number of services on behalf of its customers. Commercial bank undertakes the payment of subscriptions, insurance premium, rent etc. and collection of cheques, bills, salaries, pensions, dividends, interest etc. on behalf of the customers. The bank charges a small amount as commission of the above mentioned services. In addition, he undertakes to buy and sell securities on behalf of the customers. The commercial bank also arranges to remit money from one place to another by means of cheques, drafts, wire transfer etc. The commercial bank also acts as representative or correspondent for his customers, of other banks and financial institutions. Moreover, a banker acts as a trustee, executor, administrator and attorney.

2.1.3.2 Role of Commercial Banks in the Economic Development

The economic development of a country vastly depends upon the commercial banks of the country. The role of commercial banks directly relates with the economic development of the country. Commercial banks receives surplus money of people in the various form of deposits and lends those deposits to different business houses and corporate bodies who are in need of money in different form on loans and advances.

Thus, it provides a link between surplus and deficit amount of the economy. Earning profit to his shareholders is also the major aiming of the commercial banks as many other houses.

“Commercial banks have succeeded in becoming a heart of financial system as they hold deposits of government agencies, business firms, millions of people of the nation and make them available through their lending and investing activities to other government agencies, business firms, millions of people of the nation. Like many other developing countries including Nepal lack capital formation and proper mobilization of funds. This also stands the major problem in the economic development of a nation. Commercial banks grant long-term loans to industries, which result in increase in the productivity capacity of an industry. The loans given to agriculture sectors enhance the agricultural production. Similarly the loans advanced to different people and corporate bodies help them to increase their incomes and profits.” (Bhandari, 2003: 53)

So finally we can conclude that the future of the country is greatly determined by the active role played by the commercial banks. Similarly, in the context of Nepal too, different commercial banks such as Himalayan Bank Limited are supporting in the economic development of the country.

2.1.3.3 Concept of Joint Venture Bank

“Joint Venture Bank is an innovation in finance & it is on growing stage, mostly in developing countries. In developing countries, foreign investment plays a significant role for economic development by flowing capital, technology, skills, management efficiency & others.” (Dahal & Dahal, 1999: 23)

Joint venture means, a business contract of management effort between two persons, companies or organisations involving risk & benefit sharing. When

two or more independent firms mutually decide to participate in a business venture, contribute to the total equity more or less capital & establish a new organisation, it is known as joint venture.

“A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation like: industrial or commercial investment, production trade.” (Gupta, 1984: 122) “Joint venture banks are the commercial banks formed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods and services.” (Bhandari, 2003: 20)

For the enlistment of economic growth & to rival upon poverty problem of under developed country like Nepal they need strong banking system. Since, earlier established CB's (i.e. NBL & RBB) are not proficient to contribute efficiently, HMG/N deliberate policy of allowing foreign JVB's to operate in Nepal with a view to encourage local traditionally run CBs to enhance their bankable capacity through competition, efficiency improvements, modernization via computerization & prompt service.

“Joint venture banks have been contributing a lot towards the promotion and expansions of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. Since, these banks are new, urban based and managed by foreign management they started their operation with automated system which could easily attract the elite group of business community due to their prompt service and modern management. In this way, JVBs are successful to bring healthy competition among banks, increase in foreign investment, promote and expand import and export trade, introduce new techniques and technologies. All this reveal the vital role and need of JVBs in banking sector or finance industry.” (Garg, 1968: 231)

A healthy and tidy commercial banking system in European countries is one of the causes of their rapid economic development and this is a lesson to the nations of third world. The concept of joint venture bank is a new innovation in finance and it is on growing stage, mostly in developing countries.

“The primary objective of this joint venture is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc. that mean they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country.” (Sharma, 2001: 38)

In the developing countries, foreign investment plays a significant role for the economic development by flowing the capital, technology, skills, managerial efficiency and others. So, local foreign joint investments have been considered more important. Joint venture banks in Nepal are of this type of investment.

2.2 Review of NRB Directives

NRB is the central bank of Nepal. It issues directives under which the financial institutions of Nepal have to perform. The directives that are related to the financial performance of the study are reviewed in this part of the study.

Directive – 1: Capital Adequacy

The directive has laid down the following guideline for capital adequacy to confront the risks;

Table 2.1
Capital Fund to be Maintained

FY	Capital Fund in % on the basis of Total Risk Weighted Assets	
	Core capital	Total Capital Fund
2061/62	6.00	12.00
2065/66	6.00	10.00

(Source: Unified directives 2062 & 2067)

Directive – 2: Loan Classification and Loan Loss Provision

The directive has laid down the following provision for minimizing the credit risks;

A) Classifications of Loan and Advances: Effective from FY 2058/59 (2001/02) banks shall classify outstanding principal amount of loan and advances on the basis of aging. As per the directives issued by NRB, all loans and advances shall be classified into the following four categories:

- a. **Pass Loan:** - Loans and advances whose principal amount are not past due and past due for a period up to 3 months shall be included in this category. These are classified and defined as performing loans.
- b. **Sub-Standard Loan:** - All loans and advances that are past due for a period of 3 months to 6 months shall be included in this category.
- c. **Doubtful Loan:** - All loans and advances which are past due for a period of 6 months to 1 year shall be included in this category.
- d. **Loss:** - All loans and advances which are past due for a period of more than 1 year as well as advances which have least possibility of recovery or considered unrecoverable and those having thin possibility of even partial recovery in future shall be included in this category.

B) Loan Loss Provisioning: The loan loss provisioning, on the basis of the outstanding loans and advances and bills purchases classified as per this directives, shall be provided as follows:

<u>Classification of Loan</u>	<u>Loan Loss Provision</u>
Pass loan	1%
Sub-standard loan	25%
Doubtful loan	50%
Loss	100%

Directive – 3: Cash Reserve Ratio

“Till 2002/03 commercial banks were required to maintain compulsory reserve at 7 percent of their current and saving deposits and 4.5 percent balance of their fixed deposits with the NRB as well as vault compulsory ratio at 2 percent of total domestic deposits. In the light of the undergoing management reforms in the RBB and the NBL as well as the increasing efficiency of the commercial banks to manage their financial resources themselves, the provision of maintaining 2 percent balance in commercial banks' vault as a part compulsory reserve has been withdrawn. Effective from FY 2003/04, commercial banks were required to maintain 6 percent of their total domestic deposit liabilities at the NRB as compulsory reserve. A single, uniform compulsory ratio has been introduced so as to bring about uniformity and simplicity in the previously differentiated compulsory rates with respect to the different domestic deposit liabilities.” (Monetary Policy, 2003/04: 12) In contrast, “the CRR had been reduced from 6.0 percent to 5.0 percent for FY 2004/05.” (Monetary Policy, 2004/05: 11) Likewise, “the cash reserve ratio (CRR) had been raised to 5.5 percent from the 5 percent of the total domestic deposits effective from October 17, 2008.” (Monetary Policy, 2008/09: 4) However, “the cash reserve ratio (CRR) has been kept unchanged at 5.5 percent for the fiscal year 2009/10.” (Monetary Policy, 2009/10: 5)

Directive – 4: Investment

The licensed financial institution should implement the policy of investing in government bond, NRB's bond, and corporate share and debenture only after approval of the board of directors. Further there is no restriction on the investment in government and NRB's bond. The licensed institution should invest in share and debenture of those institutions whose share has been issued to the public and listed in NEPSE. However, if the licensed financial institutions have invested in share and debenture of the corporate whose securities are not listed within a year, then the licensed institutions should keep the amount equal to the invested amount in investment provision fund.

Directive – 5: Interest Rate

The bank has full privilege to specify the interest rate to be provided on deposit and the interest rate to be charged on the loan and advances. The bank should decide on the interest rate, interest maturing procedure, service charge and commission rate firstly and then should charge secondly. However, the bank has right to increase the interest rate on deposit by not more than 0.5 percent from the published rate, but the interest rate on loan and advances should not be more than the published rate at any cost.

2.3 Review of Journals and Articles

Grönlund and Pönni (2007), in their article, "*Financial Performance of Commercial Radio in Sweden*", have stated despite slowing median growth of turnover, the profitability of Swedish commercial radio companies improved slightly in 2005. Both operating margin and net result have improved and are now positive. After the recession in 2001 the profitability of Swedish radio companies sank fairly badly, with the net result being almost -11 percent in 2002. Since then profitability has improved steadily. Median growth of turnover was only 0.1 percent in 2005, down from 5.1 percent in 2004. The total advertising investments in different Swedish media increased around 7 percent in 2005 and advertising investments in Swedish commercial radio grew

by 4.5 percent, being now SEK 513 million. Despite the overall growth, slowing median growth of turnover suggests that growth in advertising investments has not been distributed evenly. Clearly it has been concentrated in the bigger companies in radio business.

The solidity of the Swedish commercial radio companies has improved slightly. Equity ratio was 36.4 percent in 2005 (35.8% in 2004) and relative indebtedness was 31.5 percent (32.7% in 2004). Both of these key figures are on fairly good levels for the radio business. Current ratio (1,4) remained on the same level in 2005 as it was in the previous year, at the moderate level. It is quite obvious that an industry that has created losses for many years, must be financed from outside. In Sweden most of the commercial radio companies are owned by large media houses that are paying the losses as a price for participating in the marketplace. The productivity of the Swedish commercial radio companies has improved steadily during the past three years. Value added per personnel was 290,400 SEK compared to 286,000 SEK in 2004. This is, of course, a good development, but when compared to commercial radio companies in Finland, Swedes are still clearly behind. In other key figures Swedish commercial radio companies are slightly ahead of Finnish counterparts. Although the economic performance of Swedish commercial radio companies has improved in 2005, it is still not at a good level. The radio business is still fighting with profitability and the industry losses are seen as a cost for establishment and thus an investment into a future (hopefully more profitable) presence on the radio market. The consolidation and forming of radio networks, cost-cutting and synergy seeking are all a part of the attempts to improve the profitability of companies.

Abraham (2007), in his article, "*A Model of Financial Performance Analysis Adapted for Nonprofit Organizations*", has stated that measurement of financial performance by ratio analysis helps identify organizational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organizational importance. Given that the mission of a nonprofit

organization is the reason its existence, it is appropriate to focus on financial resources in their relationship to mission. The application of this financial performance model to an individual organization will indicate a number of issues which need to be grasped. However it must be realized that these issues will not be purely financial, but bear direct relationships to the culture and traditions of the organization - for mission is central to the heart of every NPO.

This view is consistent with the challenge for nonprofit organizations to explore new ways of raising the operating revenue and capital they need to pursue their mission. To continue as a viable organization into the future, an NPO may have to deal with some difficult issues, issues that may very well move people out of their comfort zones. The organization's management team may need to consider advice on how to say goodbye to services, programs and assets that have outlived their time because it's vitally important in a changing environment, as your customers' or clients' needs change, that you adapt your services to meet their current and future needs.

Pille (2008), in his article, "*Financial Performance Analysis of Ontario (Canada) Credit Unions: An Application of DEA in the Regulatory Environment*" has stated that the equity/asset ratio and some DEA models appear to be equally competent in predicting the failure of Credit Unions. However, DEA Model 1 offers indicators of where the problems are and how to address them. Hence it should be the preferred tool for the regulator. Each of the models shows that failures, on average, have lower scores than healthy units, for up to three years before failure, thus our Hypothesis is proven. Prediction of failure is most reliable at one year prior to failure, and declines as we go further out.

Prediction improves when only larger asset sized DMUs are included, and also when failures due to plant closure or fraud are excluded. Catastrophic failures due to the latter two causes cannot be predicted and should be excluded from

all analyses. DICO management believes that many cases of mismanagement are actually fraud but that cannot be proven. If this belief is true, then prediction of failure is more difficult than it would otherwise be. The models in this work do not consider the risk involved if a Credit Union has a large proportion of its assets in a single large loan or investment. Yet, this may be the most serious potential problem because a large loan default may well wipe out the entire equity of the Credit Union. Hence, size matters because the relative size between the firm's equity and the largest loan or investment is a crucial survival issue.

McGrann and Richardson (2009), in their article, "*Measuring Producer Level Beef Cattle Alliance Financial Performance*", have stated that there has been a movement toward developing production and marketing alliances in the beef cattle sector in the United States to improve communications and ultimately provide higher priced branded products that are more consistent with consumer demand. Beef cattle producers do not employ a consistent methodology to measure the financial performance of participating in an alliance. Nor do they have the information to negotiate agreements that are financially sustainable at the producer level. Given the concentration of packer and retail sector there is little reason to expect them to share cost and financial returns information beyond the general corporate total business performance required by public traded corporations. Described is a methodology to measure financial performance from breeding, growing and finishing segments to measure return on assets from an alliance. Application of the methodology is demonstrated in an example from cow-calf to finishing phase.

The methodology uses cost accounting and economic analysis to calculate ROA as a measure of alliance's financial sustainability. Questions of profitability, competitiveness and the opportunity cost of participation can be addressed. This information can be used to inform the margin sectors, feed yards, packers and retailers to provide them insights into what share of

increased revenue from branded product sales must be passed to the cow-calf segment. The cow-calf segment must absorb the added costs and cyclical financial loss to participate in alliances. Increased revenue is required to make branded products a more profitable marketing option for beef producers. The return can be compared to ROA in the other segments of the alliance to establish the criteria for net margin sharing or to evaluate alternative production or marketing systems irrespective to the information shared by the concentrated packer and retail sectors. Further studies to employ this methodology with producer members of an alliance could provide valuable decision information for participants to negotiate alliance arrangements.

Roberts and Dowling (2009), in their article, “*Corporate Reputation and Sustained Superior Financial Performance*”, have stated that superior-performing firms have a greater chance of sustaining superior performance over time if they also possess relatively good reputations. These findings complement the relationship between reputation and financial performance by explicitly articulating the dynamic implications of good reputations. At the same time, they are consistent with the growing body of strategy research that links high-quality intangible assets with sustained superior performance. Confidence in these results is heightened by the fact that they hold for two orthogonal components of reputation. A firm’s financial reputation has a consistently strong impact on profit persistence.

Some of the things that firms do to improve profitability also enhance their reputations. This reputation enhancement, in turn, makes it easier for firms to sustain superior performance outcomes over time. Having said this, roughly 85 percent of the variance in the relative reputation measure is not accounted for by prior profit results. And this residual reputation is also linked to profit persistence. Instead of working through financial performance demonstrations and the signals that they generate, some firm actions have direct effects on reputation with flow-through effects on profit persistence. For superior

performance outcomes, the reputation variable exerts its positive effect on the persistence parameter, but not the intercept term. This suggests that good reputations lead to increased temporal stability in the short term, but may induce some rigidity that harms superior-performing firms in the longer term.

2.4 Review of Thesis

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

Due to lower liquidity position (bellow than normal standard) and highly leveraged capital structure and lower liquidity position as profitability as long as more risky. In case of earning capital and utilization of profit researcher come into the following conclusion. Himalayan Bank has performed better in terms net of profit during the study period. All of these three sample banks are able to earn above 1% on total asset and to mobilize deposit properly. In addition, in case of dividend all sample banks are not able to pay regular dividend to its stockholder. However they are maintaining its EPS above its value.

Silwal (2008), has made a study on, “*A Comparative Study of Financial Performance of HBL, NIBL and EBL.*” The main objective of the study is to make a comparison among HBL, NIBL and EBL on the basis of financial achievements. The researcher found that EBL is comparatively better than sample bank because HBL and NIBL have aggressive working policy from the liquidity point of view. In addition, all sample banks are comparatively successful in assets management. Among sample banks, EBL found to be comparatively best in mobilizing its assets and deposits in profitable sectors in form of loan and advances, investment in government securities and shares & debentures.

The researcher ascertained that NIBL is better among the sample banks because it pay lower interest rate for debt fund and earn higher interest by mobilizing it deposits and assets to different productive and profitable sectors. The study also concludes that NIBL is best on the basis of leverage ratio because HBL and EBL use a high debt fund rather than equity fund and assets. The capital base of bank is strong in NIBL, since it has higher capital adequacy ratio. NIBL also has more assets from its shareholder's fund which shows they are strong from point of view of shareholder's fund.

Sharma (2009), has made a study on, “*Financial Performance of Commercial Banks: A Comparative Case Study of Nepal Bangladesh Bank Ltd., Himalayan Bank Ltd. and Everest Bank Ltd.*” The main objective of the study is to reveal the comparative financial performance of NBBL, HBL and EBL. In the study, it has been revealed that the saving deposit to total deposit ratio of NBBL has been recorded the lowest of all, indicating the better liquidity position of the bank to meet short-term obligation. Moreover, analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.

Besides these, it has been inferred that the claims of the outsiders exceed far more than those of the owners over the banks assets. Nonetheless, comparatively Himalayan Bank has more levered capital structure and the profitability ratio indicates the degree of success in achieving desired profit level. Finally, all the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advances. This helps them to remain more competitive.

Karnikar (2010), has made a study on, “*A Comparative Study of the Financial Performance between Nepal SBI Bank and Nepal Bangladesh Bank Limited.*” The main objective of the study is to analyze the comparative study of financial performance of joint venture banks of Nepal. The study has found that the

current ratio of both the banks was less than that of the benchmark set, indicating both of the banks might have faced problem while meeting the debt. Also, the cash and bank balance to total assets maintained by NBBL was greater than that kept by NSBL, which indicated higher liquidity position in NBBL than in NSBL in terms of cash and bank balance.

The study states that NBBL has better utilization of resources in income generating activity than NSBL. Interest earned to total assets and return on net worth ratio of NBBL is better than NSBL. Moreover, the credit risk ratio of NBBL was greater than that of NSBL. Thus, the collection policy of NSBL was far superior to that of NSBL. Eventually, it seems that overall profitability position of NBBL is better than NSBL and both banks are highly leveraged.

Subedi (2010), has made a study on, “*Financial Performance and Return to Investor of Listed Commercial Banks in Nepal Stock Exchange (with reference to NABIL, SCBNL, HBL & EBL).*” The main objective of the study is to measure the financial performance of banks. The study ascertains that EBL is capable to pay their current obligations in comparison to NABIL, SCBNL, and HBL. Comparatively NABIL has maintained low ratios, it shows some difficulties to meet the demand of its customers on their deposit to pay at any time but it may be earning more by investing cash to different sectors. But it should ensure to have enough liquid funds to different sectors. But it should ensure to have enough liquid funds to serve its customer.

The study claims that NIBL is low capable to maintain cash & Bank balance is comparison to other three banks. SCBNL has invested its more portions of current assets as government securities than that of NABIL, EBL & HBL. SCBNL liquidity portion from the point of view of investment on government securities is better than that of other three banks. NABIL has succeeded to investment its fund in loan and advances. From the analysis of assets management ratio EBL has strong position regarding the mobilization of total

deposit on loan and advance and acquiring higher profit with compare to NABIL, SCBNL, & HBL. EBL is in weak condition to mobilize its deposits by investing in different sector in comparison of other three banks. In profitability ratio, it has been concluded that NABIL is in strong position in the earning capacity by utilizing available resources than other banks. It's less consistent and homogenous than SCBNL & more than HBL and EBL. NABIL is in strong position is earning high interest income from its total outside assets is comparison to SCBNL & HBL.

Raut (2010), has made a study on, "*Financial Performance and Investors' Return on Listed Commercial Banks.*" The major objective of this study is to analyze the performance of listed companies and return to their investors. The study reveals that the liquidity position NSBI has maintained the higher liquidity. Further, cash and bank balance in liquidity position of SCBNL is more consistent than EBL & NSBI. In overall, the mean ratio of investment in government securities to current assets ratio of SCBNL is higher than NSBI, EBL, BOK and NABIL.

The study substantiates that the overall mean ratio of loan and advances to total deposit ratio of BOK is higher than that of NNSBI, EBL, NABIL and SCBNL, in side of co-efficient of variation of above banks EBL has 4.55% which is comparatively lower than NABIL, SCBNL, BOK and NNSBI i.e. 4.59%, 6.95%, 7.45% and 16.15%. Also, NSBI is utilizing a highest debt among the sample banks. EBL has more consistency than other sample banks. The mean ratio of Debt-equity ratio of SCBNL is lowest mean ratio than other, it declared that SCBNL has lowest debt cost and higher investment from equity fund.

Joshi (2010), conducted her master's thesis on "*Financial Performance of Joint Venture Banks in Nepal with reference to Everest Bank Limited*" had objectives to evaluate liquidity, profitability, capital structure, turnover, cost effectiveness and growth position of EBL and she found that the liquidity

position of EBL is efficient .it showed that EBL cannot maintain the convenient standard of current ratio. Beside it can also concluded that saving deposit of bank increasing trend as compared to fixed deposit. In addition, EBL has used higher proportion of debt in their capital structure financing assets from capital structure of EBL appears to be levered EBL follows more risk more profit strategy. Bank is not able to maintain the capital Adequacy ratio as directed by NRB. EBL is maintaining its interest coverage ratio. Beside, bank is utilizing more outsiders' funds in order in order to extend loan and advances to generate profit. But the profitability ratio of the bank is not favorable condition.

Maharjan (2010), conducted his master's thesis on “*A Comparative Study of Financial Performance of Commercial Bank (with reference to Himalayan Bank Limited, Nepal Investment Bank Limited and Everest Bank Limited)*” had main objectives to identify the relationship between net profit with respect to deposit, loan and advance and investment and to analyze financial performance of sample banks in terms of liquidity, profitability , growth, leverage and capital adequacy , and reached to the conclusion , the overall performance of sample banks found to be satisfactory. All sample banks are not strong in all performance. Some are strong in liquidity point of view, EBL found to be comparatively better than sample banks because HBL and NIBL have aggressive working policy. All the sample banks are comparatively successful in assets and deposits in profitable sectors in form of loan and advance, investment in government securities and shares and debenture.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

This research work tried to analyze the comparative performance of commercial banks in the present generation. The present study consists of analytical as well as descriptive design. The study is based on secondary data of only two commercial banks, which represents almost same strategic groups. Financial as well as statistical tools are used to analyze and to interpret.

3.2 Population and Sample

In the present context, there are 31 commercial banks operating in Nepal. The study of these banks within this research is almost impossible. Hence, considering these numbers of banks as total population, two banks within from these total population has been taken as sample and tried to achieve the objective set out by analyzing the data.

3.3 Sources of Data

The study is based on secondary data, and the data are collected from various sources. The secondary data was collected by reviewing the annual reports, brochures, prospectus of the concerned banks.

3.4 Data Analysis Tools

Financial performance is analyzed with two important tools. The first most important tool is the financial tool, which includes ratio analysis and another is a statistical tools.

3.4.1 Financial Tools

Under this, mainly the ratio analysis has been used. The ratio analysis is the powerful tool of financial analysis, which helps in identifying the strength and weakness of an organization or business concern about the financial

performance. The technique of ratio analysis is the part of the whole process of the analysis of financial statement of any business or industrial concern, especially to take output and credit decision. In the financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of the firm. The following ratios are going to be analyzed under the financial performance analysis of selected two commercial banks.

A) Liquidity Ratio

Liquidity ratio is a rigorous measure of a firm's ability to serve its short-term obligation. It reflects the short-term financial solvency of a firm as a whole or it is employed as a measurement of a company's liquid position. The firm should remain an appropriate liquidity neither excess nor less to meet its short-term obligation when they become due. Inadequate liquidity can lead to unexpected cash dearth. A very high degree of liquidity is also not good as ideal assets earn nothing, leading to fewer assets yield and contributing to poor earning performance. Important liquidity ratios that have been used in the study are listed below:

a. Cash and Bank Balance to Total Assets Ratio

Cash and bank balance to total assets ratio measures the liquidity of the bank. In other words, it represents the capacity of bank to meet unexpected demand made by depositors, i.e. current account holders, saving depositors, call and other depositors, and by other creditors. This ratio is computed by using the following formula.

$$\text{Cash in Hand to Total Assets Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total Assets}}$$

b. Fixed Deposit Total Deposit Ratio

Fixed deposit is a long-term and high interest bearing deposit. More Fixed deposit may be an advantage if it can be invested in long-term credit. This ratio is calculated in order to find out the proposition of fixed deposit in total deposit. Fixed deposits are long-term deposit and banks can mobilize them on

investment, loan and advances. Fixed deposit to total deposit ratio can be cash by dividing the amount of fixed deposit by amount of total deposit.

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

B) Efficiency Ratio

Efficiency Ratio or activity ratio or utilization ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effective use of resources of a firm. It indicates how quickly certain current assets are converted into cash. Higher the rate means more efficient in management on the utilization of its resources and vice-versa. Following Ratios are used under efficiency ratio;

a. Interest Expenses on Deposit to Total Deposit Ratio

Commercial banks not only make profit from the deposit but also pay interest to the deposit holders. This ratio measures the amount of interest paid on accepting deposit by the banks to its account holders. Lower the ratio is considered better and vice versa.

$$\text{Interest Expenses to Total Deposit Ratio} = \frac{\text{Interest Expenses on Deposit}}{\text{Total Deposit}}$$

b. Loans and Advance to Total Deposit Ratio

This Ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the fur pose of profit generating. The ratio is calculated by dividing loans and advances by total deposits.

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

c. Credit Risk Ratio

The non performing loan to total loan measures credit risk on the total loan and thus represents the quality of the assets the bank is carrying on. Higher the ratio indicates higher credit risk on the assets and vice-versa.

$$\text{Credit Risk Ratio} = \frac{\text{Non Performing Loan}}{\text{Total Loan}}$$

d. Loan and Advances to Total Assets Ratio

Loan and advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets. A high ratio is more desirable to the bank and indicates more successful to mobilize the total assets.

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

e. Investment in Government Securities

The bank should not only efficiently mobilize its fund to loan and advances but also to the government securities to gain interest income. Thus, under this section, the efficiency of the bank in generating interest from investment in government securities has been analyzed.

$$\begin{aligned} &\text{Interest Income to Government Securities} \\ &= \frac{\text{Interest Earned from Government Securities}}{\text{Total Investment in Government Securities}} \end{aligned}$$

f. Per Employee Expenses

A bank should be efficient enough to control the exaggerated expenses, which can also be caused through the employee expenses. Since, high operation cost, including employee expenses, decreases the profitability of the bank, the bank should pay concern in decreasing the per employee expenses to the reasonable level.

$$\text{Per Employee Expenses} = \frac{\text{Employee Expenses}}{\text{Number of Employees}}$$

g. Net Profit to Loan and Advances

An important ratio that looks at a company's profit in relation to the loan and advances disbursed. This ratio is most useful when compared against other companies in the same industry. Ideally, a company wants the highest profit to loan and advances as possible, as it denotes higher efficiency.

$$\text{Net Profit to Loan and Advances} = \frac{\text{Net Profit}}{\text{Loan and Advances}}$$

C) Leverage Ratio

Leverage ratio, also known as capital structure ratio, indicates the proportionate relationship between debt and equity. Leverage ratios are concerned with the long term solvency of the bank and show the proportion of outsiders fund and shareholder's fund of the bank.

a. Debt-Equity Ratio

The appropriate ratio of debt to equity varies according to the nature of the business and the volatility of cash flows. This ratio brings out the relation between total debts and equity funds. It is determined to measure the firm's obligations to total creditors in relation to the funds invested by the owners. Total debt to equity ratio can be computed by using the following formula:

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

b. Interest Coverage Ratio

A ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period:

$$\text{ICR} = \frac{\text{EBIT}}{\text{Interest Expenses}}$$

D) Profitability Ratio

Profit is the ultimate output of a company and its existence is not justified if it fails to make sufficient profit. Therefore the company should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of the company.

a. Net Profit Margin

A ratio of profitability calculated as net income divided by revenues. It measures how much out of every dollar of sales a company actually keeps in earnings. Profit margin is very useful when comparing companies in similar industries. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors.

$$\text{Net Profit Margin} = \frac{\text{NPAT}}{\text{Total Interest Income}}$$

b. Return on Total Asset Ratio

Return on total assets explains the contribution of assets to generating net profit. This ratio indicates efficiency towards of assets mobilization. In other words return on total assets ratio is an overall profitability rate, which measure earning power and overall operation efficiency of a firm. This ratio helps the management in identifying the factors that have a bearing on overall performance of the firm.

$$\text{Return on Total Assets} = \frac{\text{NPAT}}{\text{Total Assets}}$$

c. Return on Shareholders' Equity

Return on shareholders' equity reflects how well the firm has used the capital of the owner's. The earning of satisfactory return is the most desirable objective of business as common or ordinary shareholders are entitled to the residual profits. It is calculated by dividing profit after tax by shareholders' equity.

$$\text{ROSE} = \frac{\text{Net Profit after Tax}}{\text{Shareholders' Equity}}$$

d. Return on Capital Employed

This ratio measures the capability of the bank in generating the profit through optimal utilization of capital employed. The capital employed encompasses the shareholders' equity and long term debt. Higher the ratio is preferable.

$$\text{ROCE} = \frac{\text{Net Profit after Tax}}{\text{Total Capital Employed}}$$

e. Return on Total Deposit Ratio

Return on total deposit ratio measure how efficiently the deposits have been mobilized. It reveals the relationship between net profit after tax and total deposits. It explains the ability of management in efficient mobilization of deposit in earning profit. The ratio is calculated as:

$$\text{Return on Total Deposits Ratio} = \frac{\text{NPAT}}{\text{Total Deposits}}$$

f. Interest Earned to Total Assets Ratio

This ratio measures the ability of the bank in yielding the interest through optimal utilization of total. The higher the ratio reflects higher the capability of the bank in mobilization of total assets.

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

g. Interest paid to Interest Income Ratio

Interest paid to interest income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different source. Higher ratio indicates that the bank has paid higher amount of interest on liabilities in relation to interest income and vice versa.

$$\text{Interest Paid to Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}}$$

h. Earnings Per Share

The profitability of the common shareholder's investment can also be measured in term of earning per share. The earning per share is calculated by dividing the profit after tax by total number of common share outstanding.

$$\text{Earning Per Share} = \frac{\text{NPAT}}{\text{No. of Common Shares}}$$

i. Dividend Per Share

The net profit after tax belongs to shareholders. But the income, which they really receive, is the amount of earning distributed as dividends. Therefore, a large number of present and potential investors may be interested in dividend per share rather than earning per share. DPS is the earnings distributed to ordinary shareholders divided by the number of ordinary shares outstanding.

$$\text{Dividend Per Share} = \frac{\text{Dividend Paid}}{\text{No. of Common Shares}}$$

j. Dividend Payout Ratio

Dividend payout ratio indicates the percentage amount of dividend paid to shareholders out of earning per share, i.e. this ratio reflects at what percentage of net profit is to be distributed in terms of dividend and what percentage is to be retained in company as retained earning.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earning Per Share}}$$

3.4.2 Statistical Tools

a. Arithmetic Mean

Arithmetic mean of a given set of observations is the sum of th observation divided by the number of observations. In such a case all the items are equally important. Simple arithmetic means is used in this study as per necessary for analysis.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where, $\sum X$ = Sum of all values of the observations

n = Number of observation

x = Value of variable

b. Standard Deviation

The standard deviation is usually denoted by the letter (σ). Karl Pearson suggested it as a widely used measure of dispersion and defined as the square root of the sum of squares of deviations of observations from their arithmetic mean of a set of values. It is also known as root mean square deviation. Standard deviation, in this study has been used to measure the degree of fluctuation of interest of the analysis.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{N}}$$

c. Coefficient of variation

The relative measure of dispersion based on standard deviation is called coefficient of standard deviation and 100 times coefficient of standard deviation is called coefficient of variation. It is denoted by C.V. Thus,

$$\text{C.V.} = \frac{\sigma}{\bar{X}} \times 100$$

Where, σ = Standard Deviation

\bar{X} = Mean value of variables

The distribution having less C.V is said to be less variable or more consistent. A distribution having greater C.V is said to be more variable or less consistent.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Secondary Data Analysis

To achieve the objective of the study, the secondary data have been extensively used. Under this section, the data extracted from the annual reports of the banks have been analyzed and attempted to gauge the financial performances.

4.1.1 Liquidity Ratio

Liquidity ratio is a class of financial metrics used to help determine a company's ability to pay off its short-term debt obligations. Generally, the higher the value of the ratio is, the larger the margin of safety that the company possesses to cover short-term debts.

4.1.1.1 Cash and Bank Balance to Total Assets Ratio

Neither too much cash nor too less cash is considered good. Keeping higher amount cash obviously represents good liquidity but in contrast decreases profitability.

Table 4.1
Cash and Bank Balance to Total Assets Ratio (Ratio in %)

Fiscal Year	HBL			EBL		
	CBB	TA	Ratio	CBB	TA	Ratio
2005/06	1717.35	29460.39	5.83	1552.96	15959.28	9.73
2006/07	1757.34	33519.14	5.24	2391.42	21432.57	11.16
2007/08	1448.14	36175.53	4.00	2667.97	27149.34	9.83
2008/09	3048.53	39320.32	7.75	6164.37	36916.84	16.70
2009/10	3866.49	42717.12	9.05	7818.81	41382.76	18.89
Mean			6.38			13.26
S.D.			1.80			3.80
C.V.%			28.29			28.66

(Source: Appendix-I)

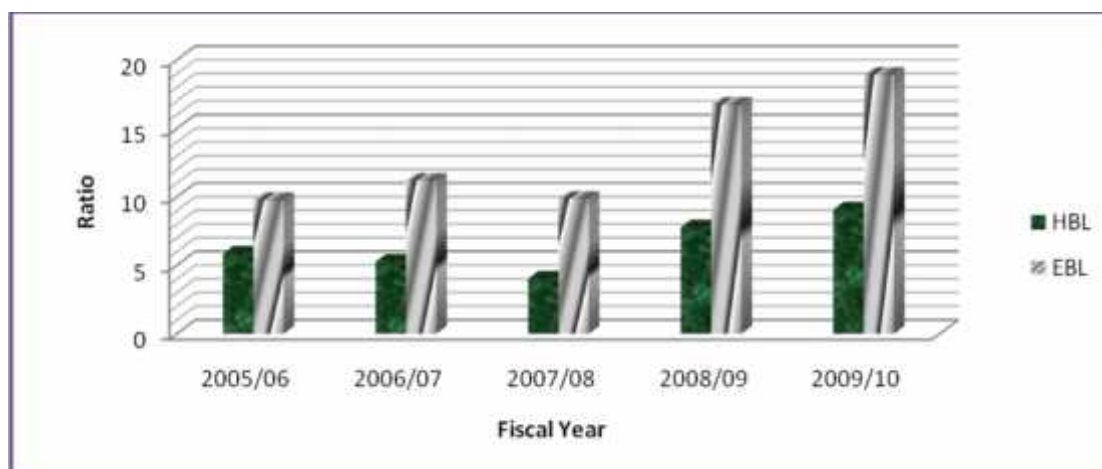
The table shows that the cash and bank balance of HBL for the periods taken for research is in fluctuating trend. The ratio is 5.83% in the fiscal year 2005/06, which decreased to 5.24% in the fiscal years 2006/07, again decreased to 4.00% in the fiscal years 2007/08, then increased to 7.75% in the fiscal year 2008/09 and is finally 9.05% in the fiscal year 2009/10. In average, the cash and bank balance has occupied 6.38% of the total assets for the five years period. However, the coefficient of variation of 28.29% indicated that the ratio is inconsistent, which has also been verified by the table.

Similarly, the cash and bank balance to total assets ratio of EBL has fluctuated during the entire period. The ratio has ranged from 9.73% in the fiscal year 2005/06 to 18.89% in the fiscal year 2009/10. Likewise, the ratio is 13.26% of the total assets in average, which indicates that the company has given high consideration for maintaining the adequate liquidity. The coefficient of variation on such ratio is 28.66%, which also indicates higher inconsistency in the ratio. Thus, the wide difference in the ratio among the five years period indicates that the company has better policy of keeping the cash reserve in consideration of total assets.

Comparing two banks on the basis of average cash and bank balance to total assets, it can be considered that the cash occupies more percentage of total assets in EBL than in HBL and hence EBL's liquidity position is better than HBL's liquidity position on the basis of this ratio. However, the ratio is negligibly more uniform in HBL than in EBL.

Figure 4.1

Cash and Bank Balance to Total Assets Ratio



4.1.1.2 Fixed Deposit to Total Deposit Ratio

The higher the proportion of fixed deposits, the lower the proportion of current, saving or short-term deposit in the total deposit. This situation shows higher short-term liquidity position of the bank.

Table 4.2

Fixed Deposit to Total Deposit Ratio (Ratio in %)

Fiscal Year	HBL			EBL		
	FD	TD	Ratio	FD	TD	Ratio
2005/06	6350.20	26490.85	23.97	4242.35	13802.44	30.74
2006/07	8201.13	30048.42	27.29	5626.66	18186.25	30.94
2007/08	6423.87	31842.79	20.17	6446.18	23976.30	26.89
2008/09	6377.13	34681.34	18.39	7049.98	33322.95	21.16
2009/10	11328.64	37611.20	30.12	10440.28	36932.31	28.27
Mean			23.99			27.60
S.D.			4.35			3.56
C.V.%			18.12			12.91

(Source: Appendix-I)

The Table 4.2 shows the ratio of fixed deposit to total deposit of the sampled banks. The table delineates that the ratio in HBL has increased from 23.97% in the fiscal year 2005/06 to 27.29% in the fiscal year 2006/07, and then the ratio

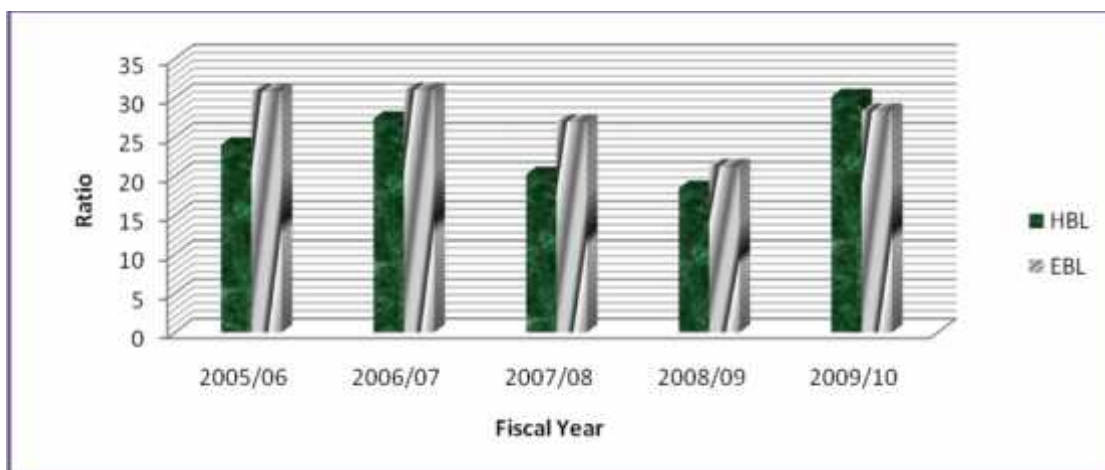
has decreased to 20.17% in the fiscal year 2007/08, again it has decreased to 18.39% in the fiscal year 2008/09, and finally it has increased to 30.12% in the fiscal year 2009/10. In average, 23.99% of the total deposit of HBL has been represented by the fixed deposit. And the coefficient of variation on such ratio is 18.12%, indicating inconsistency in the ratio.

Further, the ratio is in fluctuating trend in case of EBL. The fixed deposit has covered 30.74% of the total deposit in the fiscal year 2005/06, which increased to 30.94% in the fiscal year 2006/07. Similarly, the fixed deposit has represented 26.89%, 21.16% and 28.27% of the total deposit in the fiscal year 2007/08, 2008/09 and 2009/10 respectively. In average, 27.60% of the total deposit of EBL has been collected through the fixed deposit.

Comparing two banks, it can be concluded that EBL has remained more successful than HBL in maintaining higher proportion of fixed deposit to total deposit and hence mobilized higher portion of total deposit in investment. Thus, it can be inferred that in comparison to HBL, EBL needs low liquidity to meet the emergence requirement of depositors.

Figure 4.2

Fixed Deposit to Total Deposit Ratio



4.1.2 Efficiency Ratios

Efficiency ratio is employed to measure the efficiency which the organization manages and utilize its resources. This ratio indicates the efficiency, speed and rapidity with which the assets have been used or converted into income. Regardless of which ratio calculation method is used, the efficiency ratio's purpose is to evaluate how efficiently the collected fund has been mobilized incurring less cost.

4.1.2.1 Interest Expenses to Total Deposit Ratio

This ratio is analyzed to find out how much the banks were successful to accept deposit at cheaper cost. Generally, the ratio with decreasing trend is preferred.

Table 4.3
Interest Expenses to Total Deposit Ratio (Ratio in %)

Fiscal Year	HBL			EBL		
	IED	TD	Ratio	IED	TD	Ratio
2005/06	613.88	26490.85	2.32	383.39	13802.44	2.78
2006/07	732.62	30048.42	2.44	499.17	18186.25	2.74
2007/08	773.27	31842.79	2.43	608.98	23976.30	2.54
2008/09	260.93	34681.34	0.75	987.48	33322.95	2.96
2009/10	709.66	37611.20	1.89	1537.52	36932.31	4.16
Mean			1.96			3.04
S.D.			0.64			0.58
C.V.%			32.51			19.04

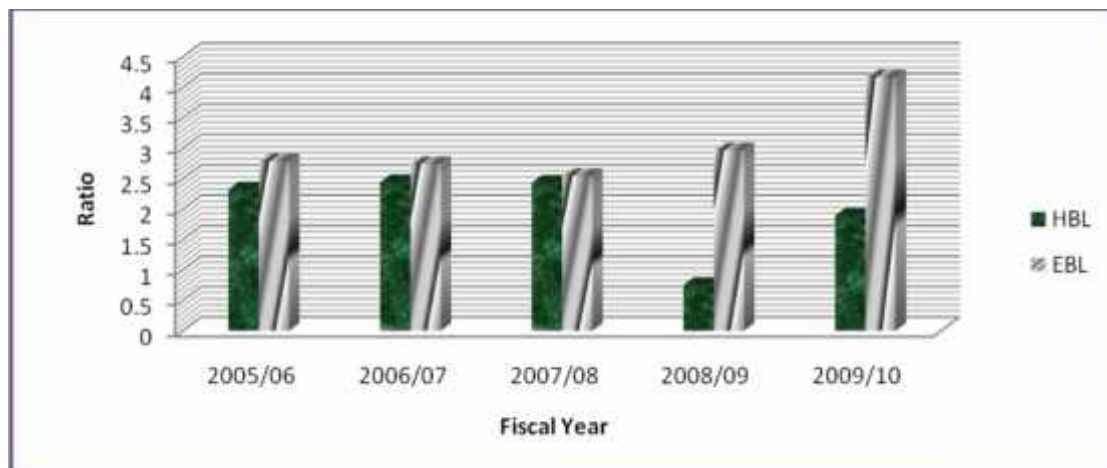
(Source: Appendix – I)

The table depicts the ratio of interest expenses, which is incurred for deposit, to the total deposit. The table shows that the ratio in all two banks fluctuated during the entire period. The ratio in HBL is 2.32%, 2.44%, 2.43%, 0.75% and 1.89% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. HBL has incurred 1.96% of the total deposit as interest expenses in average. Further, the coefficient of variation of 32.51% has indicated higher inconsistency in the ratio.

In EBL, the ratio has decreased for the first three years, i.e. from 2.78% in the fiscal year 2005/06 to 2.54% in the fiscal year 2008/09, and then increased in the remaining years, and hence by the end of the fiscal year 2009/10, the ratio has been measured to be 4.16%. In average, EBL has incurred 3.04% of the total deposit as interest expenses. The coefficient of variation on such ratio is 19.04%.

Comparing two banks on the basis of average interest expenses to total deposit ratio, it can be concluded that HBL has more control over cost and thus remained more successful to reduce interest expenses. However, it would be worthwhile if EBL promotes the non-interest bearing and lower interest bearing account and thus reduces the interest expenses, and eventually increases the net profit.

Figure 4.3
Interest Expenses to Total Deposit Ratio



4.1.2.2 Loan and Advances to Total Deposit Ratio

This ratio measures the banks' ability to mobilize the depositor's fund to earn profit by providing loans and advances. A high ratio indicates higher efficiency to utilize depositor's fund and vice-versa.

Table 4.4
Loan and Advances to Total Deposit Ratio (Ratio in %)

Fiscal Year	HBL			EBL		
	LA	TD	Ratio	LA	TD	Ratio
2005/06	15761.98	26490.85	59.50	10136.25	13802.44	73.44
2006/07	17793.72	30048.42	59.22	14082.68	18186.25	77.44
2007/08	20179.61	31842.79	63.37	18836.43	23976.30	78.56
2008/09	25519.52	34681.34	73.58	24469.55	33322.95	73.43
2009/10	29123.75	37611.20	77.43	28156.40	36932.31	76.24
Mean			66.62			75.82
S.D.			7.50			2.08
C.V.%			11.26			2.75

(Source: Appendix – I)

The table demonstrates the loan and advances to total deposit of the selected banks, viz, HBL and EBL. The table shows that the ratio of loan and advances to total deposit of HBL is found to be in increasing trend except in the fiscal year 2006/07. The ratio is 59.50% in the fiscal year 2005/06 and increased to 77.43% in the fiscal year 2009/10. In average, 66.62% of the total deposit of HBL is utilized in providing loans and advances and the coefficient of variation on such ratio is 11.26% only.

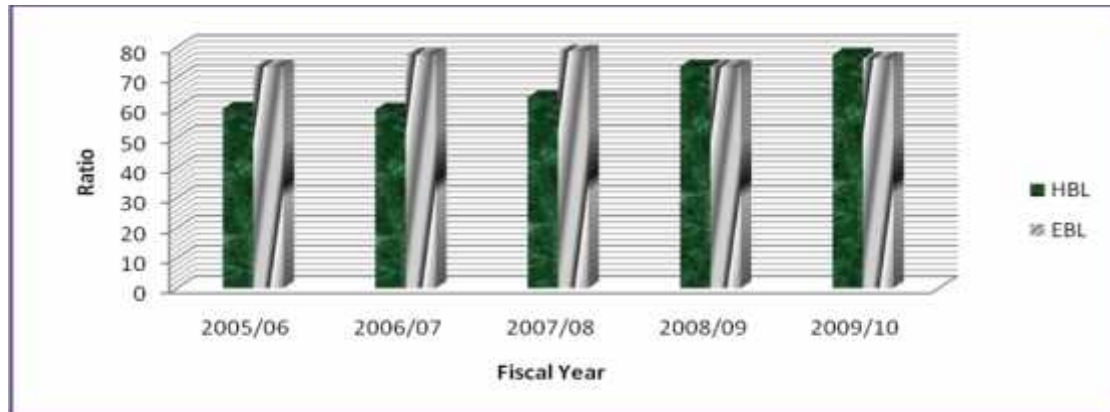
However, the ratio in EBL increased for the first three years, i.e. from 73.44% in the fiscal year 2005/06 to 78.56% in the fiscal year 2007/08, and then decreased to 73.43% in the fiscal year 2008/09, and again increased to 76.24% in the fiscal year 2009/10. In average, EBL has mobilized 75.82% of the total deposit in disbursing loans and advances.

Undoubtedly, the loan and advances is the major use of the fund collected through the deposits. Paraphrasing the analysis, it can be inferred that both the banks have aggressively mobilized the deposit in loan and advances. However,

comparing two banks, it can be concluded that EBL has highly utilized the collected deposit in granting loan and advances than HBL does.

Figure 4.4

Loan and Advances to Total Deposit Ratio



4.1.2.3 Credit Risk Ratio

The chance of turning loan into default is obvious in banking sector. Thus, the presence of non performing loan is not eccentric in banking activities. However, the bank should be efficient enough to decrease the non performing loan and the credit risk that arises from the presence of such loan. A low ratio indicates more efficiency in controlling credit risk and vice-versa.

Table 4.5

Credit Risk Ratio (Ratio in %)

Fiscal Year	HBL			EBL		
	NPL	LA	Ratio	NPL	LA	Ratio
2005/06	1040.76	15761.98	6.60	129.23	10136.25	1.27
2006/07	641.61	17793.72	3.61	113.18	14082.68	0.80
2007/08	477.23	20179.61	2.36	127.31	18836.43	0.68
2008/09	551.31	25519.52	2.16	117.98	24469.55	0.48
2009/10	1024.83	29123.75	3.52	43.71	28156.40	0.16
Mean			3.65			0.68
S.D.			1.59			0.37
C.V.%			43.50			54.51

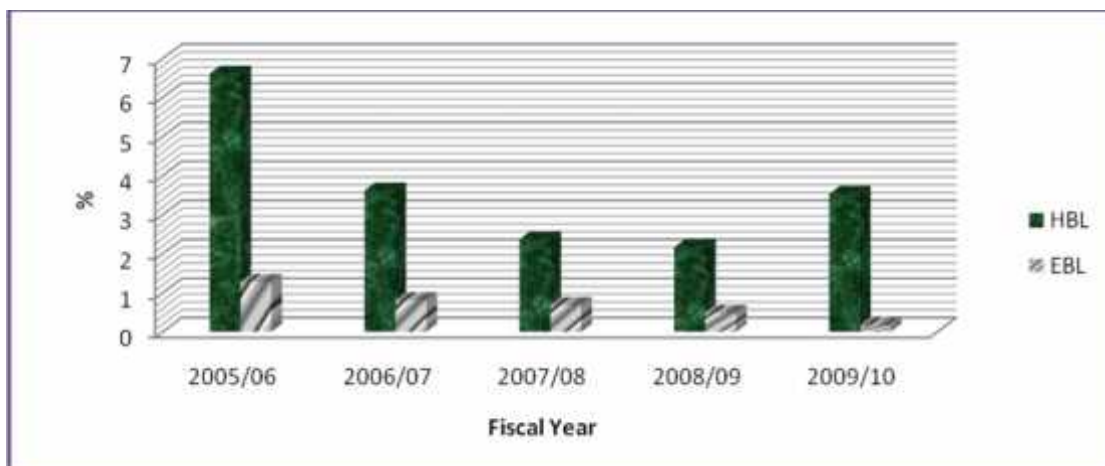
(Source: Appendix-I)

The table shows that the non performing loan of HBL has been in fluctuating trend, and thus it has ranged from Rs. 477.23 millions in the fiscal year 2007/08 to Rs. 1040.76 millions in the fiscal year 2005/06. HBL has been partly successful to decrease the credit risk ratio in the first four fiscal years. The credit risk ratio of HBL has thus decreased from 6.60% in the fiscal year 2005/06 to 2.16% in the fiscal year 2008/09. However, such ratio is 3.52% in the fiscal year 2009/10. In average, the credit risk ratio of the bank is 3.65% with the variation of 43.50%, indicating high inconsistency.

Similarly, in each fiscal year, EBL has been successful to decrease the non performing loan. The non performing loan of the bank has thus observed to have been decreased from Rs. 129.23 millions in the fiscal year 2005/06 to Rs. 43.71 millions in the fiscal year 2009/10. Further, the credit risk ratio of the bank has also been considerably decreased in each fiscal year. The credit risk ratio of EBL is 1.27%, 0.80%, 0.68%, 0.48% and 0.16% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In average, EBL the credit risk represent 0.68% of the loans and advances, which implies.

Comparing two banks, it can be concluded that EBL is more efficient in minimizing the credit risk and thus preventing the loan to turn in default than HBL, as the credit risk ratio is lower in EBL.

Figure 4.5
Credit Risk Ratio



4.1.2.4 Loan and Advances to Total Assets Ratio

Loan and advances to total assets ratio reflects the extent to which the bank is successful in mobilizing its total assets on loan and advance for the purpose of income generating. It is calculated by dividing loan and advances by total assets. A high ratio is more desirable to the bank and indicates more successful to mobilize the total assets.

Table 4.6
Loan and Advances to Total Assets Ratio (Ratio in %)

Fiscal Year	HBL			EBL		
	LA	TA	Ratio	LA	TA	Ratio
2005/06	15761.98	29460.39	53.50	10136.25	15959.29	63.51
2006/07	17793.72	33519.14	53.09	14082.68	21432.57	65.71
2007/08	20179.61	36175.53	55.78	18836.43	27149.35	69.38
2008/09	25519.52	39320.32	64.90	24469.55	36916.83	66.28
2009/10	29123.75	42717.12	68.18	28156.40	41382.76	68.04
Mean			59.09			66.58
S.D.			6.24			2.01
C.V.%			10.56			3.02

(Source: Appendix-I)

The table shows that the loans and advances to total assets ratio of HBL is found to be in increasing trend, except in the fiscal year 2006/07. The loans and advances to total deposit ratio has ranged from 53.09% in the fiscal year 2006/07 to 68.18% in the fiscal year 2009/10. In average, 59.09% of the total assets of HBL is covered by loans and advances amount. The coefficient of variation on such ratio is only 10.56%, indicating satisfactory consistency in the ratio.

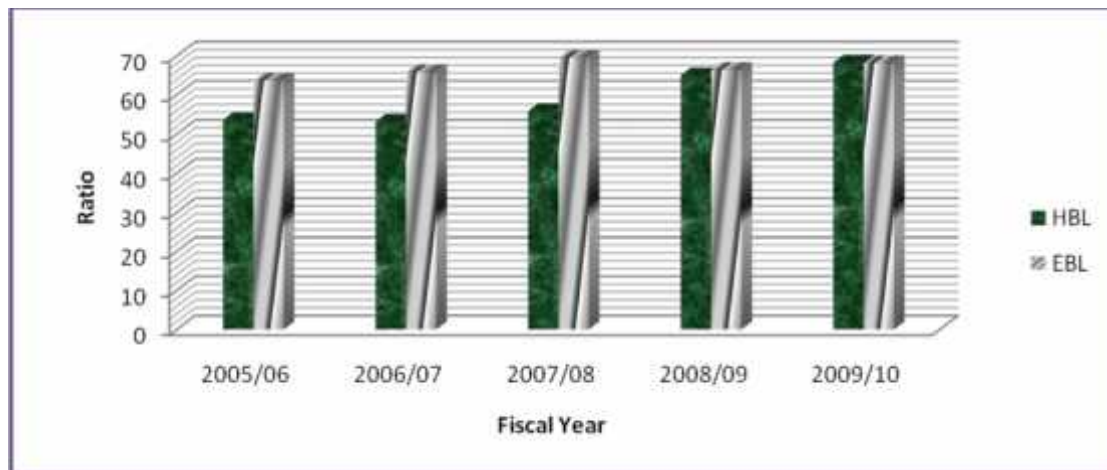
Similarly, the ratio in EBL has oscillated in the study period. The ratio is 63.51% initially in the fiscal year 2005/06, which has increased to 65.71% in the fiscal year 2006/07, then increased to 69.38% in the fiscal year 2007/08, and decreased to 66.28% in the fiscal year 2008/09 and finally reached to

68.04% in the fiscal year 2009/10. In average, the loans and advances has occupied 66.58%, i.e. almost two-third, of the total assets of EBL. The average ratio directly indicates that the loans and advances only occupied the major place in total assets.

Comparing two banks, it can be concluded that EBL has been more successful than HBL in mobilizing total assets in loans and advances. However, the higher ratio also indicates that the total asset of EBL is more risky than that of HBL.

Figure 4.6

Loan and Advances to Total Assets Ratio



4.1.1.5 Investment in Government Securities

The bank earns interest through the investment in government securities as well. Thus, investment in government securities is crucial for banking income. The bank should be efficient enough in mobilizing the fund in government securities to yield the satisfactory return.

Table 4.7
Investment in Government Securities (Ratio in %)

Fiscal Year	HBL			EBL		
	IGS	GS	Ratio	IGS	GS	Ratio
2005/06	172.24	5144.32	3.35	97.27	3548.61	2.74
2006/07	191.56	6454.88	2.97	128.57	4704.63	2.73
2007/08	201.31	7471.66	2.69	180.22	4821.61	3.74
2008/09	354.95	4212.30	8.43	289.76	5146.05	5.63
2009/10	216.04	4465.37	4.84	238.99	4354.36	5.49
Mean			4.45			4.07
S.D.			2.12			1.27
C.V.%			47.57			31.33

(Source: Appendix-I)

The table shows that the investment in government securities of HBL has been increased for the first three years. The investment in government securities of the bank has thus ranged from Rs. 5144.32 millions in the fiscal year 2005/06 to Rs. 7471.66 millions in the fiscal year 2007/08. However, the interest earned on government securities has increased for the first four fiscal years, i.e. from Rs. 172.24 millions in the fiscal year 2005/06 to Rs. 354.95 millions in the fiscal year 2008/09, and then finally decreased to Rs. 216.04 millions in the fiscal year 2009/10. However, the productivity from the investment in government securities has fluctuated during the periods. The interest income on government securities to total investment in government securities has thus ranged from 2.69% in the fiscal year 2007/08 to 8.43% in the fiscal year 2008/09. In average the ratio of HBL is 4.45% of the total investment. And the coefficient of variation is 47.57%, which indicates inconsistency.

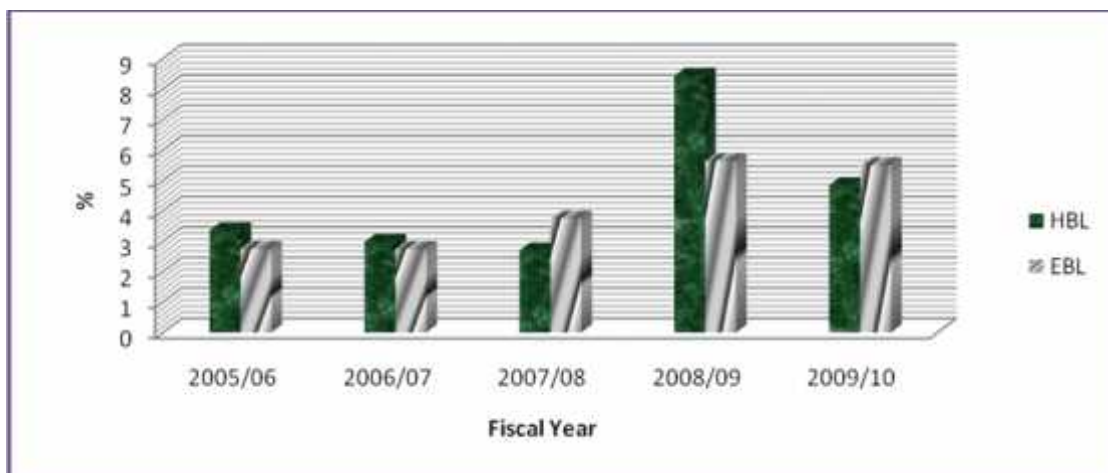
Similarly, in case of EBL, the investment in government securities has been increased for the first four fiscal years, i.e. from Rs. 3548.61 millions in the fiscal year 2005/06 to Rs. 5146.05 millions in the fiscal year 2008/09, and it has been decreased in the fiscal year 2009/10, i.e. Rs. 4354.36 millions in the

fiscal year 2009/10. Further, the interest earned on government securities has increased for the first four fiscal years, and then decreased in the final year 2009/10. The interest on government securities has thus ranged from Rs. 97.27 millions in the fiscal year 2005/06 to Rs. 289.76 millions in the fiscal year 2008/09. Consequently, the interest earning to government securities of the bank has been found to be in fluctuating trend in the five year periods. The ratio is 2.74%, 2.73%, 3.74%, 5.63% and 5.49% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In average, the ratio is 4.07% of the total investment in government securities.

Comparing HBL with EBL in term of investment in government securities, it can be concluded that the HBL is more efficient than EBL in effectively mobilizing the fund in government securities to yield high interest.

Figure 4.7

Investment in Government Securities



4.1.1.6 Per Employee Expenses

A bank should be efficient enough to control the exaggerated expenses, which can also be caused through the employee expenses. Since, high operation cost, including employee expenses, decreases the profitability of the bank, the bank should pay concern in decreasing the per employee expenses to the reasonable level.

Table 4.8
Per Employee Expenses (Ratio in Millions)

Fiscal Year	HBL			EBL		
	Exps.	No.	PEE	Exps.	No.	PEE
2005/06	234.59	561	0.42	70.92	306	0.23
2006/07	290.92	584	0.50	86.12	393	0.22
2007/08	307.53	591	0.52	157.96	449	0.35
2008/09	360.98	591	0.61	186.92	534	0.35
2009/10	414.98	577	0.72	226.36	568	0.40
Mean			0.55			0.31
S.D.			0.10			0.07
C.V.%			18.64			23.05

(Source: Appendix-I)

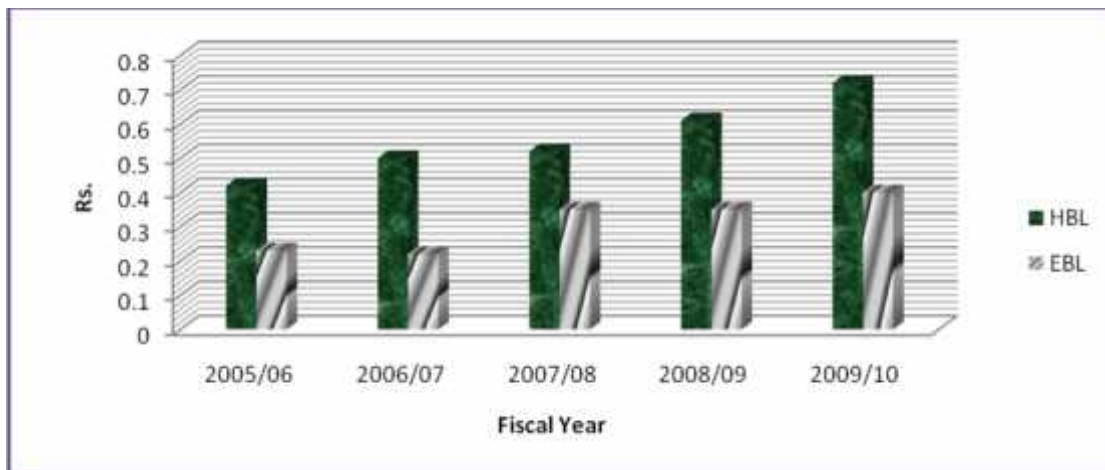
The table manifests that the efficiency of bank in controlling employee expenses. The employee expense of the HBL has increased from Rs. 234.59 millions in the fiscal year 2005/06 to Rs. 414.98 millions in the fiscal year 2009/10. Similarly, the number of recruitment has increased from 561 in the fiscal year 2005/06 to 591 in the fiscal year 2007/08, however, the number has decreased to 577 by the fiscal year 2009/10. Consequently, the per employee expenses of the bank has increased in the each fiscal year. Thus, the per employee expenses of the bank has ranged from Rs. 0.42 millions in the fiscal year 2005/06 to Rs. 0.72 millions in the fiscal year 2009/10. Also, the average per employee expenses of HBL is Rs. 0.55 millions and the ratio has been varied by 18.64%. Analyzing the trend of ratio, it can be inferred that HBL has remained quite inefficient in controlling the expenses. However, such negligence in controlling per employee expenses might be the HBL's policy of providing more incentives to the staff.

Similarly, the ratio in Everest Bank Limited (EBL) has been observed to be Rs. 0.23 millions in the fiscal year 2005/06, Rs. 0.22 millions in the fiscal year 2006/07 and then the bank has maintained the ratio of Rs. 0.35 millions for the

next two fiscal years, i.e. from 2007/08 to 2008/09, and by the end of the fiscal year 2009/10, the ratio has been gauged to be Rs. 0.40 millions. In average, the ratio of the bank is Rs. 0.31 millions, with the variation of 23.05%.

On the basis of per employee expenses, it can be concluded that the EBL is more efficient in controlling cost than HBL, since the average per employee expenses of EBL is lower than that of HBL. However, the ratio of HBL is more consistent than the ratio maintained by EBL.

Figure 4.8
Per Employee Expenses



4.1.1.7 Net Profit to Loan and Advances

This ratio is most useful when compared against other companies in the same industry. Ideally, a company wants the highest net profit through efficient mobilization of loan and advances. Eventually, the higher net profit to loan and advances signals the better capability of the bank in mobilizing the fund to loan and advances that is more lucrative.

Table 4.9
Net Profit to Loan and Advances (Ratio in %)

Fiscal Year	HBL			EBL		
	Profit	LA	Ratio	Profit	LA	Ratio
2005/06	457.46	15761.98	2.90	237.29	10136.25	2.34
2006/07	491.82	17793.72	2.76	296.41	14082.68	2.10
2007/08	635.87	20179.61	3.15	451.22	18836.43	2.40
2008/09	752.83	25519.52	2.95	638.73	24469.55	2.61
2009/10	508.80	29123.75	1.75	831.76	28156.40	2.95
Mean			2.70			2.48
S.D.			0.49			0.29
C.V.%			18.27			11.53

(Source: Appendix-I)

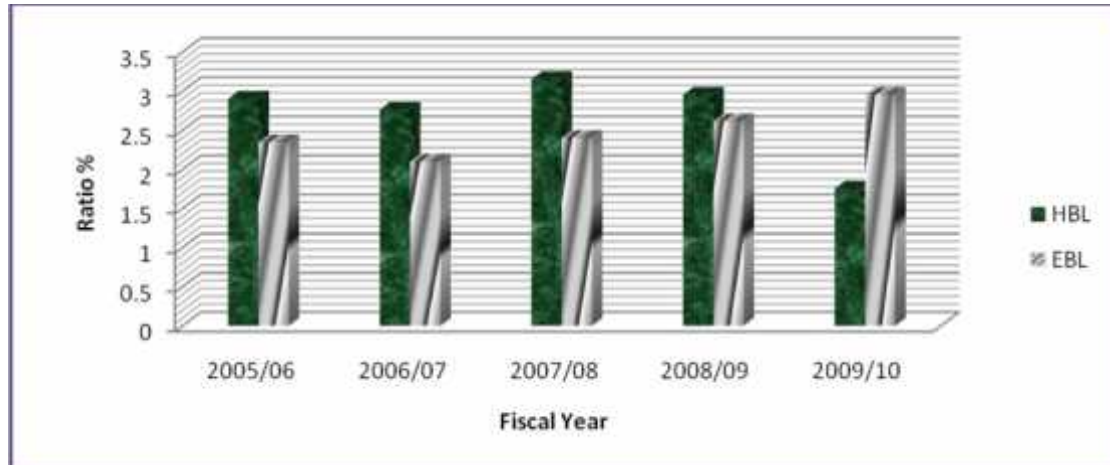
The table shows the efficiency of the banks in turning loan and advances to net profit. The table depicts that the ratio in HBL has remained 2.90% in the fiscal year 2005/06, and then 2.76% in the fiscal year 2006/07, 3.15% in the fiscal year 2007/08, 2.95% in the fiscal year 2008/09 and finally 1.75% in the fiscal year 2009/10. In average, the efficiency of the bank in turning loan and advances to net profit of HBL is 2.70%. In most of the fiscal years, the efficiency of the bank in generating net profit from loan and advances is deteriorating.

However, the efficiency of EBL in generating net profit through granting loan and advances has increased in most of the periods. The ratio is 2.34% in the fiscal year 2005/06 and by the end of the fiscal year 2009/10, the ratio is 2.95%. In average, the net profit to loan and advances of the bank is 2.48%, with the variation of 11.53% in the ratio. More specifically, the EBL has remained more efficient to generate income from loan and advances.

Comparing two banks on the basis of net profit to loan and advances, it can be considered that HBL has been more efficient in optimally utilizing the loan and advances in achieving greater profitability.

Figure 4.9

Net Profit to Loan and Advances



4.1.3 Leverage Ratios

It is the ratio used to calculate the financial leverage of a company to get an idea of that company's methods of financing or measure its ability to meet its financial obligations. There are several ratios, but the main factors evaluated by a ratio include debt, equity, assets, and interest expenses. It reflects the bank's ability to meet its short-term as well as long-term obligations.

4.1.3.1 Debt-Equity Ratio

Generally very high debt to equity ratio is unfavorable to the business. Excess debt allows the third party to have legal claims on the company. Similarly, a very low debt to equity ratio is also unfavorable form the shareholder's point of view as it affects their profitability. A debt-equity ratio measures the relative importance of debt in the capital structure.

Table 4.10
Debt-Equity Ratio (Ratio in Times)

Fiscal Year	HBL			EBL		
	LTD	SE	Ratio	LTD	SE	Ratio
2005/06	504.62	1766.18	0.29	300.00	962.81	0.31
2006/07	595.97	2146.50	0.28	300.00	1201.52	0.25
2007/08	943.18	2512.99	0.38	300.00	1921.24	0.16
2008/09	500.00	3119.88	0.16	612.00	2203.63	0.28
2009/10	500.00	3439.21	0.15	704.60	2759.14	0.26
Mean			0.25			0.25
S.D.			0.09			0.05
C.V.%			34.44			20.70

(Source: Appendix-I)

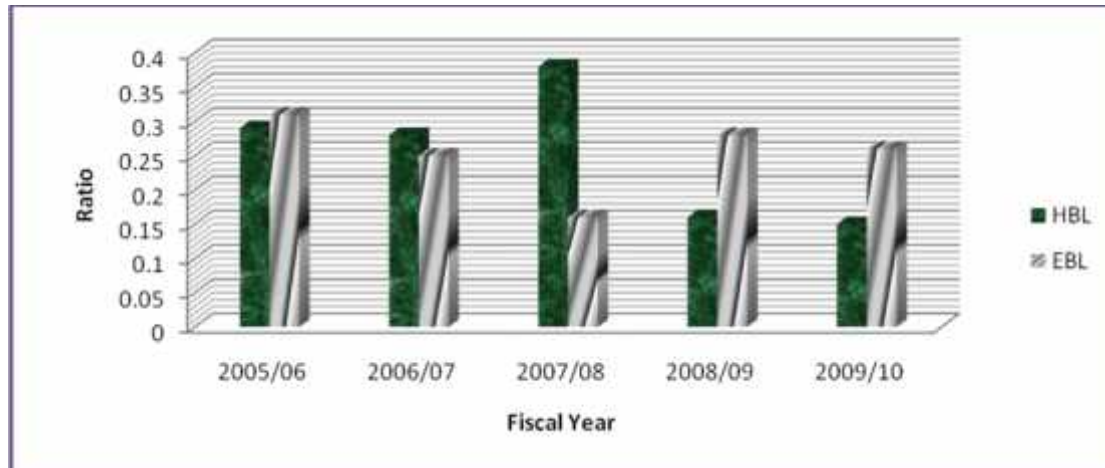
The table 4.10 shows that debt-equity ratio of HBL is 0.29 times, 0.28 times, 0.38 times, 0.16 times and 0.15 times in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The ratio has followed fluctuating trend in the entire periods. However, both the equity capital of HBL has followed increasing trend. The average debt-equity ratio of 0.25 times indicates that HBL used only 25% of the shareholder's equity to finance the assets. The coefficient of variation on such ratio is 34.44%.

Likewise, the debt-equity ratio of EBL is 0.31 times, 0.25 times, 0.16 times, 0.28 times and 0.26 times in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The long term debt financing in first three fiscal years is constant, i.e. 300 millions, and the equity capital of the bank has increased in each fiscal year. However, the average debt-equity ratio of EBL is 0.25 times only, and the coefficient of variation on such ratio is 20.70%.

Comparing HBL with EBL on the ground of debt-equity ratio, it can be concluded that total assets of HBL has precisely the same level of risk than that

of EBL. However, on the basis of the coefficient of variation, it can be said that the debt-equity-ratio is more consistent in EBL.

Figure 4.10
Debt-Equity Ratio



4.1.3.2 Interest Coverage Ratio

It is a measure of a bank's ability to meet its obligations relative to its debt. The lower the ratio, the more the company is burdened by debt expense. An interest coverage ratio below 1 indicates the company is not generating sufficient revenues to satisfy interest expenses.

Table 4.11
Interest Coverage Ratio (Ratio in Times)

Fiscal Year	HBL			EBL		
	EBIT	Int.	ICR	EBIT	Int.	ICR
2005/06	1321.24	648.84	2.04	747.00	401.4	1.86
2006/07	1484.81	767.41	1.93	971.88	517.17	1.88
2007/08	1772.58	823.74	2.15	1291.30	632.61	2.04
2008/09	1934.54	934.78	2.07	1928.46	1012.87	1.90
2009/10	2376.10	1553.53	1.53	2761.57	1572.79	1.76
Mean			1.94			1.89
S.D.			0.22			0.09
C.V.%			11.25			4.85

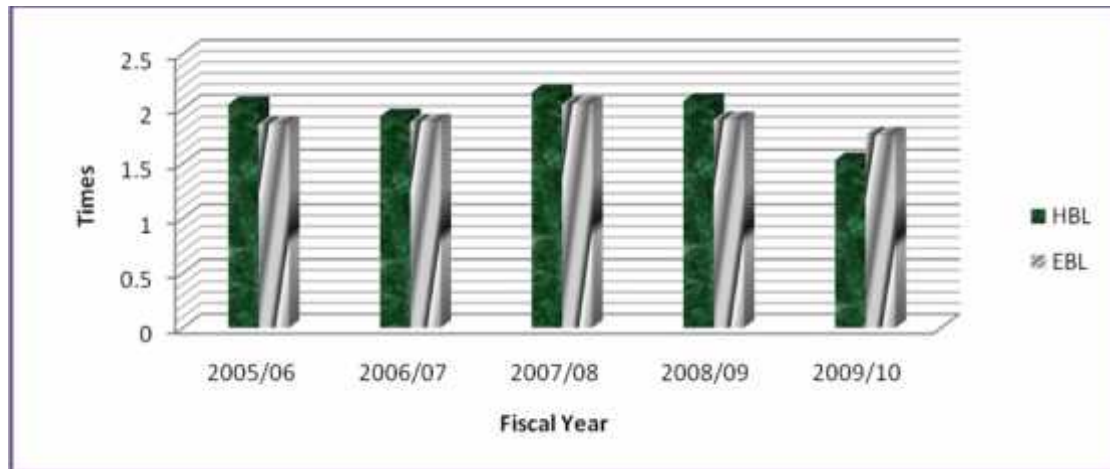
(Source: Appendix-I)

The table shows that the EBIT of HBL has increased throughout the period, along with the increment in interest expenses. The EBIT of the bank has increased from Rs. 1321.24 millions in the fiscal year 2005/06 to Rs. 2376.10 millions in the fiscal year 2009/10, and the interest expenses has increased from Rs. 648.84 millions to Rs. 1553.53 millions in the same period. However, the pace of the increment in EBIT is lower than the pace of the increment in interest expenses, as a result the interest coverage ratio has fluctuated in most of the periods. The interest coverage ratio of the bank has thus ranged from 1.53 times in the fiscal year 2009/10 to 2.15 times in the fiscal year 2007/08. In average, the interest coverage ratio of the bank is 1.94 times, which indicates that the bank is in satisfactory solvency position.

Similarly, the EBIT of EBL has increased from Rs. 747 millions in the fiscal year 2005/06 to Rs. 2761.57 millions in the fiscal year 2009/10, and the interest expenses of the bank has increased from Rs. 404.40 millions to Rs. 1572.79 millions in the same period. Consequently, the interest coverage ratio has increased for the first three fiscal years, i.e. from 1.86 times in the fiscal year 2005/06 to 2.04 times in the fiscal year 2007/08, and then decreased in the last two fiscal years, with 1.76 times by the end of the fiscal year 2009/10. In average, the interest coverage ratio of EBL is 1.89 times with the variation of 4.85%.

Paraphrasing the analysis, it can be inferred that HBL has quite more satisfactory solvency position than EBL does, since the average interest coverage ratio of HBL is higher than that of EBL.

Figure 4.11
Interest Coverage Ratio



4.1.4 Profitability Ratios

Profitability ratio is class of financial metrics that help investors assess a business's ability to generate earnings compared with its expenses and other relevant costs incurred during a specific period. When these ratios are higher than a competitor's ratio or than the company's ratio from a previous period, this is a sign that the company is doing well.

4.1.4.1 Net Profit Margin

This ratio measures the overall profitability of a business by establishing the relationship between net profit and net sales. Higher the ratio is considered better. The net profit margin of HBL and EBL is presented in the Table.

Table 4.12
Net Profit Margin **(Ratio in %)**

Fiscal Year	HBL	EBL
2005/06	35.16	22.25
2006/07	34.90	21.62
2007/08	41.58	24.17
2008/09	39.96	24.92
2009/10	22.13	16.49
Mean	34.75	21.89
S.D.	6.83	2.96
C.V.%	19.66	13.51

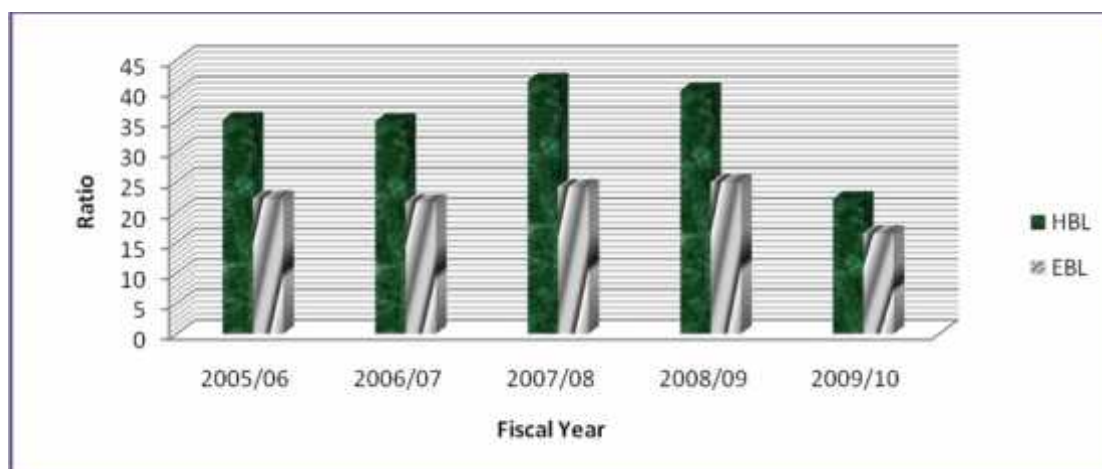
(Source: Financial Reports of HBL & EBL)

The table reveals that the net profit margin of HBL has increased for the first three fiscal years and then decreased in the remaining years. The net profit margin is 35.16% in the fiscal year 2005/06 which has finally reached to 22.13% in the fiscal year 2009/10. In average the net profit margin of HBL is 34.75%. The coefficient of variation on the ratio is 19.66%. The net profit of the bank has not increased in the same pace as the total interest income of the bank has increased; as a result the net profit margin of HBL has diminished in recent periods.

Similarly, the net profit margin of EBL has followed fluctuating trend in the five year periods. The net profit margin of EBL in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 is 22.25%, 21.62%, 24.17%, 24.92% and 16.49% respectively. In average the net profit margin is 21.89%, which elaborates that EBL has earned Rs. 21.89 net profit from per Rs. 100 interest income.

Comparing EBL with HBL, it can be concluded that HBL is more efficient than EBL in terms of controlling cost, since the net profit margin of the HBL is higher than that of EBL.

Figure 4.12
Net Profit Margin



4.1.4.2 Return on Total Assets

This is a measure of how well the company is using its assets to generate earnings. A high return on total assets indicates that the company is investing wisely and is likely profitable; a low return on equity indicates the opposite.

Table 4.13

Return on Total Assets (Ratio in %)

Fiscal Year	HBL			EBL		
	NP	TA	Ratio	NP	TA	Ratio
2005/06	457.46	29460.39	1.55	237.29	15959.29	1.49
2006/07	491.82	33519.14	1.47	296.41	21432.57	1.38
2007/08	635.87	36175.53	1.76	451.22	27149.35	1.66
2008/09	752.83	39320.32	1.91	638.73	36916.83	1.73
2009/10	508.80	42717.12	1.19	831.76	41382.76	2.01
Mean			1.58			1.65
S.D.			0.25			0.22
C.V.%			15.75			13.07

(Source: Appendix-I)

The table 4.13 reveals that the return on total asset of HBL is 1.55% in the fiscal year 2005/06, which has decreased to 1.47% in the fiscal year 2006/07, again increased to 1.76% in the fiscal year 2007/08, increased to 1.91% in the

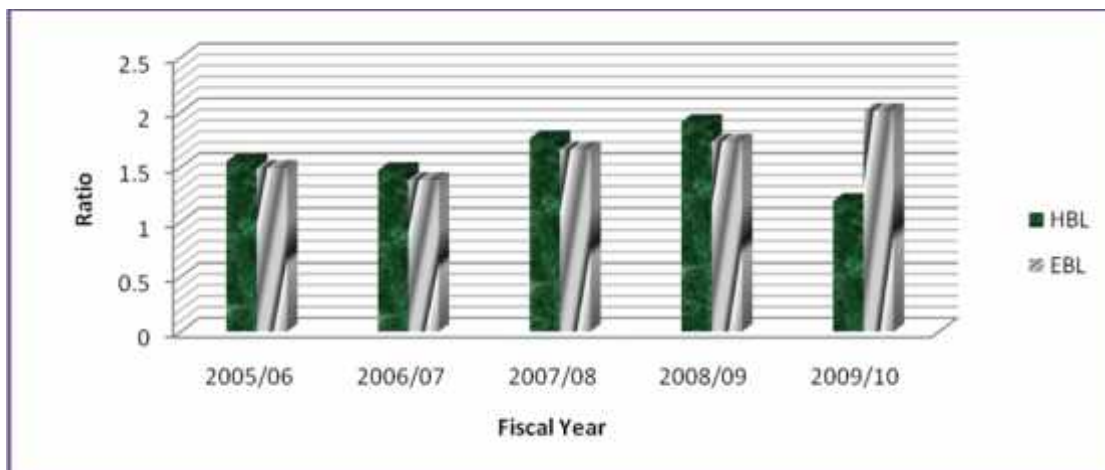
fiscal year 2008/09 and finally decreased to 1.19% in the fiscal year 2009/10. In average, the ratio is 1.58% in the five years period. The average ratio indicates that HBL has generated Rs. 1.58 net profit from Rs. 100 investment in total assets. However, there is 15.75% variation in such earnings.

Also the return on total assets of EBL is 1.49% in the fiscal year 2005/06, which has decreased to 1.38% the fiscal year 2007/08, after then the ratio has increased in the remaining fiscal years, and thus it has finally reached to 2.01% by the end of the fiscal year 2009/10. The average ratio shows that EBL has generated Rs. 1.65 from Rs. 100 investment in total assets.

Comparing HBL with EBL, it can be concluded that HBL has been more successful than EBL in mobilizing total assets to generate net profit, as the return on total assets (ROA) of HBL is greater than that of EBL. However, the ratio of EBL is more consistent than that of HBL, since the coefficient of variation of ROA of EBL (13.07%) is lower than that of HBL (15.75%).

Figure 4.13

Return on Total Assets



4.1.4.3 Return on Equity

It is the measure of the net income that a firm is able to earn as a percent of stockholders' investment. Many analysts consider ROE the single most

important financial ratio applying to stockholders and the best measure of performance by a firm's management.

Table 4.14
Return on Equity (Ratio in %)

Fiscal Year	HBL			EBL		
	NP	SE	Ratio	NP	SE	Ratio
2005/06	457.46	1766.18	25.90	237.29	962.81	24.65
2006/07	491.82	2146.50	22.91	296.41	1201.52	24.67
2007/08	635.87	2512.99	25.30	451.22	1921.24	23.49
2008/09	752.83	3119.88	24.13	638.73	2203.63	28.99
2009/10	508.80	3439.21	14.79	831.76	2759.14	30.15
Mean			22.61			26.39
S.D.			4.04			2.66
C.V.%			17.87			10.07

(Source: Appendix-I)

The table depicts the return on equity of HBL and EBL. The table shows that ROE of HBL has ranged from 14.79% in the fiscal year 2009/10 to 25.90% in the fiscal year 2005/06. In average the ratio is 22.61% in the five years period. The average ratio elaborates that HBL has returned Rs. 22.61 as profit on Rs. 100 investment in equity capital to its shareholder.

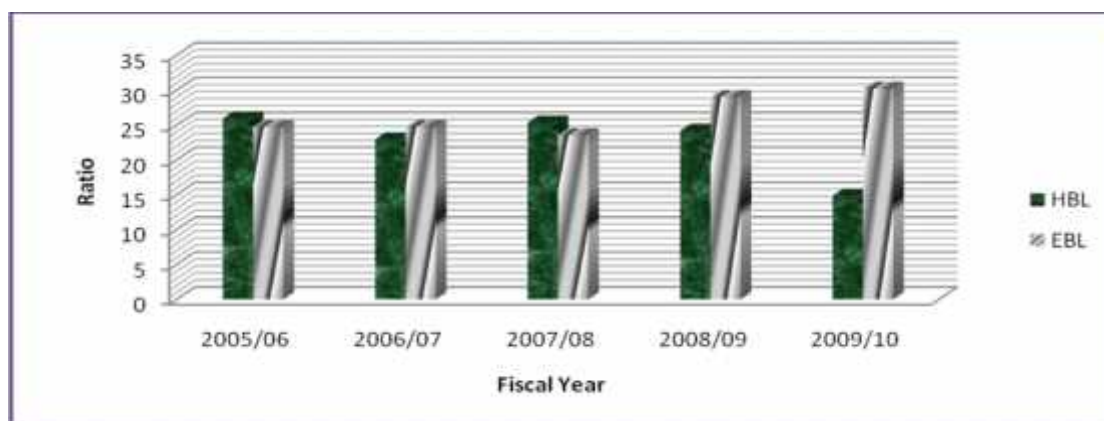
However, the return on equity investment of EBL has increased in most of the observed periods. The ratio is lowest, 23.49%, in the fiscal year 2007/08 and highest, 30.15%, in the fiscal year 2009/10. In average, EBL has converted 26.39% of the total amount invested by shareholder in the form of net profit. Also, the coefficient of variation on the ratio is only 10.07%, indicating higher consistency.

On the basis of average return on equity, it can be concluded that the income earning capacity of EBL from mobilizing the shareholders equity effectively is

greater than that of HBL. Thus, it can be considered that EBL is more successful than HBL to retain the existing shareholders and allure potential shareholders.

Figure 4.14

Return on Equity



4.1.4.4 Return on Capital Employed

Return on capital employed is a measurement of return on the investment needed for a business to function, otherwise known as capital employed. It is used to show a business' health, specifically by showing how efficiently its investments are used to create a profit. A good ROCE is one that is greater than the rate at which the company borrows.

Table 4.15

Return on Capital Employed (Ratio in %)

Fiscal Year	HBL			EBL		
	NP	CE	Ratio	NP	CE	Ratio
2005/06	457.46	2270.80	20.15	237.29	1262.81	18.79
2006/07	491.82	2742.47	17.93	296.41	1501.52	19.74
2007/08	635.87	3456.17	18.40	451.22	2221.24	20.31
2008/09	752.83	3619.88	20.80	638.73	2815.63	22.69
2009/10	508.80	3939.21	12.92	831.76	3463.74	24.01
Mean			18.04			21.11
S.D.			2.77			1.94
C.V.%			15.37			9.19

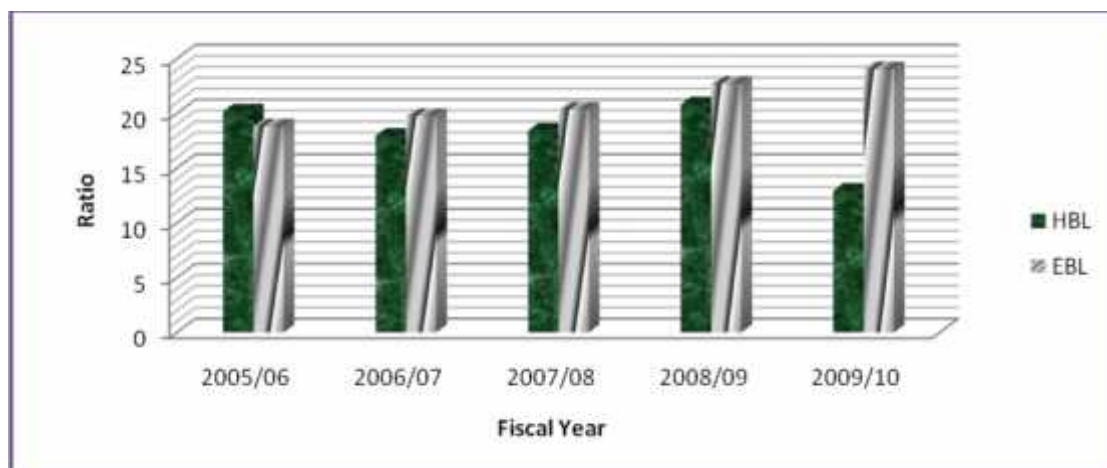
(Source: Appendix-I)

The table 4.15 indicates that the return on capital employed of HBL is 20.15%, 17.93%, 18.40%, 20.80% and 12.92% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The average ratio of 18.04% enlightens that HBL has generated Rs. 18.04 return from per Rs.100 capital employed. Also, the coefficient of variation of 15.37% also indicates quite consistency.

Similarly, the table also depicts that the return on capital employed of EBL is in increasing trend. The ratio is highest, 24.01%, in the fiscal year 2009/10 and lowest, 18.79%, in the fiscal year 2005/06. The average ROCE delineates that EBL has generated Rs. 21.11 net profit from Rs. 100 employed capital. Also, the coefficient of variation on such ratio is 9.19% only.

Comparing EBL with HBL, it can be considered that the profitability position of EBL on the ground of return on capital employed is stronger than that of HBL, since the average return on capital employed of EBL (21.11%) is greater than that of HBL (18.04%). Also, the ratio is more uniform in EBL (C.V. = 9.19%) than in HBL (C.V = 15.37%).

Figure 4.15
Return on Capital Employed



4.1.4.5 Return on Total Deposit

This ratio is a mirror of bank's overall financing performance; deposits are outsiders' capital fund that entails paying fixed interest, this affects NPAT ultimately. Shareholders' depositors and management are concerned with this ratio. Return on total deposit ratio measures how efficiently the deposit has been mobilized.

Table 4.16

Return on Total Deposit Ratio (Ratio in %)

Fiscal Year	HBL			EBL		
	NP	TD	Ratio	NP	TD	Ratio
2005/06	457.46	26490.85	1.73	237.29	13802.44	1.72
2006/07	491.82	30048.42	1.64	296.41	18186.25	1.63
2007/08	635.87	31842.79	2.00	451.22	23976.30	1.88
2008/09	752.83	34681.34	2.17	638.73	33322.95	1.92
2009/10	508.80	37611.20	1.35	831.76	36932.31	2.25
Mean			1.78			1.88
S.D.			0.28			0.21
C.V.%			16.03			11.37

(Source: Appendix-I)

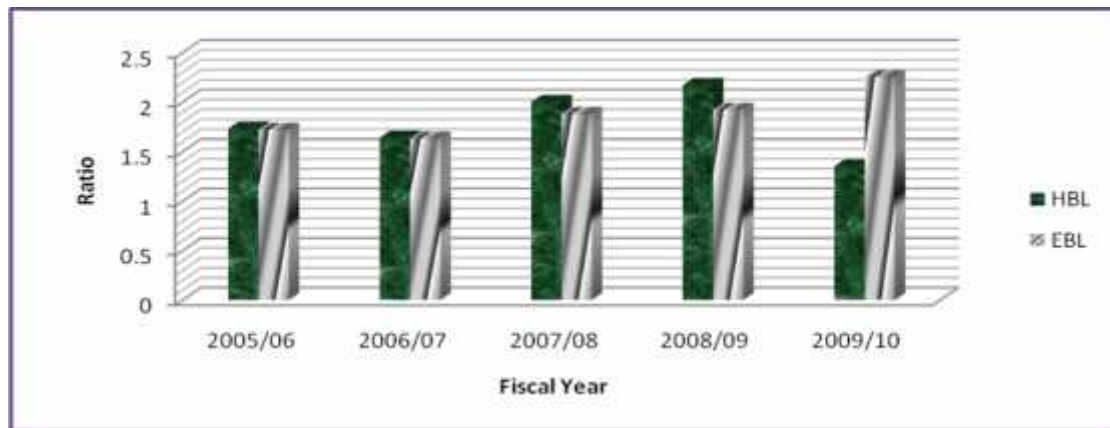
The table delineates that the return on total deposit of HBL has swung during the observed periods. The ratio is 1.73% in the fiscal year 2005/06, 1.64% in 2006/07, 2.00% in 2007/08, 2.17% in 2008/09 and 1.35% in 2009/10. Although the net profit of the bank has increased in the first four fiscal years, the rate of increase in the profit could not cope with the increasing rate in deposit, and consequently led to the oscillating trend of return on deposit. Nevertheless, the average ratio of 1.78% indicates that HBL has turned Rs. 1.78 as net profit from the investment of Rs. 100 collected as deposit.

However, the return on total deposit of EBL has increased, except in the fiscal year 2006/07. The ascertained return on total deposit of the bank has ranged from 1.63% in the fiscal year 2006/07 to 2.25% in the fiscal year 2009/10. In

average, the return on total deposit of EBL is 1.88%, which indicates that EBL has earned Rs. 1.88 as net profit by investing Rs. 100 deposit collected.

Comparing two sampled banks on the basis of return on total deposit, it can be concluded that the capacity of turning total deposit into net profit of EBL is much more admirable than that of HBL. Hence, it can also be considered that the investment sector of the total deposit amount of EBL is more lucrative than that of HBL.

Figure 4.16
Return on Total Deposit Ratio



4.1.4.6 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio shows how much interest has been generated by mobilizing the assets in the bank. Higher ratio indicates higher efficiency in the mobilization of resources and ability of interest earning and vice-versa. 'Interest earned' represents the total interest shows in the income side of profit and loss account.

Table 4.17**Interest Earned to Total Assets Ratio (Ratio in %)**

Fiscal Year	HBL			EBL		
	II	TA	Ratio	II	TA	Ratio
2005/06	1626.47	29460.39	5.52	903.41	15959.29	5.66
2006/07	1775.58	33519.14	5.30	1144.41	21432.57	5.34
2007/08	1963.65	36175.53	5.43	1548.66	27149.35	5.70
2008/09	2342.20	39320.32	5.96	2186.81	36916.83	5.92
2009/10	3148.61	42717.12	7.37	3102.45	41382.76	7.50
Mean			5.91			6.03
S.D.			0.76			0.76
C.V.%			12.87			12.60

(Source: Appendix – I)

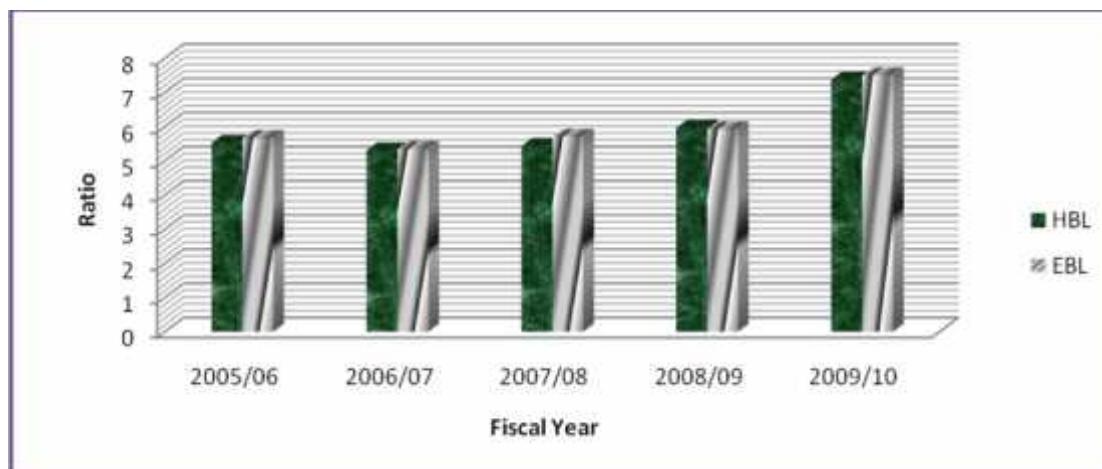
The table shows that the interest earning capacity of HBL has ranged from 5.30% in the fiscal year 2006/07 to 7.37% in the fiscal year 2009/10. In average, the interest earned to total assets ratio is 5.91%, meaning HBL has generated Rs. 5.91 as interest income from Rs. 100 investment in total assets. The coefficient of variation on such ratio is 12.87%.

Similarly, the ratio in EBL has ranged from 5.34% in the fiscal year 2006/07 to 7.50% in the fiscal year 2009/10. In average, the interest earned to total assets ratio is 6.03%, which indicates that EBL has generated Rs. 6.03 as interest income from Rs. 100 investment in total assets.

Comparing two banks on the basis of interest earned to total assets, it can be concluded that the capacity of utilizing total assets to generate interest income is highest in EBL compared to that of HBL.

Figure 4.17

Interest Earned to Total Assets Ratio



4.1.4.7 Interest Paid to Interest Income Ratio

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

Table 4.18

Interest Paid to Interest Income Ratio (Ratio in %)

Fiscal Year	HBL			EBL		
	IE	II	Ratio	IE	II	Ratio
2005/06	648.84	1626.47	39.89	401.40	903.41	44.43
2006/07	767.41	1775.58	43.22	517.17	1144.41	45.19
2007/08	823.74	1963.65	41.95	632.61	1548.66	40.85
2008/09	934.78	2342.20	39.91	1012.87	2186.81	46.32
2009/10	1553.53	3148.61	49.34	1572.79	3102.45	50.70
Mean			42.86			45.50
S.D.			3.48			3.18
C.V.%			8.11			6.99

(Source: Appendix-I)

The above table shows that the interest paid to interest income ratio of HBL is highest, 49.34%, in the fiscal year 2009/10 and lowest, 39.89%, in the fiscal year 2005/06. In average, 42.86% of the total interest income has been spent by

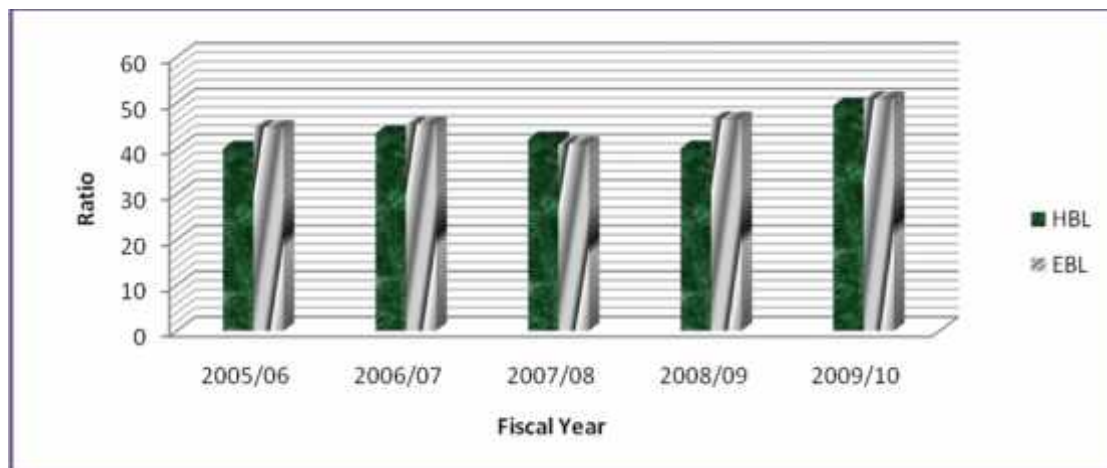
HBL as interest expenses. The coefficient of variation on such ratio is 8.11%, which indicates higher uniformity in the ratio.

Likewise, the ratio in EBL is highest, 50.70%, in the fiscal year 2009/10 and lowest, 40.85%, in the fiscal year 2007/08. In average, EBL has incurred 45.50% of the total interest income as interest expenses. Along with earning increased interest income, the bank could not control the increasing interest expenses.

The interest income of both the banks has increased in each observed periods, and both the bank could not control the increasing interest. However, comparing the sampled banks, it can be concluded that HBL has the higher control on interest expenses than EBL, as the interest paid to interest income of HBL was lower than that of EBL.

Figure 4.18

Interest Paid to Interest Income Ratio



4.1.4.8 Earning Per Share

Earning per share is the amount of earnings per each outstanding share of a company's stock. The EPS formula does not include preferred dividends for categories outside of continued operations and net income. Earnings per share for continuing operations and net income are more complicated in that any preferred dividends are removed from net income before calculating EPS.

Table 4.19
Earning Per Share (Unit in Rs.)

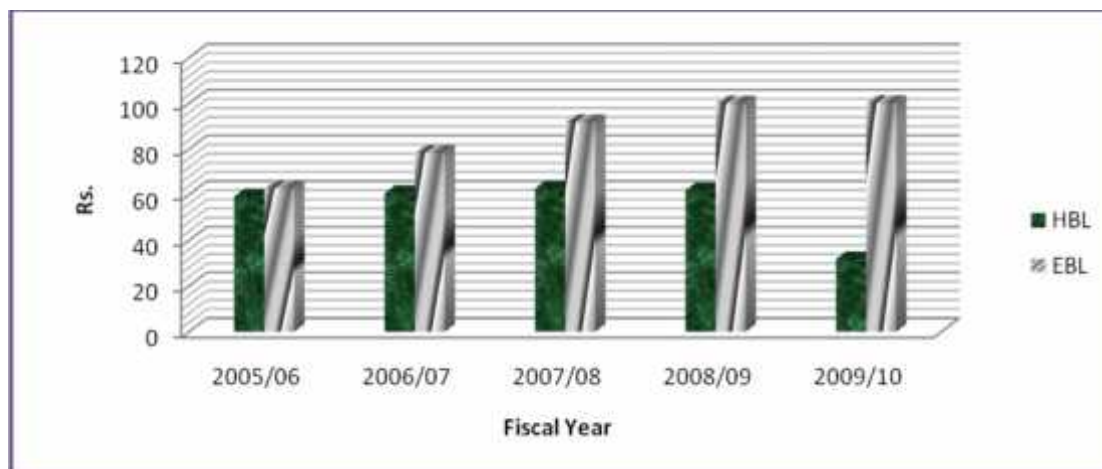
Fiscal Year	HBL			EBL		
	NPAT	Shr. No.	EPS	NPAT	Shr. No.	EPS
2005/06	457457696	7722000	59.24	237290936	3780000	62.78
2006/07	491822905	8108100	60.66	296409281	3780000	78.42
2007/08	635868519	10135125	62.74	451218613	4914000	91.82
2008/09	752834735	12162150	61.90	638732757	6388210	99.99
2009/10	508798193	16000000	31.80	831765632	8304673	100.16
Mean			55.27			86.63
S.D.			11.79			14.32
C.V.%			21.34			16.52

(Source: Appendix-I)

The table shows that the earning per share of HBL is Rs. 59.24, Rs. 60.66, Rs. 62.74, Rs. 61.90 and Rs. 31.80 in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. Similarly the EPS of EBL for the same period is Rs. 62.78, Rs. 78.42, Rs. 91.82, Rs. 99.99 and Rs. 100.16 respectively. Also, the average EPS of HBL and EBL is Rs. 55.27 and Rs. 86.63 respectively.

Comparing two banks, it can be concluded that EBL has earned more earnings per share than HBL in each fiscal year, as a result it can be expected that the investors as well as the staffs of EBL may have enjoyed high earnings and bonus respectively than that of HBL.

Figure 4.19
Earning Per Share



4.1.4.9 Dividend Per Share

The profit earned by the company finally belongs to the equity shareholders. Therefore, all or some of them are distributed to them which are known as dividends. Dividend per share is the total dividends paid out over an entire year (including interim dividends but not including special dividends) divided by the number of outstanding ordinary shares issued.

Table 4.20
Dividend Per Share (Unit in Rs.)

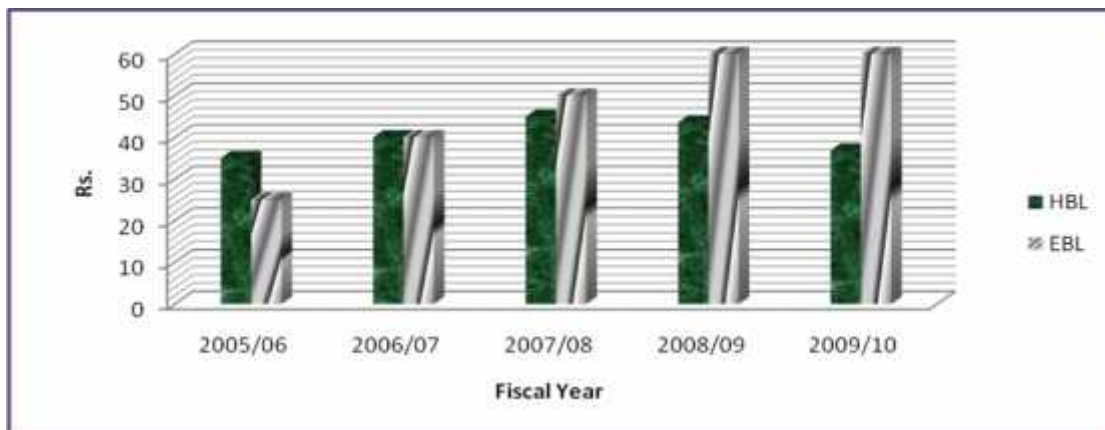
Fiscal Year	HBL			EBL		
	Dividend	Shr. No.	DPS	Dividend	Shr. No.	DPS
2005/06	270270000	7722000	35.00	94500000	3780000	25
2006/07	324324000	8108100	40.00	151200000	3780000	40
2007/08	456080625	10135125	45.00	245700000	4914000	50
2008/09	529783254	12162150	43.56	383292600	6388210	60
2009/10	589440000	16000000	36.84	498280380	8304673	60
Mean			40.08			47.00
S.D.			3.81			13.27
C.V.%			9.51			28.23

(Source: Appendix-I)

The above table shows that the HBL has distributed Rs. 35, Rs. 40, Rs. 45, Rs. 43.56 and Rs. 36.84 as dividend in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The same table shows that EBL has distributed Rs. 25, Rs. 40, Rs. 50, Rs. 60 and Rs. 60 as dividend in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The table substantiates that in from the fiscal year 2006/07 the dividend distribution of EBL is higher than that of HBL.

On the basis of dividend distribution, it can be concluded that HBL has adopted the policy of retaining profit by distributing lower DPS, while EBL has adopted the policy of retaining shareholders and fascinating potential investors by disbursing higher amount of DPS.

Figure 4.20
Dividend Per Share



4.1.4.10 Dividend Payout Ratio

The dividend payout ratio is a company's dividends paid to shareholders expressed as a percentage of total earnings. A higher ratio indicates that a company pays more in dividends and thus reinvests less of its earnings into the company. Whether or not this is desirable depends on the rate of growth; investors tend to prefer a higher payout ratio in a slow-growing company and a lower one in a fast-growing company.

Table 4.21**Dividend Payout Ratio (Ratio in %)**

Fiscal Year	HBL			EBL		
	DPS	EPS	DPR	DPS	EPS	DPR
2005/06	35.00	59.24	59.08	25	62.78	39.82
2006/07	40.00	60.66	65.94	40	78.42	51.01
2007/08	45.00	62.74	71.72	50	91.82	54.45
2008/09	43.56	61.90	70.37	60	99.99	60.01
2009/10	36.84	31.80	115.85	60	100.16	59.90
Mean			76.59			53.04
S.D.			20.12			7.44
C.V.%			26.27			14.02

(Source: Appendix-I)

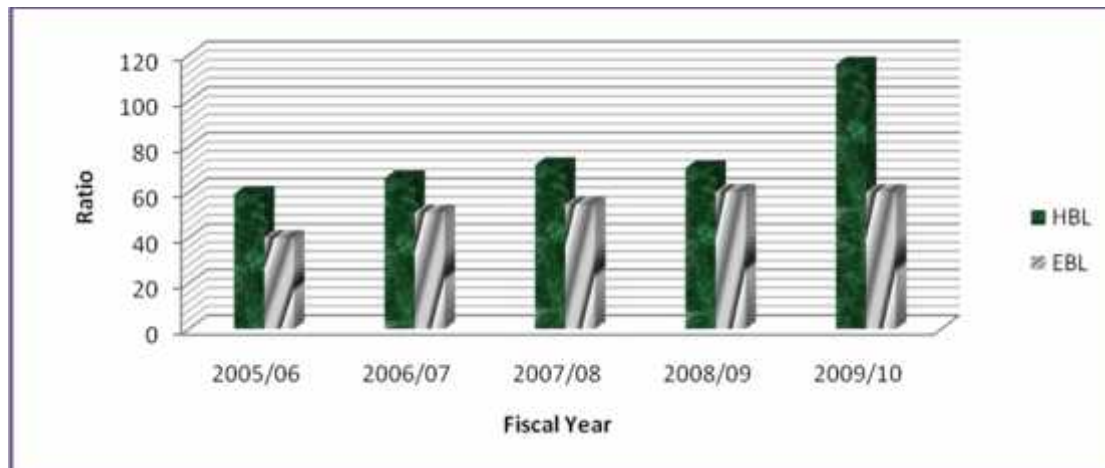
The table manifests the dividend payout ratio of the sampled banks, HBL and EBL. The table delineates that the dividend payout ratio of HBL has ranged from 59.08% in the fiscal year 2005/06 to 115.85% in the fiscal year 2009/10. Also, the dividend payout ratio of EBL in the five consecutive years is 39.82%, 51.01%, 54.45%, 60.01% and 59.90% respectively.

In average, HBL and EBL have distributed 76.59% and 53.04% respectively of the total earnings as dividend to the shareholders of the corresponding banks. Besides these, the coefficient of variations on dividend payout ratio of HBL was 26.27% and EBL is 14.02%.

Comparing two banks, it can be considered that the dividend payout ratio of HBL is better, since the average dividend payout ratio of HBL is higher compared to that of HBL. Hence, it can be considered that the shareholders of HBL are more satisfied than those of EBL, as HBL's shareholders got more percentage of EPS in the form of dividend. Also, on the basis of higher dividend payout ratio, it can be considered that HBL is most matured bank than

EBL. Finally, it can be inferred besides having lower EPS of HBL than that of EBL, HBL has shown more magnanimity in distributing dividend.

Figure 4.21
Dividend Payout Ratio



4.2 Major Findings of the Study

From the data analysis, the following major findings have been drawn;

Findings from Liquidity Ratios

-) The average cash and bank balance to total assets of HBL is 6.38% during the five year periods. Also, the cash and bank balance has represented 13.26% of the total assets in average in EBL.
-) HBL has collected 23.99% of its total deposit from fixed account in average, whereas EBL has collected 27.60% of its total deposit from fixed account. This indicates higher liquidity position in EBL in comparison with HBL.

Findings from Efficiency Ratios

-) HBL has paid 1.96% of the total deposit as interest expenses and EBL has paid 3.04% of the total deposit as interest expenses.
-) EBL is more efficient in mobilizing the total deposit in loans and advances. EBL has utilized 75.82%, and HBL has utilized 66.62% of the total deposit in loans and advances.

-) The credit risk in EBL is lower than that of HBL. The average credit risk ratio of EBL is 0.68% and that of HBL is 3.65%. Likewise, 59.09% and 66.58% of the total assets of HBL and EBL is mobilized in disbursing loans and advances respectively.
-) EBL is more efficient in controlling the per employee expenses and in increasing the productivity per employee than HBL. The average per employee expenses of HBL is Rs. 0.55 millions and that of EBL is Rs. 0.31 millions. In contrast, HBL is more efficient than EBL in generating net profit through granting of loan and advances. The average net profit to loan and advances of HBL is 2.70% and that of EBL is 2.48%.

Findings from Leverage Ratios

-) The debt-equity ratio of each observed banks is 0.25 times, which indicates equal proportion of debt capital to equity capital has been used to finance total assets of HBL and EBL.
-) The interest coverage ratio indicates that HBL has good solvency position than EBL. The average interest coverage ratio of HBL is 1.94 times, while that of EBL is 1.89 times.

Findings from Profitability Ratios

-) The net profit margin indicates that HBL is more efficient to reduce the operating costs than HBL. The net profit margin of HBL and EBL is 34.75% and 21.89% respectively.
-) EBL is more efficient than HBL to utilize the total assets in generating net profit. The return on total assets of HBL and EBL is 1.58% and 1.65% respectively. Similarly, the return on equity of HBL and EBL is 22.61% and 26.39% respectively. And the return on capital employed of HBL and EBL is 18.04% and 21.11% respectively. Also, the return on total deposit of HBL is 1.78% and that of EBL was 1.88%.
-) Further, EBL has remained more successful than HBL in efficiently utilizing the total assets in generating interest income. The interest

earned to total assets of HBL and EBL is 5.91% and 6.03% respectively. Likewise, the interest paid to interest income ratio of HBL and EBL is 42.86% and 45.50% respectively.

-) The average EPS of HBL and EBL for the five years period is Rs. 55.27 and Rs. 86.63 respectively. Similarly, the average DPS distributed by HBL and EBL is Rs. 40.08 and Rs. 47 respectively.
-) However, HBL has shown more magnanimity than EBL in distributing dividend. The dividend payout ratio of HBL is 76.59% of the total earning per share, which is greater than the dividend payout ratio of EBL, 53.04%.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Financial performance analysis refers to an assessment of the viability, stability and profitability of a business, sub-business or project. Financial performance analysis enables the management to make decision on continuing or discontinuing the main operation or part of its business, make or purchase certain materials in the manufacture of its product, acquire or rent/lease certain machineries and equipment in the production of its goods, issue stocks or negotiate for a bank loan to increase its working capital, make decisions regarding investing or lending capital and other decisions that allow management to make an informed selection on various alternatives in the conduct of its business.

Financial analysts often assess the firm's: Profitability - its ability to earn income and sustain growth in both short-term and long-term. A company's degree of profitability is usually based on the income statement, which reports on the company's results of operations; Solvency - its ability to pay its obligation to creditors and other third parties in the long-term; Liquidity - its ability to maintain positive cash flow, while satisfying immediate obligations; and Stability- the firm's ability to remain in business in the long run, without having to sustain significant losses in the conduct of its business. Assessing a company's stability requires the use of both the income statement and the balance sheet, as well as other financial and non-financial indicators.

Thus primary objective of this study has been to examine the financial performance of the sampled commercial banks on the basis of liquidity, profitability, stability and efficiency. This analysis also helps to provide package of suggestions and possible guidelines to improve the banking operation in order to maximize the values of its shareholders based on the

finding of the study. The researcher has identified the research problem of the commercial bank then the objectives are determined on the basis of research problem. Related literatures are reviewed on the bases of the purposive study. Then the data have been collected from the different secondary sources. The analysis of data has been done according to the available data and the objectives of this study.

5.2 Conclusion

It can be concluded that the liquidity position of EBL is better than cash and bank balance to total assets ratio, and fixed deposit to total deposit ratio of EBL are greater than those of HBL. However, both EBL and HBL maintained same level of current ratio. Similarly, the efficiency ratios aid to conclude that EBL is most successful in mobilizing the total deposit in loans and advances. EBL has utilized higher portion of total deposit in loans and advances than HBL has done. However, HBL has remained more efficient than EBL in collecting the deposit with low interest. The credit risk ratio of EBL is lower than that of HBL, indicating better utilization of fund in granting loans. Likewise, the total asset of EBL is more risky than that of HBL, since the total assets of EBL has included high portion of loans and advances.

Both the banks have financed precisely same portion of debt-equity ratio. Thus, the leverage ratio indicates that the total assets of both banks possess equal risk in terms of interest. However, HBL has good solvency position than that of EBL, since the interest coverage ratio of HBL is higher than that of EBL. Moreover, the net profit margin indicates that HBL is more successful than EBL to minimize the operating cost.

In contrast, EBL is more successful than HBL to efficiently utilize the total assets, the return on equity return on capital employed, and return on total deposit in generating net profit. In addition the EPS of EBL is greater than that of HBL. Along with higher EPS, HBL focused on retaining existing

shareholders and alluring potential investor by distribution higher dividend. However, HBL has shown greater generosity to pay high dividend payout ratio.

5.3 Recommendations

On the basis of the major findings and conclusion drawn, the following recommendations have been provided.

-) It would be better if HBL keeps more cash reserve to meet the cash requirement, since the cash and bank balance to total assets ratio HBL is lower than that of EBL.
-) HBL should increase investment in loans advances to gain high interest income. Further, both the banks should quest other sectors of investment, besides loans and advances, investment in government securities, corporate shares.
-) EBL should try to maximize the low interest bearing deposit to increase profit, since the interest paid to total deposit of EBL is greater than that of HBL.
-) The profitability ratios of HBL are lower than those of EBL. It would be better if HBL recognizes the unnecessary expenses and tries to reduce such expenses in order to increase the profitability ratios.
-) HBL should made strong financial policy to mobilize the capital employed and shareholder equity to get higher profit.
-) Finally, it would better if EBL distributes profit in terms of dividend corresponding with the earning, to attract potential investors and retain existing investors.

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B) Calculations of Financial Ratios of EBL

Liquidity Ratios

FY	CBB	TA	Ratio	FD	TD	Ratio
2005/06	1552.96	15959.28	9.73	4242.35	13802.44	30.74
2006/07	2391.42	21432.57	11.16	5626.66	18186.25	30.94
2007/08	2667.97	27149.34	9.83	6446.18	23976.3	26.89
2008/09	6164.37	36916.84	16.7	7049.98	33322.95	21.16
2009/10	7818.81	41382.76	18.89	10440.28	36932.31	28.27
Mean			13.26			27.6
S.D.			3.8			3.56
C.V.%			28.66			12.91

Leverage Ratios

FY	LTD	SE	Ratio	EBIT	Int.	ICR
2005/06	300	962.81	0.31	747.00	401.4	1.86
2006/07	300	1201.52	0.25	971.88	517.17	1.88
2007/08	300	1921.24	0.16	1291.30	632.61	2.04
2008/09	612	2203.63	0.28	1928.46	1012.87	1.9
2009/10	704.6	2759.14	0.26	2761.57	1572.79	1.76
Mean			0.25			1.89
S.D.			0.05			0.09
C.V.%			20.7			4.85

Activity Ratios

FY	IED	TD	Ratio	LA	TD	Ratio	LA	FD	Ratio
2005/06	383.39	13802.44	2.78	10136.25	13802.44	73.44	10136.25	4242.35	2.39
2006/07	499.17	18186.25	2.74	14082.68	18186.25	77.44	14082.68	5626.66	2.5
2007/08	608.98	23976.3	2.54	18836.43	23976.3	78.56	18836.43	6446.18	2.92
D	987.48	33322.95	2.96	24469.55	33322.95	73.43	24469.55	7049.98	3.47
2009/10	1537.52	36932.31	4.16	28156.4	36932.31	76.24	28156.4	10440.28	2.7
Mean			3.04			75.82			2.8
S.D.			0.58			2.08			0.38
C.V.%			19.04			2.75			13.69

FY	LA	TA	Ratio	IGS	GS	Ratio	Exps.	No.	PEE
2005/06	10136.25	15959.29	63.51	97.27	3548.61	2.74	70.92	306	0.23
2006/07	14082.68	21432.57	65.71	128.57	4704.63	2.73	86.12	393	0.22
2007/08	18836.43	27149.35	69.38	180.22	4821.61	3.74	157.96	449	0.35
2008/09	24469.55	36916.83	66.28	289.76	5146.05	5.63	186.92	534	0.35
2009/10	28156.4	41382.76	68.04	238.99	4354.36	5.49	226.36	568	0.4
Mean			66.58			4.07			0.31
S.D.			2.01			1.27			0.07
C.V.%			3.02			31.33			23.05

FY	Profit	LA	Ratio
2005/06	237.29	10136.25	2.34
2006/07	296.41	14082.68	2.10
2007/08	451.22	18836.43	2.40
2008/09	638.73	24469.55	2.61
2009/10	831.76	28156.40	2.95
Mean			2.48
S.D.			0.29
C.V.%			11.53

Profitability Ratios

FY	NP	TA	Ratio	NP	SE	Ratio	NP	CE	Ratio
2005/06	237.29	15959.29	1.49	237.29	962.81	24.65	237.29	1262.81	18.79
2006/07	296.41	21432.57	1.38	296.41	1201.52	24.67	296.41	1501.52	19.74
2007/08	451.22	27149.35	1.66	451.22	1921.24	23.49	451.22	2221.24	20.31
2008/09	638.73	36916.83	1.73	638.73	2203.63	28.99	638.73	2815.63	22.69
2009/10	831.76	41382.76	2.01	831.76	2759.14	30.15	831.76	3463.74	24.01
Mean			1.65			26.39			21.11
S.D.			0.22			2.66			1.94
C.V.%			13.07			10.07			9.19
FY	NP	TD	Ratio	II	TA	Ratio	IE	II	Ratio
2005/06	237.29	13802.44	1.72	903.41	15959.29	5.66	401.4	903.41	44.43

2006/07	296.41	18186.25	1.63	1144.41	21432.57	5.34	517.17	1144.41	45.19
2007/08	451.22	23976.3	1.88	1548.66	27149.35	5.7	632.61	1548.66	40.85
2008/09	638.73	33322.95	1.92	2186.81	36916.83	5.92	1012.87	2186.81	46.32
2009/10	831.76	36932.31	2.25	3102.45	41382.76	7.5	1572.79	3102.45	50.7
Mean			1.88			6.03			45.5
S.D.			0.21			0.76			3.18
C.V.%			11.37			12.6			6.99
FY	NPAT	Shr. No.	EPS	Dividend	Shr. No.	DPS	DPS	EPS	DPR
2005/06	237290936	3780000	62.78	94500000	3780000	25	25	62.78	39.82
2006/07	296409281	3780000	78.42	151200000	3780000	40	40	78.42	51.01
2007/08	451218613	4914000	91.82	245700000	4914000	50	50	91.82	54.45
2008/09	638732757	6388210	99.99	383292600	6388210	60	60	99.99	60.01
2009/10	831765632	8304673	100.16	498280380	8304673	60	60	100.16	59.9
Mean			86.63			47			53.04
S.D.			14.32			13.27			7.44
C.V.%			16.52			28.23			14.02

Note:

The data have been extracted from the financial reports of EBL.

The mean, Standard Deviation and C.V. have been calculated by using the statistical formulas of Microsoft Excel.

APPENDICES

APPENDIX - I

A) Calculations of Financial Ratios of HBL

Liquidity Ratios

FY	CBB	TA	Ratio	FD	TD	Ratio
2005/06	1717.35	29460.39	5.83	6350.2	26490.85	23.97
2006/07	1757.34	33519.14	5.24	8201.13	30048.42	27.29
2007/08	1448.14	36175.53	4	6423.87	31842.79	20.17
2008/09	3048.53	39320.32	7.75	6377.13	34681.34	18.39
2009/10	3866.49	42717.12	9.05	11328.64	37611.2	30.12
Mean			6.38			23.99
S.D.			1.8			4.35
C.V.%			28.29			18.12

Leverage Ratios

FY	LTD	SE	Ratio	EBIT	Int.	ICR
2005/06	504.62	1766.18	0.29	1321.24	648.84	2.04
2006/07	595.97	2146.5	0.28	1484.81	767.41	1.93
2007/08	943.18	2512.99	0.38	1772.58	823.74	2.15

2008/09	500	3119.88	0.16	1934.5 4	934.78	2.07
2009/10	500	3439.21	0.15	2376.1	1553.5 3	1.53
Mean			0.25			1.94
S.D.			0.09			0.22
C.V.%			34.44			11.25

Efficiency Ratios

FY	IED	TD	Ratio	LA	TD	Ratio	NPL	LA	Ratio
2005/06	613.88	26490.85	2.32	15761. 98	26490. 85	59.5	1040.76	15761.98	6.6
2006/07	732.62	30048.42	2.44	17793. 72	30048. 42	59.22	641.61	17793.72	3.61
2007/08	773.27	31842.79	2.43	20179. 61	31842. 79	63.37	477.23	20179.61	2.36
2008/09	260.93	34681.34	0.75	25519. 52	34681. 34	73.58	551.31	25519.52	2.16
2009/10	709.66	37611.2	1.89	29123. 75	37611. 2	77.43	1024.83	29123.75	3.52
Mean			1.96			66.62			3.65
S.D.			0.64			7.5			1.59
C.V.%			32.51			11.26			43.5

FY	LA	TA	Ratio	IGS	GS	Ratio	Exps.	No.	PER
2005/06	15761.98	29460.39	53.5	172.24	5144.3 2	3.35	234.59	561	0.42
2006/07	17793.72	33519.14	53.09	191.56	6454.8 8	2.97	290.92	584	0.5
2007/08	20179.61	36175.53	55.78	201.31	7471.6 6	2.69	307.53	591	0.52
2008/09	25519.52	39320.32	64.9	354.95	4212.3	8.43	360.98	591	0.61
2009/10	29123.75	42717.12	68.18	216.04	4465.3 7	4.84	414.98	577	0.72
Mean			59.09			4.45			0.55
S.D.			6.24			2.12			0.1
C.V.%			10.56			47.57			18.6

FY	Profit	LA	Ratio
2005/06	457.46	15761.98	2.9
2006/07	491.82	17793.72	2.76
2007/08	635.87	20179.61	3.15
2008/09	752.83	25519.52	2.95
2009/10	508.8	29123.75	1.75
Mean			2.7

S.D.			0.49
C.V.%			18.27

Profitability Ratios

FY	NP	TA	Ratio	NP	SE	Ratio	NP	CE	Ratio
2005/06	457.46	29460.39	1.55	457.46	1766.18	25.9	457.46	2270.8	20.1
2006/07	491.82	33519.14	1.47	491.82	2146.5	22.91	491.82	2742.47	17.9
2007/08	635.87	36175.53	1.76	635.87	2512.99	25.3	635.87	3456.17	18.4
2008/09	752.83	39320.32	1.91	752.83	3119.88	24.13	752.83	3619.88	20.8
2009/10	508.8	42717.12	1.19	508.8	3439.21	14.79	508.8	3939.21	12.9
Mean			1.58			22.61			18.0
S.D.			0.25			4.04			2.77
C.V.%			15.75			17.87			15.3
FY	NP	TD	Ratio	II	TA	Ratio	IE	II	Ratio
2005/06	457.46	26490.85	1.73	1626.47	29460.39	5.52	648.84	1626.47	39.8
2006/07	491.82	30048.42	1.64	1775.58	33519.14	5.3	767.41	1775.58	43.2
2007/08	635.87	31842.79	2	1963.65	36175.53	5.43	823.74	1963.65	41.9
2008/09	752.83	34681.34	2.17	2342.2	39320.32	5.96	934.78	2342.2	39.9
2009/10	508.8	37611.2	1.35	3148.61	42717.12	7.37	1553.53	3148.61	49.3
Mean			1.78			5.91			42.8
S.D.			0.28			0.76			3.48
C.V.%			16.03			12.87			8.11
FY	NPAT	Shr. No.	EPS	Divide nd	Shr. No.	DPS	DPS	EPS	DPS
2005/06	457457696	7722000	59.24	270270000	7722000	35	35	59.24	59.0
2006/07	491822905	8108100	60.66	324324000	8108100	40	40	60.66	65.9
2007/08	635868519	10135125	62.74	456080625	10135125	45	45	62.74	71.7
2008/09	752834735	12162150	61.9	529783254	12162150	43.56	43.56	61.9	70.3
2009/10	508798193	16000000	31.8	589440000	16000000	36.84	36.84	31.8	115.8
Mean			55.27			40.08			76.5
S.D.			11.79			3.81			20.1
C.V.%			21.34			9.51			26.2

Note:

The data have been extracted from the financial reports of HBL.

The mean, Standard Deviation and C.V. have been calculated by using the statistical formulas of Microsoft Excel.

