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CHAPTER 1
INTRODUCTION

1.1 Background of the Study

Nepal is landlocked country with agro-based economy. It is divided into mountain, hills and terai region with its geographical nature. Nepal is categorized as the least development country having per capital income of about US $ 269. About 48% of the total population lives under poverty line and 76% of the population depends upon agriculture for the living (CBS Report, 2001,HMG,Nepal). Nepal is poorly -developed in entire sector due to unstable political environment and rapidly growing terrorism. Without developing of agriculture sector, development of our economic situation is impossible. In other words agriculture is the backbone of Nepalese economy. Banking industry plays an important role to makes our backbone strong.

Finance is the branch of economics that studies the management of money and other assets .One of the main subsets of finance is the study of credit and banking, as this involves money, time, and risk all together. The financial sector plays an important role in the development of the country and mobilization of financial resources. Hence, money is a subject to manage, and banks are the manager. Banks play an important role in the economic growth of a country. Economists do not have exact records about the origin of the word "Banking". The term bank is derived from the Latin word "Bancus" which refers to the bench on which the banker would keep his money and records. Some Economists says its origin to the French word" Banque" and the Italian word "Banco" which means a bench for keeping, lending and exchanging of money or coins in the market place by money lenders. In the modern economy, banks are to be considered not as dealers in money but as the leaders of development which studies the management of money and other assets. Therefore, a bank is an institution that deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. That mobilized deposits contribute to the development of economic infrastructure of the nation. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

The growth of banking sector in Nepal is not so long ago as compared with other banks of the world. In comparison with other developing country the institutional development in banking system is far behind. Nepal had to wait for the period to enter the present banking position. The origin and growth of bank in Nepal is controversial. At present there are altogether 25 commercial banks operating in the country. Commercial banks are major financial institution, which occupied quite important place in the framework of every economy because they provide capital for the development of industry, and business and other resources, deficit sector by investing the saving collected as deposit. The role of commercial bank in economy is prime requisite in the formulation of Bank Policy. The key factor in the development of country is the mobilization of domestic resources and their investment for productive use to the various sectors. Although commercial banks are truly inspired with the objective of gaining profit, they provide welfare and facility to make available loan to the agriculture, Industry and commerce and provide the banking services to the public and the state. In the present situation, Nepal banking system is evaluating itself as a powerful instrument of planning and economic growth of all the developed and underdeveloped countries. The encouragement by Nepalese government for joint venture operations made possible for different joint venture commercial banks establishment. We know, In Nepal, different joint Ventures Banks are established but we cannot say which bank is best among them, without doing any financial analysis. With the help of financial analysis, we know the firm's strength and weaknesses.

The NRB has also declared to new commercial bank to have minimum paid to capital Rs.250 million to operate all over Nepal expect Kathmandu valley and Rs.1000 billion to operate all over Nepal this is effective from 15th May 2002. It also directed commercial banks to invest in the shares and securities of an organization not more than 10 Percent paid - up capital of the organization. Likewise, the commercial banks could invest not more than 10 percent in the securities of any one of its financially self - interest bearing organizations that of not more than 20 percent in case of those financially self- interest bearing organizations. For making investment in the securities like this, the total investment was required to be not more than 30 percent of banks paid – up capital. The investment should be made only in the shares and securities of those organizations which were already listed and were in the process being listed within one year in stock exchange and the banks could not invest in the shares, securities and hybrid capital instruments in those issued by the banks and financial institutions that took permission from NRB to operate their transactions If such investment were made prior to the issuance of this dir4ective, they were required to be taken within the limit prescribed by this directive as at end of FY 2003/04.

[NRB: 2001/02]

The firm's propose is not only internal control but also better understanding of what capital supplier seek in financial condition and performance on it. For financial performance analysis ratio is the most widely used technique. The systematic use of ratio interprets the financial statement so that the strength and weaknesses of the firm as well as its historical performance and current financial condition can be determined. Financial analysis is design to determine the relative strengths and weakness of business operation. It also provides the framework for financial planning and control. Financial management need the information provided by analysis both to evaluate the firm's past performance and to map future plans. Financial analysis concentrates on financial statement analysis which highlights the key aspects of firm's operation. Financial Ratio Analysis involves a study of the relationship between income statement and balance sheet account, how these relationship changes over time and how a particular firm compares with other firm in its industry. Although financial analysis has limitation when use with care and judgment, it can provide very useful insights into the operation of the company. It involves analyzing financial statement prepared in accordance with generally accepted accounting principles to ascertain information concerning the importance, timing and riskiness of future cash flow. The firm itself an outside supplier of capital, creditor and investors, all undertake financial performance analysis.

As there has been number of commercial banks established the present aims to analyze the financial performance of Nabil Bank Ltd., Everest Bank Ltd. and Himalayan Bank Ltd.

1.2 Profile of Sample Banks

a. Nabil Bank Limited (NBL)

NABIL Bank, previously known, as Nepal Arab Bank Limited, is Nepal’s first private commercial bank and major joint venture Bank commenced operation on July 12, 1984 A.D. Under the technical service agreement approved by Nepal Rastra Bank, Joint venture operation in Nepal was started by NABIL Bank after Nepal encouraged foreign investment and joint venture operation with Nepalese investors or in certain circumstances as fully owned subsidiary. NABIL Bank has Head office in Kamaladi, Kathmandu has 32 branches of joint venture Bank in Nepal. NABIL Bank is the only authorized Bank to operate inside the International Airport at arrival and departure lounges.

The mission of Nabil bank is to be the “Bank of the 1st Choice”. The slogan of NABIL Bank is “Your Bank at Your Service”. The value of NABIL Bank is CRISP.

C=Customer Focus	I= Innovation	P=Professional
R= Result Oriented	S=Synergistic	

Its share capital distribution is as follows:
Authorized Capital (16,000,000 shares of Rs. 100) Rs 1,600,000,000
Issued Capital (6,892,160 shares of Rs. 100) Rs 689,216,000
Paid up Capital (6,892,160 shares of Rs. 100) Rs 689,216,000

Today Nabil stands in a position to claim that it is the "Bank of 1st Choice" to all its stakeholders. In the span of 23 years, it has already distributed Rs. 2.86 billion cash dividend and the wealth of the shareholders of the Bank grew to Rs. 24.8 billion as at mid July 2007. Spectacular return on assets and return on equity even during a turbulent and competitive time highlight the inherent strength of the Bank.

The Bank provides a complete range of consumer, retail, SME and corporate banking services through its offices spread across the country. Nabil is the sole banker to a multitude of large corporate, international aid agencies, NGOs and embassies. It is the largest private bank in the country in terms of branch and ATM network. All its branches are interconnected on real time basis. On the technological front, the Bank has earned a reputation in providing an array of card products and Internet / Tele banking facilities besides ATMs and Any Branch Banking Service.

The statement 'Your Bank at Your Service' that the Bank holds on firmly is a resemblance that the Bank's stakeholders are at the core of everything it does. As for the culture embraced by the entire Nabil team, a set of Values, referred to as 'C.R.I.S.P.' in short, represents the fact that the bank uninterruptedly strives to be Customer Focused, Result Oriented, Innovative, Synergistic and Professional. By living these Values, individually as professionals and collectively as a Team, Nabil Bank is committed to Surge Ahead to continue to be the Bank of 1st Choice in Nepal.

b. Everest Bank Limited (EBL)

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

Its share capital distribution is as follows:
Authorised Capital @Rs. 100 is Rs. 1000000000
Issued Capital @ Rs. 100 is Rs. 840620000
Paid up Capital@ Rs. 100 is Rs. 838821000

c. Himalayan Bank Limited (HBL)

Himalayan Bank Limited (HBL) was incorporated in 1992 A.D. by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993 A.D. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector.

Himalayan Bank Limited holds of a vision to become a **Leading Bank of the country** by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank. HBL’s mission is to become preferred provider of quality financial services in the country. HBL’s main objective is to become the Bank of first choice.

Its share capital distribution is as follows:

Authorized Capital (20,000,000 shares @ Rs 100) Rs 2000,000,000

Issued Capital (10,135,125 shares@ Rs 100) Rs 1,013,512,500

Paid up Capital (10,135,125 shares @ Rs 100) Rs 1,013,512,500

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

To depict the performance of any firm financial analysis is essential. Past performance is often a good indicator of future performance. Therefore, all parties are interested to know the trend of past variable such as sales, expenses, net income, cash flow and return on investment and so on… Financial analysis is the process of critical judgment of detail accounting information given in the financial statement.

[HMG,Nepal,” Economic survey, 1994/95, Ministry of Finance HMG Nepal]

Financial analysis is the process of determining the significant operation and financial characteristics of a firm from accounting data. It shows the relationship between the various component which can be found in balance sheet and profit and loss statement. The analyze statement contain those information which is useful for management, shareholder, creditors, investors, depositors etc.

1.3 Statement of the Problem

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

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

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

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

a) To what extents these banks are able to raised and maintain their profitability?
b) Whether sample banks are more effective and efficient mobilization of fund for better financial performance?
c) Is there any stability in various ratio policies of the sample banks?
d) Do financial ratios indicate any strength and weakness of the banks?

1.4 Objectives of the Study

The basic objectives of this study is to analyze, examine, compare and interpret the financial performance of Nabil Bank Ltd, Everest Bank Ltd. & Himalayan Bank Ltd by using financial & statistical tools, and to recommend the suitable suggestion for improvement of those banks to management team owners.

Besides this, the following objectives of the study have enlightened the progress and efficiency of the bank:

1 To find out the liquidity, profitability, leverage, efficiency of capital adequacy position of NABIL Bank, EBL & HBL.

2 To analyze the comparative financial position of these three banks.
3 To calculate the trend of financial performance of three banks.
4 To find out the relationship of financial performance of three commercial banks.
5 To recommend the corrective measure for betterment of financial performance of these three banks.

1.5 Justification of the Study

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

In banking world, Nepal is still in its infant stage although the numbers of financial institution have been increasing. Many commercial banks, finance and insurance companies have opened up within a few years. The competition in the financial sector in banking industry is ever increasing. However, there have been few commercial banks creating to banking need of the country. The success and failure of such financial institutions would be responsible for disparity of the economy.

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

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

1.6 Limitations of the Study

The study has been conducted for the requirement of the master degree in business study and it has been limited in terms of period of study as well as source & nature of data. Every study has its own limitations. This study is also not an exception. Thus, the limitations of this study are:

1 There are more than 26 commercial banks operating with in Nepal. Since the study deals with only three commercial banks namely NABIL, EBL & HBL The conclusion drawn from the study may not applicable to other banks.
2 The study covers the latest data published by these two banks till February 2010.

Hence conclusions drawn are confined only the above period.

3 The study is mainly focused on the financial performance of three banks among various commercial banks. It does not cover the other areas of the banks.

4 Many financial & statistical tools are used to study the financial performance. But the researcher has used limited tools for this study.

5 The study is carried out on based of secondary data from the annual report of the banks. Similarly, the study focused on Balance Sheet & Profit And Loss A/C maintained by banks & published in annual reports.

1.7 Organization of the Study

The study will be divided into five chapters. They are as follows:

<u>Chapter 1: Introduction</u>

Introduction chapter coves background of the study, statement of the problem, objectives of the Study, limitations of the Study and structure of the study.

<u>Chapter 2: Review of Literature</u>

This chapter deals with different article, books and relevant thesis related to financial analysis.

<u>Chapter 3: Research Methodology</u>

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

<u>Chapter 4: Presentation and Analysis of data</u>

In this chapter different part of ratio analysis are analyze like liquidity ratio, profitability ratio, assets management ratio and growth ratio. Statistical analysis and interpretations of data where study analyzes the trend analysis, correlation analysis between different variable terms like total deposit, investment, net profit and loan advances.

<u>Chapter 5: Summary, Conclusion and Recommendation</u>

In this chapter summary of whole chapter and different results find in data analysis and recommendation to bank for nation development are included.

CHAPTER 2
REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that the past studies, their conclusion and deficiencies may be known and further research can be conducted. This chapter will help to check the chances of duplication in the present study. Thus the gap between the previous research and current research can fill out. Every possible effort has been made to get knowledge and information that is available from Libraries, Document collection center, Magazines and concerned commercial banks.

1 Conceptual Framwork

1.1 Concept of banking

Bank is a financial institution which deals in money. It facilitates growth of trade and industry of the national economy. However Bank is a resource for economic Development, which maintains the self-confident of various segments of society and extends credit to people. In a common sense and institution involve in monetary transaction is called Bank.

Banks are in general recognizing as traders in money, which take deposits, provide loans and other banking related services. According to Random House Dictionary, “ An institution for receiving, lending , exchanging and safeguarding money and in some case issuing notes and transacting other financial business.”

According to Sayers, “ Ordinary banking business consist of changing cash for bank deposits and bank deposits for cash, transferring bank deposits from one person or corporation to another, giving bank deposits in exchange for bills of exchange, government bond, the secured or unsecured promises of businessman to repay etc.”

In the modern economy, banks are to be considered not as dealers in money but as the leaders of development which studies the management of money and other assets. Therefore, a bank is an institution that deals with money by accepting various types of deposits, disbursing loan and rendering other financial services. Bank came in existence mainly with the objectives of collecting the idle funds, mobilizing them into productive sectors and causing an overall economic development. That mobilized deposits contribute to the development of economic infrastructure of the nation. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society they are serving.

Therefore, banks are those financial institution that offer the widest range of financial services specially credit, saving and payments services and perform the widest range of financial functions of any business firm in the economy.

1.2 Concept of Commercial bank

Commercial banks are the major component in the financial system. They work as the intermediary between depositors and lenders and facilitate in overall development of the economy, with major thrust in industrial development. So, commercial banks are those that accept deposits and finance to the business and finance to the business and project. They provide short term and long- term finance. As per Commercial Bank Act 2031 B.S, "*A commercial Bank means the bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions."* Commercial banks help the process of saving and of the holding of saving in a socially describe form. Though their advances bank also help the creation of the incomes which further saving by the community and further growth potentials emerge for the good of economy. All employment income distribution and other objectives of plan are as far as possible subsumed into production plan which banks finance. The importance of commercial banks is directing the economic activities in the system is indeed overwhelming with the establishment of commercial banks the flood gates of development promising great hopes for people in the life open.

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

Commercial banks are the important type of financial institution for the nation in terms of aggregate assets. The business of banking is very broad in modern business age. The number and variety of services provided by commercial bank will probably expand. Recent innovation

In banking includes introduction of credit cards accounting services for business firm, factoring, leasing participation in the euro dollar market and lock -box banking. The major functions of commercial banks are as follows;

1. Creating Money
2. Payment Mechanism
3. Pooling of nation is saving
4. Extension of credit
5. Facilities for the financing of Foreign Trade
6. Trust services

7. Safekeeping of Valuables

1.3 Concept of Joint Venture Banks

Joint Venture is an association of two or more persons or parties undertaken to make the operation highly effective with their collective effort. A joint venture bank effort to the investment by the foreign banks to the share of nepalese commercial banks (Not exceeding to 50%) and applies its international management and network.

The words of Jauch, Lawrence and Glueck(1988) about joint Venture , “ when two or more independent firms mutually decide to participate in the business venture, contribute to the total equity or more or less capital establish a new organization, it is a joint venture.”Firms within a country as well as operated in different countries participate in a venture; though instant of joint venture happen to be more common firm in different countries. As a strategy, joint venture may offer several advantages. A number of joint venture banks within a country where controlling, influencing or reducing competition and or influencing suppliers.

The first joint venture bank in Nepal,, Nabil Bank Ltd. (Nepal Arab bank Ltd.) was established on july 12, 1984(2041B.S.) under the technical services agreement with Dubai Bank Ltd.. Joint Venture Bank in Nepal is in better position than local commercial banks in terms of profit are making and service providing. These banks plays vital role in attracting foreign investment by familiarizing the foreign investors.

1.4 Joint Venture Banks in Nepal

The two old domestic commercial banks namely Nepal Bank Ltd. And Rastriya Banijya Bank was running, economy was still facing the lack of banking services. Perceiving these fact, HMG adopted liberalization Policy and started allowing the setting of Joint Venture Banks in F.Y.1984/1985.Government, Through these policies allowed private sectors both domestic and foreign to enter in the banking business in order to bring healthy competition among banks and increase foreign investment in Nepal.As the result of the first joint venture bank Nepal Arab Bank Ltd. Was established in 2041 B.S.It’s joint venture partner was Emirats Bank International Ltd., Deirm, Dubai.

With the adoption of economic liberalization policy of Government of Nepal substantial in the number and the size of the joint venture banks are increasing. Now many joint venture banks (not exceeding to 50%) share capital holding, are running. They are mainly concentrated in Kathmandu valley. But according to policy of NRB, they are compelled to establish branches in rural areas too. Though commercial banks grew significantly in size and in number, they can’t meet the credit need in the country. For this reason, the setting of finance companies are allowed after making necessary adjustments targeting the areas where the commercials banks do not prefer to finance.

Government decided to establish banks with joint ventures, two benefits were expected which are as follows;

1. The competition would force domestic banks: Nabil Bank Ltd. And Rastriya Banizya Bank to improve their services and efficiencies.
2. The introduction of new banking procedures, methods and technology would occur (Madlin and Snock, 1990)

There has been substantial growth in the number of Joint Venture Bank in Nepal since 1990; the basic reason behind this is the government's deliberate policy of allowing foreign joint venture banks to operate in Nepal. Government's liberalization policy also encourage the traditionally run domestic commercial banks to enhance their efficiency and competitiveness through modernization, mechanization, via computerization and prompt customer services by setting things to the expose of the joint venture bank.(M.K. Shrestha 1990)

The existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the bank's client. The increased competition among the banks leads to increment in the quality and services to the bank.

2 Financial Performance Analyses

Traditionally, banks act as financial intermediaries to channel funds from surplus units to deficit units. Unlike other non-banking financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovations to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily regulate them. An analysis of banks financial statements is different from threat of other companies due to the special nature of assets and liabilities. [Paudel N.P. 2053 B.S.]

Balance sheet profit and loss account and the accompanying notes are the most widely aspects of financial statements of the bank. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans, advances and investment and paid in deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission and discounts, foreign exchange income, dividend on investment, other service charge etc.

The users of financial statements of bank require relevant, reliable and comparative information to evaluate the financial performance and position and hence make economic decision regarding the bank. According to 'Commercial Bank Acts 1974' the audited balance sheet and profit and loss account must be published in the leading national newspaper for the information of general public.

Most of the users of financial statements seek to assets the bank's overall performance. Following factors affects the evaluation of bank overall performance.

- The structure of balance sheet and profit and loss account.
- Operating efficiency and internal management system.
- Managerial decisions taken by the top management regarding interest rate, lending policies exchange rates etc.
- Environment changes such as changes in Technology, Government, Competition, Economy etc.

2.1 General Concept of Financial Analysis

Every business organization is established with view of earning profit. Bank is also established with the objectives of maximizing the profit. Profit is necessary of long term existing of business. An Investor always invests in that area where profit is maximum. Financial statement is the indicator of business performance that whether business is profitable or not. Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern. Financial statement analysis is important not only for the firm's managers but also for the firm's investors and creditors. Internally, financial managers use the information provided by financial analysis to help make financing and investments decisions to maximize the firm's value. Externally, stockholders and creditors use financial statement analysis to evaluate the attractive of the firm as an investment by examining its ability to meet its current and expected financial obligations. Financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characteristics of a firm. Financial analysis also includes consideration of the strategies and economic development. Financial analysis is the main indicator of success or failure of the company. The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements, by making comparison of various components and by examining their content. This can be used by financial managers as the basis to plan future financial requirement by means of forecasting and budgeting procedures.

Financial analysis is the process of determining financial strengths and weakness of company by establishing strategic relationship between the components of analysis balance sheet and other operative data.

[Pandey I.M.]

According to the Hampton" Financial analysis is used primarily to gain insight in to operating and financial problems conform the firms, with respect to these problems, we must be careful to distinguish between the cause of problem and symptom of it". It is thus an attempt to direct the financial statements in to their components on the basis of purpose in hand and establish relationship as between these components on the one hand as between individual components and totals of these items on the other. Along with this, a study 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.

[Hampton J.J., OP. Cit,p 99]

Weston, Besley and Brigham have stated," Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strength and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness.

[Weston J.F., Besley S. and Brigham E.F. 1996, p78]

Financial statement analysis is largely analysis study of relationship among the various financial factors in analysis business as disclosed by the single set of statement and analysis study of the trend of these factors as shown in analysis serous of statement.

[Myer J.N. 1961, p4]

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

[Vanhorn, J.C.Watchowlcz, J.M.1997, p120]

Financial analysis is to analysis the achieved statements to see if the results meet the objectives of the firm, to identify problems, if any in the past of present and/or likely to be in the future and to provide recommendation to solve the problems.

[Pradhan Surendra 2000, p120]

“It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm’s management, as reflected in the financial records and reports.”

[Hampton J.J.1998, p98]

“It is both analysis and judgmental process that helps answer questions that have been poses. Therefore, it is means to end. Apart from the specific analysis answer, the solutions to financial problems and issues depend significantly on the views of the parties involved in the related importance of the issue and on the nature and reliability of the information available.”

[Helfert E.A.1992, p2]

2.2 Objectives of Financial Analysis

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

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

2.3 Needs of Financial Analysis

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

a. How was the firm doing in past? Was there any problem? If so in what areas?
b. How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
c. What about the future? Is there any likely problem on the way in the future? What will its position be in the future?
d. What are the expected results of recommendations? Are there improvements?

2.4 Limitations of Financial Analysis

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

a. Historical nature:

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

b. No substitute for judgment:

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

c. Reliability of figures:

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

d. Result may have different interpretation:

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

e. Change in accounting methods

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

f. Selection of appropriate tool

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

2.5 Technique of Financial Analysis

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

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

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

3 Ratio analyses

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

[Wixon, Kell and Bedford]

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

[Dangol R.M.]

Ratio analysis involves comparison for a useful interpretation of the financial statement. Ratio is the quantitative relationship between items. A ratio is define as and indicated quotient of two mathematical expressions and is the relationship between two or more thing.

[Van Horn and James C.]

Ratio analysis is an important way to state meaningful relationship between components of financial statement. Ratios are guided or shortcuts that one useful in evaluation the financial position and operations of a company and in comparing then to previous year or to other business concerns. The term ratio refers to the numerical or quantitative relationship between two variables. The rational of ratio analysis lies in the fact that it makes related information comparable.

[Khan M.Y. and Jain P.K.]

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

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

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

4 Reviews of Related Studies

4.1 Review of Journal

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

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

Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statement of a bank need relevant, reliable and comparable information which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank's financial statement has been expressly laid down in the concerned act. Commercials banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

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

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

The other factors to be considered in analyzing the financial statement of bank are to assess the capital adequacy ratio and liquidity position. In the line of adequacy of bank is assessed on the basis of risk weighted assets, It indicates a bank's strength and solvency. Bank facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in other to maintain the desired level of capital base.

Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

Dr. M.K. Shrestha, in the journal entitled," commercial Bank's Comparative Performance Evaluation", which was published in Karmachari Sanchay Kosh Publicaiton,2047 is review as follows:
The journal stresses on a proper risk management with appropriate classification of loans under performing and non performing category. Researcher further clarify that adequate provisioning is the surest way to get relief from sinking loan after careful consideration of portfolio risk. A clear out criteria is necessary to treat interest suspense account and it is advisable that all interest unpaid for more than six month need to be treated as unearned income. Regarding risk management of banks Dr. Shrestha's other suggestion are as follows:

- Any customer having overdue loan of two years or more in his account should not be given other loan facilities.
- Strong provisioning or reservation is required in restructuring portfolio relating to overdue loans.

- All credits including overdrafts should be given a maturity date and should be subjected to revision at that date and consequently categorize as good, substandard or doubtful loans.
- Financial credit worthiness of the borrower must be evaluated properly before granting the loans.

The above journals focus in the various aspects of the bank's economic environment. Mr.N.P. Poudel's work stresses in effective way of evaluating the financial performance and Dr. Sherstha's suggestions are focused towards proper risk management. Whatsoever , aspects of the bank the above journals target, they all have to be combinable assessed and kept in strict consideration for effective and efficient financial performance of the banks in the Nepalese economy.

Fama's study (1965), on the random walk model was one of the best definitive and comprehensive every study conducted. He observed the daily proportionate crises of 30 individual stocks of the Dow Jones industrial average index (DJIAI) for the period 1975-1962. He employed the statistical tools such as serial correlation and runs test to draw inference to about depend of the price series. He calculated auto – correlation, coefficient for daily changes in log prices for lag from 1-30 and found that the coefficient where most close to zero in overall. The correlation coefficient for daily changes in average was +0.03, which is near to 0. But on the daily price changes, 11 out of 30 stocks had correlation coefficient more than twice their computed standard errors. The coefficient ranged from smallest 0.06 to largest 0.123.However, Fama concluded, "Dependence as such a small order of magnitude is, from a particle point of view, probably unimproved for both the statistician and the investor."Fama also concluded serial correlation for lag from 1 to 10 for no- overlapping differencing intervals of four, nine and sixteen days to examine the possibility if price change across longer interval shows dependence. All the results are again not significantly different from 0.

4.2 Review of Article

Mr. Upendra Kumar Poudel in the article, "Present Condition of Financial companies" has presented with compared to the commercial bank, the interest rate is relatively high that is provided and accepted by finance companies. The financial companies should not be confined only in the valley. They should extend their services to the rural sectors of hill and tarai to reduce regional imbalance. The collection of deposit and loan investment done by the commercial banks also, to sustain themselves in the environment of competitions, they should introduce novel technology and equipment's to collect deposits and investments .They should learn from the drawbacks, failure and success of commercial banks to effectively maintain as alternative status.

Mr. Krishna Pradhan in the article, "Transaction Analysis of Financial Companies in Nepal." has concluded that the finance companies are centered in the city as like commercial banks. If this trends remains, the central bank is to consider novel strategy. However, financial and banking transaction don't take place in zero, it favors of financial intermediaries. The emergence of closure of financial companies in market economy in common sense. But keeping in mind, the social and economic structure of our country, we should not turn a deaf ear to regional balance.

Mr. R.L. Shrestha in the article "Capital Adequacy of Bank in the Nepalese Context" has suggested that the banks deal in highly risky transactions to maintain strong capital base. He concluded that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak degree of risk associated with them are subject to changes country wish, bank wish and time period wide.

Mr. D.P. Poudel gives more emphasis on financial performance of financial companies in the article" An Overview Financial Companies of Nepal". He had written that at the time 1996, the ratio of capital funds to deposits has been increasing over the time but on top of this , it is substantially below than the authorize level of deposit mobilization, which is ten times of the capital base. Never the less, some of the finance companies have even mobilized the deposits by more than ten times of their capital base by violating the regulatory norms issued by NRB. The credit/ deposit ratio has remained quite high leaving the room for doubt about the quantity of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase housing and term loans are the major sectors, which all together received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since the varying factor, it is too early to evaluate the performance of financial companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

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

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

4.3 Review of Past Thesis

Ms. Namrata Shakya(2009),on her thesis entitled, "A Comparative Study On The Financial Performance of Nepal Investment Bank Ltd(NIBL) &Laxmi Bank Ltd(LXBL)".The main objective of the sudy is to analyse and to evaluate the financial performance of the selected banks.On the basis of the comparative analysis of the data of LXBL and NIBL, the study has focused on liquidity ratio,leverage or capital structure,capital Adequency,management of assets,profitability and other ratios.According to there analysis, we found that among the various profitability ratios,return on net worth ratio,return on capital employed ratio,return on total assets,return on total deposit ratio and interest earning to total assets ratio of NIBL are greater than of LXBL.Liquidity position of LXBL and NIBL are lower,they are still able to meet their current obligation.According to capital Adequency Ratio,NIBL's position is better than that of LXBL.

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

Ms. Riju Shakya(2008), on her thesis entitled," A Comparative Study of The Financial Performance of all Commercial Banks (with reference to Nabil Bank Limited, Nepal Investment Bank Limited and Himalayan Bank Limited)". NBL has lowest mean ratio which mean it may invest the more fund in the productive sector. NBL has a highest liquidity ratio among sample banks. The loan and advances to total deposit ratio of all banks found to be at satisfactory level and maintain the good consistency in ratio. However NIBL has a highest mean ratio it shows that NIBL's liquidity position with respect to this ratio is more satisfactory than other sample banks. Among sample banks NBL is successful in mobilizing the deposit in invest on government securities, since it has a higher mean ratio. But NIBL has a lower mean ratio; they are less successful to utilize the deposit in investment on government securities in compare with sample banks. Similarly, HBL is also successful in mobilizing the deposit in investment on Government securities. we can conclude that NBL has a consistency in earning the profit and expenses on interest and NBL are successful in earning the higher profit with lower interest expenses, where as HBL are average of other comparative banks.

Mr. Bishnu Dev Pandey(2004) has conducted another study to analyze and evaluate the financial position of HBL with title of "A Study of Financial Analysis on HBL". In his research, he has concluded that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection showed that the bank was in a higher risk with respect to saving deposit as against the fixed deposit.

Mr. Dinesh Kumar Paudel(2002),On his thesis entitled, 'A Comparative Study of Performance of Nepal Bagladesh Bank Ltd.(NBBL) & Everest Bank Ltd.(EBL)". The study finds out that the average net profit margin remains greater in NBBL. Higher CV in EBL suggests greaater fluctuations in the ratio ove the period. EBL found to be weaker in utilizing the banks assets for the profit generation. EBL holds greater capacity in paying immediate obligation as revealed by the higher cash and bank balance to current assets ratio. Total deposits, loans and advances, total investment, net worth, net profit, EPS and MVPS showed the increasing trend over the study period in both banks. Loans and advances to total deposits ratio appeared considerably higher in NBBL. Provision for possible losses to loan and advances ratio in NBBL exceeded than in EBL, which indicate that loan and advances granted by the banks are inferior in contrast to EBL . But NBBL has mainatained the consistancy in the ratios than that of EBL over the period.

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

Ms. Sumitra Thapa (2009), on her thesis entitle, “A Comparative analysis of financial performance of Standard Chartered Bank and Himalayan Bank Ltd.”In this analysis, the study reveals that the current ratio of HBL is greater than 1 and SCBNL current ratio is less than 1,which shoul be considered satisfactory for HBL but not satisfactory for SCBNL.The liquidity position of HBL is better than SCBNL. The cash and bank balance of HBL with respect to deposit is greater than SCBNL.This puts, HBL in a better position.With respect to meeting customer requirement than SCBNL.The cash and bank balance of HBL with respect to current assets is higher than SCBNL.This shows greater capacity of HBL to meet its customers cash requirement but that doesn’t mean SCBNL cannot meet its daily customer cash requirement.Both the banks have successfully managed their assets towards different income generation activities. The average growth rate of total loan and advance of SCBNL is better than HBL.

5. Research Gap

Commercial Bank Invest its deposit in different profitable sector according to the directives and circulars of the Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to prepare according to direction of NRB. Nepal Rastra Bank’s policy and guidance are changing according time. So, the up to dated study over the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. This study covers the more recent financial data and analysis is done with in the latest guidelines and curriculum of Nepal Rastra Bank.

No research has been undertaken regarding the comparative analysis of financial analysis between the Himalayan Bank, Nabil Bank and Everest Bank. Some researcher has done the comparative studies of other joint venture bank. But with in this bank, study is not found. Financial analysis is the major function of every commercial bank for evaluating the financial performance .Therefore it is the major concern of stakeholders to know the situation of the bank.

NBL, EBL and HBL are the leading joint venture commercial banks of the country having the huge market share and its investment a activities and these banks has significant impact on developing the economy of the country. Every year the financial performance is changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the Financial performance which is the major concern of the shareholders and stakeholders.

CHAPTER 3
RESEARCH METHODOLOGY

Research methodology is necessary for each research work. Research methodology is the way to solve the research problems systematically. The research methodology considers the logic behind the methods used in the context of research study and explains why particular method or technique is used. It also highlights about how the research problem has been defined, what data have been collected, what particular method has been adopted.

1. Research Design

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

2. Natures and Sources of Data

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

3. Population and Sampling Design

It is not possible to study all the data related with all bank of Nepal. There are altogether 25 listed Commercial Banks in our country and their stocks are traded actively in stock market. So the financial analysis of listed three banks is being compared with that average of the same, which are selected from population. From the above listed commercial banks are considered as population.

The selected samples are as follows:

a) Nabil Bank Limited (NBL)
b) Everest Bank Ltd.(EBL)
c) Himalayan Bank Limited (HBL)

4. Data Collection Procedure

As explain before, the main sources of secondary data are the annual reports of the banks published in their respective annual general meetings and website www.nepalstockexchange.com and relevant bank's website. In addition to that some of the relevant data will also collect from the non bank financial statistics published by the non bank regulation department of Nepal Rastra Bank.

5 Data Analysis Procedure

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

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

I. Financial Tools

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

A. Ratio Analysis

An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number express in terms of another.

Ratio Analysis is technique of analysis and interpretation of financial statement through mathematical expression. It may be defined as mathematical expression of relationship between two accounting figures. To evaluate the different performances of an organization by creating the ratios from the figures of different account is terms as ratio analysis. In short, Ratio Analysis can be defined as an analysis of financial statement with the help of ratio.

Ratio analysis is an important technique of financial analysis. The data given in financial statement are meaningless and they are unable to communicate anything from the analytic view point. One has to work very hard in digging out the required information. Ratio analysis thus helps different interested parties in studying the heaps of figure give in the financial statement.

B. Classification of Ratios

The ratios used for financial analysis of business can be classified into four categories. They are;

a. Liquidity Ratios
b. Leverage Ratios
c. Activity Ratios
d. Profitability Ratios

a. Liquidity Ratios

The ability of the firm to meet its short term obligation is known as Liquidity. It reflects the short term financial strength of the business. These ratios are used to know capacity of the concerned to repay its short term liabilities. Usually the following two ratios are calculated for this proposes.

1. Current Ratio
2. Quick Ratio

1. Current Ratio

This ratio shows the relation between current assets and current liabilities. The current ratio is calculated by dividing current assets by current liabilities. The objective of this ratio is to measure the ability of the firm to meet its short term obligation. The following formula can be used to ascertain this ratio:

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

There are two components in current ratio. The first component ‘current assets’ are those assets which can be converted into cash within a short period of time, normally not exceeding one year. The second component ‘current liabilities’ are those liabilities which mean the obligation which are payable within a short period. Those liabilities which are expected to be matured within the year is known as current liabilities.

2. Quick Ratio or Liquid Ratio

A relation between quick assets and current liabilities is termed as quick ratio. Quick assets include all the current assets other than stock and Prepaid. This ratio measures the ability of firm to pay current liabilities immediately. This ratio is calculated as below;

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

Where, Quick Assets= Current Assets - Stock - Prepa

b.Leverage Ratio

The second classification of financial ratio is the leverage ratio. It is also termed as solvency ratio or capital structure ratio. The leverage ratios are calculated to judge the long term financial position of a firm. These ratios measure the enterprise's ability to pay the interest regularity and repay the principal on maturity. The following ratios are included in leverage ratio;

1. Debt Equity Ratio
2. Debt to total capital ratio
3. Interest Coverage Ratio
4. Fixed Coverage Ratio

1.Debt Equity Ratio:

The relationship between long term debt and owner's equity is known as Debt Equity Ratio. It is a popular measure of the long term financial solvency of the firm. It is calculated are as follows;

$$\text{Debt Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholder's equity}} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

2. Debt to total capital ratio:

This ratio shows the relationship between the long term debt and total capital includes shareholders equity as well as Long term debt. This ratio is variation of the debt ratio and gives the similar indication as the debt equity ratio.

The ratio is calculated as:

$$\text{Debt to Total Capital Ratio} = \frac{\text{Long Term Debt}}{\text{Capital Employed}}$$

Or

$$= \frac{\text{Total Debt}}{\text{Capital Employed + Current Liabilities}}$$

3.Interest Coverage Ratio :

This ratio indicates the ability of a firm to pay interest charge on its borrowed capital. It is also called "Debt Service Ratio "or "Time Interest Earned Ratio". It is calculated by dividing Net profit before interest and taxes (NPBIAT) by the amount of fired interest charges. Its formula;

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit Before Interest and Tax}}{\text{Interest}}$$

4. Fixed Coverage ratio:

This is the ratio of the net profit before interest and tax of fixed charges. It indicates the number of times the fixed charges covered by NPBIAT. The fixed charge includes interest preference dividend and debt payment. Its formula:

$$\text{Fixed Coverage Ratio} = \frac{\text{Net Profit Before Interest And Tax}}{\text{Fixed Charge}}$$

Where,

Fixed Charge= Interest + Preference Dividend+ Debt Payment

C.Activity Ratio/Turnover/Efficiency

The relationship between sells and resources is indicated by turnover ratio. These ratios reflect how efficiently the company is managing its resources. Thus these ratios measured the degree of effectiveness in use of resources or funds by a firm. The common ratios of turnover are as follows;

1. Inventory Turnover Ratio
2. Debtors Turnover Ratios
3. Average Collection Period
4. Fixed Assets Turnover Ratio
5. Total Assets Turnover Ratio
6. Capital Employed Turnover Ratio

1. Inventory Turnover Ratio

The relationship between cost of goods sold and average inventory is shown by this ratio. It is computed by dividing the cost of goods sold by average inventory. It indicates as to how fast the goods are sold. It shows the speed with which stock is rotated into sales. It is known as stock Turnover Ratio. It is calculated as follows;

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Where, Cost of goods sold = Opening Inventory + Net Purchases + Direct Expenses – Closing Inventory

Or

Cost of goods sold = Sales – Gross Profit

Average inventory= Opening Inventory + Closing Inventory

2

2. Debtor Turnover Ratio:

It shows the relationship between credit sales and average debtor. It is computed by dividing the credit sales by average debtors.

$$\text{Thus, Debtors Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Debtors}}$$

Where,

Net Credit Sales= Total sales- Cash Sales- Sales Return

$$\text{Average Debtor} = \frac{\text{Opening Debtor} + \text{Closing Debtor}}{2}$$

While calculating opening debtors and closing debtors, both the debtors and bills receivable must be included. In the absence of credit sales an opening debtors the following formula is used;

$$\text{Debtors Turnover Ratio} = \frac{\text{Sales}}{\text{Closing Debtors}}$$

3. Average Collection Ratio:

It represents the average number of days for collecting the cash from debtor. It measures the efficiency of the concerned for collecting from debtors. It indicates the rapidity or slowness with which the money is collected from the debtors. It can be calculated as follows;

$$\text{Average Collection Period} = \frac{\text{Debt} * 365\text{ days}}{\text{Credit Sales}}$$

$$\text{Or} \quad \frac{365\text{ days}}{\text{Debtor Turnover}}$$

4. Fixed Assets Turnover Ratio:

It is relationship between sales and fixed assets which shows the efficiency of a concern on utilizing its fixed assets. This ratio is calculated by dividing net sales by net fixed assets. Symbolically;

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Net Sales}}{\text{Net Fixed Assets}}$$

5. Total Assets Turnover Ratio:

This ratio is employed to take information on total assets for generating sales in operation of business by the firm. It shows the relationship between total assets and sales. Total Assets includes current assets, fixed assets and investment. In ascertaining, the total assets fictitious assets and differed expenditure must be excluded. Its formula:

$$\text{Total Assets turnover Ratio} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

6. Capital employed Turnover Ratio:

It is the relationship between sales and total capital. It is measured of efficiency of the capital employed in the business. It is calculated as;

$$\text{Capital Employed Turnover Ratio} = \frac{\text{Net Sales}}{\text{Capital Employed}}$$

d. Profitability Ratios

The profitability ratio is related to profit. It shows the overall efficiency of the business concerned. The earning capacity of the business is measured by profitably ratio. It can be measured in two ways.

i Profitability in Relation to Sales

ii Profitability in Relation to Investment

i Profitability in Relation to Sales

A firm should be able to earn the profit sufficiently from each unit sold. If sales do not generate sufficient profit, it would be very difficult for the firm to cover operating expenses and interest charge and as a result, will fail to earn any profit for owners. Therefore, the following ratio can be ascertained considering the sales as basic.

a. Gross Profit Ratio
b. Net Profit Ratio
c. Operating ratio

a. Gross Profit Ratio

This ratio expresses the relationship between gross profit and sales. The calculation of this ratio is done on the basis of total profit and sales. Generally, it is express in percentage. The formula of this ratio is as follows:

Gross Profit Ratio= <u>Gross Profit</u>

Sales

b. Net Profit Ratio:

From this ratio, the relationship between sales and net profit become clear. Amount after subtracting the whole operating expenses, income tax, interest etc.from the gross profit is known as net profit. To ascertain this ratio the net profit is divided by sales.

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}}$$

c. Operating Ratio

This ratio shows the relation between operating expenses and sales value. The information about the cost structure and be obtained from this ratio. This ratio is computed by dividing operating expenses by sales.

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Sales}}$$

ii. Return on investment or profitability in relation to investment

The profitability of the firm can also be measured with investment respectively. The term investment refers to total assets, capital employed or shareholder's fund. The different types of ratios are as follows;

a. Return on assets
b. Return on shareholders' equity
c. Return on capital employed
d. Return on common shareholder's equity

a. Return on Assets:

It is the relationship between Net profit and total assets. The formula is as follows:

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

b. Return on shareholder's equity:

It shows the relation between the net profit after tax and shareholder's fund. Shareholder's fund include equity share capital, preference share capital, reserve and surplus, reserve fund, general reserve, capital reserve and share premium. The formula for finding out this ratio is as follows;

$$\text{Return on shareholder's equity} = \frac{\text{Net profit after tax}}{\text{Shareholder's equity}}$$

c. Return on capital employed:

It is a relation between net profit and capital employed which shows whether the amount of capital employed has been properly used or not. The formula is as follows:

$$\text{Return on Capital employed} = \frac{\text{Net profit after tax}}{\text{Capital employed}}$$

d. Return on common shareholder's equity:

This is the ratio of net profit to common shareholder's equity. The ratio is calculated as follows:

$$\text{Return on Common shareholder's equity} = \frac{\text{Net profit after tax-Preferences Divi}}{\text{Common Shareholder's equity}}$$

Other Ratios:

The other ratios related to profitably are as follows;

a.Dividend payout ratio:

The purpose of calculating this ratio is to know the portion of dividend distributed out of total earning. This ratio shows the relation between the returns belonging to equity shareholders and the dividend paid to them. Formula for calculating this ratio is as follows;

$$\text{Dividend payout ratio} = \frac{\text{Dividend per share}}{\text{Earning per share}}$$

b.Dividend yield ratio:

It defines the relationship between dividend per share and market value per share. It is very useful for investors. Formula for calculating this ratio is as follows;

$$\text{Dividend yield ratio} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

c.Earning yield ratio:

It shows the relationship between the market value per share and earnings per share. Formula for calculating this ratio is as follows;

$$\text{Earning yield ratio} = \frac{\text{Earning per share}}{\text{Market value per share}}$$

d.Price earnings ratio:

This ratio is closely related to the earning yield. The reciprocal of the earning yield is called the price earnings ratio. Formula for calculating this ratio is as follows;

Price earning ratio= Market value per share

Earning per share

e.Earning power ratio:

The profitability of a firm can be measured either in relation to investment or operating efficiency. The overall profitability can be measured on the basis of combination of these two ratios, which is known as earning power ratio. Formula for calculating this ratio is as follows;

$$\text{Earning power ratio} = \frac{\text{Net profit after tax}}{\text{Investment or total assets}}$$

F.Earnings per share:

It is calculated by dividing the net profit after tax less preference dividend by the total no. of common shares. The formula for calculating this ratio is as follows:

$$\text{Earnings per share} = \frac{\text{Net profit after tax – Preference dividend}}{\text{No. of common shares}}$$

g.Dividend per share:

The whole amount of earning may or may not be distributed to shareholders by a company. How much per share dividend is a distributed to common shareholder can be known from this ratio. The dividend distributed among the common shareholders earn a per share basis can be determined by this ratio. Formula for calculating this ratio is as follows;

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

h. Cash and Bank Balance to Total Deposit Ratio

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

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

Where,

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

i. Cash and Bank Balance to Current Assets Ratio

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

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

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

j.Investment on Government Securities to Current Assets Ratio

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

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

k.Loan and Advances to current Assets Ratio

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

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

l.Assets Management Ratios (Activity Ratios)

Assets management ratio is used to measure how effectively the firm utilized the investments and the economic resources at its command. Investments are made in order to produce profitable sales. Achieving profitable sales, therefore involves making sound investments. At the practical level, this involves comparisons between the sales and the investment in various assets accounts. The methodology postulates an optimal relationship between sales and the various types of asset investment.

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

m. Loan and Advances to Total Deposit Ratio

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

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

Where,

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

n. Loan and Advances to Fixed Deposit Ratio

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

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

o. Loan and Advances to Total Working Fund Ratio

Loan and advances is the major components in the total working fund, which indicates the ability of banks are successful in mobilizing their loan and advances on the working fund ratio for the purpose of the income generation. This ratio is computed by dividing loans and advances by total working fund .This are stated as below:

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

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

p. Investment on Government Securities to Total Deposit Ratio

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

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

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

q. Investment on Government Securities to Total Working Fund Ratio

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

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

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

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

Investment on Shares and debentures *Investment on share &debenture*

to Total Working Fund Ratio = $\frac{\quad}{\textit{Total Working Fund}}$

II. Statistical Tools

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

1. Arithmetic Mean or Average

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

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

Where,

$\bar{X}$ = Arithmetic Mean

x = Summation for Total Values of the Variable / Observation

N = Number of Items

2. Standard Deviation

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

Symbolically,

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

Where,

±	=	Standard Deviation
d^2	=	Sum of Squares of the Deviation Measured from the Arithmetic Average
n	=	Numbers of Item

3 Co-efficient of Variation (C.V)

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

We can denotes this by following formula,

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

Where,

CV	=	Co-efficient of Variation
±	=	Standard Deviation
$\overline{X}$	=	Mean / Average

4 Co-efficient of Correlation (r)

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

$$r \text{ X}\frac{N \quad xy \text{ Z} \quad x | \quad y}{\sqrt{N \quad x^2 \text{ Z}f \quad x\text{Å}}\sqrt{N \quad y^2 \text{ Z}f \quad y\text{Å}}}$$

Where,

r	=	Co-efficient of Correlation
x	=	Independent Variable
y	=	Dependent Variable
N	=	Number of Periods

5 Probable Error of the Co-efficient of Correlation

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

$$P.E.r\ \mathrm{X} 0.6745 \frac{1 \mathrm{Z} r^{2}}{\sqrt{N}}$$

Where,

P. E r	=	Probable Error of Co-efficient of Correlation
r	=	Co-efficient of Correlation
n	=	Number of Pairs of Observations

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

- If the co-efficient of correlations is less than its probable error, it is not at all significant.
- If the co-efficient of correlations is more than six times of probable error, it is definitely significant.
- If the probable error is not much and if the coefficient of correlation is 0.5 or more it is generally to be significant.

6 Co-efficient of Determination (R^2)

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

Symbolically,

$R^2 = (r)^2$

Where,
R^2 = Co-efficient of Determination
R = Co-efficient of Correlation

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

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

8. Test of Hypothesis
The method of statistics which help in arriving at the criterion for such decision is called test of hypothesis or statistical decision making. A hypothesis is analysis assumption that make about the population parameter. Alternatively, a hypothesis is a conjectural statement of the relationship between two or more variables. Hypothesis statement should be able to show the relationship between variables.

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

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

The t – statistic id calculated by following formula under Ho:

$$T = \frac{r}{\sqrt{1 Z r 2}} \sqrt{n\,Z 2}$$

9 Trend Line Analyses

Trend line analysis describes the average relationship between series where the one series related to time and other series to the value of the variable. It is generally shows that the line of the best fit or straight line is obtained or not. The line of the best fit describes the changes in a given series accompanying a unit change in time. Another word, it gives the best possible mean values of dependent variable for a given value of independent variable.

For calculation of the “Line of the best fit “, following equation should be kept in mind.

Yc = a + bx

Where,

Yc = the estimated value of Y for given value of x obtained from the line of regression of Y on X

a = “Y- intercept “/ mean of Y value

b = “slope of line “/ rate of change

x = the variable in time series analysis represent time

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

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

Where;

N= Number of Years for with the date are given

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

Y= N a and XY= b x^2

By transformation, we; can write

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

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

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

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

CHAPTER 4
PRESENTATION AND ANALYSIS OF DATA

In this chapter data of sample banks are presented and analyzed according to the objectives set in the introduction chapter. To make a data more realistic and complete qualitative and quantitative analysis is done through different financial ratio and statistical analysis. However there are many ratios but due to some sort coming and constraints, only selected ratios have been taken for analyzing the strength and weakness of the sample banks.

This chapter also helps for presenting a major findings, proper recommendation for researcher which needs to define in next chapter. In this way analysis effort is made to make proper linkage of ever chapter.

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

4.1 Presentation and Analysis of Data

a. Ratios Analysis

Ratio analysis is a powerful tool of financial analysis, which helps in identifying strength and weakness of business concerns. Ratio analysis is the expression of the relationship between the mutually independent figures. It is an important way to state meaningful relationships between components of financial statements. It shows the quantitative relation between two variables. Simply it is calculated as dividing on variable by another variable. The primary purpose of ratio is to point out area for further investigation. Ratio analysis has been a major tools used in the interpretation and evaluation of financial statements.

There are various types of financial ratios which are used by different field for different purpose, such as creditors, investors, financial institutions and management of the firm. In this analysis following ratio are analysis and interpret for the past five year 2005 AD to 2009 AD for different banks.

- **Liquidity Ratios**

As name denotes the liquidity refers to the ratio between liquid assets and liability. Liquidity ratio measures the ability of firm to meet its current obligations Banks should maintain its satisfactory liquidity position to satisfy the short-term credit needs of the community , to meet demands for deposits, withdraws, pay maturity obligation in time an convert non cash assets into cash to satisfy immediate needs without loss to bank consequent impact in long run profit. Liquidity ratio measures the short-run solvency of the firm.

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

- **Current Ratio**

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

Table 1: Current Ratio

(Rs. in millions)

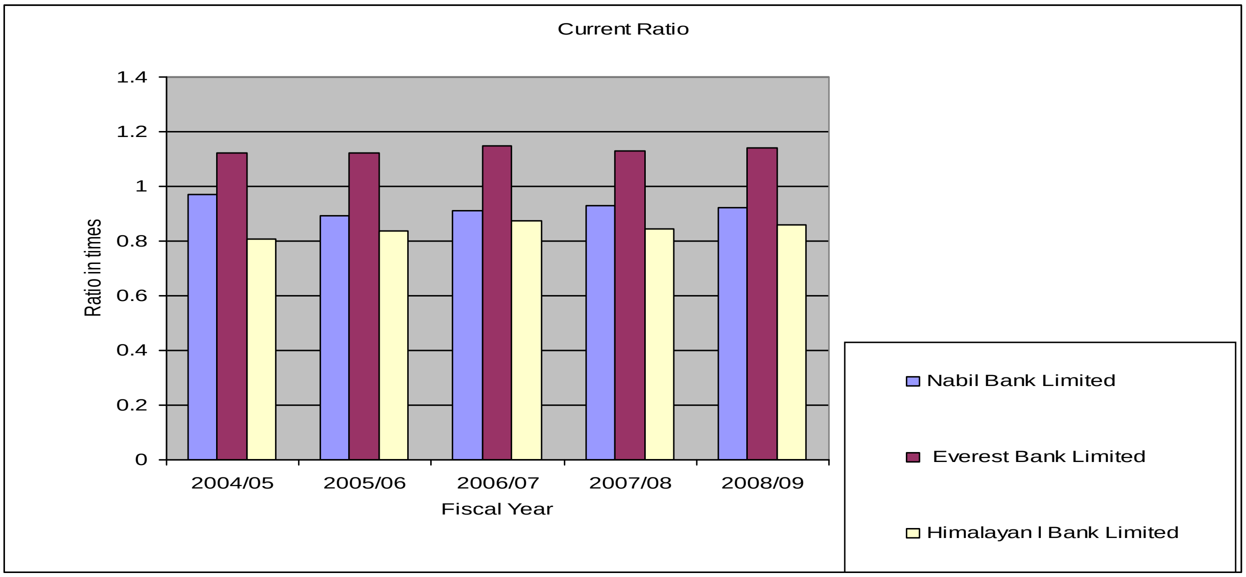
Banks									
	Nabil Bank Limited			Everest Bank Limited			Himalayan l Bank Limited		
Fiscal Year	Current Assets	Current Liabilities	Ratio (in times)	Current Assets	Current Liabilities	Ratio (in times)	Current Assets	Current Liabilities	Ratio (in times)
2004/05	14971.80	15420.82	0.9709	11367.59	10142.31	1.1208	21228.89	26302.94	0.8071
2005/06	18133.82	20352.56	0.8910	15621.75	13932.92	1.1212	23153.11	27694.21	0.8360
2006/07	22829.54	25095.29	0.9097	21039.82	18296.45	1.1499	27446.52	31372.64	0.8749
2007/08	25340.23	27215.33	0.9311	25256.32	22326.50	1.1312	30125.76	35726.77	0.8432
2008/09	27256.29	29565.55	0.9219	29278.44	25656.32	1.1412	34256.32	39789.66	0.8609
Mean			0.9249			1.1329			0.8444
S.D.			0.0265			0.0100			0.0806
C.V.(%)			2.8606			0.8827			9.5452

(Sources: Annual Report of Concerned Bank)

Table 1 indicates the current ratios of the three sampled banks. The ratio of NBL is fluctuating order throughout the study period. The highest ratio of NBL is 0.9709 in fiscal year 2004/05 and lowest ratio is registered in 2005/06 which is 0.8910.Similarly, the ratio of EBL is in fluctuating order. From fiscal year 2004/05 to 2006/07 it is in increasing order thereafter ratio is decreasing in fiscal year 2007/08 and increasing in 2008/2009. The highest ratio is registered in 2006/07 which is 1.1499 and lowest ratio is registered in 2004/05 which is 1.1208. Similarly In the same way HBL’s ratio is in increasing order. In 2004/05 it has lowest ratio 0.8071 and 2006/07 it has highest ratio 0.8749.Since mean ratios of EBL found to be highest than NBL and HBL from which we can conclude that EBL is successful to meet their current obligation.

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

Figure - 1



- **Cash and Bank Balance to Total Deposit Ratio.**

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

Table 2: Cash and Bank Balance to Total Deposit Ratio

(Rs. in millions)

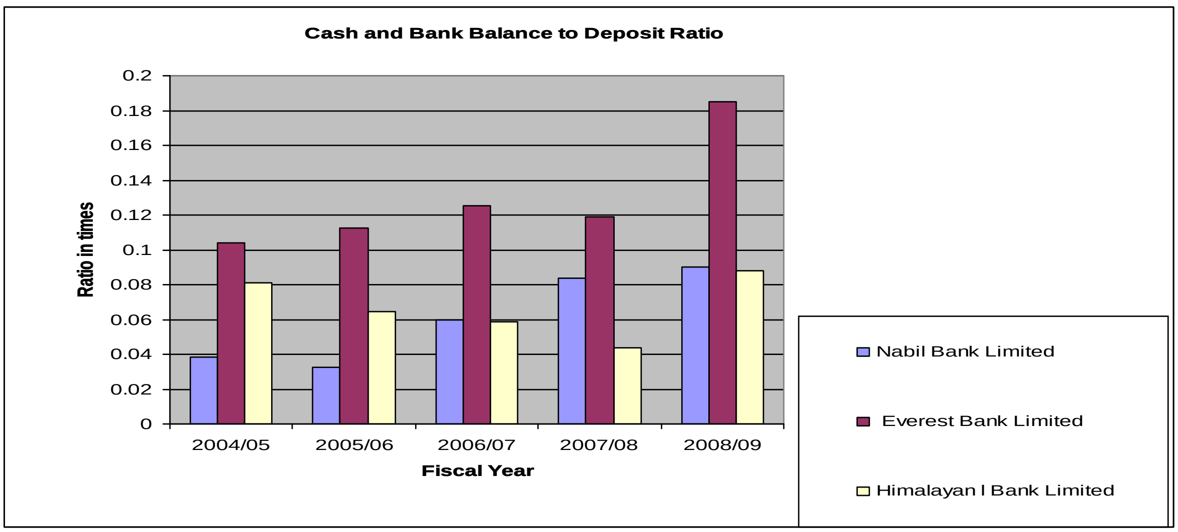
Banks									
	Nabil Bank Limited			**Everest Bank Ltd.**			**Himalayan Bank Limited**		
Fiscal Year	**Cash & Bank Bal.**	**Total Deposit**	**Ratio (in times)**	**Cash & Bank Bal.**	**Total Deposit**	**Ratio (in times)**	**Cash & Bank Bal.**	**Total Deposit**	**Ratio (in times)**
2004/05	559.38	14586.61	0.0383	1049.99	10097.69	0.1040	2014.47	24814.01	0.0811
2005/06	630.23	19347.40	0.0326	1552.96	13802.44	0.1125	1717.35	26490.85	0.0648
2006/07	1399.83	23342.29	0.0600	2391.42	19097.7	0.1252	1757.34	29905.8	0.0587
2007/08	2671.10	31915.0	0.0837	2852.40	23976.3	0.1189	1396.70	31805.3	0.0439
2008/09	3372.5	37348.3	0.0902	6164.40	33322.9	0.1850	3048.60	34681.0	0.0879
Mean			0.0609			0.1291			0.0673
S.D.			0.0224			0.0283			0.0141
C.V. (%)			36.7170			21.910			21.0136

[Sources: Annual Report of Concerned Bank]

Table 2 shows the fluctuation on cash and bank balance to total deposit ratio of three sample Banks. During study of five years period, the ratio of NBL is highest in 2008/09 which is 0.0902 and lowest in 2005/06 which is 0.0326. Similarly EBL has highest ratio in 2008/09 and lowest in 2004/05 which is 0.1850 and 0.1040 receptively. HBL is ranged between 0.0439 in 2007/08 and 0.0879 in 2008/09. It is found that EBL has maintained the highest mean ratio which is 0.1291 than other NBL and HBL. Which shows that EBL has successful in maintains the higher cash and bank balance to total deposit ratio. But it does not mean that it has invested in profitable sector. It actually means that EBL are successful in meeting the daily cash requirement.

From the table it is clear that HBL has better position in consistency which is shown by lowest C.V. (21.0136%), they have a consistency in utilizing the cash balance among the other two NBL and EBL banks.

Figure -2



Cash and Bank Balance to Current Assets Ratio.

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

Table 3: Cash and Bank Balance to Current Assets Ratio

(Rs. in million)

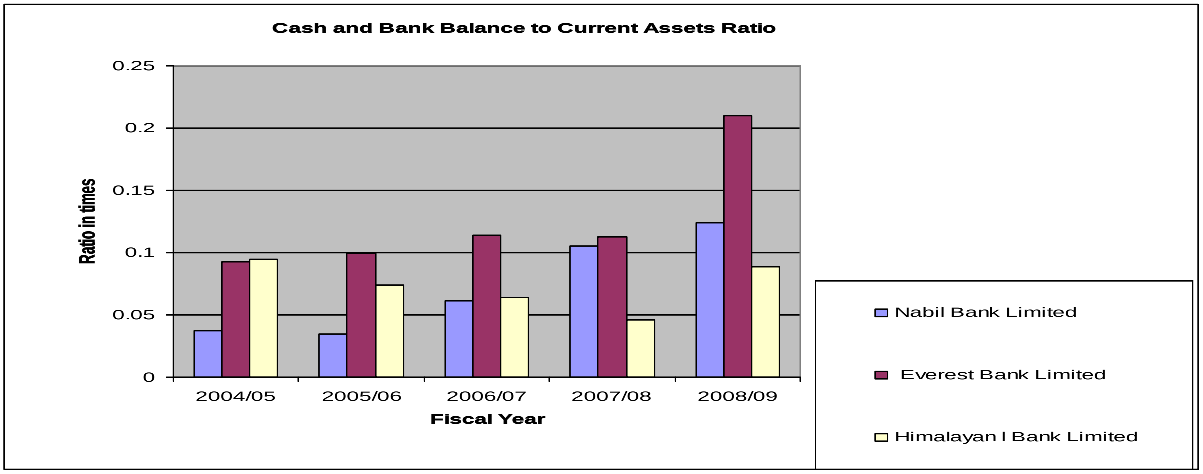
Banks									
	Nabil Bank Limited			Everest Bank Limited			Himalayan Bank Limited		
Fiscal Year	Cash & Bank Bal.	Current Assets	Ratio (in times)	Cash & Bank Bal.	Current Assets	Ratio (in times)	Cash & Bank Bal.	Current Assets	Ratio (in times)
2004/05	559.38	14971.80	0.0374	1049.99	11367.59	0.0924	2014.47	21228.89	0.0949
2005/06	630.23	18133.82	0.0348	1552.96	15621.75	0.0994	1717.35	23153.11	0.0742
2006/07	1399.83	22829.54	0.0613	2391.42	21039.82	0.1137	1757.34	27446.52	0.0640
2007/08	2671.10	25340.23	0.1054	2852.40	25256.32	0.1129	1396.70	30125.76	0.0463
2008/09	3372.5	27256.29	0.1237	6164.40	29278.44	0.2102	3048.60	34256.32	0.0889
Mean			0.0725			0.1257			0.0737
S.D.			0.0361			0.0424			0.0173
C.V. (%)			49.73			33.7521			23.47

[Sources: Annual Report of Concerned Bank]

Table 3 shows that the cash and bank balance to current assets ratio of NBL is ranged between the 0.0348 in 2005/06 and 0.1237 in 2008/09 with mean ratio of 0.0.0725, EBL is in increasing order from 2004/05 to 2008/2009 which is between 0.0924 to 0.2102 with mean ratio of 0.1257, and HBL is ranged between 0.04630 in 2006/07 and 0.0949 in 2004/05 with mean ratio of 0.0737. Since, the mean ratio of EBL is higher than the average of all sample banks. It supports the conclusion is that, EBL has been successful in maintaining its higher cash and bank balance to current assets ratio, but it doesn't mean that it has mobilized its more funds in profitable sectors. It actually means that EBL can meet its daily cash requirement. In contrast NBL has a lowest mean ratio because it may have invested their fund in more productive sectors.

As concern with liquidity and consistency HBL has successful in maintaining a stability of cash and bank balance in comparison to other sample banks with lowest C.V. (23.470%)

Figure -3



b. Activity Ratio/ Assets Management Ratios

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

Loan and Advance to Total Deposit Ratio

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

Table 4: Loan and Advances to Total Deposit Ratio

(Rs. In million)

Banks									
	Nabil Bank Limited			**Everest Bank Ltd.**			**Himalayan Bank Limited**		
Fiscal Year	**Loan & Advances**	**Total Deposit**	**Ratio (in times)**	**Loan & Advances**	**Total Deposit**	**Ratio (in times)**	**Loan & Advances**	**Total Deposit**	**Ratio (in times)**
2004/05	11078.0	14586.61	0.7595	7914.4	10097.691	0.7839	13245	24814.01	0.5338
2005/06	13021.3	19347.40	0.6730	10124.2	13802.445	0.7335	15515.7	26490.85	0.5857
2006/07	15657.1	23342.29	0.6708	14059.2	19097.7	0.7362	17672.0	29905.8	0.5909
2007/08	21514.6	31915.0	0.6741	18814.3	23976.3	0.7847	19985.2	31805.3	0.6284
2008/09	27816.6	37348.3	0.7448	24366.2	33322.9	0.7312	25292.1	34681.0	0.7293
Mean			0.7044			0.7539			0.6136
S.D.			0.0387			0.0245			0.0656
C.V. (%)			5.4983			3.2491			10.6868

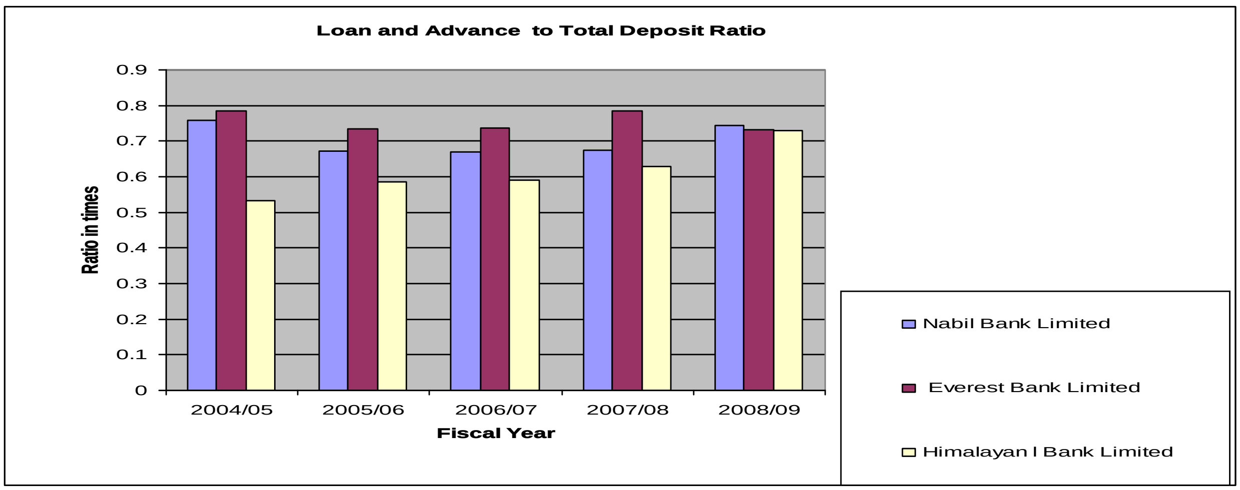
[Sources: Annual Report of Concerned Bank]

Table 4 shows the ratio during the study period of five years of three banks.NBL has registered the highest ratio (0.7595) in year (2004/05) and lowest ratio (0.6708) in year

2006/07 with mean ratio of 0.7044.Similarly,In fiscal year 2008/09 and 2007/08 EBL has registered the lowest ratio (0.7312) and highest ratio (0.7847) respectively with mean ratio of 0.7539 which is the highest mean ratio among other two banks...Also, HBL has registered the lowest (0.5338) and highest (0.7293) ratio in fiscal year 2004/05 and 2008/09 respectively with lowest mean ratio 0.6136, among the other two banks.

As concerned with the consistency of EBL is successful to maintain the consistency in comparison to NBL and HBL because they have a lower C.V. of 3.2491%. HBL has a highest C.V. of 10.6868 %, thus they are not able to maintain the consistency. In case of NBL they have a C.V. of 5.4983% which shows that they are able to maintain the stability in investing through loan and advance to some extent.

Figure - 4



Investment on Government Securities to Total Deposit Ratio

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

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

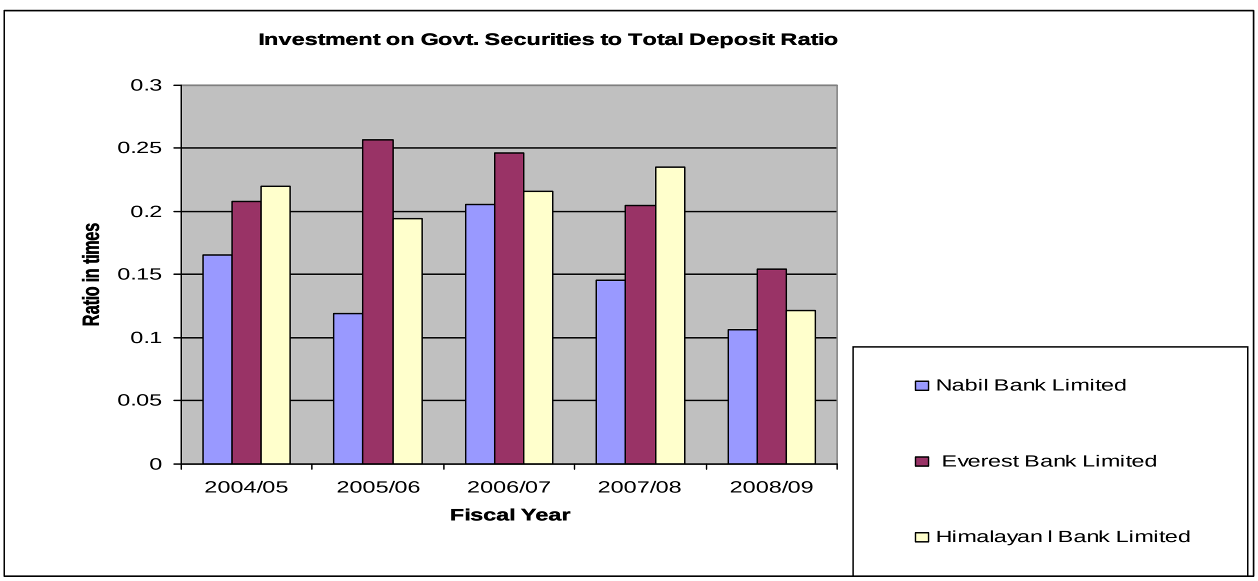
(Rs. In million)

Banks									
	Nabil Bank Limited			**Everest Bank Ltd.**			**Himalayan Bank Limited**		
Fiscal Year	**Invest. On Govt. Sec.**	**Total Deposit**	**Ratio (in times)**	**Invest. On Govt. Sec.**	**Total Deposit**	**Ratio (in times)**	**Invest. On Govt. Sec.**	**Total Deposit**	**Ratio (in times)**
2004/05	2413.94	14586.61	0.1655	2100.29	10097.691	0.2079	5469.73	24814.01	0.2204
2005/06	2301.46	19347.40	0.1190	3548.62	13802.445	0.2571	5144.31	26490.85	0.1942
2006/07	4808.35	23342.29	0.2059	4704.63	19097.7	0.2463	6454.87	29905.8	0.2158
2007/08	4646.9	31915.0	0.1459	4906.5	23976.3	0.2046	7471.7	31805.3	0.2349
2008/09	3978.7	37348.3	0.1065	5146.0	33322.9	0.1544	4212.3	34681.0	0.1214
Mean			0.1628			0.2141			0.1973

[Sources: Annual Report of Concerned Bank]

Table 7 reflects that NBL's ratio is fluctuating from year 2005/6 to 2008/09.The ratio of Investment on Government securities to Total Deposit is high (0.2059) at the yaer of 2006/07.And the ratio is low at the year of 2008/09 which is 0.1065.Similarly In EBL the ratio is ups and down from 2005/06 to 2008/09. The ratio is high at 2005/06 which is 0.2571 and low at 2008/09 which is 0.1544.In HBL, The ratio is high 2007/08 which is 0.2349 and low at 2008/09 which is 0.1214. Among sample banks EBL is successful in mobilizing the deposit, since it has a higher mean ratio. But EBL has a lower mean ratio; they are less successful to utilize the deposit in investment on government securities in compare with sample banks

Figure – 5



c. Profitability Ratios

The main objective of a bank is to make profit providing different types of services to its customers. Profit is the different between total revenue and total expenses over a period of time. Profit is necessary to survive in any business field for its successful operation and further expansion. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in terms of profits. Profitability shows the overall efficiency of the business concerns. To meet those objectives likewise a good liquidity position, meet fixed interest obligation, overcome the future contingencies, grab the investment opportunities, business expansions etc., they must earn sufficient profit. It is an obvious that profitability ratios are the best indicators of overall efficiency. In this study, mainly those ratios are presented which are related with profit as well as fund mobilization.

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

- **Net Profit to Total Assets Ratio**

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

Table 6: Net Profit to Total Assets Ratio

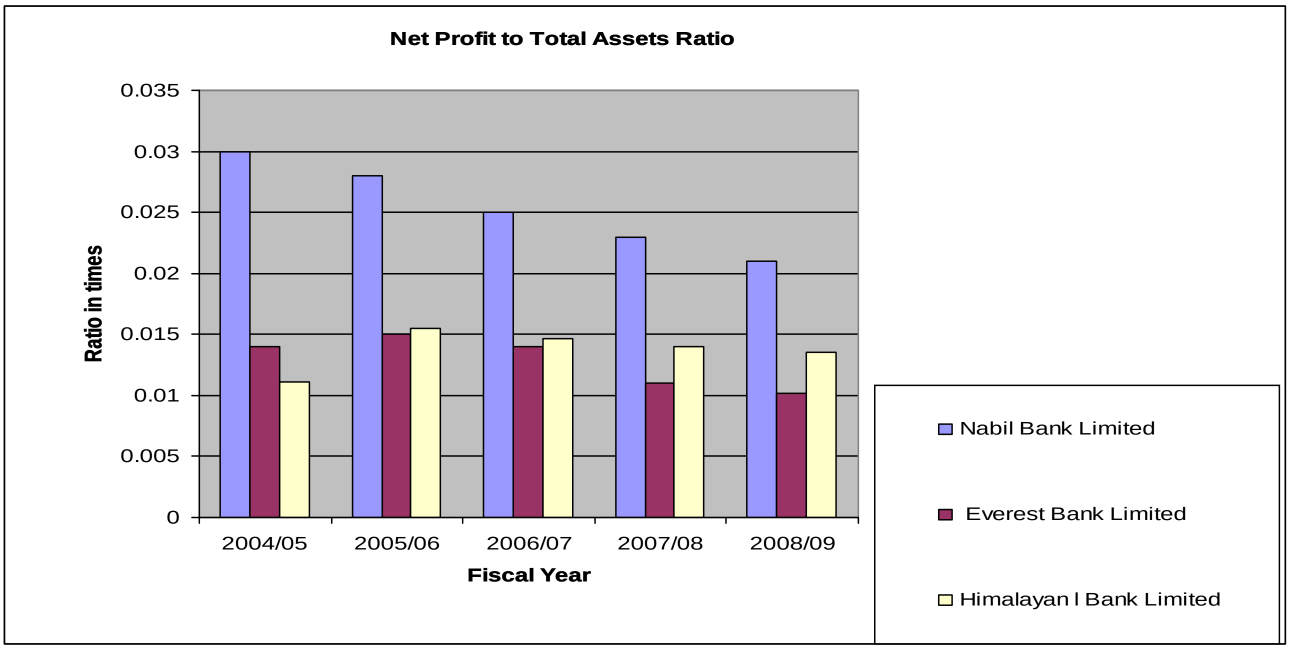
(Rs. in million)

Banks									
	Nabil Bank Limited			**Everest Bank Limited**			**Himalayan Bank Limited**		
Fiscal Year	**Net Profit**	**Total Assets**	**Ratio (in times)**	**Net Profit**	**Total Assets**	**Ratio (in times)**	**Net Profit**	**Total Assets**	**Ratio (in times)**
2004/05	518.63	17186.33	0.03	170.8	11792.126	0.014	308.28	27844.69	0.0111
2005/06	635.26	22329.97	0.028	237.3	15959.285	0.015	457.46	29460.39	0.0155
2006/07	673.96	27253.39	0.025	296.4	21432.574	0.014	491.82	33519.14	0.0147
2007/08	714.23	31222.63	0.023	311.4	27325.65	0.011	512.23	36526.8	0.0140
2008/09	765.45	36587.23	0.021	367.2	36002.63	0.0102	537.95	39790.23	0.0135
Mean			0.0254			0.0128			0.0138

[Sources: Annual Report of Concerned Bank]

In Above Table, all banks have fluctuating ratio. The ratio of NBL is decreasing from 2004/05 to 2008/09. (0.03 to 0.021). EBL has fluctuating their ratios from the year of 2004/05 to 2008/09.The highest ratio is 0.015 in 2005/06 and the lowest ratio is 0.0102 in the year 2008/09.Similarly in HBL,The ratio is fluctuating from the year 2005/06 to 2008/09.The highest ratio is 0.0155 in the year 2005/06 and the lowest ratio is 0.0111 in the year 2004/05. NBL has a highest mean ratio with 0.0254 which determined that NBL are successful in earning the net profit with efficient utilization of total assets with compare to EBL and HBL. EBL is less successful in utilizing the total assets for earning the net profit in compare to sample banks

Figure - 6



- **Net profit to Total Deposit Ratio.**

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

Table 7 : Net Profit to Total Deposit Ratio

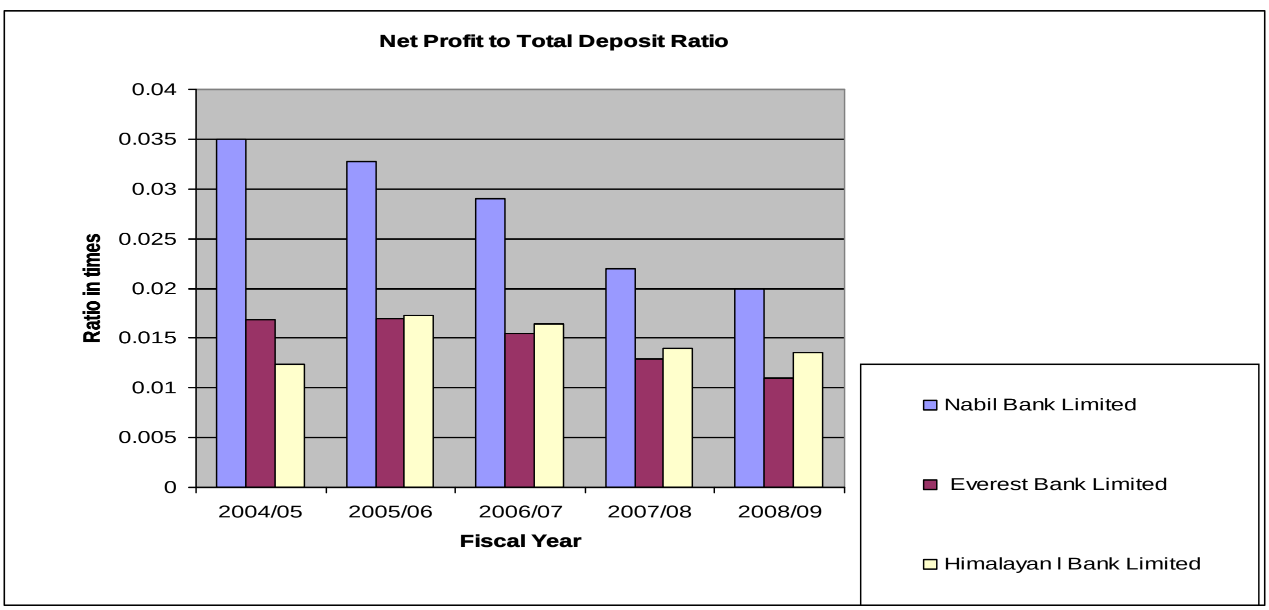
(Rs. in million)

Banks									
	Nabil Bank Limited			**Everest Bank Limited**			**Himalayan Bank Limited**		
Fiscal Year	**Net Profit**	**Total Deposit**	**Ratio (in times)**	**Net Profit**	**Total Deposit**	**Ratio (in times)**	**Net Profit**	**Total Deposit**	**Ratio (in times)**
2004/05	518.63	14586.61	0.035	170.8	10097.691	0.0169	308.28	27844.69	0.0124
2005/06	635.26	19347.40	0.0328	237.3	13802.445	0.017	457.46	29460.39	0.0173
2006/07	673.96	23342.29	0.029	296.4	19097.7	0.0155	491.82	33519.14	0.0164
2007/08	714.23	31915.0	0.022	311.4	23976.3	0.0129	512.23	36526.8	0.0140
2008/09	765.45	37348.3	0.020	367.2	33322.9	0.0110	537.95	39790.23	0.0135
Mean			0.0278			0.0733			0.0147

[Sources: Annual Report of Concerned Bank]

In above table, NBL has decreasing their ratios from the year 2004/05 to 2008/09 (0.035 to 0.020). EBL has fluctuating their ratios from the year 2004/05 to 2008/09. The highest ratio is 0.017 in the year 2005/06 and lowest ratio is 0.0110 in the year 2008/09.Similarly HBL has fluctuating their ratios from the year 2004/05 to 2008/09. The highest ratio is 0.0173 in the year 2005/06 and the lowest ratio is 0.0124 in the year 2004/05. EBL has better performance in utilizing of total deposit to earn a higher profit than other sample banks. Similarly, HBL has not better performance in comparison to NBL and EBL since they has low mean ratio i.e. 0.0147.

Figure - 7



- **Total Interest Earned to Total Working Fund Ratio**

The ratio shows the earning capacity of a Bank on its total assets (working fund). This ratio exhibits the extent on which banks are successful in mobilizing their working funds to generate income as much as possible. The higher ratio will indicate the high earning power of the banks on its total assets. The following table shows the comparative ratios of Banks for the different periods.

Table 8 : Total Interest Earned to Total Working Fund Ratio

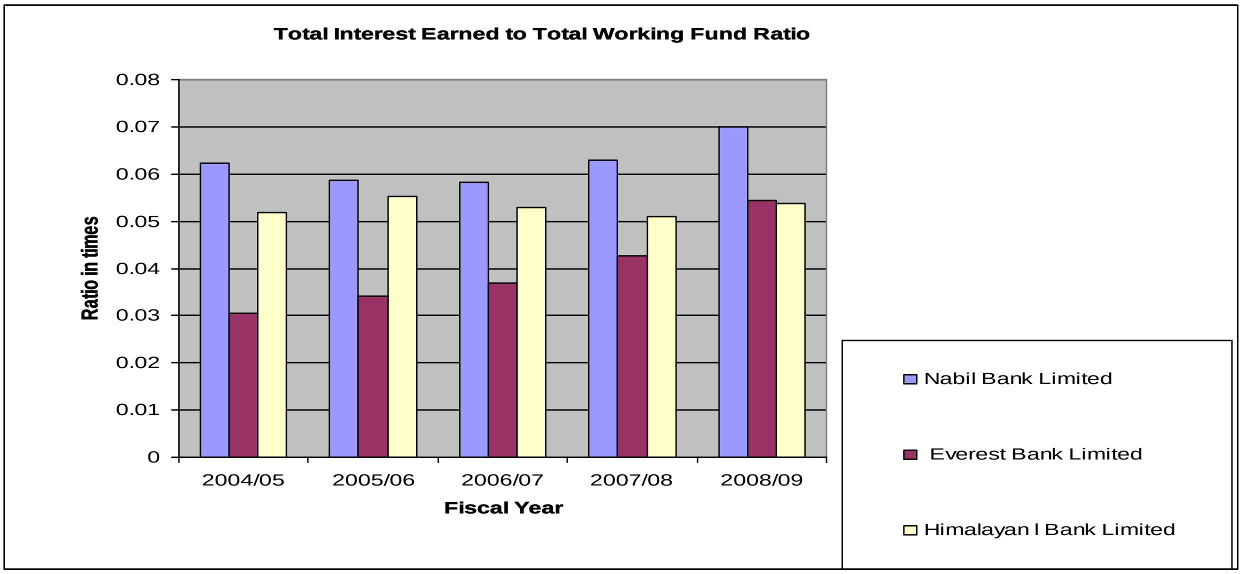
(Rs. In million)

Banks									
	Nabil Bank Limited			Everest Bank Ltd.			Himalayan Bank Limited		
Fiscal Year	Interest Earned	Working Fund	Ratio (in times)	Interest Earned	Working Fund	Ratio (in times)	Interest Earned	Working Fund	Ratio (in times)
2004/05	1068.75	17186.33	0.0622	720.7	23586.63	0.0306	1446.47	27844.69	0.0519
2005/06	1310.00	22329.97	0.0587	907.3	26582.32	0.0341	1626.47	29460.39	0.0552
2006/07	1587.76	27253.39	0.0583	1158.0	31256.23	0.0370	1775.58	33519.14	0.0530
2007/08	1978.7	31256.23	0.063	1548.7	36352.56	0.0426	1970.9	38652.12	0.0509
2008/09	2794.8	39562.25	0.070	2186.8	40256.30	0.0543	2330.5	43256.33	0.0538
Mean			0.0624			0.0404			0.0304

(Sources: Annual Report of Concerned Bank)

In above table, the ratio is fluctuating from the year 2004/05 to 2008/09. The highest ratio is 0.070 in the year 2008/09 and the lowest ratio is 0.0583 in the year 2006/07. In EBL, The ratio of total interest earned to working fund is increasing trend from 2004/05 to 2008/09 (0.0306 to 0.0543) Similarly in HBL,the ratio is fluctuating from the year 2004/05 to 2008/09.The ratio is highest 2008/09 which is 0.0538 and the lowest ratio is 0.0509 in the year 2007/08. The mean ratio shows that all sample banks are successful in earning the interest on total working fund.

Figure - 8



- **Total Interest Paid to Total Working Fund Ratio**

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

Table 9 : Total Interest Paid to Total Working Fund Ratio

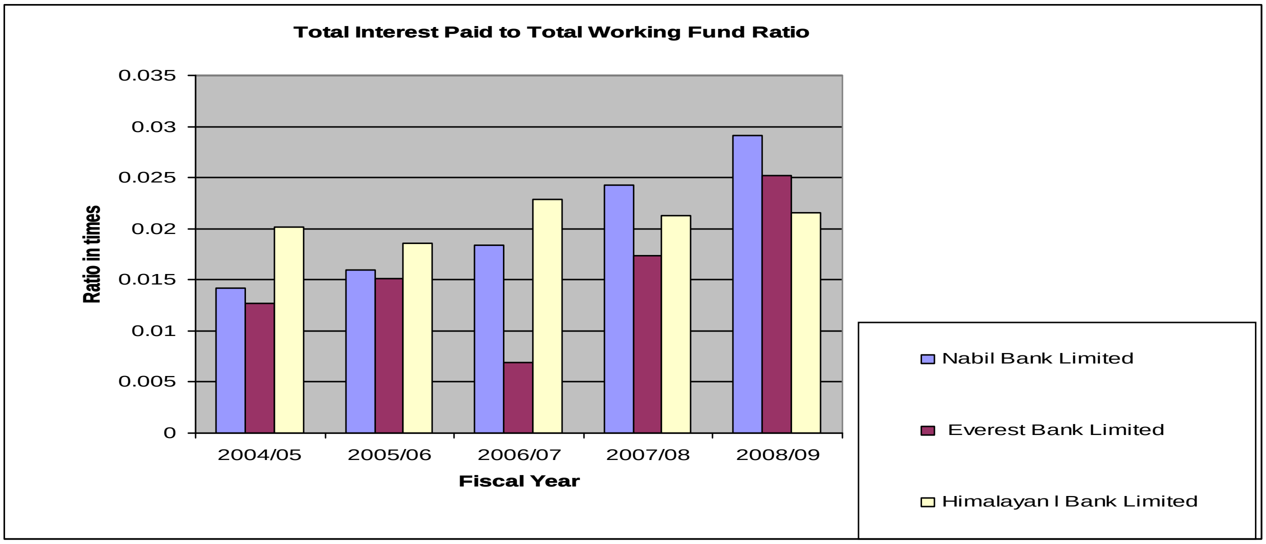
(Rs. in million)

Banks									
	Nabil Bank Limited			Everest Bank Ltd.			Himalayan Bank Limited		
Fiscal Year	Interest Paid	Working Fund	Ratio (in times)	Interest Paid	Working Fund	Ratio (in times)	Interest Paid	Working Fund	Ratio (in times)
2004/05	243.54	17186.33	0.0142	299.5	23586.63	0.0127	561.96	27844.69	0.0202
2005/06	357.16	22329.97	0.0160	401.4	26582.32	0.0151	648.84	29460.39	0.0186
2006/07	502.7	27253.39	0.0184	517.2	31256.23	0.0069	766.5	33519.14	0.0229
2007/08	758.4	31256.23	0.0243	632.6	36352.56	0.0174	824.0	38652.12	0.0213
2008/09	1152.1	39562.25	0.0291	1012.9	40256.30	0.0252	934.8	43256.33	0.0216
Mean			0.0204			0.0155			0.0209

(Sources: Annual Report of Concerned Bank)

In the above table, NBL's ratio is in increasing trend form 2004/05 to 2008/09(0.0142 to 0.0291). EBL has fluctuating their ratios from the year 2004/05 to 2008/09. The highest ratio is 0.0252 in the year 2008/09 and the lowest ratio is 0.0069 in the year 2006/07.Similarly in HBL, the ratio is fluctuating. The highest ratio is 0.0229 in the year 2006/07 and the lowest ratio is 0.0186 in the year 2005/06. The above definition determined that HBL has paid a higher interest on working fund in compare to NBL and EBL which is shown by highest mean ratio.

Figure – 9



d. Leverage Ratios

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

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

) **Debt-Asset Ratio**

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

Table 10 : Debt- Asset Ratio

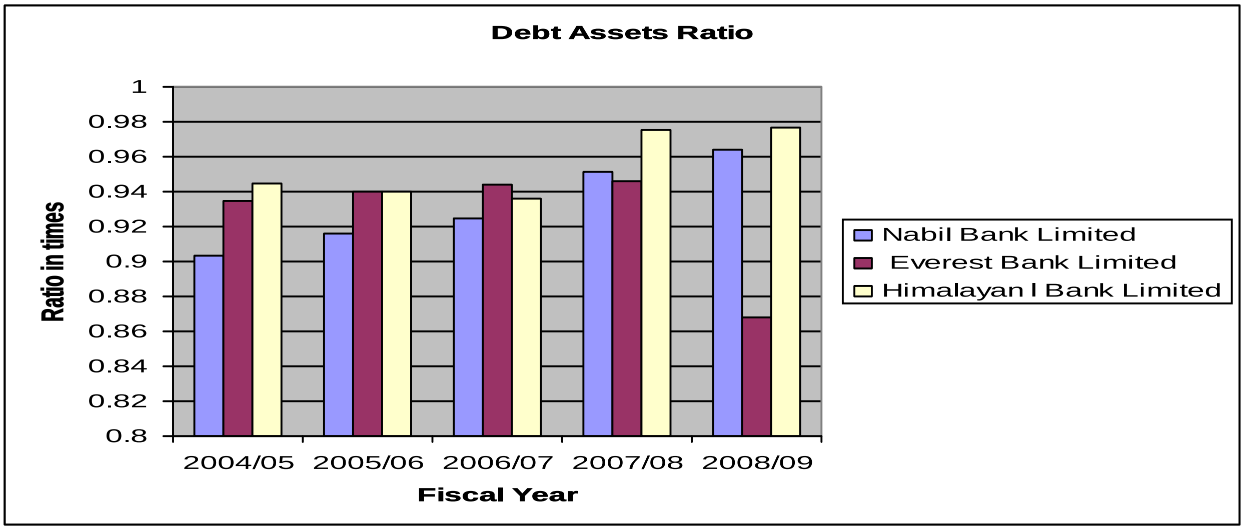
(Rs. In million)

Banks									
	Nabil Bank Limited			**Everest Bank Limited**			**Himalayan Bank Limited**		
Fiscal Year	**Total Debt**	**Total Assets**	**Ratio (in times)**	**Total Debt**	**Total Assets**	**Ratio (in times)**	**Total Debt**	**Total Assets**	**Ratio (in times)**
2004/05	15528.7	17186.33	0.9035	11022.51	11792.126	0.9347	26302.94	27844.69	0.9446
2005/06	20454.98	22329.97	0.9160	14996.477	15959.285	0.9397	27694.21	29460.39	0.9400
2006/07	25196.34	27253.39	0.9245	20231.059	21432.574	0.9439	31372.64	33519.14	0.9360
2007/08	29756.23	31222.63	0.9512	25856.25	27325.65	0.9462	35623.06	36526.8	0.9753
2008/09	35265.55	36587.23	0.9639	31256.36	36002.63	0.8682	38523.45	39790.23	0.9764
Mean			0.9317			0.9265			0.9545

[Sources: Annual Report of Concerned Bank]

In above table, The debt assets ratio of NABIL Bank is in increasing trend from year 2004/05 to 2008/09(0.9035 to 0.9639).In EBL, the ratio is fluctuating from the year 2004/05 to 2008/09. The highest ratio is 0.9462 in the year 2007/08 and the lowest ratio is 0.8682 in the year 2008/09.Similarly the debt assets ratio of HBL is fluctuating from the year 2004/05 to 2008/09. The highest ratio is 0.9764 in the year 2008/09 and the lowest ratio is 0.9360 in the year 2006/07.HBL has highest mean ratio 0.9545 among other sample banks.

Figure - 10



- **Debt-Equity Ratio**

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

Table 11 : Debt- Equity Ratio

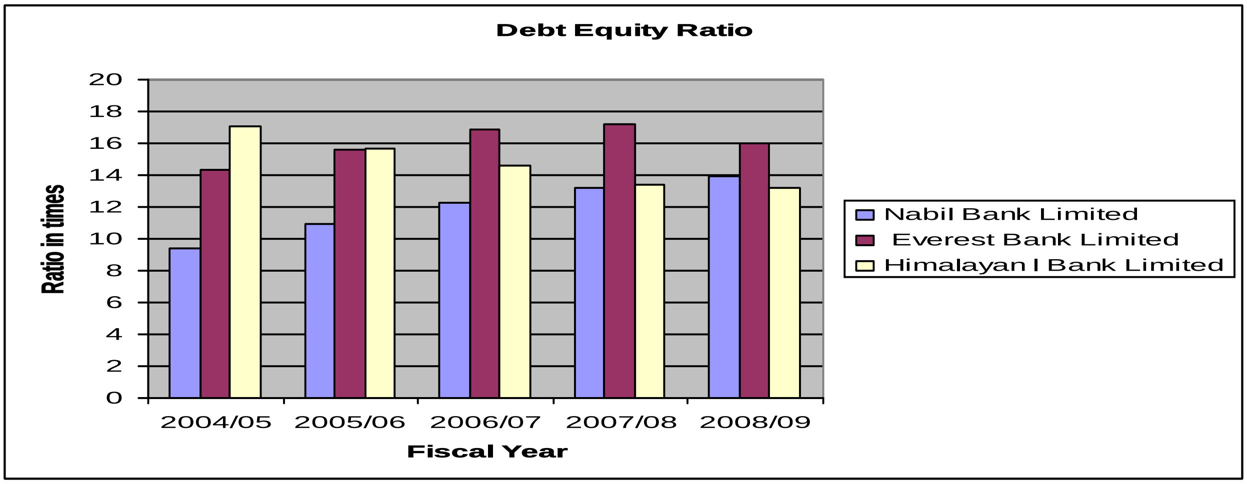
(Rs. In million)

Banks									
	Nabil Bank Limited			**Everest Bank Ltd.**			**Himalayan Bank Limited**		
Fiscal Year	**Total Debt**	**Total Equity**	**Ratio (in times)**	**Total Debt**	**Total Equity**	**Ratio (in times)**	**Total Debt**	**Total Equity**	**Ratio (in times)**
2004/05	15528.7	1657.63	9.3680	11022.51	769.617	14.32	26302.94	1541.75	17.0604
2005/06	20454.98	1874.99	10.9094	14996.477	962.808	15.58	27694.21	1766.18	15.6803
2006/07	25196.34	2057.05	12.2488	20231.059	1201.515	16.84	31372.64	2146.5	14.6157
2007/08	29756.23	2256.65	13.1860	25856.25	1501.23	17.22	35623.06	2655.98	13.4124
2008/09	35265.55	2536.23	13.9047	31256.36	1951.88	16.01	38523.45	2922.98	13.1795
Mean			11.92			15.99			14.73

[Sources: Annual Report of Concerned Bank]

In above table, the debt equity ratio of NBL is in increasing trend from the year 2004/05 to 2008/09 (9.3680 to 13.9047). EBL has fluctuating their Debt Equity ratio from the year 2004/05 to 2008/09.The highest ratio is 17.22 in the year 2007/08 and the lowest ratio is 14.32 in the year 2004/05.Similarly HBL has decreasing their Debt Equity ratio from 2004/05 to 2008/09 (17.0604 to 13.1795) The mean ratio of EBL is high among other sample banks. Since highest mean ratio is recorded by EBL, they have more investment from debt than equity fund which cost a higher than equity. Higher debt investment brings a higher cost to the banks.

Figure - 11



- **Growth Ratio of Net Profit, Earning Per Share and Dividend Per Share**

Table 12: Growth Ratio of Net Profit, Earning Per Share and Dividend Per Share Ratio

Banks									
	Nabil Bank Limited			**Everest Bank Ltd.**			**Himalayan Bank Limited**		
	Fiscal Year 2004/05	**Fiscal Year 2008/09**	**Growth Rate (in %)**	**Fiscal Year 2004/05**	**Fiscal Year 2008/09**	**Growth Rate (in %)**	**Fiscal Year 2004/05**	**Fiscal Year 2008/09**	**Growth Rate (in %)**
Net Profit	518.63	765.45	67.75	170.8	367.2	46.51	308.28	537.95	57.31
EPS	105	156.21	67.21	54.22	97.14	55.81	47.91	66.41	72.14
DPS	70	95	73.68	0	25	0	11.58	18.52	62.52

[Sources: Annual Report of Concerned Bank]

In above table, growth rate of Net Profit, EPS and DPS in Nabil Bank are 67.75%,67.21% and 73.68% respectively.Similarly growth rate of Net Profit, EPS and DPS of Everest Bank are 46.51%,55.81%,0 respectively and in Himalayan Bank Ltd, the growth rate of Net Profit, EPS and DPS are 57.31%,72.14% and 62.52% respectively.

The above results shows that NBL is found to be best from point of view of net profit, since they has highest growth rate among sample banks. EBL is less successful than NBL and HBL in increasing a net profit. HBL also has satisfied growth rate of net profit. In the same way NBL has a highest growth rate in EPS among sample banks. This defined that their EPS are higher than HBL and EBL. Since NBL's growth rate of EPS is in positive it has increasing trend of EPS. Similarly, EBL and HBL also have a positive growth rate which makes a conclusion of increment in EPS of banks. NBL has highest positive growth rate of DPS among sample banks. This defined that NBL has distribute the much dividend than EBL and HBL.

B. Statistical Analysis

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

1. Coefficient of Correlation Analysis (r)

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

2. Coefficient of Correlation between deposits and loans & advances

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

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

(Rs.in million)

Banks						
	Nabil Bank Limited		**Everest Bank Ltd.**		**Himalayan Bank Limited**	
Fiscal Year	**Total Deposit (x)**	**Loan & Advances (y)**	**Total Deposit (x)**	**Loan & Advances (y)**	**Total Deposit (x)**	**Loan & Advances (y)**
2004/05	14586.61	11078.0	10097.691	7914.4	27844.69	13245
2005/06	19347.40	13021.3	13802.445	10124.2	29460.39	15515.7
2006/07	23342.29	15657.1	19097.7	14059.2	33519.14	17672.0
2007/08	31915.0	21514.6	23976.3	18814.3	36526.8	19985.2
2008/09	37348.3	27816.6	33322.9	24366.2	39790.23	25292.1
r	0.8896		0.9256		0.8255	
$\mathbf{r^2}$	0.7914		0.8567		0.6815	
PE= 0.6745* $\frac{1-r^2}{\sqrt{n}}$	0.0625		0.0431		0.0961	
6PE	0.3775		0.2586		0.5766	
Level of Significant	Significant		Significant		Significant	

[Sources: Annual Report of Concerned Bank]

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

3. Coefficient of Correlation between deposits and Investment

Investment is also a measures part of banks to mobilize the collected deposit. By investing in different profitable area like shares and debenture, government securities banks maximize the profit. Therefore it is important to study the relation between the deposit and investment. For this analysis deposit is taken as independent variable (x) and investment (y) is taken as dependent variable. This analysis measures the degree of relationship between these two variables. Besides this, it will justify whether the deposits are significantly used in proper way or not and whether there is any relationship in between these two components. The following table exhibits the coefficient of correlation (r) between deposits and total investment, coefficient of determination (r2), probable error P.E.r.

Table 14: Coefficient of Correlation between Deposits and Investment

(Rs. in million)

Banks						
	Nabil Bank Limited		**Everest Bank Limited**		**Himalayan Bank Limited**	
Fiscal Year	**Total Deposit (x)**	**Investment (y)**	**Total Deposit (x)**	**Investment (y)**	**Total Deposit (x)**	**Investment (y)**
2004/05	14586.61	2413.94	10097.691	2100.3	27844.69	5946.7
2005/06	19347.40	2372.3	13802.445	3548.6	29460.39	5144.4
2006/07	23342.29	5359.2	19097.7	4704.6	33519.14	6454.8
2007/08	31915.0	4889.6	23976.3	4906.5	36526.8	7471.7
2008/09	37348.3	3978.7	33322.9	5146.0	39790.23	4212.3
r	0.9856		0.8525		0.8622	
r^2	0.9714		0.7268		0.7434	
PE= $0.6745 * \frac{1-r^2}{\sqrt{n}}$	0.0086		0.0824		0.0774	
6PE	0.0518		0.4945		0.4644	
Level of Significant	significant		Significant		Significant	

[Sources: Annual Report of Concerned Bank]

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

4. Coefficient of Correlation between Investment & Net profit

Following table shows the relation between the investment and net profit. As we say in above investment is done in different profitable area to maximize the profit. Net profit is the key to survive the banks. Without profit banks cannot sustain in the market. Therefore it is necessary to measures the degree of relationship between these two variable. For this study, Investment (x) is taken as independent variable and net profit (y) is taken as dependent variable. The following table shows the coefficient of correlation between(r), coefficient of determinants (r^2) and probable error P.E.r on investment and net profit of banks.

Table 15 : Coefficient of Correlation between Investment and Net Profit

(Rs.in million)

Banks						
	Nabil Bank Limited		**Everest Bank Limited**		**Himalayan Bank Limited**	
Fiscal Year	**Investment (x)**	**Net Profit (y)**	**Investment (x)**	**Net Profit (y)**	**Investment (x)**	**Net Profit (y)**
2004/05	2413.94	518.63	2100.3	170.8	5946.7	308.28
2005/06	2372.3	635.26	3548.6	237.3	5144.4	457.46
2006/07	5359.2	673.96	4704.6	296.4	6454.8	491.82
2007/08	4889.6	714.23	4906.5	311.4	7471.7	512.23
2008/09	3978.7	765.45	5146.0	367.2	4212.3	537.95
r	0.1270		0.8777		0.8077	
r^2	0.0161		0.7704		0.6524	
PE= $0.6745^* \frac{1-r^2}{\sqrt{n}}$	0.2968		0.0693		0.1049	
6PE	1.7808		0.4158		0.6294	
Level of Significant	Insignificant		Significant		Significant	

[Sources: Annual Report of Concerned Bank]

The coefficient of correlation for all the sampled banks found to be almost '1' which indicates that there is proportion relationship between the investment & net profit for all the sample banks. While testing 6P.E. for EBL and HBL found to be significant as the r value of these banks are greater than 6P.E.which implies there is perfect correlation between the Investment and net profit. While testing 6P.E.for NBL found to be insignificant as the r value of the bank is smaller than 6P.E. which implies that NBL is weak in earning the net profit through the investment whereas EBL and HBL are successful to earn net profit by mobilizing the deposit to the investment.

5. Coefficient of Correlation between Loan and advances & Net profit

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

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

(Rs.in million)

Banks						
	Nabil Bank Limited		**Everest Bank Limited**		**Himalayan Bank Limited**	
Fiscal Year	**Loan & Advances (x)**	**Net Profit (y)**	**Loan & Advances (x)**	**Net Profit (y)**	**Loan & Advances (x)**	**Net Profit (y)**
2004/05	11078.0	518.63	7914.4	170.8	13245.0	308.28
2005/06	13021.3	635.26	10124.2	237.3	15515.7	457.46
2006/07	15657.1	673.96	14059.2	296.4	17672.0	491.82
2007/08	21514.6	714.23	18814.3	311.4	19985.2	512.23
2008/09	27816.6	765.45	24366.2	367.2	25292.1	537.95
r	0.9832		0.9256		0.9695	
r^2	0.9668		0.8567		0.9399	
PE= 0.6745* $\frac{1-r^2}{\sqrt{n}}$	0.0100		0.0432		0.0181	
6PE	0.0602		0.2595		0.1088	
Level of Significant	Significant		Significant		Significant	

[Sources: Annual Report of Concerned Bank]

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

C. Trend Line Analysis

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

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

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

1. Trend Line Analysis of Total Deposit

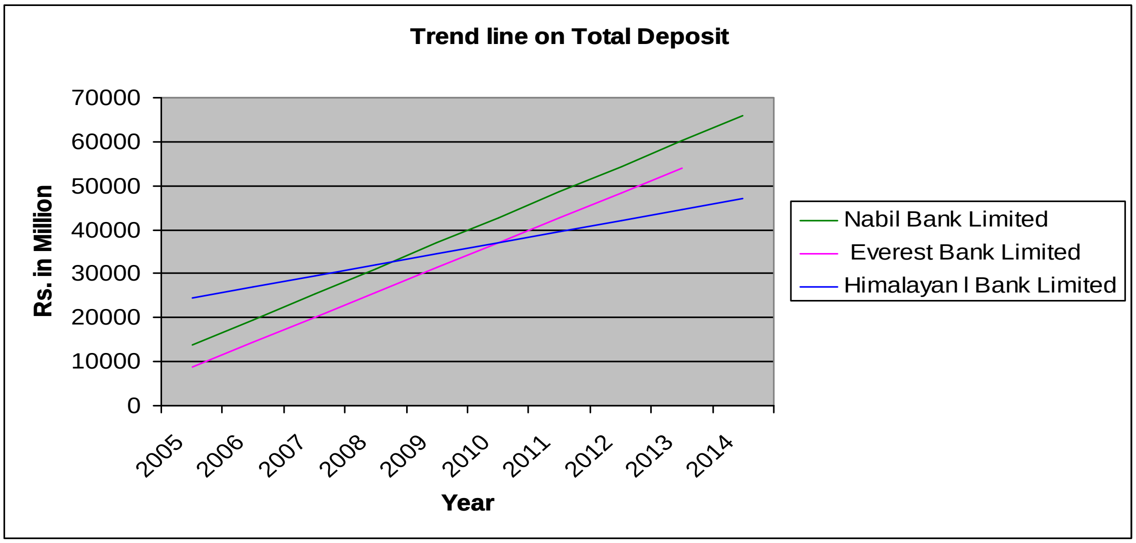
The part of this analysis will analyze Total deposit of banks for five years from 2003 to 2007 and projection for next five years i.e. 2008 to 20012. The following table exhibits the trend values of Total deposit of sample banks for 10 years.

Table 17 :Trend Line Analysis of Total Deposit

Year	Trend Values of Total Deposit		
	Nabil	Everest	HBL
2005	13689.72	8734.54	24529.74
2006	19498.82	14396.97	27034.56
2007	25307.92	20059.4	29539.4
2008	31117.02	25721.83	32044.24
2009	36926.12	31384.26	34549.08
2010	42735.22	37046.69	37053.92
2011	48544.32	42709.12	39558.76
2012	54353.42	48371.55	42063.6
2013	60162.52	54033.98	44568.44
2014	65971.62	59696.41	47073.28

[Sources: Annual Report of Concerned Bank-Refer to Appendix 1]

Figure - 17



In above table,the trend values of all the sample banks are in increasing trend, which means futures of total deposit of all the sample banks are good. Among the sample banks NBL has a highest trend of total deposit. It means NBL is successful in mobilizing the deposit. In fiscal year 2005 the trend values of NBL, EBL and HBL are 13689.72, 8734.54 & 24529.74 respectively. It is increase to 65971.62, 59696.41 & 47073.28 for the forecast year 2014.

2. Trend Line Analysis of Loan and Advances

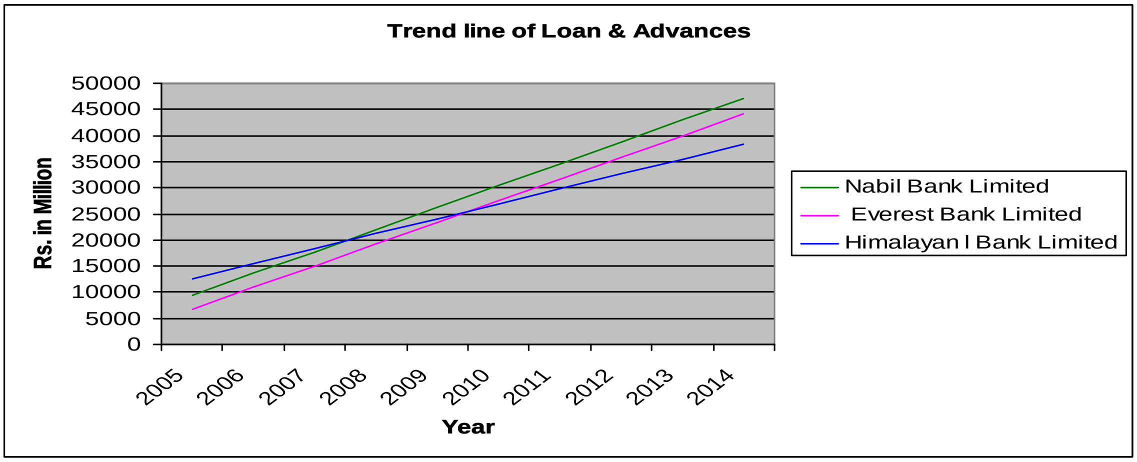
The analysis will analyze Loan and Advances of banks for five years from 2003 to 2007 and forecast for following five years i.e. 2008 to 20012. The following table exhibits the trend values of Total deposit of sample banks for 10 years.

Table 18 :Trend Line Analysis of Loan & Advances

Year	Trend Values of Loan & Advances		
	Nabil	EBL	HBL
2005	9423.42	6736.92	12629.26
2006	13620.47	10896.29	15485.63
2007	17817.52	15055.66	18342
2008	22014.57	19215.03	21198.37
2009	26211.62	23374.4	24054.74
2010	30408.67	27533.77	26911.11
1011	34605.72	31693.14	29767.48
2012	38802.77	35852.51	32623.85
2013	42999.82	40011.88	35480.22
2014	47196.87	44171.25	38336.59

[Sources: Annual Report of Concerned Bank-Refer to Appendix2]

Figure - 18



In above table, the trend values of all the sample banks are in increasing trend, which means futures of total Loan and Advances of all the sample banks are good. All the sample banks are successful in mobilizing the Loan and Advances to different productive and profitable sector. In fiscal year 2005 the trend values of NBL, EBL and HBL are 9423.42,6736.92 & 12629.26 respectively. It is increase to 47196.87, 44171.25 & 38336.59 for the forecast year 2014.

3. Trend Line Analysis of Investment

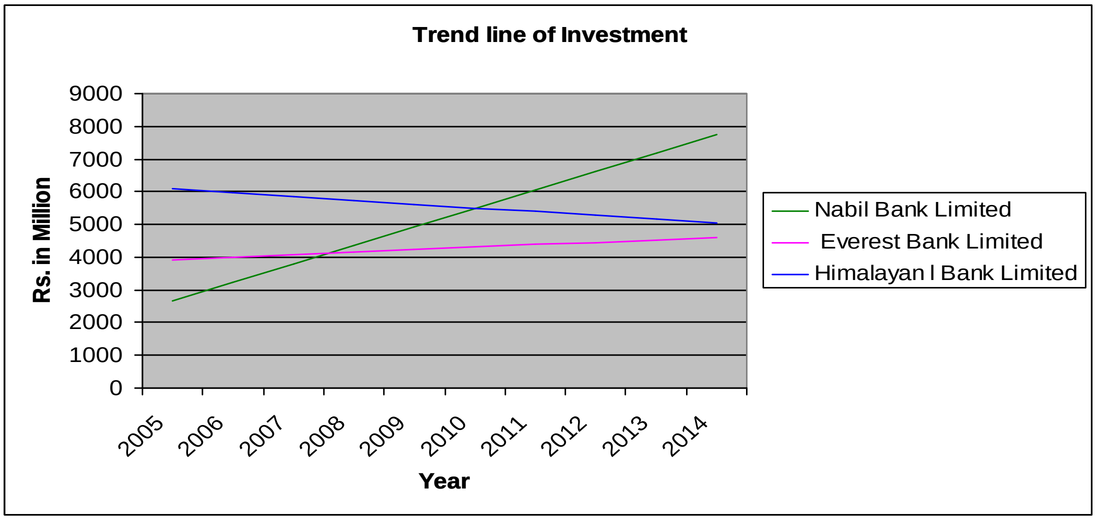
The following table analyzes the trend values of Investment of sample banks for five years and prediction for next five years.

Table19:Trend Line Analysis of Investment

Year	Trend Values of Investments		
	Nabil	EBL	HBL
2005	2673.38	3932.2	6074.4
2006	3238.06	4006.7	5960.25
2007	3802.74	4081.2	5846.1
2008	4367.42	4155.7	5731.95
2009	4932.1	4230.2	5617.8
2010	5496.78	4304.7	5503.65
2011	6061.46	4379.2	5389.5
2012	6626.14	4453.7	5275.35
2013	7190.82	4528.2	5161.2
2014	7755.5	4602.7	5047.05

[Sources: Annual Report of Concerned Bank-Refer to Appendix 3]

Figure - 19



In above table, the trend values of NBL and EBL is in increasing trend, which means futures of total deposit of these sample banks are good. Among the sample banks HBL has a decreasing trend of Investment. In fiscal year 2005, the trend values of NBL, EBL and HBL are 2673.38, 3932.2 &6074.4 respectively. It is increase to 7755.5, 4602.7 &5047.05 for the forecast year 2014.

4. Trend Line Analysis of Net Profit

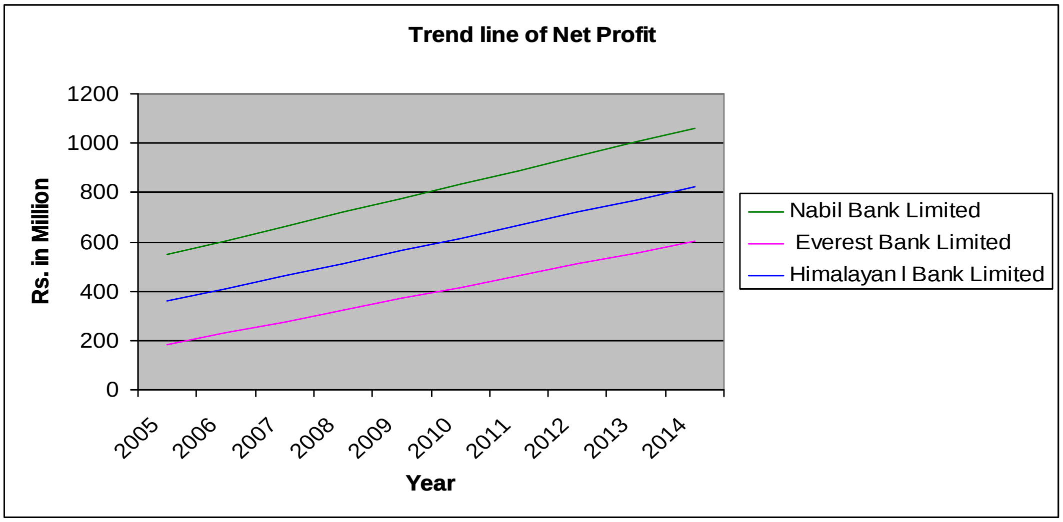
The following table analyzes the trend values of Net Profit of sample banks for five years and prediction for next five years.

Table 20:Trend Line Analysis of Net Profit

Year	Trend Values of Net Profits		
	Nabil	EBL	HBL
2005	546.98	183.22	358.73
2006	604.24	229.92	410.14
2007	661.5	276.62	461.55
2008	718.76	323.32	512.96
2009	776.02	370.02	564.37
2010	833.28	416.72	615.78
2011	890.54	463.42	667.19
2012	947.8	510.12	718.6
2013	1005.06	556.82	770.01
2014	1062.32	603.52	821.42

[Sources: Annual Report of Concerned Bank-Refer to Appendix 4]

Figure - 20



In above table, the trend values of all the sample banks are in increasing trend, which means futures of Net Profit of all the sample banks are good. Among the sample banks NBL has a highest trend of Net Profit. In fiscal year 2005 the trend values of NBL, EBL and HBL are 546.98, 183.22 and 358.73 respectively. It is increase to 1062.32,603.52 & 821.42 for the forecast year 2014.

4.2 Major Finding of the Study

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

- **Liquidity Ratio**

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

  - EBL found to be in better position to maintain the cash and bank balance ratio among the sample banks. But it does not mean that it has mobilized its more funds in profitable sector. It actually means that it can meet the daily cash requirement to make payments of the customer. NBL has lowest mean ratio which mean it may invest the more fund in the productive sector. HBL has an average mean ratio. All the banks have a fluctuation ratio during study period.

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

- **Assets Management Ratio**

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

- The mean ratio of loan and advances to total deposit ratio all the banks are found to be at satisfactory level. Since EBL has a higher mean ratio, EBL is able to proper utilization of loan and advance with respects to fixed deposit. NBL and HBL have seemed to less effective in utilizing the loan and advances in compare to EBL.

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

- Among sample banks EBL is successful in mobilizing the deposit in invest on government securities, since it has a higher mean ratio. But NBL has a lower mean ratio; they are less successful to utilize the deposit in investment on government securities in compare with sample banks. Similarly, HBL is also successful in mobilizing the deposit in investment on Government securities. Among sample banks HBL are able to maintain the consistency in mobilization of investment on government securities.

- **Profitability Ratio**

The following findings are derived from the profitability ratios of sample banks.

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

- Net profit to total deposit ratio of EBL is highest among the sample banks whereas HBL have low mean ratios. Similarly EBL have more consistences in ratio.

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

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

- **Leverage Ratio**

- Debt-assets ratio of the HBL is highest among the sample banks. Whereas EBL have more consistence in maintaining the ratio. Similarly, NBL has maintained the debt-assets ratio to some extent.

- Even though EBL is able to maintain the debt-equity ratio than other sample banks but failed to maintain the variability. In part of HBL they are able to maintain the consistency but they also failed to use the equity fund to creditors. In case of NBL is unable to maintain the debt equity ratio but successes in maintain the variability.

- **Growth Ratio**

- The growth rate of net profit of all sample banks is positive. Among sample banks NBL has highest growth rate and EBL has lowest growth rate.

- HBL found to be strongest in comparison to other sample banks in case to growth of earning per share. Whereas EBL found to be lowest growth in earning per share.

- The growth rate of dividend per share of all sample banks is positive. EBL has lowest growth rate and NBL has highest growth rate. HBL is in average position.

- **Coefficient of Correlation**

The correlation analysis has pull out the following results.

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

- There is the perfect positive correlation between the deposit and investment in all sample banks. The correlation between the deposit and Investment are perfect as there is significant between them. It can be said that Investment is depends upon the deposit.

- EBL and HBL are successful in earn the net profit from its investment which means that there is a positive correlation between the Investment and net profit. NBL are failed to earn the profit from its deposit since the correlation between the investment and net profit is not significant. It is failed in mobilizing the investment to earn the profit.

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

- **Trend Line Analysis**

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

- The trend line of total deposit for all sample banks is in increasing trend. the trend values of all the sample banks are in increasing trend, which means futures of total deposit of all the sample banks are good. Among the sample banks NBL has a highest trend of total deposit. It means NBL is successful in mobilizing the deposit. In fiscal year 2005 the trend values of NBL, EBL and HBL are 13689.72, 8734.54 & 24529.74 respectively. It is increase to 65971.62, 59696.41 & 47073.28 for the forecast year 2014.

- All the sample banks have increasing trend of the loan and advances. Among them NBL has Highest increasing trend and HBL has lowest increasing trend. the trend values of all the sample banks are in increasing trend, which means futures of total Loan and Advances of all the sample banks are good. All the sample banks are successful in mobilizing the Loan and Advances to different productive and profitable sector. In fiscal year 2005 the trend values of NBL, EBL and HBL are 9423.42,6736.92 & 12629.26 respectively. It is increase to 47196.87, 44171.25 & 38336.59 for the forecast year 2014.

- Although all sample banks has increasing trend of the investment NBL has highest increasing trend and EBL has lowest increasing trend. This shows that NBL is successful in mobilizing the investment than other sample banks.

- Although all sample banks has increasing trend of Net Profit NBL has highest increasing trend. The trend values of all the sample banks are in increasing trend, which means futures of Net Profit of all the sample banks are good. Among the sample banks NBL has a highest trend of Net Profit. In fiscal year 2005 the trend values of NBL, EBL and HBL are 546.98, 183.22 and 358.73 respectively. It is increase to 1062.32, 603.52 & 821.42 for the forecast year 2014.

CHAPTER 5
SUMMARY, CONCLUSION & RECOMMENDATION

This chapter is a complete suggestive package, which contains summary, conclusion and recommendation. This chapter also highlighted some selected actionable conclusions and recommendation on the basis of the major findings, which are derived from the analysis of NABIL, EBL and HBL. Summary covers the brief explanation to all the chapters of the study and shows the actual facts that have been taken from the analytical section. And the analysis is performed with the help of financial and statistical tools. Conclusions are based on the principal findings of the study representing the strengths and weakness of the performance of the commercial banks. Recommendations are presented in the form of suggestions, which are prepared on the basis of findings.

5.1 Summary

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

The NRB has also declare to new commercial bank to have minimum paid up capital Rs. 250 million to operate all over Nepal except Kathmandu valley and Rs. 1,000 billion to operate all over Nepal this is effective form 15th May 2002. It also directed commercial banks to invest in the shares and securities of an organization not more than 10 percent paid-up capital of the organization. Likewise, the commercial banks could invest not more than 10 percent in the securities of any one of its financially self-interest bearing organizations that of not more than 20 percent in case of those financially self-interest bearing organizations. For making investment in the securities like this, the total investment was required to be not more than 30 percent of banks paid-up capital; the investment should be made only in the shares and securities of those organizations which were already listed and were in the process being listed within one year in stock exchange; and the banks could not invest in the shares, securities and hybrid capital instruments in those issued by the banks and financial institutions that took permission from NRB to operate their transactions. If such investment made prior to the issuance of this directive, they required to withdraw within the limit prescribed by this directive as at end of FY 2003/04.

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

The study covers only three banks NBL, EBL and HBL among 25 commercial banks. Operating date of these three banks is 12th July 1984, 1984 and 1992 respectively. Head office of all sample banks are in Kathmandu. The study completely based on secondary data accumulated from websites. The study is based on five fiscal years from 2005/06 to 2008/09. Therefore the conclusion is concern with only above period. The specific objective of the study will be pointed out as follows:

a) To analysis the financial performance of sample banks in terms of liquidity, profitability, growth, leverage and capital adequacy.
b) To identify relationship between net profit with respect to deposit, loan and advances and investment.
c) To analysis the trend of total deposit, loans and advances, total investment, net profit of the selected banks.

Research Methodology followed to achieve the objective of the study and which constitute Research Design, Source of Date, Population and sample, Data Collection process and Method of Analysis. As it has already mentioned that the procedure has been divided into two parts that is financial analysis and statistical analysis. Both parts have made comparative analysis and their interpretation. There are various tools and technique of financial analysis, each of which is used according to purpose for which the analysis is carried out. The widely technique used is as follows:

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

Among them ratio analysis is used by most companies. Therefore in this study we have discussed only about ratio analysis. Under statistical analysis Coefficient of Correlation, Simple regression and Trend line analysis have been used.

5.2 Conclusions

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

The turnover of the commercial banks is the main indication of income generating activity. These ratios are used to judge how efficiently the firm has been using its resources. From the analysis of turnover of banks all the sample banks are comparatively successful in assets management. Among sample banks EBL found to be comparatively best in mobilizing its assets and deposits in profitable sectors in form of loan and advances and Investment in Government securities.

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

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

NBL have highest positive growth rate of net profit and EPS among sample banks. EBL is less successful than NBL and HBL in increasing a net profit. HBL also has satisfied growth rate of net profit. All the sample banks have positive growth rate in EPS and DPS.

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

The Trend Line Analysis of Deposit, Loan and Advance and Net Profit shows increasing trend which indicates futures of those variables are bright but the trend Line Analysis of Investment of HBL shows decreasing trend. Among them NBL has highest increasing trend in all analysis. That indicates NBL is successful in mobilizing the deposit, Loan and Advance and Net Profit

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

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

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

5.3 Recommendation

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

- Bank should maintain the liquidity ratio for daily cash transaction. Bank should not invest all the deposit as loan and advances. According to the policy of NRB some percentage should kept in the banks for fulfilling require demand of the customer. The Standard liquidity ratio is 2:1. The depositor may demand the money at time so; bank should be ready at any time. In this research none of sample bank has the standard ratio due to their aggressive working capital policy. Therefore all sample banks should modify their working capital policy to maintain the standard ratio. If sample banks cannot maintain the ratio they may failed to maintain the daily cash transaction.

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

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

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

- NBL also should increase its investment toward government securities. And decrease a variation of investment on government securities. Even though Government Securities have low interest rate, they are risk free assets because government securities have marketability and can sell any time when needed.

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

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

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

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

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

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

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

- The Growth rate of net profit of EBL is very low in compare to other sample banks. Since, profit is a key of success of business they should increase a net profit by launching different new product or investing in profitable sectors. HBL have lower rate in net profit even though they have satisfactory growth rate of DPS and EPS. This may occur due to highest retain of profit for future prospect. EBL and NBL should increase a DPS to bring a strong impact toward shareholder because they are the investor of bank.

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

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

- The success rate of banking mainly depends upon the banking awareness by the general public. Unless they find a convincing reason about their savings as well as new approach of investment, it is almost impossible to make live for a bank. Therefore there should be the awareness program, regularly conducted in terms of seminars or workshops from well experienced personnel such as top executives from Banks and concerned regulating authorities. This will exchange the ideas and share the grass root problems. On the basis of this feedback information, regular changes or implementation of new rules and regulations can be easily carried out. Nepal Rastra Bank should also encourage frequent trainings to new entrants to provide orientations on the conceptual dimensions and practical aspects of operation of the Banks.

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

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

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

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

APPENDIX - 1

Trend Line Analysis of Deposits

y = a + bx

Everest Bank Limited

Calculation of Trend Values of Deposit

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

Future Projection of Next Five Year

year	x = t -2007	yc= 20059.4 + 5662.43 x
2010	3	37046.69
2011	4	42709.12
2012	5	48371.55
2013	6	54033.98
2014	7	59696.41

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

Himalayan Bank Limited

Calculation of Trend Values of Deposit

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

Future Projection of Next Five Year

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

Nabil Bank Limited

Calculation of Trend Values of Deposit

year (t)	Deposit (y)	x = t-2007	xy	x^2	yc= 25307.92 + 5809.1 x
2005	14586.61	-2	-29173.2	4	13689.72
2006	19347.4	-1	-19347.4	1	19498.82
2007	23342.29	0	0	0	25307.92
2008	31915	1	31915	1	31117.02
2009	37348.3	2	74696.6	4	36926.12
	126539.6	**0**	**58090.98**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	yc= 25307.92 + 5809.1 x
2010	3	42735.22
2011	4	48544.32
2012	5	54353.42
2013	6	60162.52
2014	7	65971.62

APPENDIX - 2

Trend Line Analysis of Loan and Advances

$y = a + bx$

Everest Bank Limited

Calculation of Trend Values of Loan and Advances

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

Future Projection of Next Five Year

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

Himalayan Bank Limited

Calculation of Trend Values of Loan and Advances

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

Future Projection of Next Five Year

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

Nabil Bank Limited

Calculation of Trend Values of Loan and Advances

year (t)	Loan & Advances (y)	x = t-2007	xy	x^2	yc=17817.52+4197.05 x
2005	11078.0	-2	-22156.0	4	9423.42
2006	13021.3	-1	-13021.3	1	13620.47
2007	15657.1	0	0	0	17817.52
2008	21514.6	1	21514.6	1	22014.57
2009	27816.6	2	55633.2	4	26211.62
	89087.6	**0**	**41970.5**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	yc= 17817.52+4197.05 x
2010	3	30408.67
2011	4	34605.72
2012	5	38802.77
2013	6	42999.82
2014	7	47196.87

APPENDIX - 3

Trend Line Analysis of Investments

$y = a + bx$

Everest Bank Limited

Calculation of Trend Values of Investment

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

Future Projection of Next Five Year

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

Himalayan Bank Limited

Calculation of Trend Values of Investments

year (t)	Investment (y)	x = t-2007	xy	x^2	yc=5846.1+(-114.15) x
2005	5946.7	-2	-11893.4	4	6074.4
2006	5144.4	-1	-5144.4	1	5960.25
2007	6454.8	0	0	0	5846.1
2008	7471.7	1	7471.7	1	5731.95
2009	4212.3	2	8424.6	4	5617.8
	29229.9	**0**	**-1141.5**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	yc= 5846.1+(-114.15) x
2010	3	5503.65
2011	4	5389.5
2012	5	5275.35
2013	6	5161.2
2014	7	5047.05

Nabil Bank Limited

Calculation of Trend Values of Investment

year (t)	Investment (y)	x = t-2007	xy	x^2	yc=3802.74 + 564.68 x
2005	2413.94	-2	-4827.88	4	2673.38
2006	2372.3	-1	-2372.3	1	3238.06
2007	5359.2	0	0	0	3802.74
2008	4889.6	1	4889.6	1	4367.42
2009	3978.7	2	7957.4	4	4932.1
	19013.74	**0**	**5646.82**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	yc= 3802.74 + 564.68 x
2010	3	5496.78
2011	4	6061.46
2012	5	6626.14
2013	6	7190.82
2014	7	7755.5

APPENDIX - 4

Trend Line Analysis of Net Profit

$y = a + bx$

Everest Bank Limited

Calculation of Trend Values of Net Profit

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

Future Projection of Next Five Year

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

Himalayan Bank Limited

Calculation of Trend Values of Net Profit

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

Future Projection of Next Five Year

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

Nabil Bank Limited

Calculation of Trend Values of Net Profit

year (t)	Net profit (y)	x = t-2007	xy	x^2	Yc =661.5 + 57.26 x
2005	518.63	-2	-1037.26	4	546.98
2006	635.26	-1	-635.26	1	604.24
2007	673.96	0	0	0	661.5
2008	714.23	1	714.23	1	718.76
2009	765.45	2	1530.9	4	776.02
	3307.53	**0**	**572.61**	**10**	

Future Projection of Next Five Year

year	x = t - 2007	Yc = 661.5 + 57.26 x
2010	3	833.28
2011	4	890.54
2012	5	947.8
2013	6	1005.06
2014	7	1062.32

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