CHAPTER - I
INTRODUCTION

1.1 Background of the Study

The basis for the financial planning, analysis and decision-making is the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability. It is required to aid in economic decision-making. The financial information of an enterprise is contained in the financial statement or accounting reports.

Financial statement analysis applies analytical tools and techniques to general purpose financial statements and related data to derive to estimates and interferences useful in business decisions. It is a screening tool in selecting investment or merger candidates and is a forecasting tool of future financial conditions and consequences. It is a diagnostic tool in assessing financing, investing and operating activities and is an evaluation tool for managerial and other business decision.

Financial Statement analysis reduces over reliance on hunches, guesses, and intuition and in turn, it diminishes our uncertainty in decision-making. It does not lesson the need for expert judgment but rather establishes an effective and systematic basis for making business decisions.

Financial statements of a firm mainly include income statement and the balance sheet. They are important source of financial information regarding the firm's operations and its financial position. To analyze the financial performance, strength, and weakness of the firm, many types of tools and techniques are used. Ratio analysis is one of the very popular and widely used tools of financial analysis. Ratio analysis is done with different ratios. Which are calculated from the accounting data contained in the financial statement? It is the primary tool for examining the firm's financial position and performance.

Ratios are used as yardstick for evaluating the financial condition and performance of the firm.

Commercial banks play an important role in affair of the economy in various ways. The operations of commercial banks record the economic pulse of the economy. The size and composition of their transaction mirror the economic happening in the country. They are essential instruments of accelerated growth in a developing economy, by mobilizing community savings and diverting them into productive channels commercial banks expand and appreciate the value of aggregate economic activity in the economy.

The financial system in Nepal has from a narrow, repressed regime till the eighties to a dynamic expanding sector in the nineties. Indicators of the last decade shown that the sector has growth both quantitatively and qualitatively. It could be observed that, at the same time, the financial market has become more competitive, dynamic and also compels. This constitutionals network and the volume of operations of financial system have expanded and diversified with the number of increased in commercial banks.

The adoption of the market economy has given birth too many private commercial banks in the country as said earlier. So far, all these banks are doing very well in the slowdown in the economy, interest rates are falling down. All the banks are with funds and looking for safe and profitable avenues to invest in it.

The researcher has attempted to analysis the financial performance of HBL and its individual strength on the basis of their internal reports and published annual reports. For the purpose, different tools and techniques have been applied to judge the performance of these organizations, drawn out the strength and weakness of the firms and try to prescribe measures to improve the performance of these three banks.

1.2 Statement of the Problem

Banks are being considered not as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well. In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors. As a result, we see a rapid growth in the numbers of commercial banks in the country and of course, the rapid increment in numbers of commercial banks in small kingdom like Nepal has created tough and bottle neck competition among bankers. Though banks could maintain their positions in the banking industry, it cannot be predicted that the banks would continue to maintain its profitability and stability of earnings because of the tough competition in this sector. This study attempts to evaluate the financial performance of selected commercial banks of Nepal by using various measuring financial and statistical tools such as financial ratios, and other necessary analysis. The major problems raised for the study are;

a. How has the bank been managing its position in relation to the liquidity, efficiency, leverage, and profitability?
b. How far has the commercial bank been able to accumulate deposits and utilize deposits so accumulated?
c. Is the bank really adopting the directives of NRB, like in cash reserve ratio, and capital adequacy ratio?
d. How generous is the bank in distributing dividend?

1.3 Objectives of the Study

The main objective of this study is to examine on financial analysis of Nepalese commercial banks, especially Himalayan Bank Limited. The specific objectives of the study as follows:

a. To analyze the performance of HBL in terms of liquidity, leverage, efficiency and profitability.
b. To measure the capital adequacy and cash reserve ratios maintained by the HBL.

c. To evaluate the mobilization of deposits in loan and advances, and the credit risk of the HBL.
d. To examine the dividend distribution pattern of HBL.

1.4 Significance of the Study

The main purpose of the study is to compare the financial performance of the commercial banks, by the means of various ratio analyses. More precisely, the analytical tools used in this study would be instrumental in assessing the strengths and weaknesses, and opportunities and threats - in relation with financing aspect - for the newly established as well as historically operating organizations in the country.

The present study is expected to provide with necessary operating corrective measures to HBL, so as to improve their financial strategies more successfully. Besides these, the present work would contribute significantly to the upcoming generation in better understanding of theoretical and practical implications of various financial tools and techniques to make effective financial decisions.

1.5 Limitations of the Study

The major limitations of the study are;

a. The study is concentrated to financial performance of the HBL, and thus does not cover other financial aspects
b. The study considers only past five years secondary data, i.e. from the fiscal year 2005/06 to 2009/10.
c. The study took into account only one commercial banks, i.e. HBL, which may not reflect the whole population.
d. The accuracy of secondary data depends upon the annual reports of HBL, while that of primary data depends upon the responses of the respondents.

1.6 Organization of the Study

The present research has been organized in the following chapters.

Chapter I: Introduction

This chapter introduces the subject matter of the research and includes background, statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

This chapter reviews the existing literature on the concept of banking, concept of commercial bank, development of banking system in Nepal, and reviews of earlier studies on the financial performance of banks.

Chapter III: Research Methodology

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

Chapter IV: Presentation and Analysis of Data

This is the main part of the research and in this part data have been systematically presented, analyzed, and interpreted. Various financial and statistical tools and techniques have been used to analyze and interpret data.

Chapter V: Summary, Conclusion and Recommendations

This is the final chapter of the present study that summarizes and concludes the research and offers necessary recommendations for future improvement of the financial performance of Himalayan Bank Limited.

At the end of the study, bibliography and appendices have also been presented.

CHAPTER – II
REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Concept of Bank

A Bank is a financial institution, which plays significant role in the development of a country. It facilitates the growth if trade and industry of national economy. However, Bank is a resource for economic development, which maintains the self-confidence of various segment of society and extends credit to the people.

"A bank is a business organization that receives and holds deposits of fund from other, makes loans or extend credits and transfer funds by written orders of depositors. The business of banking is one of collection funds form the community and extending credit to people for useful purpose. Banks have played a pivotal role in making money from lenders to borrowers. Banking is a profit seeking business, not a community charity profit seeker it is expected to pay dividend and otherwise, add to the wealth of shareholders." (O'Edenuster; 1980: 38)

"In England, Goldsmiths were the bankers in an ancient period. They used to lend money to the government and at the time of emergency to keep deposits for safety purpose. The people used to keep their ornaments to goldsmiths because they had safe box. In ancient time, the Foreign exchange also used to be done by such goldsmiths, merchant and money lenders." (Regmi; 1999: 16)

In Nepal, Banking transaction took place only after the establishment of Nepal Bank Limited in 1994 B.S. being only bank at that time; it performed the activities of central bank to some extent. The central bank was essential to establish but no activity was done until 2008 AD. The country, then, realized to established under-Nepal Rastra Bank Act 2012. Before that, the credit need of

people for commercial and other purpose was mostly performed by the unorganized market of private moneylender.

In short, the term bank in the modern times refers to an institution having the following features:-

1) It deals with money; it accepts deposits and advances loans.
2) It also deals with credit; it has the ability to credit; the ability to expand its liability.
3) It is a commercial institution; it aims at earning profit.
4) It is a unique financial institution that creates demand deposits that serve as a medium of exchange and as a result, the bank manages the payment system of the country.

2.1.2 Concept of Commercial Bank

Commercial institutions are that financial institution, which deals in accepting deposits of people and institution and giving loans against securities. They provide working capital needs of trade industry and even to agricultural sector. Moreover, commercial bank also provides technical and administrative assistance to trade, industries and business enterprise. “Commercial bank is corporation demand deposits, subject to check and makes short term loans to business enterprises, regardless of the scope of its other service.” (Gitman; 1988: 127)

“A commercial banker is dealer in money such as cheques and bills of exchanges. He also provides a variety of financial services. Principally, commercial banks accept deposits and provide loans, primary to business firms, thereby, facilitating the transfer of funds in the economy.” (Kohn; 1999: 271) “Commercial banks hold the deposits of many persons, government establishment, and business units. They make funds available through their-lending and investing activities to borrowers, individuals, business firms and government establishment units. Therefore, commercial banks are those banks

that pool together the savings of community and arrange for their productive use. They supply the financial needs on modern business by various means. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short-term needs of trade and industry, they cannot finance in fixed assets." (Vaidya; 2002: 24)

The American institute of Banking has laid down the four major functions of commercial bank such as receiving and handing of deposits, handing payments of its clients making loans and investments and creating money by extension of credit.

Under Nepal commercial Bank 2031 B.S., some roles and functions of commercial Bank have been define and emphasized commercial Bank provide short term as well us long term debt whenever necessary for trade and commerce. They except deposit form public, and grants loans in different forms. They purchase and discount bills of exchange, promissory notes, exchange foreign currency etc.

2.1.3 Function of Commercial Banks

"Commercial banks are the most important types of financial institution for the nation in terms of aggregate assets. Traditional functions of commercial banks are only concerned with accepting deposits and providing loans. However, modern commercial banks work for overall development of trade commerce, services and agriculture also. The business of banking is very broad in modem business age. The number and variety of services provided by bank will probably expand. Recent innovation in banking includes the introduction of credit cards, accounting services for business firms, factoring leasing; participating in the Euro dollar market and lock-box is banking." (Jersey; 1979: 35) The main functions of commercials banks are as follows.

1) Accepting deposits

"It is fair deduction that no persons or body, corporate or otherwise, can be banker who does not

(a) Take deposits A/C.

(b) Issues and pay cheques

(c) Collect cheques horn his customers.

Here, all functions are related with the acceptance of deposits; therefore, accepting deposits by bank is the oldest function of bank. A bank accepts deposits in three forms Viz current, saving and fixed A/C.

Saving deposit is one of the deposits collected form small depositors and low-income depositors. The bank usually pays small interests to depositors against their deposits.

Current account is also known as demand deposits. Under this, any amount may be deposits. There are no restriction regarding number and amount of withdrawals as contrary to saving A/C. The bank does not pay any interest on such account but charge small amount on the customers having current account.

A fixed deposit is one where a customer is requested to keep a fixed amount with the bank for specific period, generally by those who do not need money for stipulated period. The bank pays a higher rate on such deposits." (Srivastav; 1993: 78)

2) Advancing Loans

"The second major-function of a commercial bank is to provide loans and advances form the money which it receives bye way of deposits for the development of industry, trade and commerce, services and agriculture also.

The main purpose of commercial bank is to boost up the development pace of communities as well as that of economy as a whole." (Srivastav; 1993: 80)

3) Agency Services

"A bank also performs number of services on behalf of the customers. The following bank under agency services:

- Dealing with (lie transaction of foreign exchange business.
- Serving as an agent of correspondent on behalf of the customer.
- Issuing letter of credit, circulate notes, bank notes, traveler's cheques etc.
- Purchase and sale of different kinds of securities, remittance of funds.
- Collection and payments of cheques, promising notes, coupons, dividend and other type of bonds etc.
- Keeping valuable; articles in safe custody.
- Providing financial advising to various persons and bodies whenever required." (Ronald; 1991: 105)

4) Creating Money

"The major function of commercial banks that separates it form other financial institution is the ability to create and investing activities. The power of commercial banking system to create money is a great economic significance as it results in the elastic credit system that is necessary for economic progress at a relatively steady growth rate." (Ronald; 1991: 106)

2.1.4 Concepts of Joint Venture Banks

"A joint venture is joining of forces between two or more enterprises for the purpose carrying out a specific operation (industrial or commercial investment, production or trade." (Gupta; 1984: 15)

Joint venture bank are the mode of trading to achieve mutual exchange of goods and services for sharing competitive advantage by performing joint investment schemes between Nepalese investors, financial and no-financial

institution as well as private investors and their parents banks each supplying 50 percent of total investment. The parent banks, which have experience in highly mechanized and efficient modern banking services in many parts of the world, have come to Nepal with higher technology, advanced management skills and international of banking institutions.

JBVs in Nepal are formed as full- fledged commercial bank under the company act 2021 B.S. and operated under Banijya Bank Act2031BS. The firms joint venture Bank, Nepal Arab Bank Limited was established in 1984, July12, before that, no bank were established under the Joint venture principle when two or more independent firms mutually decide upon to participate in a business venture to the total equity or more or less capital and establish a new organization it will known as joint venture, JVBs are established by joining different forces and with ability to achieve a common goal with each of the partners. They are more efficient and effective monetary institution in modern banking field than other old type of banks in Nepalese context.

Meanwhile, the Government of Nepal has allowed JVBs to operate in the private sector, and has allowed finance company. Joint venture banks are already playing on increasing dynamic and vital role in the economic development of country. This will undoubtedly increase with the time to come. All Nepalese JVBs are established and operated under the rules, regulation and lance of Nepal Rastra Bank.

The main objectives of JVBs are to grant banking facilities to the people by facilitating tele-banking services to businessperson; Industrialists; and other professionals and to grant loans and advances agriculture; commerce and industrial sector.

2.1.5 Role of JVBS in Nepal

Joint Venture Banks pose a serious challenge to the existence of the efficient any very traditional banks but the same challenge can be taken by the domestic banks as an opportunity to modernize them and sharpen their competitive Zeal's. It is undoubtedly true that JVBs are playing an increasing significant and dynamic role in the economic development of the country. The main roles of JBVs can be explained the following ways.

1) Introducing New Methods and Technology in Banking Services

"The JVBs have invited new era of banking by introducing high technology and efficient methods in the banking business other area of expertise are forward cover for foreign exchange transaction by importers and exporters, merchant banking inter bank market for money and securities, arranging foreign currency loans." (Chopra; 2006: 204)

2) Creating a Competitive Environment

The JVBs have created a competitive environment in banking business in Nepal prior to the arrival of JVBs, there was little competitive zeal between NBL and RBB as they had almost set bunch of customers, working as services. This competitive environment will benefit the common person, business and industry and the country as whole.

3) Providing Now Services

JVBs so far have not provided any phenomenon service that was not offered by domestic bank, they have drawn a large number of customers who assume that they will eventually benefit from their association with these banks when they introduce new services. At present, a speedier than that of domestic bank is the hallmark of JVBs, through their services is basically in traditional areas which could be highly educative for domestic banks.

4) Providing More Resources for Investment

JVBs have played a significant role in channeling the additional resources for investment for the development of country. It is assumed that the JVBs have mobilized net additional resources if they tap so far untapped resources in the local market.

5) Offering Boiler Links with International Market

The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal. It is much easier for Nepalese business to provide international linkage through the joint venture banks.

2.1.6 Financial Performance

"Financial performance analysis can be considered as a heart of financial decision. The growth and development of any enterprise is directly influenced by the financial policies. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. Rational evaluation of financial performance of financial management is too much involved in record keeping, raising necessary funds and maintaining relationship with bank and other financial institutions. Financial performance as the part of financial management is the main indicator of the success or failure of the firm. Financial condition of business firm should be sound from the point of view of shareholders, debenture holders, financial institutions and nation as whole. The analyst is attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a rational and orderly way. If a firm doesn't achieve financial norms for its industry or relationships among data that seen reasonable, the analysts note the deviations. The burden of explaining the apparent problems may then be placed upon management." (Hampton; 2006:98)

“Financial statement analysis includes the study of relationship within a set of financial statement at a point in time and with trends in these relationships over time.” (Foster; 2002: 58) “Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account.” (Pandey; 1999:108)

A powerful and the most tested tool of financial analysis is the ratio analysis. “It is defined as the systematic use of ratio to interpret the financial statement. So that the strengths and weakness of a firm as well as its historical performance and current financial condition can be determined.” (Khan & Jain; 1991: 13)

“The major functions of financial management are raising funds, investing them in assets and distrusting return earned from assets to shareholders, which are respectively known as financing investing and dividend decision. While performing these functions a firm should balance cash outflow and inflow, which is known as liquidity decision.” (Pandey; 1999: 110)

“Financial management in broad sense and provide a conceptual and analytical framework for decision making they also covers both acquisitions of funds as well as their allocation of funds to various uses. Their major decisions are investing decisions, financial decisions and the dividend policy decision. (Khan and Jain; 1991: 16)

“Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "the indicate quotient of two mathematical expressions and as the relationship between two or more things. In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of a firm.” (Pandey; 1999:109)

“Ratio analysis is the process of determining and interpreting numerical relationship based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variable and figures. This relationship can be express as percent (Cost of goods sold as a percentage of sales) or as a quotient (current assets as a certain number of times the current liabilities).” (Kuchhal; 1976: 21)

Financial ratio can be divided into four types: liquidity debt, profitability and coverage. Each of these types has a special use for the financial analyst. These ratios are also helpful for managerial control and for providing a better understanding of what outside suppliers of capital expect in the way of financial condition and performance. The usefulness of the ratio depends upon the ingenuity and experience of the financial analyst who employs them. By themselves financial ratios are fairly meaningless they must be analyzed on a comparative basis.

2.1.7 Purpose of Financial Analysis

“Financial analysis is a study of relationship among the various financial factors and pinpointing the strength and weakness of a firm so that forecast may be made of the prospects for future earning. In the recent time financial analysis has played an increasing important role as a tool of examining the real worth of going concern which is one of the important assumptions of fundamental accounting assumption.

Financial statements are usually analyzed with the help of financial tools and financial ratios are out of the primary tools. The term ratio refers to the numerical and quantities relationship between two variables. Important ratio can be calculated from the balance sheet and profit and loss account.” (Dahal & Dahal; 1999: 43)

“Financial analysis is helpful in assessing the financial position and profitability of business concern. The analysis of financial statements thus refers to the treatment of the information contained in the financial statement in a way so as to afford full diagnosis of the profitability and financial position. Financial analysis is helpful to the decision maker for finding out favorable situation of a business concern. Therefore financial analysis reflects the financial position of a firm, which is the process of determining the operational and financial characterizes.” (Myers; 1961: 65)

Financial analysis is helpful in assessing the financial position and profitability of a concern. This is done through compression by ratio for the same concern over a period of years; or for once concern against another; or for one concern against the industry as a whole; or for one concern against the predetermined standards; or for one department of a concern against another of the same concern.

“In short the main purpose/objectives of analysis of financial statements are to assess;

- The present and future earning capacity or profitability of the concern.
- The operational efficiency of the concern as a whole and of its various parts and departments.
- The short term and long term solvency of the concern for the benefit of the debenture holders and trade creditors.
- The comparative study in regard to one firm with another firm or one department to another department and financial stability of a business concern.
- The possibility of the development in the future by making forecast and preparing budgets.” (Paul; 1996: 73)

2.1.8 Uses/Importance of Financial Performance Analysis

The information given in the financial statement is very useful to a number of stakeholders. These are the followings;

A) Owners

"The owner provide fund for the operation of the business and they want to know whether their funds are being properly utilized or not. The financial statements prepared from time to time satisfy their curiosity." (Helfert; 1992: 88)

B) Creditors

"Creditors want to know the financial position of a concern before giving loans or granting credit. The financial statement helps them in judging such position." (Helfert; 1992: 88)

C) Employee

"Employees are interested in the financial position of the concern they served, particularly when payment of bonus depends upon the size of the profits earned. They would like to know that the bonus being paid to them is correct; so they become interested in the preparation of correct profit and loss account." (Helfert; 1992: 89)

D) Managers

"Management is the art of getting things doing though others. This requires that the subordinates are doing work properly. Financial statements are an aid in this respect because they serve the managers in appraising the performance of the subordinates. Actual result achieve by the employee can be measured against the budgeted performance they were expected to achieve and remedial auction can be taken if the performance isn't up to the mark." (Helfert; 1992: 90)

E) Government

"Central and state governments are interested in the financial statements, because they reflect the earning for a particular period for purpose of taxation. Moreover these financial statements are used for compiling statistics concerning business which in turn help compiling national accounts." (Helfert; 1992: 90)

F) Investors

"Prospective investors, who want to invest money in a firm, would like to make an analysis of the financial statements of that firm to know how safe the proposed investment will be." (Helfert; 1992: 91)

G) Research Scholars

"The financial statements, being a mirror of the financial position of the firm, are of immense valued to the research scholar who wants to make study in to financial analysis of particular firm." (Helfert; 1992: 91)

2.1.9 Who Should Do the Financial Analysis?

"An efficient and coherent analysis is a result of a continuous and open collaboration between technical and financial staff. In particular it is essential that technical staff participate in the financial analysis and fully understand the key messages coming from it. Too often, financial reports to donors are prepared by finance staff with no reference to or discussion with the project manager. This results in a lack of consistency with Technical Reports and sends a confused message to donors.

Much of the initial financial analysis is indeed carried out by the finance staff. However before they start to get into the detail in the accounting records, the team should agree on what should be analyzed. It is useful for the project manager to understand how the finances work so that he/she can remain in control of the process and help guide the analysis." (Crosse; 1993: 101)

“Financial analysts often assess the firm’s:

1. **Profitability** - its ability to earn income and sustain growth in both short-term and long-term. A company's degree of profitability is usually based on the income statement, which reports on the company's results of operations;

2. **Solvency** - its ability to pay its obligation to creditors and other third parties in the long-term;

3. **Liquidity** - its ability to maintain positive cash flow, while satisfying immediate obligations;

Both 2 and 3 are based on the company's balance sheet, which indicates the financial condition of a business as of a given point in time.

4. **Stability**- the firm's ability to remain in business in the long run, without having to sustain significant losses in the conduct of its business. Assessing a company's stability requires the use of both the income statement and the balance sheet, as well as other financial and non-financial indicators.” (Jain; 1996: 67-70)

Financial analysts often compare financial ratios (of solvency, profitability, growth, etc.):

- **Past Performance** - Across historical time periods for the same firm (the last 5 years for example),
- **Future Performance** - Using historical figures and certain mathematical and statistical techniques, including present and future values, This extrapolation method is the main source of errors in financial analysis as past statistics can be poor predictors of future prospects.
- **Comparative Performance** - Comparison between similar firms.

These ratios are calculated by dividing a (group of) account balance(s), taken from the balance sheet and / or the income statement, by another, for example:

Net income / equity = return on equity (ROE)

Net income / total assets = return on assets (ROA)

Stock price / earnings per share = P/E ratio

"Comparing financial ratios is merely one way of conducting financial analysis. Financial ratios face several theoretical challenges:

- They say little about the firm's prospects in an absolute sense. Their insights about relative performance require a reference point from other time periods or similar firms.
- One ratio holds little meaning. As indicators, ratios can be logically interpreted in at least two ways. One can partially overcome this problem by combining several related ratios to paint a more comprehensive picture of the firm's performance.
- Seasonal factors may prevent year-end values from being representative. A ratio's values may be distorted as account balances change from the beginning to the end of an accounting period. Use average values for such accounts whenever possible.
- Financial ratios are no more objective than the accounting methods employed. Changes in accounting policies or choices can yield drastically different ratio values.

Financial analysts can also use percentage analysis which involves reducing a series of figures as a percentage of some base amounts. For example, a group of items can be expressed as a percentage of net income. When proportionate changes in the same figure over a given time period expressed as a percentage is known as horizontal analysis. Vertical or common-size analysis reduces all items on a statement to a "common size" as a percentage of some base value which assists in comparability with other companies of different sizes.

Another method is comparative analysis. This provides a better way to determine trends. Comparative analysis presents the same information for two or more time periods and is presented side-by-side to allow for easy analysis." (Kohn; 1999: 45-47)

2.1.10 Financial Ratios

The following are the some important financial ratios to analysis the financial performance of selected banks:

(i) Liquidity Ratio

"A liquidity ratio measures the ability of the firm to meet its current obligations. In fact, analysis of liquidity need the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity a firm should ensure that it doesn't suffer from lack of liquidity, and also that it doesn't have excess liquidity. The failure of company to meet its obligation due to lack of sufficient liquidity, will result in poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity." (Reed & Smith; 2006: 89)

(ii) Leverage Ratio

"The short-term creditors, like bankers and suppliers of raw materials, are more concern with the firm's debt-paying ability. On the other hand, long-term creditors, like debenture holders, financial institutions etc., are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm, financial leverage, or capital structure ratios are calculated. These ratios indicate mix of debt and owners' equity in financing the firm's assets. The process of magnifying the shareholders' return through the use of

debt is called financial leverage or financial gearing or trading on equity." (Reed & Smith; 2006: 92-93)

(iii) Activity Ratio

"Activity ratios are concerned with the measuring of efficiency in assets management. This ratios are employed to evaluate the efficiency with the bank manages and utilizes funds. These ratios are also called turnover ratios because they indicate the speed with which the assets are being converted or turned over into sales." (Sharma; 2001: 35)

(iv) Profitability Ratio

"A company should earn profits to survive and grow over a long period of time. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of the company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of the profits. The profitability ratios are calculated to measure the operating efficiency of company. Besides management of the company, creditors and owners are also interested in the probability of the firm. Creditors want to get interest and repayment of principal regularly only when the company earns enough profits." (Sharma; 2001: 39)

(v) Credit Ratio

"Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits is used to make credit and remain cash and bank balances to make immediate payments." (Sharma; 2001: 41)

2.1.11 Financial Statement

Financial statement published by the listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the

financial performance of the concerned company. In fact, financial statement comprises of:

i) Balance sheet

"Balance sheet is the most significant financial statement. It indicates the financial condition or the state of affairs of a business at a particular moment of time. Balance sheet is the base for the analysis of financial performance of any company. Balance sheet contains information about resources and obligations of a firm entity and about its owners' equity. Balance sheet provides a snapshot of the financial position of the firm at the closed of fiscal year.

As we know, Balance sheet is very important tools for the analysis of financial performance. The functions severed by Balance sheet can be pointed out as follows:

- It gives concise summary of the firm's resource obligations.
- It is a measure of the firm's liquidity.
- It is a measure of the firm's solvency." (Weston & Copeland; 1991: 97)

ii) Statement of profit and loss account:

"Profit and Loss account presents the summary of revenues and expenses and net income of a firm. It serves as a measure of the firm's profitability. The functions of profit and loss account can be described as follows:

a. It gives a concise summary of the firm's revenue and expenses during a period.
b. It measures the firm's profitability.
c. It communicates information regarding the results of the firm's activities to owners and other." (Van Horne & Wachowicz; 1997: 213)

iii) Statement of Retained Earning

This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains

how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

“Financial analysis is done on the basis of financial statement of the concerned company. The objective of financial analysis can be described as:

- To get the entire information that can be used at the time of decision making.
- To judge overall performance and management effectiveness.
- To identify the deficiencies and weaknesses.
- To take corrective action in time to check such deficiencies and improve the performance.
- To evaluate the possible implications of alternative course of actions.
- To get in depth information of possibilities of brining changes worthwhile.” (Srivastav; 1993: 38)

2.2 Review of Journals and Articles

Feyzioğlu (2008), in his article, *“Does Good Financial Performance Mean Good Financial Intermediation in China?”* has mentioned that while the financial performance of the Chinese banks has been good recently, these banks do not intermediate particularly efficiently. Nevertheless, they still make large profits, reflecting more market concentration in the banking sector and the administratively determined low deposit rates and large interest margins. Banks’ loan growth is also quantitatively or administratively constrained, contributing to inefficient financial intermediation and also suppressing profits. These factors create little incentives for banks to improve efficiency.

Eliminating the various controls over the financial system, while maintaining effective bank supervision, could significantly improve financial intermediation. Lifting the ceiling on deposit rates could facilitate movement of deposits from large to smaller banks, as smaller banks are more efficient in turning these deposits into performing loans and will be able to compete for

these funds. This will also help lower the market concentration level, boosting competition among the banks. Just as lower deposit rates have not lowered household savings, it is unclear whether higher deposit rates will increase savings, particularly given the strong precautionary savings motive behind household deposits.

However, increased efficiency in bank intermediation could increase the supply of loans given the large deposit base, which will need to be monitored carefully both from a macroeconomic but also financial stability perspective. Therefore, measures to lower liquidity in the system through indirect monetary policy, channel some of the savings to other capital markets, and ensure regulation/supervision is sufficiently strong to contain reckless loan growth should also be a part of the reform agenda.

Tavakkoli, Jamali & Ebrahimi (2009), in their article, *"New Method to Evaluate Financial Performance of Companies: Case Study, Drug Industry of Iran"*, have firstly chose the best industry and then took some actions to prioritize companies included. In prioritizing these companies they used fuzzy logic as a new methodology by using financial ratios. However using fuzzy logic in financial cases is common but using that in this manner is very simple, new and efficient and verification and testimony of its efficiency is just to notice to mean test of model characteristics (relevant, predictability, update, comparability, reliability, consistency) which have been justified by research sample (broker and investment companies managers) using t test. As a result of using this model they found that X18, X6, X4, X14 companies according to selective criteria are the best companies in their industry on behalf of financial performance and by using of mean test and survey research find that the results obtained from this method approximately are consistent with the expectations of financial experts in Iran stock market about Drug industry in Iran.

Kereta (2009), in his article, *"Outreach and Financial Performance Analysis of Microfinance Institutions in Ethiopia"*, has examined the performance of MFIs in relation to outreach and financial sustainability. The study reveals that MFIs could be examined through three main polar: outreach to the poor, financial sustainability and welfare impact. The welfare impact assessment is not covered due to time and money limitations. Both secondary and primary data (obtained from questionnaire distributed to representative sample MFIs) has been employed in the study. In the analysis process, the study has adopted simple correlation and descriptive analysis techniques. From the outreach angle, it is found that individual MFI's outreach has shown increment over the period of the study with different rates of growth, leading the industry's outreach to rise in the period from 2003 to 2008 on average by 22.9 percent. It is also identified that while MFIs reach the very poor, their reach to the disadvantages particularly to women is limited (38.4 Percent).

From financial sustainability angle, it is found that MFIs in Ethiopia are hopeful. They are operational sustainable measured by return on asset and return on equity and the industry's profit performance is also improving over time. While, dependency ratio measured by the ratio of donated equity to total capital decline, ratio of retained earning to total capital is raising letting the industry to be financial self-sufficient. Using Non performing Loan (NPLs) to loan outstanding ratio indicator the study found out that MFI financial sustainability is in a comfort zone with average NPLs ratio of 3.2 percent for the period from 2005 to 2008. The study also found low but increasing default rate. The study also identified no evidence of trade-off between outreach and financial sustainability for Ethiopian case, rather positive correlation was observed between them. Yet, correlation test among loan size (which measure poverty level), outreach and profit performance, revealed imprecise result.

Cameron (2009), in his article, *"Measuring Performance through Financial Information: A Case Study"*, has stated that financial performance indicators

are often viewed in terms of whether a library has over or under expended its budget allocation. While it is important for libraries to demonstrate that they can manage their budgets, coming in on budget is a meaningless financial performance indicator if viewed in isolation. Libraries need to be able to demonstrate that they understand the cost drivers behind their budgets and that they are taking active steps to reduce or manage costs accordingly. For many years libraries have been affected by increasing costs associated with purchasing collection resources. More recently a new challenge, that of finding funds to develop new online services and purchase electronic resources while maintaining traditional core activities, has put additional strain on budgets. It therefore seems timely for libraries to develop financial performance indicators which will assist us in our day to day decision making.

Traditionally, libraries have casted those activities that are more readily measured through processing quantity, for example, cataloguing and library loans. Benchmarking studies reveal that even in areas like these there is wide variation between libraries in what constitutes these activities, as well as the existence of a vast array of costing models used within organizations. The difficulty of developing comparable cost data across national libraries due to differences in task and functions has been acknowledged in discussions of the draft International Standard Organisation (ISO) performance indicators for national libraries under development by the ISO working group chaired by Roswitha Poll. The draft standard incorporates efficiency measures from ISO 11620, with two direct financial indicators, cost per title catalogued and cost per item lent and a third indicator for the amount of off-budget funding generated by libraries. As each library's understanding of what is encompassed in activities such as cataloguing can differ substantially, it is important that clear definitions and methodologies are in place if future comparisons are to be made. To this end, the Heads of Cataloguing group representing the Library of Congress, British Library, Library and Archives Canada, Deutsche Nationalbibliotek and the National Library of Australia are developing a joint

costing model for cataloguing in order to compare costs across the group. While it is good to see work progressing internationally on shared costing models, it is also important for national libraries to share information with each other about their internal financial performance indicators in order to establish and promote best practice.

Osman (2009), in his article, "*The Financial Performance of Privatized Enterprises in Sudan: An Empirical Study"*, has stated that there is statistically insignificant improvement in the financial performance of the privatized enterprises following privatization, except for real sales per employee. This means that the privatization program in Sudan did not lead to the expected improvement in the efficiency of these enterprises as judged by their financial performance. While the causes of disappointing outcome must await further empirical analysis, using an appropriate methodology, there is evidence to suggest that such causes may include: inadequate finance, increases in production costs, and high taxes, duties and customs charged on imported raw materials.

The majority of privatized enterprises claim that the government has not yet created a conducive environment for healthy private investment. While perilous, the results of this paper can be used to support policy related recommendations along the following lines: (a) there is a need to undertake a serious review of the privatization policy to a void the pitfalls of the past experience and introduce necessary modifications accordingly, (b) there is a need for the government to be careful in choosing the forms of privatization based on in-depth examination of the nature and history of each enterprise, (c) there is a need to encourage private investors in the privatization process, and (d) efforts should be directed to strengthening and developing the capital market to participating to overcome the problem of finance. In addition to the above, privatized enterprises may wish to fulfill the following requirements to achieve positive financial performance: emphasis on employee training and

management development through providing access to different training programs; more emphasis on cost control; and, more effective use of relevant technology to enhance productivity.

Erasmus (2010), in his article, *"Value Based Financial Performance Measures: An Evaluation of Relative And Incremental Information Content"*, has stated that the value-based financial performance measures economic value added (EVA), cash value added (CVA) and cash flow return on investment (CFROI) are proposed by certain research studies as improvements over the traditional financial measures. The objective of this study was to evaluate the relative and incremental information content of these value-based measures compared to that of the traditional measures earnings and cash from operations. When the relative information contents of the different value-based financial performance measures are investigated, the results indicate that they are not able to outperform earnings (EBEI) in explaining market adjusted share returns. The results from the incremental information content tests indicate that the adjustments required in order to calculate the various value-based measures do contribute statistically significant incremental information content.

If the adjusted $R2$ values of the multiple regression analyses conducted to evaluate the incremental information content of the value-based measures are compared to the adjusted $R2$ values obtained for the traditional measures, however, a much lower value is observed. The components of the value-based measures therefore explain significantly less of the variation in market adjusted share returns than the components of the other measures. Although the contributions of these components are statistically significant, they are not economically significant when combined into the various measures. Based on the results reported in this study it appears as if the value based measures are not able to outperform the relatively simple traditional financial performance measure earnings (EBEI) in explaining the variation in market adjusted share returns. The incremental information content tests conducted to evaluate the

contribution of the components of the value-based measures also yield much lower results than for similar tests conducted for the traditional measures.

Roberts and Dowling (2010), in their article, *"Corporate Reputation and Sustained Superior Financial Performance"*, have stated that results from both autoregressive profit models and proportional hazards regression models consistently suggest that superior-performing firms have a greater chance of sustaining superior performance over time if they also possess relatively good reputations. These findings complement existing studies of the relationship between reputation and financial performance by explicitly articulating the dynamic implications of good reputations. At the same time, they are consistent with the growing body of strategy research that links high-quality intangible assets with sustained superior performance. Confidence in these results is heightened by the fact that they hold for two orthogonal components of reputation.

A firm's financial reputation has a consistently strong impact on profit persistence. This suggests an important self-reinforcing dynamic. Some of the things that firms do to improve profitability also enhance their reputations. This reputation enhancement, in turn, makes it easier for firms to sustain superior performance outcomes over time. Having said this, roughly 85 percent of the variance in the relative reputation measure is not accounted for by prior profit results. And this residual reputation is also linked to profit persistence. Instead of working through financial performance demonstrations and the signals that they generate, some firm actions have direct effects on reputation with flow-through effects on profit persistence. It seems that the dynamic impact of relative reputation is different across these two subsamples. For superior performance outcomes, the reputation variable exerts its positive effect on the persistence parameter, but not the intercept term. This suggests that good reputations lead to increased temporal stability in the short term, but may induce some rigidity that harms superior-performing firms in the longer term.

Hovmand, Gillespie, Levin, Schurer, Alexander-Eitzman, Bunger, Phillips, Chalise & Staver (2011), in their article, *"Financial Performance of Mental Health Nonprofit Organizations"*, have demonstrated the underlying similarity between different behavior patterns and gain insight into nonprofit financial performance. For example, simulations showed us how the relationship between time to increase the program expense ratio and time to decrease the program expense ratio was an important feature of oscillatory program expense ratios, which focused the questions with key informants about how quickly they might respond to various kinds of financial challenges. Length of service and time to perceive effectiveness turned out to be important determinants of organizational behavior. This has important implications when considering the impact of policies and changes in the organizational environment since nonprofit providers of mental health services vary greatly in both dimensions. Call centers have contacts with clients that may be as short as several minutes whereas residential treatment facilities for children with severe emotional disturbances or independent living centers may provide services and supports to a client for many years. Likewise, the length of time before people notice changes can vary significantly by the type of service they provide and their position in a service network since organizations. One would expect organizations that are well connected to be also better known (for better or worse), while organizations that are more isolated would likely have a harder time getting the word out about their services.

Although the diversity of organizations providing mental health services is widely acknowledged, very little has been said or studied in a systematic way as to which characteristics may be more important to understand than others. Size is often discussed as an important feature of the organization, but in this model of financial performance at least, size has less relevance than some of the characteristics just discussed. This highlights the importance of developing better understanding of financial and organizational behavior as part of assessing and arguing for better alternative policies. Blindly implementing

policies without such consideration is likely to risk the performance of some nonprofit providers and undermine efforts to improve the overall access and quality of mental health care and supports. While all models remain works in progress, developing this early simulation model of nonprofit financial performance has proved invaluable to us as a research team in sensitizing us to key concepts in key informant interview. Work continues on developing this model as part of the main study. Recruitment of organizations and key informants has continued with an emphasis on developing a better understanding of how executive management teams think about nonprofit financial performance in relation to implementing innovations such as evidence based practice and organizational performance. Such models will be essential to advancing the organizational theory and ultimately improving the quality of mental health services in the United States.

2.3 Review of Previous Thesis

Karki (2005) conducted this study to evaluate "*A study of financial performance of Nepal Investment Bank (NIBL)"* with the major objectives as

a. To evaluate the overall financial position of NIBL
b. To examine liquidity ratio, profitability ratio and ownership ratio
c. To study the income and expenditure statement of bank.

The major findings of the study are;

a. The current Ratio of the bank over the study period is 1.09 times on average. Therefore the liquidity position of NIBL is in normal standard.
b. The cash and bank balance proportion with respect to the current asset is moderate since the average ratio is 10.17%
c. The share of fixed deposit is high in the total deposit. Saving deposit stand midway between current and fixed deposits. The cash reserve at bank is more than required.

d. The liquidity position of the bank is good enough to meet the short term obligation. Similarly, Interest earn in comparison to the assets is in adequate.
e. Net profit earned in comparison to the total deposit is relatively low. Further the net profit earned in comparison to the total assets is fluctuating.
f. EPS of the bank is quite good. Also, dividend payout ratio of the bank is decreasing and very low.

Kasaju (2006), has conducted a study on, *"A Comparative Study on Performance Analysis of Top Five Commercial Banks of Nepal."* The main objective of the study is to analyze and compare liquidity, profitability, stability and market value position among the top five commercial banks. The other specific objectives are;

a. To trace out the trend of loan and advances.
b. To find out the relationship between deposits and loan & advance, and deposits and net profit.
c. To analyze the trend of profit and dividend distribution.

The major findings of the study are;

a. EBL and NIBL have been getting lower net profit out of total income with comparison to all the banks.
b. EBL comparatively fails to maintain operating ratio on total assets whereas NIBL did best. HBL, EBL and NIBL have been suffering from ineffectively using the total fund. So, they are getting lower return than SCBNL and NABIL.
c. All top five commercial banks have been earning sufficient interest income on loan and advances. It means they have high utilizing the loan and advances.
d. NABIL has been providing comparatively greater cash dividend on share capital in a consistency manner too. SCBNL and NIBL have been

providing lower cash dividend in inconsistency manner. SCBNL has been providing dividend on share capital comparatively greater than other banks in a consistency manner.

e. NABIL has also been providing better dividend in a consistency manner to some extent too. As a lower average, NIBL has not provided dividend on share capital. NABIL shows greater inconsistency too.

Yadav (2007) conducted on the *"A Comparative Study on the Financial Performance of Standard Chartered Bank Nepal and Himalayan Bank Limited*" is conducted with the following objects

a. To analyze the financial strength and weakness of Standard Chartered Bank and Himalayan Bank Limited.
b. To examine the financial performance.
c. To study the comparative financial position of these two banks.

The major findings of the study are:

a. Short-term solvency position of both the banks is found below than normal thought the study period. In the FY 2003/04 short term solvency position is seem better in SCBL than in HBL.
b. SCBL has better position in utilizing its properties of deposits as compared with HBL. Debt to total assets ratio HBL is better than SCBL.
c. SCBL is more succeed to generate more return on its shareholders fund than that of HBL.
d. Both the banks have been able to generate profit from deposits. But the rate of profitability is not satisfied from lower rate of return.
e. It is better from investor point of view in SCBL. SCBL seems much better in term of offering dividends to its shareholders as compared with HBL.
f. Dividend payout ratio of SCBL has more than HBL from the view of shareholders. SCBL has reflected better scenarios although it has also retained a higher position of earnings on an average.

Luitel (2008) made research entitled *"A study of financial performance analysis of Everest Bank Limited"* and her main research objectives were as follows.

a. To make evaluation of the financial performance of EBL in terms of liquidity, efficiency of assets and cost management.
b. To make evaluation of earning generating capacity.
c. To provide suggestion and recommendation that will help management to improve the performance of bank.

The major findings of the study are;

a. EBL bank is strong enough to maintain the liquidity position to meet the cash requirement of clients.
b. The operating efficiency of the bank is decreasing every year and bank is not able to mobilize its deposits.
c. The debt management ratio of the bank is very high which is not preferable.
d. The correlation coefficient of deposit and loan and advances, deposit and investment and total assets and net profit is found to be positive indicating the positive relationship between the respective variables.

Shrestha (2009), has made a study on, *"A Comparative Study on Financial Performance Between the Commercial Banks."* The main objective of the study is to examine the financial performance of SBI bank and NBBL bank. The other objective are;

a. To study the liquidity position of both the banks.
b. To analyze the lending position of both the banks.
c. To examine marketability position and the efficiency ratio of SBI and NBBL.

The major findings of the study are;

a. The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities, i.e. it indicates the availability of current assets in rupees for every one rupee of current assets than current liabilities.
b. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98). Therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.
c. From the analysis of turnover of these two banks, NBBL has better different. The overall calculation seems to be better for NBBL. Though certain ratio like dividend per share, dividend payout ratio etc better for SBI Bank. The writer has also conducted that earning per share of NBBL is better than that of SBI bank.

Thapaliya (2010), has made a study on, *"Financial Performance of Commercial Banks: A comparative Case Study of Nepal Bangladesh Bank Ltd. Himalayan Bank Ltd. and Everest Bank Ltd."* The main objective of study is to reveal the comparative financial performance of NBBL, HBL and EBL. The other specific objectives are;

a. To analysis and compare the liquidity, portability, stability and market value positions among three commercial banks.
b. To analyze and compare solvency ratio such as total capital fund.
c. To analyze the financial strength and weakness of these banks.

The major findings of the study are;

a. The saving deposit to total deposit ratio of NBBL has been recorded the lowest of all. It indicates the better liquidity position of the bank to meet short-term obligation.
b. Analysis of activities ratio reveals that all the banks have been able to utilize the resources satisfactorily.

c. Total debt to equity ratio of all banks reveals that the claims of the outsiders exceed far more than those of the owners over the banks assets.
d. Comparatively Himalayan Bank has more levered capital structure. Profitability ratio indicates the degree of success in achieving desired profit level.
e. All the banks need lot of exercise in more credit creation and reducing the interest rate for loan and advance. This helps them to remain more competitive.

2.4 Research Gap

All of the above reviewed researches are based on the comparative study of the financial performance of the banks. Since it is obvious that the banks having high capital and greater other resources, the financial performance of such bank is inevitably better. So, to avoid such blunder, the present study has been conducted to measure the financial performance of the single bank, HBL. In the study, the financial progress of the bank has been gauged by comparing the financial performance with the performance in past. For the study, both financial and statistical tools have been extensively used.

CHAPTER - III
RESEARCH METHODOLOGY

3.1 Research Design

A research design bearing the techniques and systematic steps of research helps to collect various information required to researcher thesis writing or any investigation. In the lack of the research design, the functional process on researches is never achieved.

After the research study has been formulated, the next logical steps are to construct the research design which refers to the entire process of planning and carrying out a research study. The research design asks what approach to the problem should be taken. What method will be used? What strategies will be most effective? Identification, selection and formulation of a research problem may be considered as the planning stage of a research. The remaining activities refer to the designs, operation and completion of research study. In this study the historical data have been analyzed using the descriptive approach and deductive reasoning method.

3.2 Population and Sample

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

At present, there are 31 commercial banks are operating in Nepal. Due to time and resource factors, it is not possible to study all of them regarding the study

topic. All the commercial banks that are operating in Nepal are considered as the population. From the commercial banks of Nepal, only one of the joint venture banks is selected as sample i.e. Himalayan Bank Limited.

3.3 Sources of Data

Data can be collected from two sources, i.e. primary source and secondary source. Since, the study is based on the financial performance of the bank; only the secondary sources of data have been taken.

3.3.1 Secondary Data

The secondary sources of data are the information received from reports, books, newspapers, journals etc. The major sources of secondary date are as follows:

- Annual reports, newsletters and bulletins of HBL and of course from internet site of HBL
- Publications published by NRB
- Various articles, journals and bulletins of the commercial banks

3.4 Analysis of Data

In this study, various financial and statistical tools have been used to achieve the objective of the study, which are as follows:

3.4.1 Financial Tools

To evaluate the financial condition and performance of a company, the financial analysis needs data. The data frequently used is a ratio of index relating two pieces of financial data to each other.

A) Ratio Analysis

Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with other. Ratio is a tool of financial management which can be expressed in

percentage, fraction of in a stated comparison between numbers. “The technique of ratio analysis is a part of the whole process of analysis of financial statements of any business of industrial concern especially to take output and credit decisions. Through this technique, a comparative study can be made between different statistics concerning varied facts of a business unit. Just as the blood pressure, pulse and temperatures are the measures of health of an individual, so does ratio analysis measures the economic of financial health of a business concern. Thus the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns.

a) Liquidity Ratio

The liquidity ratios measure the ability of firm to meet its short-term obligations and reflect the short-term financial strength/solvency of firm.

Banking industry has its survival in its ability to create credit and its credit creation ability is dependent upon its liquidity ratio. The liquidity ratio of banking industry depends upon the banking habit of people. Where the banking practice is more prevalent, the low current ratio does not necessarily increase its liquidity risk. Therefore, it is necessary to have a proper balance between high liquidity and lack of liquidity. The ratios used in short-term liquidity analysis evaluate the adequacy of the firm's cash resources relative to cash obligation.

As financial tools, following ratios have been used to find out the liquidity position of HBL.

1. Current Ratio

Current ratio is the relationship of current assets and current liabilities. Current assets are those assets which can be converted into cash within short period of time. Current liabilities are those items which are paid within a year. Current ratio measures paying ability of short-term debt of the firm. Traditionally, 2:1

is standard ratio but it is a conservative outlook about the coverage of current liabilities. Current ratio is calculated by dividing current assets by current liabilities.

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

Note:

Current Assets = Cash and Bank balance, Investment in Treasury bills, Bills purchased and discounted, Sundry debtors, Accrual incomes, prepaid expenses, bills for collection etc.

Likewise, Current Liabilities = Bank overdraft, Sundry creditors, Bills payable, Outstanding expenses, Provision for taxation, Proposed dividend etc.

2. Cash Reserve Ratio

Each bank has to keep the cash reserve ratio as directed by the NRB. The CRR ratio as per the NRB should be 5% from the fiscal year 2004/05 to 2007/08 and 5.5% in the fiscal year 2008/09. The cash reserve ratio is calculated by using the following formula.

$$\text{CRR} = \frac{\text{Cash and Bank Balance}}{\text{Total Local Deposit}}$$

3. Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid form of current assets. This ratio measures the proportion of cash and bank balance held by the banks under study. Higher ratio indicates the bank's sound ability to deposit. If the bank maintain low ratio, bank may not be able to make the payment of against cheques. So the bank has to maintain cash and bank balance to current assets ratio properly.

The ratio can be computed as:

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

4. Fixed Deposit to Total Deposit Ratio

This ratio indicates the percentage of total deposit has been collected in form of fixed deposit. Higher ratio indicates better opportunity available to the bank to invest in sufficient profit generating long term loans.

This ratio can be computed by dividing fixed deposit by total deposit as follows:

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

b) Debt Management Ratio/Solvency Ratio

It is also called leverage or capital structure ratio. Debt management ratios measure the extent to which firm is using debt financing or financial leverage and the degree of safety afforded to creditors. A solvency ratio measures the relationship between debts and owners' equity and examines the proportion of debt the company is using.

1. Debt to Equity Ratio

The debt to equity ratio measures the extent to which the owners are using debt rather than their own funds to finance the company. The debt to equity ratio indicates how well creditors are protected in case of the company's insolvency. The ratio can be found by dividing total liabilities by total owner's equity as below.

$$\text{Debt to Equity Ratio } X \frac{\text{Total Liabilities}}{\text{Total Owner's Equity}}$$

2. Capital Adequacy Ratio

Commercial banks are required to maintain adequate capital. Holding too much capital may result in lower return from their investment and holding too little capital though result in higher return yet may not comply with the rules of central bank. Banks have been directed to meet any short fall in capital

adequacy ratio by transferring part of profit to general reserve and there by increasing equity fund. Capital adequacy ratio is calculated by dividing the capital fund by total deposit of the firm.

$$\text{Capital Adequacy Ratio} = \frac{\text{Capital Fund}}{\text{Total Deposits}}$$

c) Turnover/Efficiency Ratio

Turnover ratio measures the performance efficiency of an organization that whether it is using its resources properly or not. To carry out operations, a firms needs to invest in both short term and long term. Turnover ratios describe the relationship between the firms level of operations and assets needed to sustain the activity. Activity ratio can also be used to forecast a firm's capital requirement. Activity ratios enable to analyst to forecast these requirements and to access the firm's ability to acquire the assets needed to sustain the forecasted growth. The activity ratios analyzed in the study are:

1. Loan and Advance to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advances consists of loan, advances, cash credit, overdrafts and foreign bills purchased and discounted. The ratio indicates the proportion of total deposits invested in loan and advances. This ratio is obtained by dividing total loan and advances by total deposit as follows:

$$\text{Loan and Advance to Total Deposit Ratio } X \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

2. Loan and Advance to Fixed Deposit Ratio

This ratio represents how many times the funds are used in loan and advance against fixed deposits. Fixed deposits are long-term interest bearing obligations and loan and advances are the main source of earning of the bank. It can be calculated as follows:

$$\text{Loan and Advance to Fixed Deposit Ratio X} \frac{\text{Loan and Advance}}{\text{Fixed Deposit}}$$

3. Total Investment to Total Deposit Ratio

Investment to total deposit ratio shows how efficiently the major resources of the bank have been mobilized. Investment consists of investment in Nepal Government (NG) Treasury bills, development bonds, company shares and other types of investments. This ratio is calculated by dividing investment by total deposits collected in the bank as follows:

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

4. Credit Risk Ratio

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

$$\text{NPL to Total Loan} = \frac{\text{Non Performing Loan}}{\text{Total Loan}}$$

5. Loan Loss Provision to Total Loans and Advances

Each bank has to keep the loan loss provision for loan and advances as per the direction of Nepal Rastra Bank. The loan loss provision to total loans and advances measures the aggregate percentage of loan loss provision kept by bank on loans and advances and thus eventually measures the security position. It is calculated as follows:

$$\text{LLP to Loans and Advances} = \frac{\text{Loan Loss Provision x 100}}{\text{Total Loans and Advances}}$$

d) Profitability Ratio

Profitability is the different between the revenues and the expenditure over a period. Profitability ratios measure the efficiency of a business enterprise.

Profit is the main element that makes an organization to survive for long-term. There are two areas when judging profitability one is relationship between on the income statement that indicate a company's ability to recover the costs and expenses and other is relationship of income of various balance sheet measure that indicate the company's relative ability to earn incomes on assets employed. The profit measures the management ability regarding how well they have utilized their funds to generate surplus, for this following ratios have been analyzed.

1. Return on Common Equity (ROE)

It is an important ratio because it judges whether the firm has earned a satisfactory return for its equity holders or not. It indicates how well the firm has deployed the resources of the owners to earn profit. Higher ratio represents sound management and efficient mobilization of the owner's equity. This is calculated by dividing net profit by shareholder's equity.

$$\text{Return on Common Equity } X \frac{\text{Net Profit After Tax}}{\text{Common Equity}}$$

2. Return on Total Deposit Ratio

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

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

3. Return on Total Assets (ROA)

This ratio measures the productivity of the assets. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the firm. Net profit refers to the profit after deduction of

interest and tax. Total assets mean the assets that appear in assets side of the balance sheet. It measures the efficiency of banks in utilization of the overall operation. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resources available and vice-versa. This ratio is calculated as:

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

4. Price Earning Ratio

This ratio measures investor's expectations and the market appraisal of the performance of a firm. P/E ratio is widely used to asses the bank's performance as expected by investors. It represents the investor's expectation about the growth in the bank's earning. In another words, it measures how the market is responding towards the earning performance of the concerned institution. High ratio indicates higher expectation of the market towards the achievement of the firm. This ratio is calculated as follows:

$$\text{Price Earning Ratio X} \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

5. Dividend Payout Ratio

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

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

3.4.2 Statistical Tools

The main statistical tools used in analyzing the data obtained are:

a) Arithmetic Mean

Arithmetic mean is the most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single value. It is also known as an average. An average is the typical value around which other items of distribution congregate. It can be calculated as:

$$\text{Arithmetic Mean } (\overline{X}) = \frac{\sum X}{N}$$

Where,

$\sum X$ = Sum of observations

N = Number of observations

b) Standard Deviation

Standard deviation is defined as the positive square root of the arithmetic mean of the square of the deviations of the given observations from their arithmetic mean. The standard deviation measures the absolute dispersion or variability. It is said that higher the value of standard deviation, higher the variability and vice and versa. The formula used to calculate standard deviation is as follows:

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

Where,

N = No. of observations

c) Coefficient of Correlation

Coefficient of correlation is statistical tool, which measures the relationship between variables. It is widely used statistical tool. It helps to describe how well one variable is explained by another. Coefficient of correlation analysis is the technique of studying how the variations in one series are related to variations in another series. The coefficient of correlation symbolically denoted

by 'r'. Karl Pearson's method is most widely used method of measuring the relationship between two variables. We can use following formula for finding the value of 'r'.

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

Where,

n = No. of observations

$\sum x$ = Sum of observation in series x

$\sum y$ = Sum of observation in series y

$\sum x^2$ = Sum of squared observation in series x

$\sum y^2$ = Sum of squared observation in series y

$\sum xy$ = Sum of product of observation in series x and y

If,

r = +1, there is perfectly positive correlation between the variables

r = -1, there is perfectly negative correlation between the variables

r = 0, there is no correlation between the variables

d) Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement of deterioration of financial situation. Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term on the basis of the tendencies in the dependent variable in the past period. Using the least square method, the projection for three years is done. For the estimation of linear trend line, following formula has been used.

$Y = a + bx$

Where,

Y = dependent variable

a = y-intercept

b = slope of the trend line

x = independent variable

$$a \; X \; \frac{x}{n} \qquad b \; X \; \frac{x\,y}{x^{2}}$$

Where,

$\sum y$ = Sum of the observations in series y

$\sum xy$ = Sum of the observations in series x and y

$\sum x^2$ = Sum of square of the observations in series x

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular fluctuations, the trend value increases or decreases by a constant absolute amount 'b' per unit of time. Hence, the linear trend values from a series in arithmetic progression, the common difference being 'b' the slope of the trend line.

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Analysis

In this section, the secondary data that are obtained from the financial reports of HBL are analyzed to evaluate the financial performance of the company. Under this mainly ratio analysis, including liquidity ratios, leverage ratio, efficiency ratios and profitability ratios, is analyzed.

4.1.1 Liquidity Ratio

Liquidity ratio is a rigorous measure of a firm's ability to serve its short-term obligation. It reflects the short-term financial solvency of a firm as a whole.

4.1.1.1 Current Ratio

The current ratio is used to measure a company's liquidity. This ratio is designed to assist the decision maker in determining firm's ability to pay current liabilities.

Table 4.1

Current Ratio (Rs. in Million)

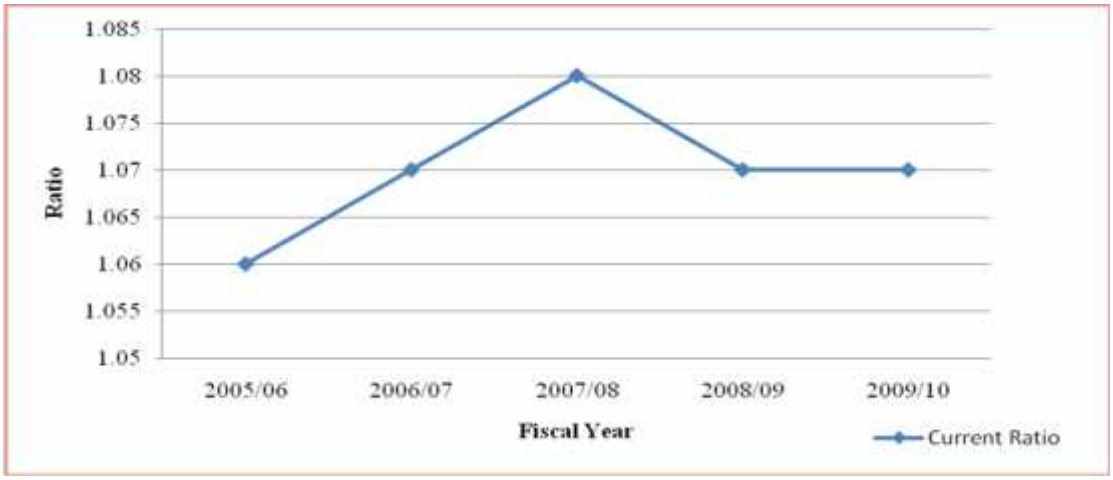
Fiscal Year	Current Assets	Current Liabilities	Current Ratio (in times)
2005/06	28919.57	27189.59	1.06
2006/07	32945.08	30776.67	1.07
2007/08	35449.46	32719.36	1.08
2008/09	38368.12	35700.44	1.07
2009/10	41655.25	38777.91	1.07
Mean			**1.07**
S.D.			**0.01**
C.V.%			**0.60**

(Source: Appendix-I)

It has been observed that the current asset of the HBL is in increasing trend during the observed periods. In concomitant with the current assets, the current liability of the bank has also raised. The current asset of the bank has ranged from Rs. 28919.57 millions of the fiscal year 2005/06 to Rs. 41655.25 millions by the end of the fiscal year 2009/10. The bank could not offset the current liabilities, as a consequence the current liability of the bank is Rs. 27189.59 millions at the inception of the observed periods and at the end of the fiscal year 2009/10, it is Rs. 38777.91 millions. Eventually the incompatible of the increase in current asset with the increase in current liability has caused the current ratio to oscillate during the observed periods. The table manifests that the current ratio of the bank has increased for the first three years, and then it has decreased in the next year, and finally it has remained unchanged in comparison with the current ratio of the bank in the previous year. More concisely, the current ratio of the bank is 1.06 times in the fiscal year 2005/06, 1.07 times in the fiscal year 2006/07, 1.08 times in the fiscal year 2007/08 and 1.07 times in each fiscal year 2008/09 and 2009/10. In average, the bank has maintained the current ratio to be 1.07 times. From the average ratio, it can be inferred that the liquidity position of HBL is not so robust. The bank should pay attention to increase the current asset and decrease the current liability, if possible, to be the credible bank of the depositors.

Figure 4.1

Current Ratio



4.1.1.2 Cash Reserve Ratio

Cash reserve ratio is the most crucial tool for measuring the liquidity of the bank. NRB has directed 5% CRR till fiscal year 2008/09, however, effective from the fiscal year 2008/09 the ratio has increased to 5.5%. The cash reserve ratio maintained by the observed commercial banks is presented in the below table.

Table 4.2

Cash Reserve Ratio

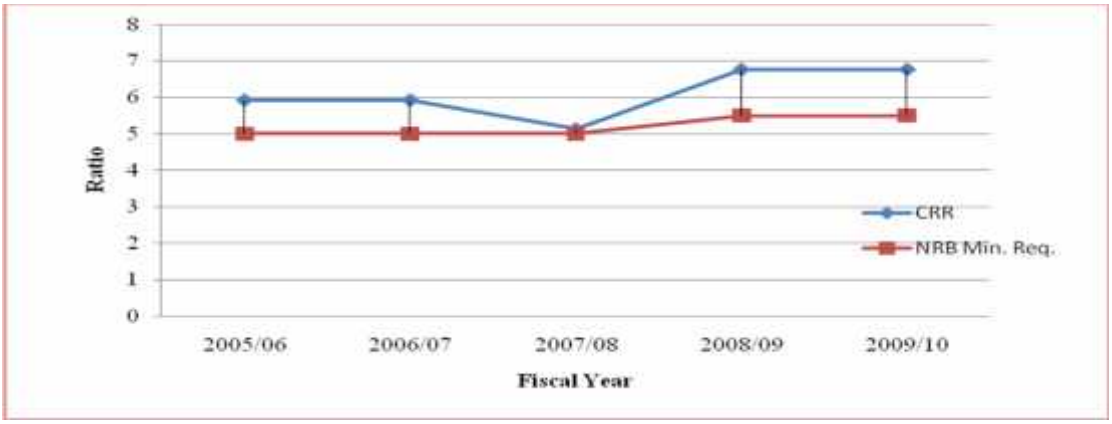
Fiscal Year	CRR	NRB Min. Req.	Surplus (Deficit)
2005/06	5.92	5.00	0.92
2006/07	5.92	5.00	0.92
2007/08	5.13	5.00	0.13
2008/09	6.76	5.50	1.26
2009/10	6.76	5.50	1.26
Mean	**6.10**		
S.D.	**0.61**		
C.V.%	**10.05**		

(Source: Annual Reports of HBL)

Categorically the cash reserve ratio is the major equipment in measuring the liquidity of the bank. The table shows that that HBL has just met the specified minimum CRR of NRB in the observed periods, while the maintained CRR of HBL in the fiscal year 2007/08 is just more by 0.13% and thus such minimal met requirement ultimately might have affected the liquidity of the bank in such fiscal year. The CRR of HBL, 5.92% in the fiscal year 2005/06 and in the fiscal year 2006/07, 5.13% in the fiscal year 2007/08 and 6.76% in the fiscal year 2008/09 and in the fiscal year 2009/10, indicates not superior liquidity managing policy. In average, HBL has maintained 6.10% CRR, while the variability in CRR within the five fiscal year periods is 10.05%. Finally, the surplus in the CRR on the minimum requirement of NRB has ranged from 0.13% in the fiscal year 2007/08 to 1.26% in the fiscal year 2008/09 and in the fiscal year 2009/10.

Figure 4.2

Cash Reserve Ratio



4.1.1.3 Cash and Bank Balance to Current Assets Ratio

This ratio measures the portion of cash and bank balance in the current assets of the company. The higher the ratio the higher will be considered the company's liquidity, but greater ratio also indicates higher amount of cash remaining idle. So, the company should maintain appropriate cash and bank balance to current ratio. This ratio of HBL is presented in the table below.

Table 4.3

Cash and Bank Balance to Current Assets Ratio (Rs. in Million)

Fiscal Year	Cash & Bank Balance	Current Assets	Ratio %
2005/06	1717.35	28919.57	5.94
2006/07	1757.34	32945.08	5.33
2007/08	1448.14	35449.46	4.09
2008/09	3048.53	38368.12	7.95
2009/10	3866.49	41655.25	9.28
Mean			**6.52**
S.D.			**1.86**
C.V.%			**28.57**

(Source: Appendix-I)

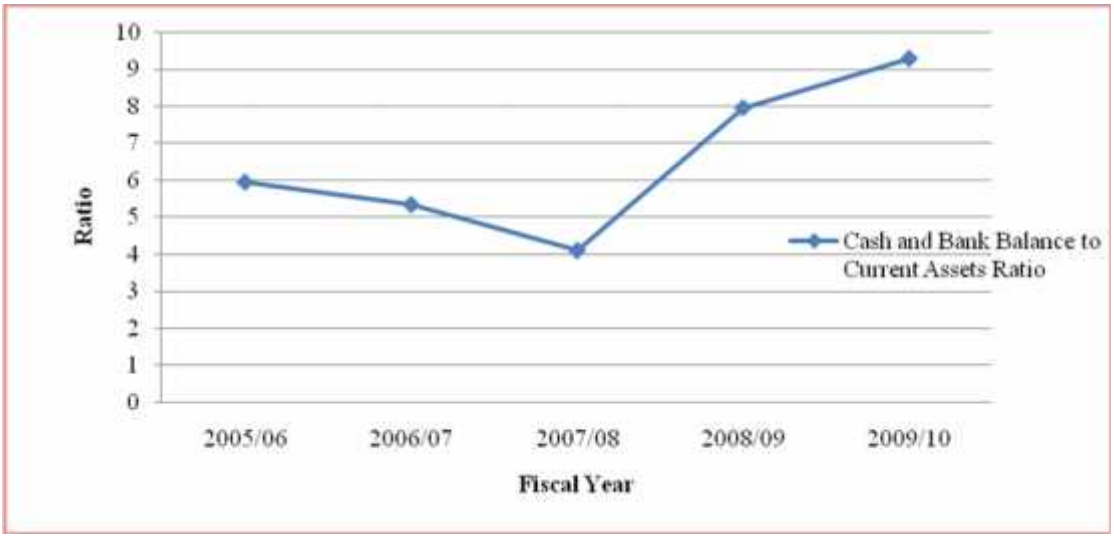
The table 4.3 shows the cash and bank balance coverage in current ratio of HBL. The cash and bank balance coverage of HBL in the five consecutive

years followed decreased trend in the first three years and increased in the last two fiscal years. The ratio is 5.94% in the fiscal year 2005/06, which decreased to 5.33% in the fiscal year 2006/07, to 4.09% in the fiscal year 2007/08, and then increased to 7.95% in the fiscal year 2008/09 and finally to 9.28% in the fiscal year 2009/10.

This oscillating trend indicated that HBL has no fixed policy of keeping cash reserve in the vault in proportion to the current assets, so as to mobilize such cash in investment sector. In average, the cash and bank balance of HBL represented 6.52% of the total current assets and the coefficient of variation on such ratio is 28.57, indicating higher variability in the ratio.

Figure 4.3

Cash and Bank Balance to Current Assets Ratio



4.1.1.4 Fixed Deposit to Total Deposit Ratio

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

Table 4.4

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

Fiscal Year	Fixed Deposit	Total Deposit	Ratio %
2005/06	6350.20	26490.85	23.97
2006/07	8201.13	30048.42	27.29
2007/08	6423.87	31842.79	20.17
2008/09	6377.13	34681.34	18.39
2009/10	11328.64	37611.20	30.12
Mean			**23.99**
S.D.			**4.35**
C.V.%			**18.12**

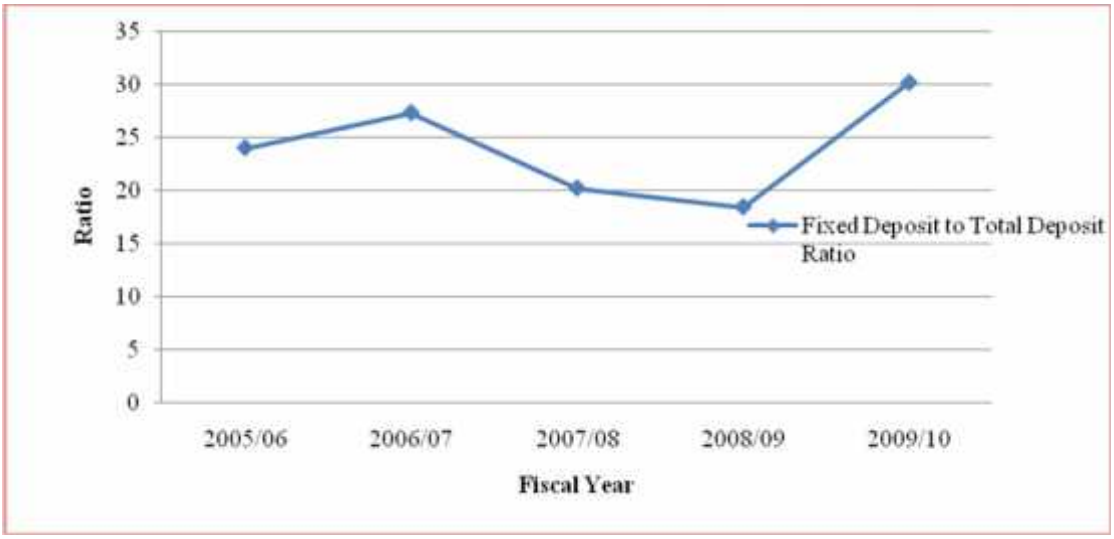
(Source: Appendix-I)

The table shows the coverage of fixed deposit in the total deposit amount. The fixed deposit to total deposit ratio of HBL is 23.97% in the fiscal year 2005/06, which increased to 27.29% in the fiscal year 2006/07, then decreased to 20.17% in the fiscal year 2007/08, again decreased to 18.39% in the fiscal year 2008/09 and finally increased to 30.12% in the fiscal year 2009/10. This indicated that the ratio in HBL fluctuated during the five consecutive years.

It can be assumed that the HBL has highest liquidity position in the fiscal year 2009/10 on the basis of this ratio, because the ratio is highest in the year, which ultimately meant that HBL has lower portion of savings and current deposit in that year. In average, HBL collected 23.99% of the total deposit as fixed deposit and the coefficient of variation is 18.12%. It would have been better if HBL makes greater effort to collect fixed deposit amount.

Figure 4.4

Fixed Deposit to Total Deposit Ratio



4.1.2 Leverage Ratio

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

4.1.2.1 Debt-Equity Ratio

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

Table 4.5

Debt-Equity Ratio **(Rs. in Million)**

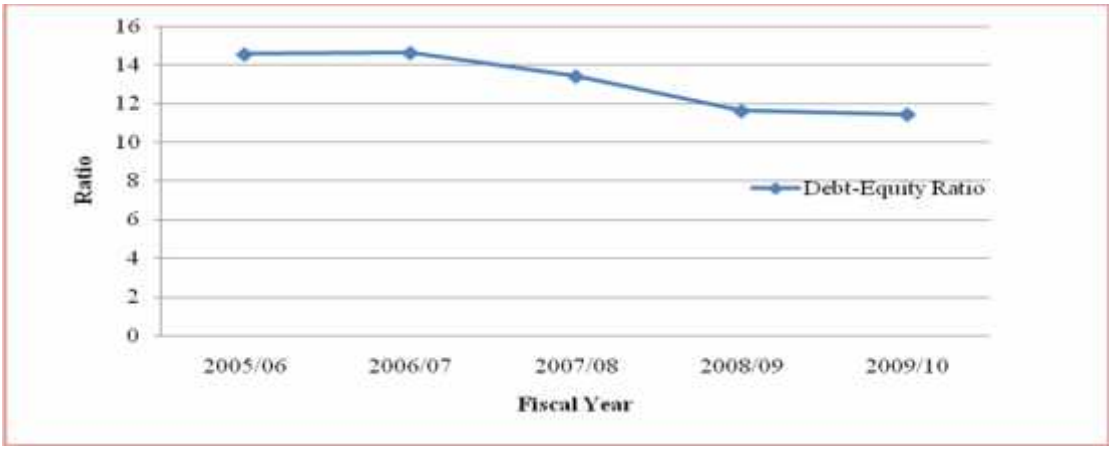
Fiscal Year	Total Debt	Shareholder's Equity	Ratio (in Times)
2005/06	25694.21	1766.18	14.55
2006/07	31372.64	2146.50	14.62
2007/08	33662.55	2512.99	13.40
2008/09	36200.44	3119.88	11.60
2009/10	39277.91	3439.21	11.42
Mean			**13.12**
S.D.			**1.38**
C.V.%			**10.53**

(Source: Appendix-I)

The table shows the capital structure of HBL. The table further elaborates that the total debt of HBL has ranged from Rs. 25694.21 millions in the fiscal year 2005/06 to Rs. 39277.91 millions in the fiscal year 2009/10. In addition, the table shows that the debt-equity ratio of HBL has increased for the first two years, i.e. from 14.55 times in the fiscal year 2005/06 to 14.62 times in the fiscal year 2006/07, and then decreased in the remaining years, i.e. 13.40 times in the fiscal year 2007/08, 11.60 times in the fiscal year 2008/09 and finally decreased to 11.42 times in the fiscal year 2009/10. In average, the debt-equity ratio was 13.12 times, which clearly indicated that the total assets financing of HBL largely depended on debt capital rather than in equity financing.

Figure 4.5

Debt-Equity Ratio



4.1.2.2 Capital Adequacy Ratio

Commercial banks are required to maintain adequate capital. Holding too much capital may result in lower return from their investment and holding too little capital though result in higher return yet may not comply with the rules of central bank. Banks have been directed to meet any short fall in capital adequacy ratio by transferring part of profit to general reserve and thereby increasing equity found.

Table 4.6
Capital Adequacy Ratio **(Unit in %)**

Fiscal Year	Core Capital	Supplementary Capital	Capital Fund	NRB Standard	Surplus (Deficit)
2005/06	8.65	2.62	11.26	12	0.26
2006/07	9.61	1.51	11.13	12	0.13
2007/08	9.64	3.06	12.70	12	1.70
2008/09	8.81	2.21	11.02	10	1.02
2009/10	8.68	2.04	10.72	10	0.72
Mean			**11.37**		
S.D.			**0.69**		
C.V.%			**6.07**		

(Source: Annual Reports of HBL)

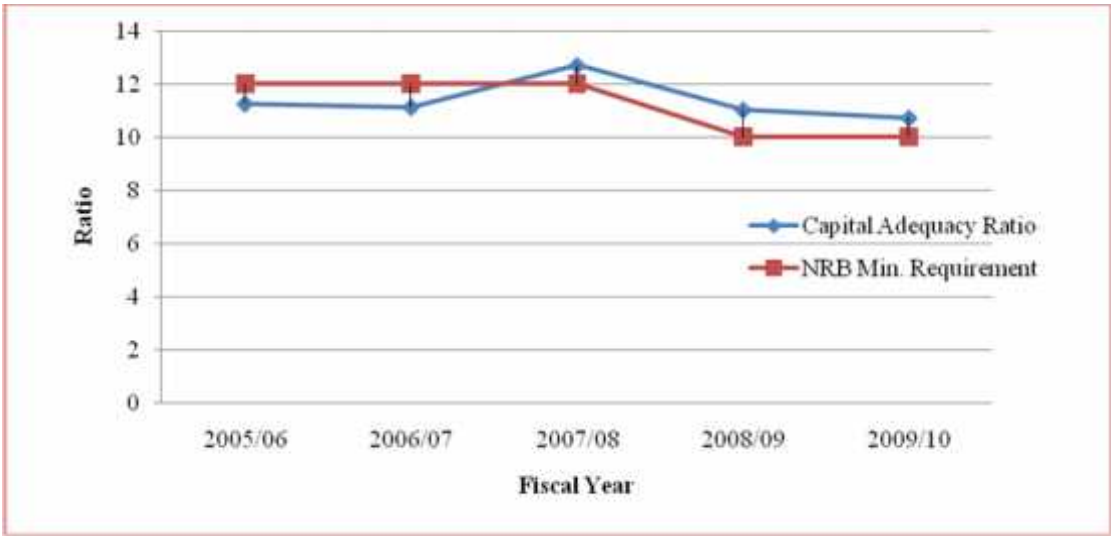
The table shows that the maintenance of core capital to risk weighted assets of HBL has been in fluctuating trend. The ratio is 8.65%, 9.61%, 9.64%, 8.81% and 8.68% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10

respectively. The core capital ratio was also more than the standard set by the NRB, i.e. 6%, in each fiscal year. Further, the supplementary capital ratio is in fluctuating trend for the years, and thus it has ranged from 1.51% in the fiscal year 2006/07 to 3.06% in the fiscal year 2007/08.

In overall total capital fund ratio or total capital adequacy ratio (CAR) of HBL is 11.26%, 11.13%, 12.70%, 11.02% and 10.72% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. The NRB standard on the Total Capital Adequacy for the commercial banks is 12% up to the fiscal year 2007/08 and 10% from the fiscal year 2008/09. The data reveals that the ratio maintained by HBL is more than the NRB standards on the study period. The table also discloses that mean CAR of HBL is 11.37% for the five year periods. It also reveals that C.V. on such ratio is 6.07%, showing greater uniformity. Based on actual mean CAR and the NRB's standard for CAR, it can be concluded that the capital base of HBL is satisfactory and thus the capital of the bank is sound enough to confront the risk associated with the banking risks.

Figure 4.6

Capital Adequacy Ratio



4.1.3 Efficiency Ratios

Efficiency ratio or activity ratio or utilization ratio is concerned with measuring the efficiency in its assets management. This ratio measures the degree of effective use of resources of a firm. It indicates how quickly certain current

assets are converted into cash. Higher the rate means more efficient in management on the utilization of its resources and vice-versa.

4.1.3.1 Loan and Advances to Total Deposit Ratio

This ratio measures the bank's ability to mobilize the depositors fund to earn profit by providing loans and advances. It also measures the extent to which the banks are successful in mobilizing deposits for the purpose of profit generating.

Table 4.7

Loan and Advances to Total Deposit Ratio (Rs. in Million)

Fiscal Year	Loan & Advances	Total Deposits	Ratio %
2005/06	15761.98	26490.85	59.50
2006/07	17793.72	30048.42	59.22
2007/08	20179.61	31842.79	63.37
2008/09	25519.52	34681.34	73.58
2009/10	29123.75	37611.20	77.43
Mean			**66.62**
S.D.			**7.50**
C.V.%			**11.26**

(Source: Appendix-I)

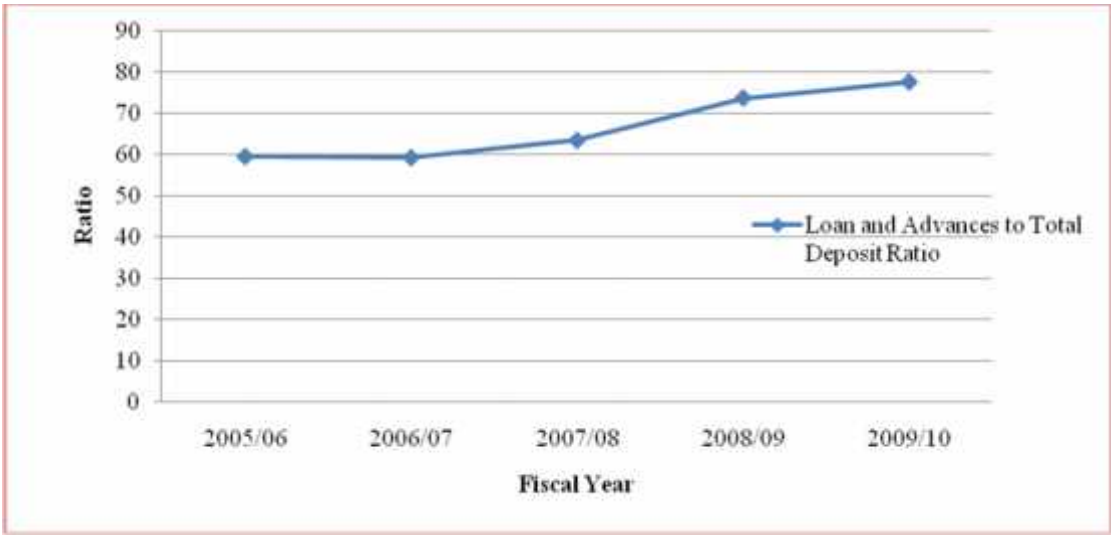
The table depicts the mobilization of total deposit in loan and advances. Both the loan and advances and total deposits of HBL are in increasing trend. The loan and advances disbursement of HBL increased from Rs. 15761.98 millions in the fiscal year 2005/06 to Rs. 29123.75 millions in the fiscal year 2009/10. Similarly, the total deposit is Rs. 26490.85 in the fiscal year 2005/06 and Rs. 37611.20 millions in the fiscal year 2009/10.

The table delineates that the loan and advances to total deposit ratio of HBL has increased in most of the fiscal years. The ratio was 59.50%, 59.22%, 63.37%, 73.58% and 77.43% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. This clearly indicates that HBL emphasized the mobilization of deposit in loan disbursement. In average, 66.62% of the

deposit collection of HBL has gone in providing loans and advances. Hence, it can be concluded that HBL has utilized more than half of the total deposit in providing loans and advances in order to gain interest income.

Figure 4.7

Loan and Advances to Total Deposit Ratio



4.1.3.2 Loan and Advances to Fixed Deposit Ratio

This ratio indicates, how much of loans and advance has been granted against fixed deposit. Fixed deposit is the higher interest rate payable deposit and is payable only after certain date. Loan and advance to fixed deposit ratio indicates how properly the fixed deposit has been utilized.

Table 4.8

Loan and Advances to Fixed Deposit Ratio (Rs. in Million)

Fiscal Year	Loan and Advances	Fixed Deposit	Ratio (in Times)
2005/06	15761.98	6350.20	2.48

2006/07	17793.72	8201.13	2.17
2007/08	20179.61	6423.87	3.14
2008/09	25519.52	6377.13	4.00
2009/10	29123.75	11328.64	2.57
Mean			**2.87**
S.D.			**0.65**
C.V.%			**22.47**

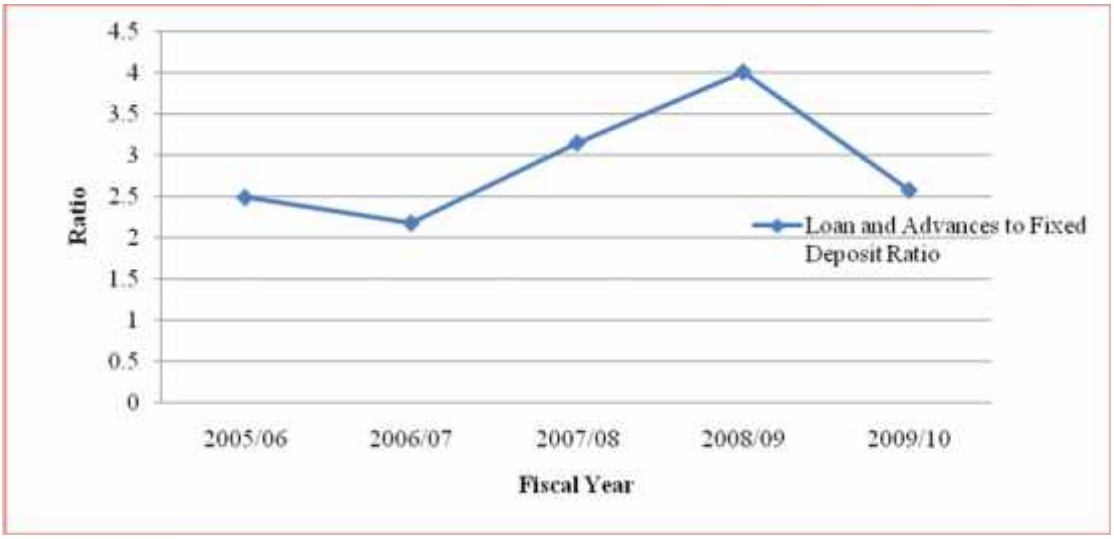
(Source: Appendix-I)

The above table shows the loan and advances to fixed deposit ratio of HBL. The table depicts that fixed deposit collection amount of HBL is highest, Rs. 11328.64 millions, in the fiscal year 2009/10 and is lowest, Rs. 6350.20 millions, in the fiscal year 2005/06.

Likewise, the ratio of loan and advances to fixed deposit ratio of HBL has fluctuated during the periods. The ratio has ranged from 2.17 times in the fiscal year 2006/07 to 4.00 times in the fiscal year 2008/09, and the ratio is 2.57 times in the fiscal year 2009/10. In average the ratio is 2.87 times, which indicates that almost 39% of the loan and advances of HBL has been covered by the fixed deposit collection, which is quite satisfactory. It would be better if HBL launches new programs to increase fixed deposit collection and thus invests such deposit with certainty of payment time in loan and advances to increase interest income.

Figure 4.8

Loan and Advances to Fixed Deposit Ratio



4.1.3.3 Total Investment to Total Deposit ratio

The deposit collection amount by the bank is investment in different sectors like treasury bills, government bonds, corporate shares and bonds and others. Thus, the investment to total deposit ratio measures actually how much deposit has been mobilized in investment.

Table 4.9

Total Investment to Total Deposit Ratio (Rs. in Million)

Fiscal Year	Total Investment	Total Deposit	Ratio %
2005/06	10889.03	26490.85	41.10
2006/07	11822.98	30048.42	39.35
2007/08	13340.18	31842.79	41.89
2008/09	8710.69	34681.34	25.12
2009/10	8444.91	37611.20	22.45
Mean			**33.98**
S.D.			**8.41**
C.V.%			**24.75**

(Source: Appendix-I)

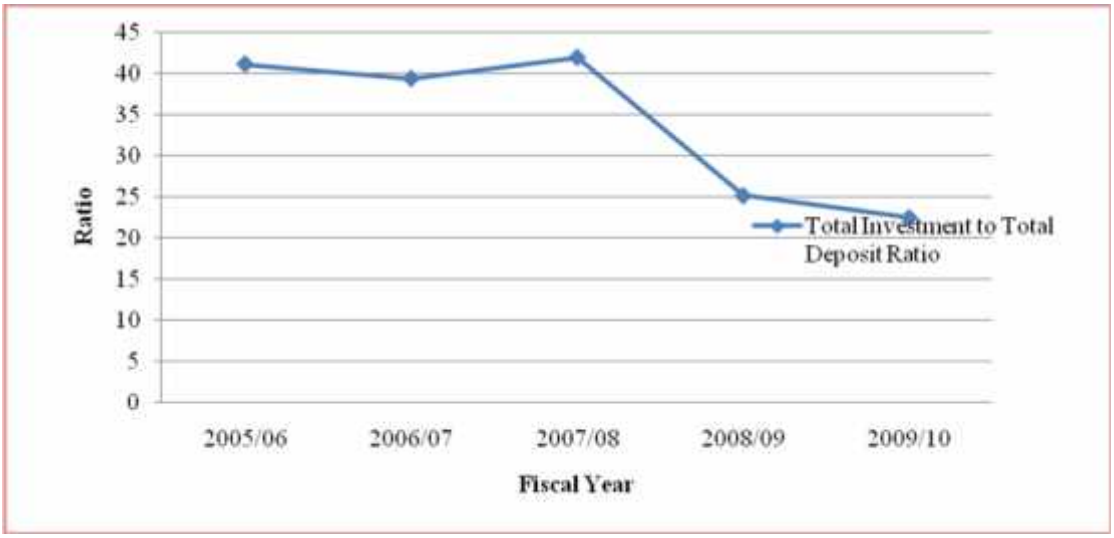
The above table shows that the total investment to total deposit ratio of HBL has swung during the observed periods. Except in the fiscal year 2007/08, the total investment ratio of HBL has ascertained to be decreased in each year compared to the previous year. The total investment of HBL ranges from Rs.

8444.41 millions in the fiscal year 2009/10 to Rs. 13340.18 millions in the fiscal year 2007/08. However, the deposit is in increasing trend.

The total investment to total deposit ratio of HBL in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 is 41.10%, 39.35%, 41.89%, 25.12% and 22.45% respectively. In average the ratio is 33.98%, which means that HBL has mobilized 33.98% of total deposit in investing in government treasury bills, government savings bonds, foreign banks and corporate shares. Further, the coefficient of variation of 24.75% indicates higher inconsistency in the ratio. It would be highly appreciated if HBL consider portfolio while making investment to earn greater profitability from the same amount of investment.

Figure 4.9

Total Investment to Total Deposit Ratio



4.1.3.4 Credit Risk Ratio

Bank makes investment by utilizing its collected fund. The credit risk ratio measures the risk behind making investment or granting loan. Actually, the proportion of non-performing assets shows credit risk ratio in total loan and advances of a bank.

Table 4.10

Credit Risk Ratio (Rs. in Million)

Fiscal Year	Non-Performing Loan	Total Loan	Ratio %
2005/06	1040.76	15761.98	6.60
2006/07	641.62	17793.72	3.61
2007/08	477.23	20179.61	2.36
2008/09	551.31	25519.52	2.16
2009/10	1024.83	29123.75	3.52
Mean			**3.65**
S.D.			**1.59**
C.V.%			**43.50**

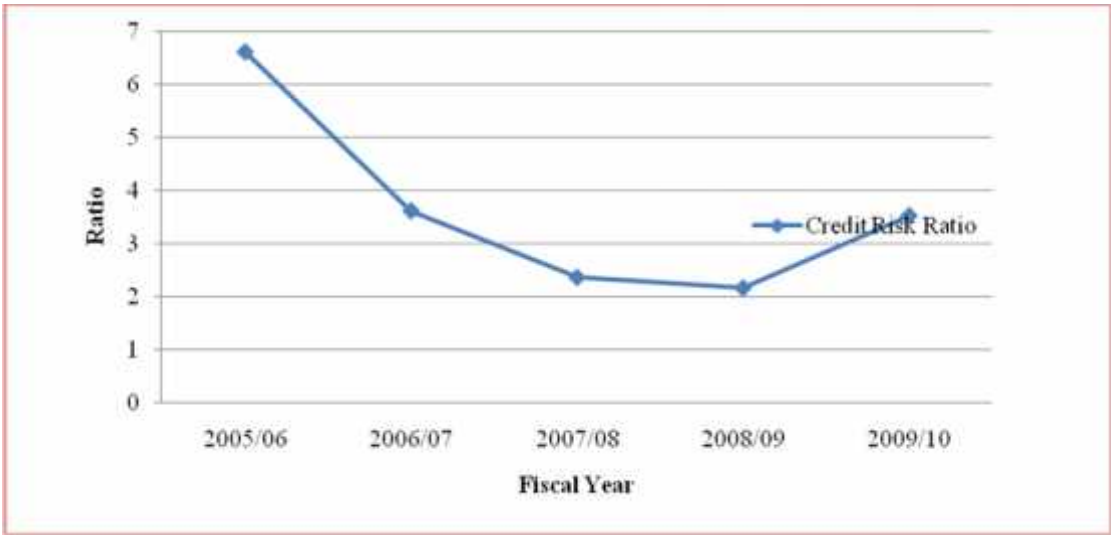
(Source: Appendix-I)

The table above measures the credit risk of the bank. The table reveals that the non performing loan of HBL is almost in decreasing trend. The non-performing loan has ranged from Rs. 477.23 millions in the fiscal year 2007/08 to Rs. 1040.76 millions in the fiscal year 2005/06. While the total loan disbursement of HBL is in increasing trend and thus it has ranged from Rs. 15761.98 millions in the fiscal year 2005/06 to Rs. 29123.75 millions in the fiscal year 2009/10.

The table delineates that non-performing loan to total loan of HBL has decreased in most of the observed periods, indicating decreased risk in the loan and advances. The ratio is 6.60% in the fiscal year 2005/06, which decreased in the first four fiscal years and then reduced to 2.16% in the fiscal year 2008/09. However, by the end of the fiscal year 2009/10, the ratio is 3.52%. This clearly indicates that HBL's loan disbursement policy and loan recovery policy is quite satisfactory and thus the chances of the turning loan into default loan have been greatly reduced by the bank in the observed periods.

Figure 4.10

Credit Risk Ratio



4.1.3.5 Loan Loss Provision to Loan and Advances

The bank has to keep loan loss provision to remain safe from the disaster caused by the loan turning into loss loan. Thus this ratio measures the bank's loss provision in proportion to total loan and advances. The higher ratio indicates higher risk on the total loans and vice-versa.

Table 4.11

Loan Loss Provision to Loan and Advances (Rs. in Million)

Fiscal Year	Loan Loss Provision	Loans & Advances	Ratio %
2005/06	1119.42	15761.98	7.10
2006/07	795.73	17793.72	4.47
2007/08	682.09	20179.61	3.38
2008/09	726.36	25519.52	2.85
2009/10	1143.13	29123.75	3.93
Mean			**4.35**
S.D.			**1.48**
C.V.%			**34.09**

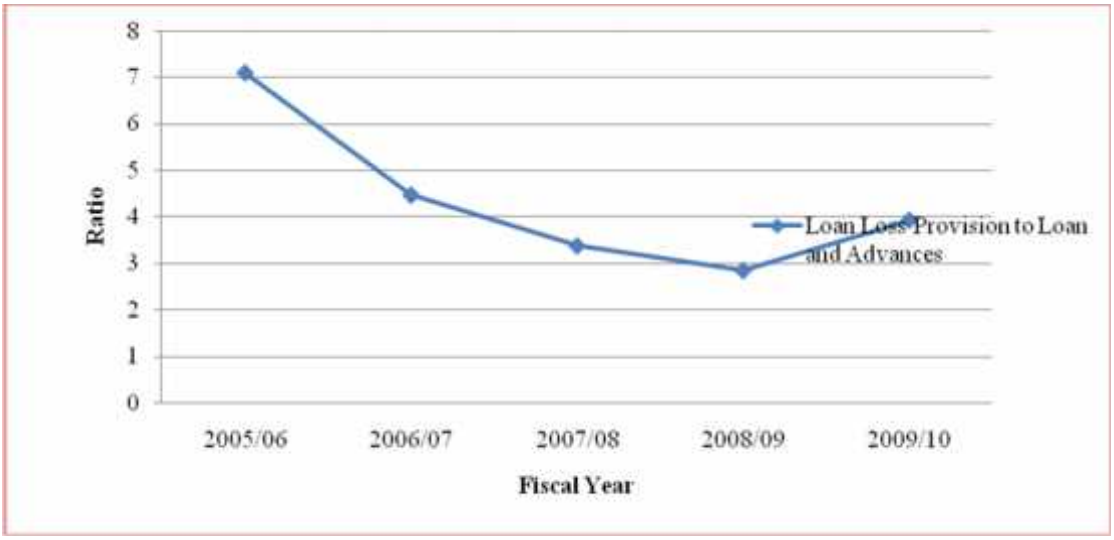
(Source: Appendix-I)

The above table measures the loan loss provision to total loan of NPL. The table reveals that the ratio is 7.10%, 4.47%, 3.38%, 2.85% and 3.93% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In average the ratio is only 4.35%. As per the NRB's Directive, each commercial

bank has to keep 1% of performing loan, 25% of sub-standard loan, 50% of doubtful loan and 100% of loss loan as loan loss provision. But the non-performing loan to total loan elaborates that the portion of NPL on total loan is very low, as a result the loan loss provision on NPL is also low, i.e. the chances of getting NPL to loss loan is minimal. Hence, it can be concluded that the risk on total loan of HBL is minimal.

Figure 4.11

Loan Loss Provision to Loan and Advances



4.1.3.6 Total Deposit to Total Assets Ratio

This ratio measures the mobilization of total deposit in financing total assets of the bank. The higher the ratio indicates extensive use of total deposit in financing total deposit and the more risky assets, and vice-versa. The total deposit to total assets ratio of HBL is presented in the table below.

Table 4.12

Total Deposit to Total Assets Ratio (Rs. in Million)

Fiscal Year	Total Deposit	Total Assets	Ratio %
2005/06	26490.85	29460.39	89.92

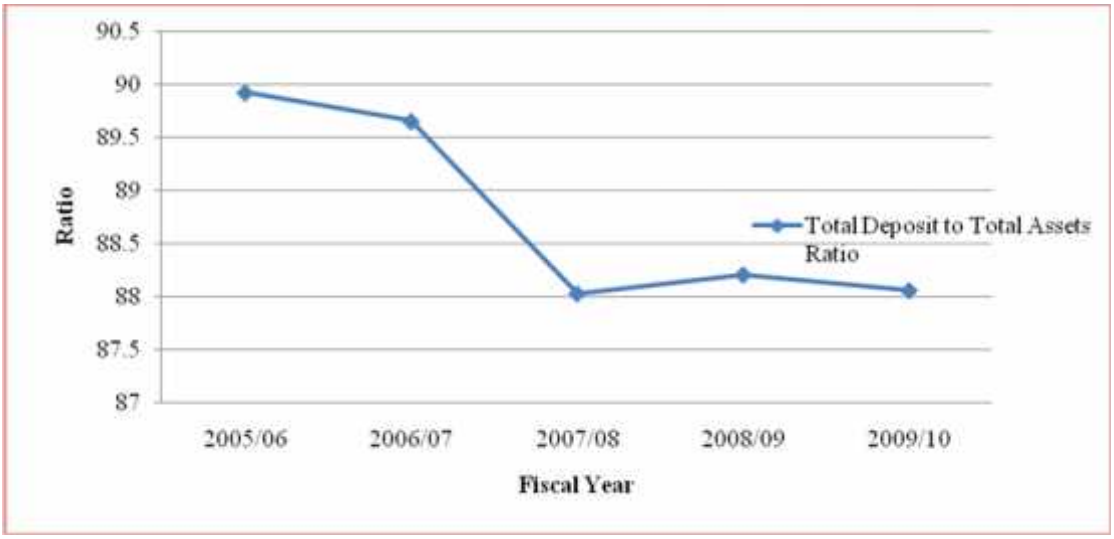
2006/07	30048.42	33519.14	89.65
2007/08	31842.79	36175.53	88.02
2008/09	34681.34	39320.32	88.20
2009/10	37611.20	42717.12	88.05
Mean			**88.77**
S.D.			**0.84**
C.V.%			**0.94**

(Source: Appendix-I)

The table examines the risk of total assets. The table shows more than 88% of the total asset of HBL is financed by the total deposit collection. The total deposit to total assets of HBL is highest, 89.92%, in the fiscal year 2005/06 and lowest, 88.02%, in the fiscal year 2007/08. In average, HBL has financed 88.77% of the total assets through total deposit collection amount. This indicates high risk on total assets of HBL, and infers that HBL has followed aggressive policy in financing the total assets by outside financing. It would have been better if HBL increases the portion internal financing and follows moderate policy to decrease total assets risk.

Figure 4.12

Total Deposit to Total Assets Ratio



4.1.4 Profitability Ratio

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

4.1.4.1 Net Profit to Total Deposit

This ratio measures the bank's efficiency in mobilizing the total deposit perfectly to earn profit. A high ratio indicates high efficiency of banks in mobilizing the total deposit in most fruitful sector and vice-versa. The net profit to total deposit ratio of HBL is presented in the table below.

Table 4.13

Net Profit to Total Deposit (Rs. in Million)

Fiscal Year	Net Profit	Total Deposit	Ratio %
2005/06	457.46	26490.85	1.73
2006/07	491.82	30048.42	1.64
2007/08	635.87	31842.79	2.00
2008/09	752.83	34681.34	2.17
2009/10	508.80	37611.20	1.35
Mean			**1.78**
S.D.			**0.28**
C.V.%			**16.03**

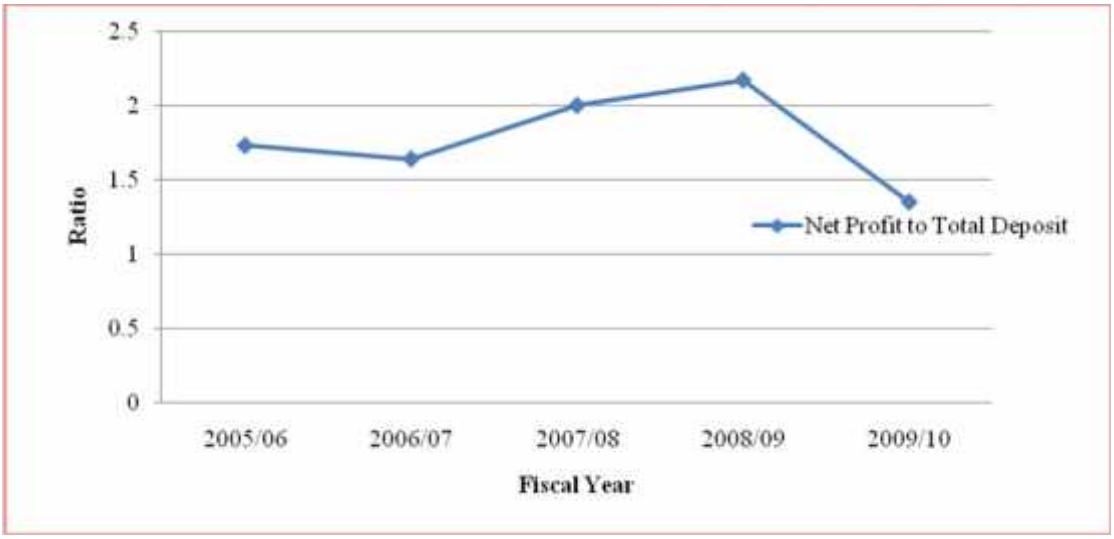
(Source: Appendix-I)

The above table shows that both the net profit after tax and total deposit amount collection of HBL has fluctuating trend in the five fiscal years. The net profit is Rs. 457.46 millions in the fiscal year 2005/06 and reached to Rs. 752.83 millions in the fiscal year 2008/09. However, the net profit of the bank has decreased by the end of the fiscal year 2009/10 and the observed net profit during that period is Rs. 508.80 millions. Similarly, the total deposit collection amount of HBL is Rs. 26490.85 millions in the fiscal year 2005/06 and finally it is Rs. 37611.20 millions in the fiscal year 2009/10.

In contrast with the increment in net profit and total deposits, the net profit to total deposit ratio of HBL has decreased in most of the fiscal years. The ratio is highest, 2.17%, indicating Rs. 2.17 earning on Rs. 100 deposit collection amount, in the fiscal year 2008/09 and is lowest, 1.35%, indicating Rs. 1.35 earning on Rs. 100 deposit collection amount, in the fiscal year 2009/10. In average, HBL earned Rs. 1.78 from per Rs. 100 collection of total deposit. Hence, considering the decreased ratios in most of the fiscal years, it can be concluded that HBL is not much efficient to mobilize the total deposit to earn profit in each fiscal year.

Figure 4.13

Net Profit to Total Deposit



4.1.4.2 Return on Shareholder's Equity (ROSE)

To measure the return earned by shareholders, return on shareholders equity (ROSE) is used. This ratio is calculated to find out the profitability on owners' capital or investment.

Table 4.14

Return on Shareholder's Equity (Rs. in Million)

Fiscal Year	Net Profit	Shareholder's Equity	ROSE %
2005/06	457.46	1766.18	25.90
2006/07	491.82	2146.50	22.91
2007/08	635.87	2512.99	25.30
2008/09	752.83	3119.88	24.13
2009/10	508.80	3439.21	14.79
Mean			**22.61**
S.D.			**4.04**
C.V.%			**17.87**

(Source: Appendix-I)

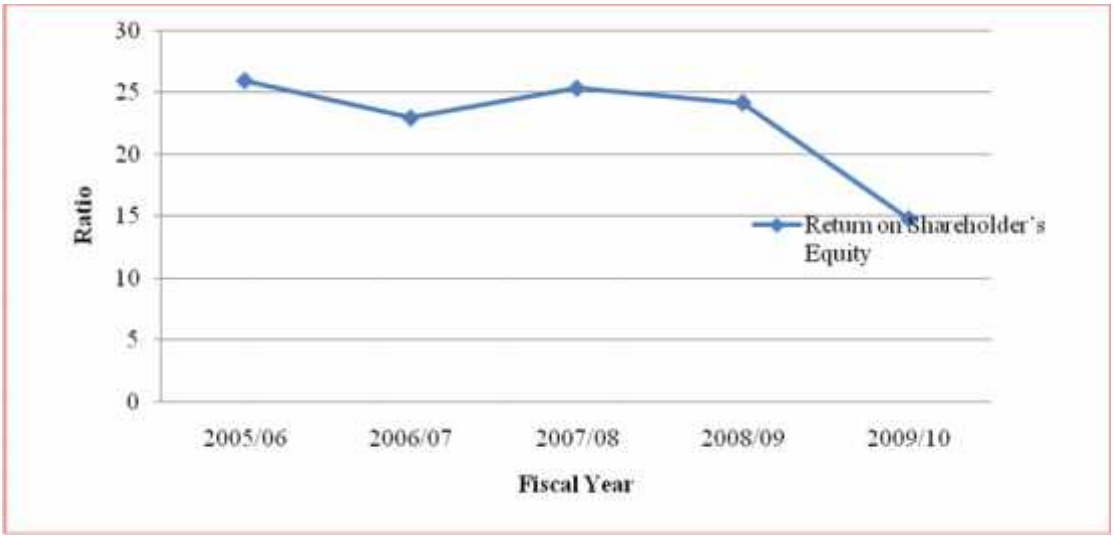
The above table depicts that the return on equity of HBL has oscillated during the periods. The ROSE of the bank has decreased from 25.90% in the fiscal year 2005/06 to 22.91% in the fiscal year 2006/07, and then increased to 25.30% in the fiscal year 2007/08, then again decreased to 24.13% in the fiscal year 2008/09 and finally decreased to 14.79% in the fiscal year 2009/10. The

bank has experienced the lowest ROSE in the fiscal year 2009/10. In average, the ratio is 22.61% and the coefficient of variation is 17.87% on such ratio.

Considering the average ratio, it can be concluded that HBL has generated Rs. 22.61 return from per Rs. 100 shareholder's equity. Also, the efficiency of HBL in converting equity to generate return is not so strong, since the ROSE of the bank has fluctuated during the periods.

Figure 4.14

Return on Shareholder's Equity



4.1.4.3 Return on Assets (ROA)

The ROA may also be called profit-to-assets ratios. The ROA measures the profitability of the total investments of a firm. This ratio is regarded as a measure of a company's efficiency in the use of its assets to generate sales. A more efficient company will generate a higher level of sales with a given level of total assets than its less efficient competitor. The high ROA represents the high profitability of the firm and vice versa.

Table 4.15

Return on Assets **(Rs. in Million)**

Fiscal Year	NPAT	Total Assets	ROA

2005/06	457.46	29460.39	1.55
2006/07	491.82	33519.14	1.47
2007/08	635.87	36175.53	1.76
2008/09	752.83	39320.32	1.91
2009/10	508.80	42717.12	1.19
Mean			**1.58**
S.D.			**0.25**
C.V.%			**15.75**

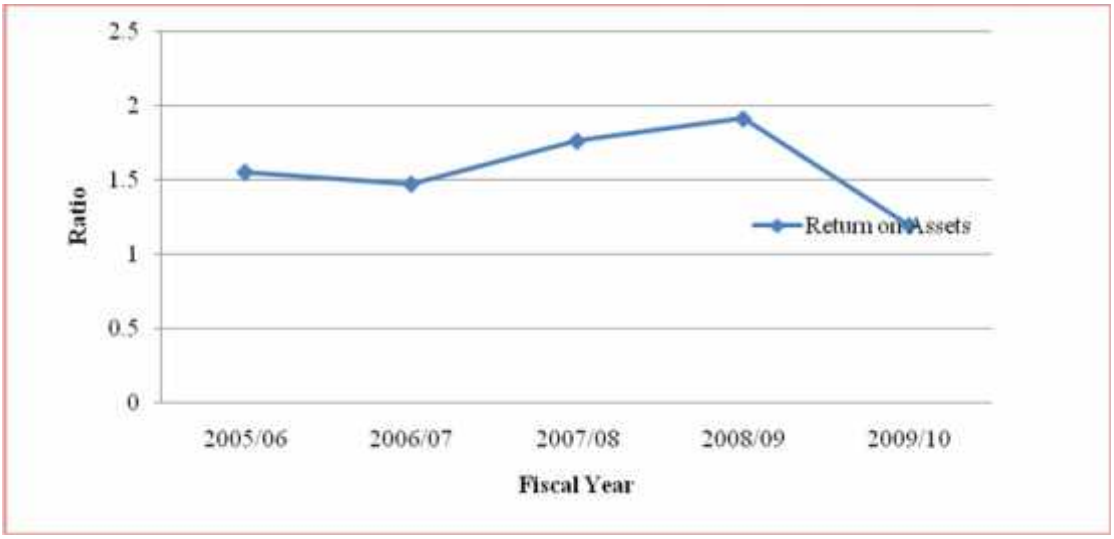
(Source: Appendix-I)

The above table depicts that the return on total assets of HBL has fluctuated during the entire periods taken for research. The ratio is 1.55%, 1.47%, 1.76%, 1.91% and 1.19% in the fiscal year 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively. In average, the return on total assets of HBL is 1.58% for the five years period and the coefficient of variation on such ratio is 15.75%.

Considering the average ratio, i.e. 1.58%, it can be concluded that HBL generated Rs. 1.58 return from per Rs. 100 investment in total assets. However, the fluctuating trend of the ratio and the increasing trend of the total assets have indicated that HBL could not efficiently mobilize the total assets to generate the maximum possible net profit. This result suggests that the bank should reengineer its investment pattern and credit grant to optimally utilize the available fund.

Figure 4.15

Return on Assets



4.1.4.4 Price Earning Ratio

Price Earning Ratio is the ratio between market price per share and earning per share. It indicates the payment by the investors in the market for per rupee of earning in the company. The price earning ratio of HBL for the period taken for study is presented below table.

Table 4.16

Price Earning Ratio **(Unit in Rs.)**

Fiscal Year	MPS	EPS	P/E Ratio (in Times)
2005/06	1100	59.24	18.57
2006/07	1740	60.66	28.68
2007/08	1980	62.74	31.56
2008/09	1760	61.90	28.43
2009/10	816	31.80	25.66
Mean			**26.58**
S.D.			**4.42**
C.V.%			**16.63**

(Source: Appendix - I)

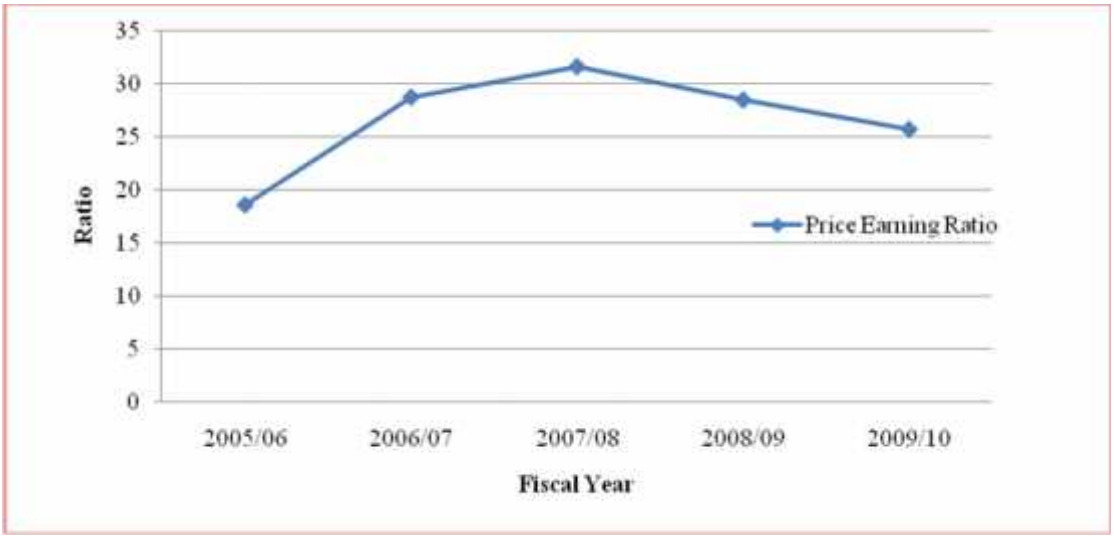
The above table measures the price earning ratio of HBL. The table reveals that both the MPS and EPS of HBL have increased up to the fiscal year 2007/08. The MPS has ranged from Rs. 816 in the fiscal year 2009/10 to Rs. 1980 in the

fiscal year 2007/08. Likewise, the EPS has ranged from Rs. 31.80 in the fiscal year 2009/10 to Rs. 62.74 in the fiscal year 2007/08.

Similarly, the price earning ratio has also increased up to the fiscal year 2007/08, and then decreased from the fiscal year 2008/09. The ratio has ranged from 18.57 times in the fiscal year 2005/06 to 31.56 times in the fiscal year 2007/08. In average the price earning ratio of HBL is 26.58 times, which indicates that the investors have invested Rs. 26.58 to gain a Re. 1 earning. In other word, the cost for the investors to gain a rupee of investment has increased for the first three fiscal years.

Figure 4.16

Price Earning Ratio



4.1.4.7 Dividend Payout Ratio

Dividend payout ratio measures the percentage of dividend paid out of the net profit after tax. It also clears about the retained earning, since net profit is composed of dividend and retained earning only. Higher dividend payout ratio attracts the shareholders and consequently increases the market price of share. The dividend payout ratio of the HBL is presented in the below table.

Table 4.17

Dividend Payout Ratio **(Unit in Rs.)**

Fiscal Year	DPS	EPS	DP Ratio %
2005/06	35.00	59.24	59.08
2006/07	40.00	60.66	65.94
2007/08	45.00	62.74	71.72
2008/09	43.56	61.90	70.37
2009/10	36.84	31.80	115.85
Mean			**76.59**
S.D.			**20.12**
C.V.%			**26.27**

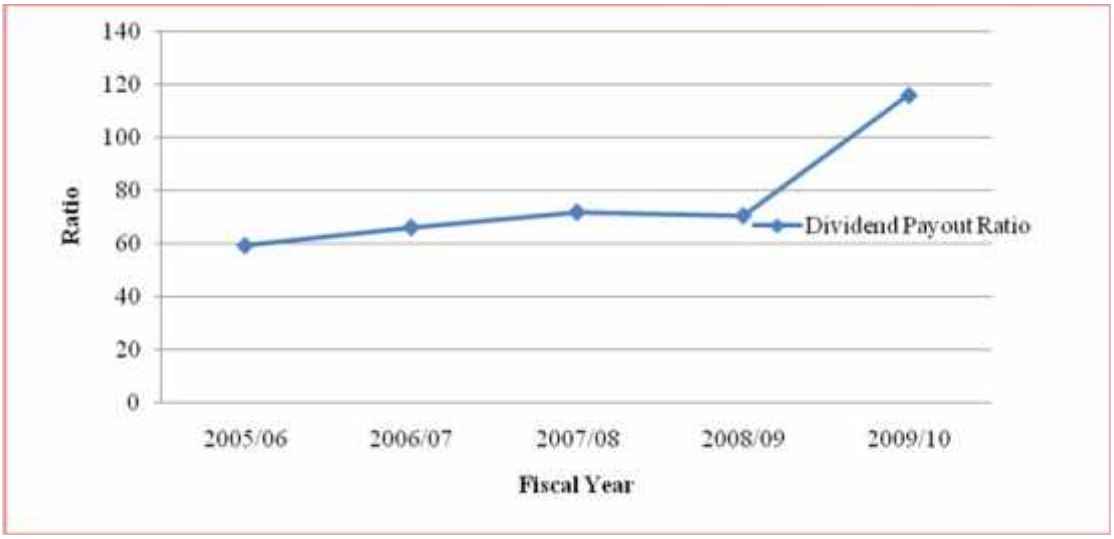
(Source: Appendix - I)

The table enumerates the dividend payout ratio of HBL. The table shows that along with the lapse of time, the dividend per share of HBL is also in increasing trend. The DPS has ranged from Rs. 35.00 in the fiscal year 2005/06 to Rs. 45.00 in the fiscal year 2007/08. However, for the fiscal year 2009/10, the DPS of the bank is Rs. 36.84.

The dividend payout ratio, however, has increased in most of years taken for study. Initially, the ratio is 59.08% in the fiscal year 2005/06, which increased to 65.94% in the fiscal year 2006/07, again increased to 71.72% in the fiscal year 2007/08, and then slightly decreased to 70.37% in the fiscal year 2008/09 and finally increased to 115.85% in the fiscal year 2009/10. The bank has paid greater amount of DPS than the EPS in the fiscal year 2009/10. In average, 76.59% of the EPS has paid to investors in the form of DPS. Eventually, it can be concluded that the dividend payment policy of HBL fascinated many investors toward it.

Figure 4.17

Dividend Payout Ratio



4.2 Statistical Analysis

4.2.1 Correlation and Regression Analysis

To analzye the relationship of net profit with total deposit, with total loan and advances disbursement, and with total investment, Karl Pearson's correlation coefficient and simple regression analysis have been done.

4.2.1.1 Correlation and Regression Analysis between Net Profit and Total Deposit

To analyze the correlation and find the regression line between net profit and total deposit, the net profit was assumed to be the dependent variable (Y) on the total deposit, which was assumed to be the independent variable. The correlation coeffcient and regression equation calculated in Appendix-II is presented in the table below.

Table 4.18

Correlation and Regression Analysis between Net Profit and Total Deposit

Correlation Between NPAT and TD				
r	**r^2**	**P.E.**	**6 P.E.**	**Remarks**
0.4342	0.1885	0.2448	1.4686	Can't Say
Regression Line of NPAT on TD				
a	**b**	**Regression Equation**		
167.73	0.01	NPAT = 167.73 + 0.01 TD		

(Source: Appendix – II)

The table showed that there exists positive correlation between net profit and total deposit, r = 0.4342, which means the net profit increases with the increase in total deposit and decreases with the decrease in total deposit. The coefficient of determination of 0.1885 indicated that only 18.85% variation in net profit is due to change in total deposit. Similarly, the calculated P.E. and 6 P.E. are 0.2448 and 1.4686 respectively.

Similarly, the regression equation of net profit on total deposit indicates that net profit increases with the increase in total deposit, since the beta coefficient is positive. The net profit increases by Rs. 0.01 with per rupee increase in total deposit, if the variable 167.73 remains constant. Since, the value of 'r' is greater than P.E. (r = 0.4342 > P.E. = 0.2448) and lower than 6 P.E. (r = 0.4342 < 6 P.E. = 1.4686) nothing can be concluded on the statistical relationship between net profit and total deposit. Thus, total deposit cannot be the sole determinant for the increment in the net profit of the bank.

4.2.1.2 Correlation and Regression Analysis between Net Profit and Loan & Advances

Let Net profit be the dependent variable (Y) and loan and advances be the independent variable (X), then the regression line of net profit on loan and advances and the correlation coefficient between them are presented in the table below.

Table 4.19

Correlation and Regression Analysis between Net Profit and Loan & Advances

Correlation Between NPAT and LA				
r	**r^2**	**P.E.**	**6 P.E.**	**Remarks**
0.4111	0.1690	0.2507	1.5039	Can't Say
Regression Line of NPAT on LA				
a	**b**	**Regression Equation**		
371.68	0.01	NPAT = 371.68 + 0.01 LA		

(Source: Appendix – II)

The table reveals that the correlation between net profit and loan and advances is 0.4111, which is positive. Hence, net profit in the past has increased with the increase in loan and advance disbursement amount. Similarly, 16.90% variation in net profit is defined by the change in loan and advance, since the coefficient of determination is 0.1690.

Likewise, the regression line of net profit on loan and advances indicates that net profit increases by Rs. 0.01 with per rupee increase in loan and advances, if the variable 371.68 remains constant. Since the value of 'r', 0.4111, is greater than the P.E., 0.2507, and lower than the 6 P.E., 1.5039, nothing can be said between the relationship of net profit and loan and advances, indicating that the net profit is affected by some other factors as well in concomitant with the effect of loan and advances.

4.2.1.3 Correlation and Regression Analysis between Net Profit and Total Investment

Let Net profit be the dependent variable (Y) and total investment be the independent variable (X), then the regression line of net profit on total investment and the correlation coefficient between them are presented in the table below.

Table 4.20

Correlation and Regression Analysis between Net Profit and Total Investment

Correlation Between NP and TI				
r	**r^2**	**P.E.**	**6 P.E.**	**Remarks**
-0.1577	0.0249	0.2941	1.7649	Insignificant
Regression Line of NP on TI				
a	**b**	**Regression Equation**		
668.46	-0.01	NP = 668.46 - 0.01 TI		

(Source: Appendix – II)

The above table shows that the correlation between net profit and total investment of HBL is -0.1577, which indicates negative correlation. The coefficient of determination of 0.0249 implies that only 2.49% change in net profit is caused by total investment. However, the lower the value of 'r' than the 6 P.E. elaborates that there exists no significant relationship between net profit and total investment, and hence net profit might not have always decreased with the increase in total investment.

In contrast, the regression equation of net profit on total investment implies that the net profit decreases by Rs. 0.01 with per rupee increase in total investment, if the variable 668.46 had remains constant.

4.2.2 Trend Analysis of Net Profit

To predict the value of net profit of HBL in the forthcoming two fiscal years, the net profit after tax has been assumed as dependent variable (Y) on the time period, assumed as independent variable (X). Then the regression equation of net profit on time period is given by;

NP = 460.25 + 36.37 X

Table 4.21

Trend Analysis of Net Profit

Fiscal Year	Trend NPAT

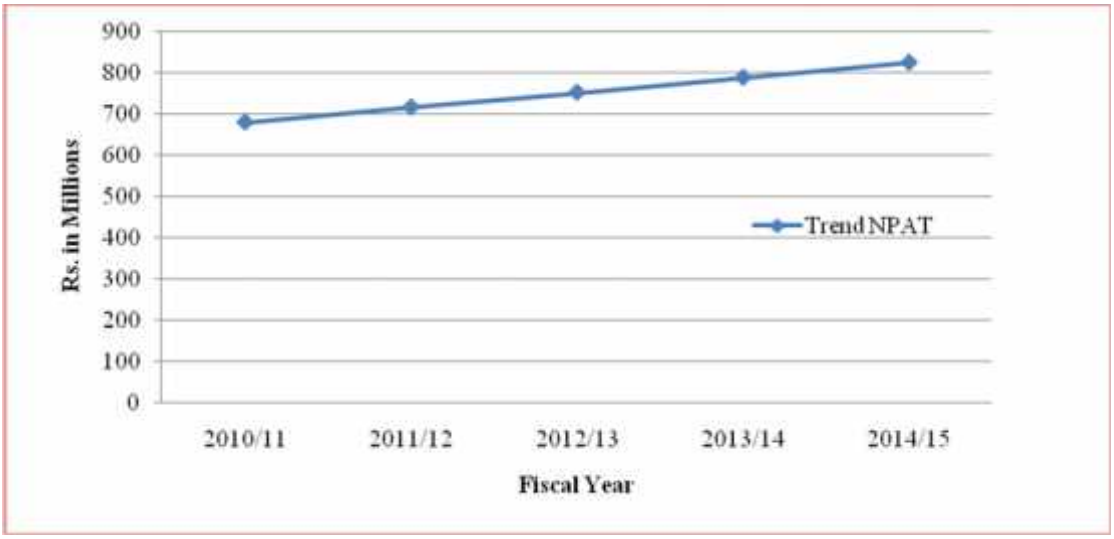
2010/11	678.46
2011/12	714.83
2012/13	751.20
2013/14	787.57
2014/15	823.94

(Source: Appendix –III)

The table shows that net profit after tax of HBL has positive relationship with time period. Along with the lapse of time, the net profit of the HBL will be increased. The estimated value of net profit for the fiscal year 2010/11 will be Rs. 678.46 millions, 2011/12 will be Rs. 714.83 millions, 2012/13 will be Rs. 751.20 millions, 2013/14 will be Rs. 787.57 millions and 2014/15 will be Rs. 823.94 millions. Similarly, the regression equation of net profit on time period indicates that net profit increases by Rs. 36.37 millions in each year, if the variable 460.25 remains constant.

Figure 4.18

Trend Analysis of Net Profit



4.3 Major Findings of the Study

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

- The average current ratio maintained by HBL during the five years period is 1.07:1, which indicates that the liquidity position of the bank is

not so strong.

- In average, the cash and bank balance occupied 6.52% of the total current assets and the cash reserve ratio is 6.10% in the five years period. Hence, the liquidity position of HBL is not so good on the basis of cash and bank balance to total current assets ratio and cash reserve ratio.
- In average, the fixed deposit covered 23.99% of the total deposit, hence almost one-fourth of the total deposit is represented by fixed deposit.
- The average debt-equity ratio is 13.12 times, from which it can be inferred that the total assets financing of HBL is majorly dependent upon outside financing rather than upon internal financing.
- The average capital adequacy ratio maintained by HBL in the five years period is 11.37%, which is slightly higher than the standard (10.00%) set by the NRB.
- HBL has been able to mobilize 66.62% of the total deposit in loan and advances in average. Similarly, the investment has represented 33.98% of total deposit in average within the five years period.
- In average the loans and advance is 2.87 times greater than the fixed deposit amount, which indicated that fixed deposit covered almost 39% of the total loans and advances. Also, 88.77% of the total asset is financed through total deposit in average.
- The non-performing loan is low in total loans and advances, indicating lower credit risk. The average non-performing loan to total loan is 3.65%. Similarly, the average loan loss provision to loans and advances is 4.35% in the five years period.
- Similarly, the net profit represents 1.78% of the total deposit in average and further the net profit in relation to total deposit is in fluctuating trend.
- HBL has converted Rs. 1.58 return per Rs. 100 investment in total assets, as the return on total assets in average is 1.58%. Similarly, HBL earned Rs. 22.61 return from Rs. 100 investment in shareholder's

equity, as the ROE in average is 22.61%.

- The average price earning ratio for the five years period is 26.58 times, which indicates that investors paid Rs. 26.58 to earn Rs. 1 income per share.
- In average, HBL distributed 76.59% of the total earnings as dividend to attract the potential investors toward it. The dividend payout ratio has increased in most of the years.
- The correlation coefficient between net profit and total deposit is 0.4342 and the beta coefficient of regression equation of net profit on total deposit is 0.01.
- Similarly, the correlation coefficient between net profit and loan and advances is 0.4111 and the beta coefficient of regression line is 0.01. Likewise, the correlation coefficient between net profit on total investment is -0.1577 and the beta coefficient of regression line is 0.01.
- The predicted value of net profit through trend analysis for the fiscal year 2013/14 will be Rs. 787.57 millions and for the fiscal year 2009/10 will be Rs. 823.94 millions.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Every county in the world, either developed or underdeveloped, is in pursuit of attaining the goal of rapid economic development in the same way or other, depending upon the prevailing prospectus and nature of instrument for economic growth. In this context, commercial banks play the role of financial intermediary collecting the fund from surplus unit (i.e. investors). The structure of modern economy will be no better than ancient period of better system without financial intermediaries. Therefore, commercial banks play an important role in boosting the national economy. They play the vital role in the affairs of the economy in various ways. They have played and important role in giving a direction to economic development over time by financing the requirement of trade and industry in the country. It should not be forgotten that the country can hardly achieve its goal of economic development without strong capital base and commercial banks have pivotal role in forming such base.

Financial performance as part of the financial management is the main indicators of the success or failure of the firm. So, the financial performance analysis can be considered as the heart of financial decision and the growth and development of the firms is directly influenced by the financial policies of the firm. Financial performance analysis is a series of processes used to monitor long-term and short-term financial results. This term is most commonly applied to investment management but also can be applicable to business operations. The primary purpose of financial performance analysis is to compare actual results to budgets or forecasts and make adjustments to reach specific financial goals.

In the banking industry, financial performance analysis refers specifically to the rate of return for a financial portfolio. A portfolio is comprised of multiple financial instruments, with a variety of risks and rates of return. Although it is impossible to predict the future, statistics are used to provide a forecast of financial performance of these instruments over a specific period of time. Specific performance benchmarks are set based on the forecast, and the actual performance is measured against these values. Based on the results, changes are made to the portfolio to increase the rate of return to meet these requirements. There is a constant process of adjustment, which is a necessary response to changing market conditions and circumstances.

In a traditional business setting, financial performance analysis relates to company profitability. A regular review of revenue and expenses provides valuable insight into business operations, risks and issues. Typical financial statements are not ideal for this purpose, because these reports are a summary of overall activity. Instead, many companies create customized reports of sales, costs, cash flow and fixed expenses. These values are compared to budgets or forecasts, which are created as part of a long-term management strategy. The positive or negative variances are then analyzed to assist in making decisions. Business decisions about how to increase sales, reduce costs and otherwise manage the financial performance are made and then implemented.

This entire process of review, comparison, analysis and making decisions is repeated on a continuous basis. It is a necessary aspect of business management. Companies that fail to perform these tasks and actually implement business changes tend to experience ongoing financial difficulties. In many situations, businesses that fail could have been rescued if the appropriate changes were made. Therefore, the study has been conducted to evaluate the financial performance of Himalayan Bank Limited to find out the strength and weakness. The main objective of the study is an analysis of financial performance of HBL. The financial performance has been analyzed

on the ground of liquidity, leverage, efficiency and profitability ratios.

5.2 Conclusion

On the basis of data analysis and major findings drawn, it can be concluded the liquidity position of the bank is not so strong, since the current ratio is low. Further, the cash and bank balance to total assets ratio and the cash reserve ratio is also minimal, substantiating the weak liquidity position of the bank.

On the basis of debt-equity ratio, it can be concluded that HBL finances its total assets through outside financing rather than through internal financing. However, the bank uses high borrowing to finance its assets, and hence it has high risk-bearing total assets. Likewise, on the basis of capital adequacy ratio, it can be considered that HBL has followed the NRB's provision regarding capital fund, since the average capital adequacy ratio was maintained by HBL is just above the NRB's requirement. Hence, it can be concluded that HBL has managed its debt capital satisfactorily.

Likewise, on the basis of efficiency ratios, it can be considered that HBL's mobilization of total deposit was dominated by loan and advances rather than investment in different sectors. The bank is found to make investment only in government securities, corporate share and bonds. Also, almost one-third of the loan and advances is financed through fixed deposit amount has low risk. Further, it can be concluded that the bank's credit policy is quite satisfactory, since the non-performing loan is very low in total loans and advances and the loan loss provision is also very low in total loans and advances. Thus, it can be concluded that HBL has effectively utilized its fund available.

Similarly, since the net profit margin and net profit to total deposit is in fluctuating trend, it can be considered that HBL progression in making profit has been oscillated during the periods. Also, the return on equity and return on assets are also not so strong and stable. In contrast, the price earning ratio aid

to conclude that investors are more interested to invest in HBL in the initial periods, since the paid value in the market to generate per rupee income is in increasing trend in such periods and is quite high. In return, HBL also distributed profit generously in the form of dividend.

Finally, the statistical analysis shows that the relationship of net profit with total deposit, loan and advances is inconclusive, and with total investment is insignificant. Undoubtedly, it can be considered that net profit does not increase with the increase in total deposit, loan and advances, and total investment. Also, the trend analysis of net profit helps to conclude that HBL's net profit will increase in future as well. Eventually, it can be concluded that the financial performance of HBL in overall is not so satisfactory.

5.3 Recommendations

On the basis of major findings and conclusion drawn, the following recommendations have been given for the enhancement of HBL's financial performance.

- HBL could not maintain the conventional standard of current ratio. It may create the problem of working capital if needed to pay the short-term obligation at demand. With the delay in payment of liabilities of banks may lose their goodwill and may have the problem in winning the confidence of current depositors and short term lenders. So, the bank is recommended to maintain the adequate net working capital.
- Both the cash and bank balance to total assets and cash reserve ratio of HBL is low. This may barricade bank to pay the immediate cash requirements. Hence, HBL should keep adequate cash to meet its liabilities requirement.
- It would be better if HBL increases the fixed deposit collection amount to freely make investment in different sectors and disburse loans and advances.
- HBL has followed aggressive policy of financing the total assets. Thus,

HBL is recommended to adopt moderate policy of financing, i.e. to finance the total assets by almost equal proportion of debt and equity finance.

- HBL should continue to adopt the current credit policy and not to take the risk of loosing disbursement amount by adopting other policy.
- The investment sector of HBL is limited to treasury bills, government saving bonds, foreign banks and corporate shares only. It would be better if HBL quest the new sectors of investment that are fruitful and are permitted by NRB to increase the profit.
- HBL is advised to observe whether the increasing operating expenses leading to increase profit or not and should try to minimize the unnecessary expenses.
- It would be better if HBL recognizes the unnecessary interest expenses on the total deposit and try to minimize such expenses to increase profit.

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