

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked country with an agro-based economy. The country is divided into three parts (i.e. mountains, hills, and Terai region) with its geographical natural. Nepal is one of the least developed and very poor countries in the world. More than 90% of the people are still in rural areas and most of them are deprived of minimum physical facilities, which is necessary for human beings. The annual per capita income of Nepalese people is just US\$253 (According to Asian Development Bank Report 2004). Nepalese economy is dependent on traditional agriculture. The agriculture sector contributes only 40% of total GDP and is the main supplier of raw materials to industries. Development of the agriculture sector helps not only to solve the problem of unemployment but also helps in the economic development of the country.

Agriculture is still the backbone of the Nepalese economy. Economy development is not possible without agriculture development. The National Planning Commission has given more emphasis to this sector. But the real picture of this sector is very poor. This is because Nepal has not been able to provide basic facilities to the farmers like irrigation, electricity, and transportation. Despite being second richest in water resources in the world, we are compelled to pay dear charges in the world. It provides employment opportunities to more than 80% of the labor force; however, it contributes just 40% of Gross Domestic Product.

The government of Nepal formulated a policy to develop possible agro-based industries for at least to substitute import of industrial and consumable goods. The basic goal of government policy was self-sufficiency where it saw other ways to generate revenue by operating industrial units and creation of employment opportunities through this sector.

Financial section is the lifeblood of the commercial and industrial activities. So commercial bank and other financial institutions can play a vital role in giving a direction to economy's development by financing the requirement of trade and industry in country. They collect the saving from community and transfer to the require section of trade and industries, so that banking section development is necessary to economy development in the overall development of the banking system in Nepal, the tejarath adda' maybe regarded as the father of modern banking institution and for a quite a long time. It delivered as the father of modern banking institution and for a quite along time. It delivered a good service to government employees as well as to general public, however, the concept of modern financial institutions in Nepal was introduced when late former bank, Nepal Bank Limited in 1994 B.S. Before establishment of Nepal Bank Limited, People fulfilled their credit needs from unorganized market of private money lenders. Presently, there are seventeen commercial banks operating their financial activities in the different part of country. They provide modern banking facilities like ATM Card, Debit and Credit Card to their Valuable customers.

The main objectives of this study were comparative study of financial performance of two joint venture banks, Nebil Bank Limited and Himalayan Bank Limited.

1.2 History of Banking System in Nepal

The history of organized banking system in Nepal was very short. Late former Prime Minister Shree Judda Samsar Jang Bahadur Rana established first bank, Nepal Bank Limited in 1994 B.S. the bank was established to remove the inconveniences caused to the people. When the concept of planning was formulated, there are needed for established a central bank.

From the viewpoint of planning it is necessary that the banking activities specially the loans should be regulate as per priority, thus, Nepal Rastra Bank as the central

bank was established in 2013 B.S. for the developing the financial sector under “Nepal Rastra Bank Act 2012.

In a developing country like Nepal. The central bank is supposed to help in developing banking system for mobilization o financial resources and using them into the priority areas as fixed in the development plans.

In the year 2022, another commercial bank, Rastriya Banijya Bank was established under the “Rastriya Banijya Bank Act.2021”. It was specially established in the response to need for forming a government owned commercial bank to look after the convenience and economic interest of general public.

In 1980’s to meet the need of healthy competition in financial sector, Nepal allowed to entry of foreign bank as joint venture with up to 51 % of equity participation. Recently Nepal has allowed to entry to foreign bank as a joint ventures with up to maximum of 75 % of equity participation.

In 2005, Nepal has entered as a member of world trade organization. After entering world trade organization, Nepal has committed to open its financial sector for foreign bank to establish branches of their bank by 2010 A.D.

In 2004, there are seventeen commercial banks, five rural development banks, fifty nine finance companies, and twenty co-operatives organization operating their financial activities in the different part of Nepal.

1.3 A Brief Profile of Nabil Bank Limited

Nabil Bank limited was first joint venture bank in Nepal, established in 2041 B.S. under commercial bank act 2031 and company act 2021. This bank was renamed as Nebil Bank Limited from 1st January 2002. First, Dubai Bank Limited was

partner of 50 % equities capital later Dubai Bank Limited takeouts its hand from this bank and transferred its equities share capital to National Bank Limited of Bangladesh.

Total share of Nebil Bank Limited is subscribed as follows:-

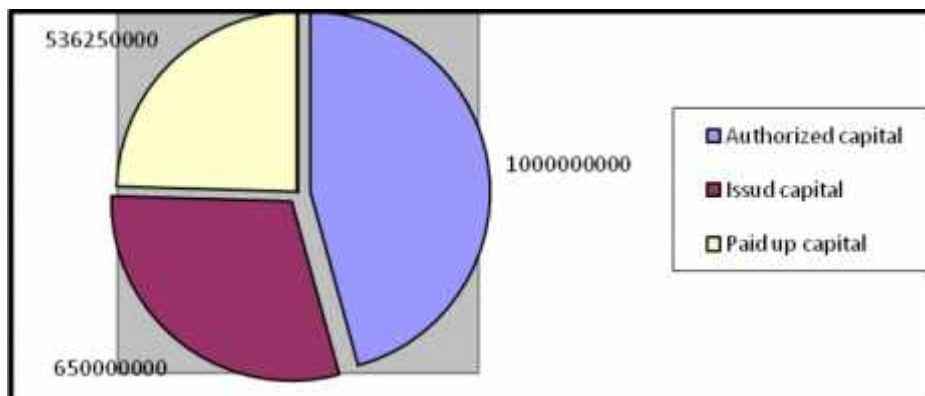
) National Bank Limited Bangladesh	50%
) Nepalese Public Shareholders	30%
) NIDC	10%
) Rastriya Beema Sasthan	9.66%
) Nepal Stock Exchange	<u>0.34%</u>
<u>Total</u>	100%

Nabil Bank Limited has seven board members.

Share Capital of Nabil Bank Limited (2004)

1. Authorized Capital		
10000000 ordinary shares @ Rs.100 each		1000000000
2. Issued Capital		
6500000 ordinary shares @ Rs.100 each		650000000
3. Paid up Capital		
5362500 ordinary shares @ Rs.100 each		536250000

Pie Chart



Service offered by Nabil Bank Limited

Nabil Bank limited has offers various types of services to its customers are as follows:-

- A. Accepting deposits from it customer in various account like current, foxed and saving account.
- B. Granting loan and advance in terms of overdraft demand loan, time loan making investment in treasury bills, foreign bills and indigenous bill.
- C. Discounting bills
- D. Providing bank guarantee
- E. Opening facility of letter of credit
- F. Remittance service
- G. Issuing traveler cheques
- H. Safety locker's facility

Nabil bank limited has altogether seventeen branches, being highest number of branches of joint venture bank in Nepal among them. Seven branches are in Kathmandu valley and others are in Birgunj, Parsa, Biratnagar, Itahari, Butwal, Rupandehi, Pokhara, Bhairahawa, and Nepalgunj. There are two branches in Pokhara. It has been giving banking services by using modern technologies and it has been joining with SWIFT to speed up the transfer of money in all over the world.

1.4 A Brief Profile of Himalayan Bank Limited

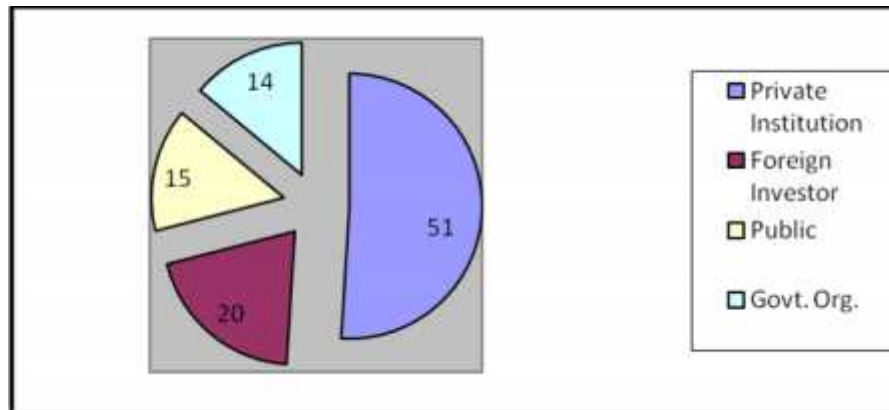
Himalayan bank limited is a joint venture bank with Habib bank of Pakistan, was established in 1992 A.D. under the company act 1964. This is the first joint venture bank managed by Nepalese chief executive. The operation of the bank had started from February 1993.

The main objective of the bank is to provide modern banking facilities like banking to businessman, industrialist and other professional and provide loans for commercial, agriculture and industrial sectors.

The promoters of share holding pattern of Himalayan Bank Limited are as follows:

) Private Institutions	51 %
) Foreign Investor	20%
) Public	15%
) Government organization	<u>14%</u>
Total	100%

Pie Chart

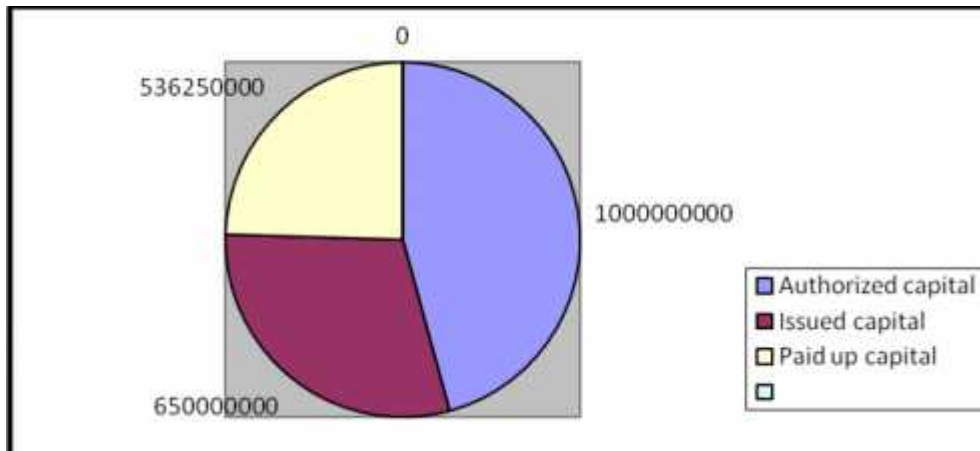


Himalayan Bank Limited has seven board members. They operate daily financial activities.

Share capital of Himalayan Bank Limited (2003/2004)

1. Authorized capital		
10000000 ordinary shares @ Rs.100 each		1000000000
2. Issued Capital		
6500000 ordinary shares @ Rs.100 each		650000000
3. Paid up capital		
5362500 ordinary shares @ Rs.100 each		536250000

Pie Chart



Services Offers by Himalayan Bank Limited

Himalayan Bank Limited offers various types services to its valuable customers, which promotes bank competitiveness, credit worthiness and attraction.

Some services and technologies, which provide by Himalayan Bank Limited, are as follows:-

1. Accepting deposits
 - Current Deposits
 - Fixed Deposits
 - Saving deposits
2. Granting loan
 - Overdraft
 - Demand loan
 - Time loan
 - Term Loan
3. Transferring the funds
4. Premium saving accounting
5. Bills discount
6. Bank guarantee

7. Issued of honors of travelers cheques
8. Inward and outward remittance
9. Issuance of bank draft and bankers cheques
10. ATM, Debit Card, Credit card facilities
11. Internet banking services

This bank is the first joint venture bank managed by Nepalese chief executive. Its head office is based in the capital city of the country, Kathmandu in Karmachari Sanchaya Kosh Building” Thamel, Ktm. It has 11 branches out of which five are based in alone Kathmandu valley and rest of the branches are out side the valet spread in the main cities of the country.

The bank adopting modern technologies such as computer system in each branch, credit card, master car and VISA international card etc. recently this bank has made an agreement with smart choice Technology Pvt. Ltd. For expanding ATM network in Kathmandu valley.

1.5 Focus of the Study

This study confines comparative analysis of financial performance between two joint venture banks namely, Nabil Bank Limited and Himalayan Bank Limited. Financial analysis comvers financial ratio analysis, portfolio and trend analysis of two joint venture bank both of these banks are working under the same conditions and problems, opportunities for the banks and threats to the firm are also similar.thus,this attempt would be relevant to make a comparative analysis of these two banks. Main focus of this study will be on aspect such as liquidity, profitability activity, and income and expenditure patterns. The trend analysis is an indication about the future operation, so, this study aims to have a comparative analysis as regard to the past performances as well as future operation, “Financial analysis is the process of determining the significant operating and financial

characteristic of a firm from various accounting data and financial performance. The goal of such analysis is to determine the efficiency and the performance of the firm's management as reflected in the financial records and report" (Hampton John, 1983:121).

This study will focus on

- 1. Income and Expenditure Analysis**
- 2. Correlation Analysis**
- 3. Trend Analysis**

Financial ratio analysis identifies the financial strength and weakness of both joint venture banks with help of basic financial statement namely profit and loss account. Balance sheet and cash flow statement, it helps to measure the banks liquidity, leverage, activity and profitability ratio in rational way.

1.6 Statement of the Problem

There are various joint ventures banks operating their activities in the different part of the country. Banks are not to be considered merely as dealers of money but also the leaders in development. They are not only the storehouse of country's wealth but also the reservoirs necessary for economic development. After his majesty Government of Nepal adapted the open. Liberal and market oriented economic policy. The establishments of private joint venture banks have continued in response to this. Consequently, they are facing tough competition. The financial sector may not be enough from them to meet the growing the resources need to the economy as expected before. Why the financial institution of Nepal is performing well and effectiveness of these institutions should be analyzed. This study will seek the reasonable reasons on the following concentration areas of Nabil bank and Himalayan Banks,

- Identifying the liquidity, profitability and capital structure ratio and market position of joint venture banks.

- Identifying the growth ratios level of joint venture banks in term of net profit and earning.
- Identifying the relationship between debt and return of joint venture banks.
- Identifying the relationship between deposit and investment of the joint venture banks.
- Identifying the relationship between organization and its stakeholders.
- Identifying, how efficiently do the banks use their capital?
- Identifying which bank performing better and efficiently?

In conclusion, this study aims to find out the areas of difference between NBL and HBL in terms of deposits collection, resources mobilization, liquidity, and tethers. Fact efficient financial performance is helped to measure the weakness and strength of the bank. This study will predict their strength and weakness; fluctuations of ratios, trend and correlation between relevant variables, a strong financial performance of joint venture can contribute to national economy and also attract foreign investor to invest his or her inevitable fund in the financial sector, this May and exemplary lesson to the newcomer joint venture bank. Therefore financial statement of the bank should be fully examined to find out whether the bank are economically and financial strong or weakness.

1.7 Objectives of the Study

The main objective of this study are to analyze, examine and interpret the financial position of Nabil Bank Limited and Himalayan Bank Limited with the help of ratio analysis and other relevant financial and statistical tools. In addition, the study also tries to evaluate the efficiency and progress of both joint venture banks comparatively.

For above purpose the following points will be considered in the research:-

- ❖ To calculate the relevant financial position of NBL and HBL.

- ❖ To examine the financial performance of the banks.
- ❖ To know the investment position of sample banks.
- ❖ To provide suggestion for both banks on the basis of findings.

1.8 Significance of the Study

Banking sectors has been one of the major contributor's national providing varieties of disbursement to different sectors, enabling to boost the GDP. Hence, the performance of this sector needs to be above the par to any other field. The financial performance of commercial banking sector should be very much capable in enhancing the capital market as well. This research is a conclusion-oriented research. This thesis will help to know the financial performance of Nabil bank and Himalayan bank. This study will also helpful as literature for the future study about the relating topics. Apart form this; the institution and firm can allow the suggestion of this study to make their policy and strategy more practical and scientific.

The accounting figures presented in the financial statements do not convey Andy meaningful understanding, it need to be analyzed and interpreted to know the financial position and performance of the banks. This study will be beneficial to different parties concerned with two bank as well as other interested parties.

Especially it will be beneficial to,

-) Management of two banks.
-) Lenders and borrowers of these banks.
-) Policy market of these banks.
-) Concerned parties and general interested parties of the banks.
-) Customer of the banks.

1.9 Limitation of the Study

The research explains and analysis the subject matter with the help of well known of already established analytical method and techniques, therefore as a conclusion oriented research, It does not much concern with the fundamental and decision oriented research. This research depends upon only five-year annual report of both banks as well as some primary data of the both banks.

Following are the limitation of this study: -

- It only focuses on Nabil bank Limited and Himalayan Bank limited conversing the period of five years (i.e. 2001/2002 to 2005/2006)
- The whole study is based on secondary data such as financial statement and financial reports of both banks.
- This study is concerned with the financial performance of both banks.
- The data published from various sources differ, they do not tally total in many places is not equal. However in this research, reports of Nabil Bank Limited and Himalayan Bank Limited are taken valid source of data.
- Time and resource constraint may. Limit the area cover by study.

1.10 Scheme of the Study

The study has been organized into five chapters each devoted to some aspect of the study on “Comparative Study of Financial Position of Nabil Bank and Himalayan Bank” the titles of these chapters are as follows.

- Chapter-I : Introduction
- Chapter-II : Review of Literature
- Chapter-III : Research Methodology
- Chapter-IV : Data Presentation and Analysis
- Chapter-V : Summary, Conversion & Recommendations

The rationale behind this kind of organization is to follow a simple research methodology approach. The contents of each of the chapters of this study are briefly mentioned below.

Chapter-I: Contains the introductory part of the study. As already mentioned this chapter describes the major issues to be investigated along with the general background and objective of the study.

Chapter-II: Confines the review of literature of related studies in journals (Literature) and review of related studies in Nepal with reference to previous thesis and policies of the government.

Chapter-III: Describes the research methodology employed in the study. It includes research design, nature and sources of data, selection of entries, method of analysis, statistical and financial tools used.

Chapter-IV: Deals with the presentation and analysis of the data. It consists of analysis of relevant ratios to evaluate the financial position of both banks followed by their interpretation. The cash flow analysis; hypothesis testing of different ratios used in the study and trend analysis of different measures are calculated and interpreted. This chapter also presents the major findings of the research.

Chapter-V: Contains summary and conclusions of the study. It also offers recommendations on the basis of findings.

CHAPTER – II

REVIEW OF LITERATURE

The preceding chapter presented the background with growth of commercial banks with specific reference of Nabil Bank Limited and Himalayan Bank Limited as the financial intermediates. It also introduces about the statement of problem, objective of study, importance of study, limitation of study etc.

Review of literature means reviewing research studies or other relevant preposition in related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be conducted.

This chapter basically is dividend into two sections; the first section is conceptual review, which covers the topics such as concept of financial performance, meaning, objectives, and limitations of financial analysis. Along with this meaning, history, and functions of commercial banks, evolutions of joint venture banks and their functions are also presented. The second section is related about the books articles and the pre done thesis related to the subject matter. This chapter highlights upon the literature that have been already conducted by some thesis researchers in this particular topic of joint venture bank. Some of them, as are supposed to be relevant for this research purpose. The review of literature is arranged in the following order.

2.1 Conceptual Review

A financial analysis is identifying the major strength and weakness of business enterprises, it indicates whether a firm has enough cash to meet its obligations utilizing of resources, investing opportunity, profitability, and capital structure of organization etc. financial analysis can also be used to asses a firm's viability as

an ongoing enterprise and determine whether a satisfactory return is being earned for the risks taken.

The single ratio like absolute figures fails to reveal the financial position of a company. Therefore, they should be compared with some standard to know the favorable and unfavorable condition. Certain ratio have been developed as rules of thumb by which we can judge the firm's financial condition and operated in key areas against industry wise standard of comparison, when the firm's financial condition and operated in key areas against industry wise standard of comparison. When the firm's ratio in a key area is worse than the industry standard, we alerted to a potentially inferior financial performance. When the ratio is better than industry's standard, we are alerted to a potentially superior financial performance at least in that particular area.

2.2 Joint Venture Banks in Nepal

2.2.1 Introduction

Joint venture is a general model for direct foreign direct investment. Joint venture is a mode of trading through the partnership among nations and also a form negotiation between the various groups of industrialists, traders and mercantile to achieve mutual exchange of goods and services for sharing comparative advantage in either contribution, Joint venture is joining the forces between two or more enterprises for the purpose of carrying out a specific operation (Gupta, G.D., 1984:15).

For the economic boost of the nation, sound competition is needed in the banking sector. With understanding the fact his majesty government of Nepal adopted the strategy to establish banking compares in joint venture with the foreign banks, importing the high foreign banking techniques in the kingdom. In Nepal, the history of the development of financial institution as compared to the other

developed and developing countries has been new experiment, prior to the introduction of modern banking in Nepal in 1937, industry, business and commerce were in a pity conditions. In order too initiate industrialization his Majesty's government of Nepal has given due emphasis for development of development of the industrial sector. The government continues to maintain its efforts to follow liberal and market oriented economic polices encouragement to private participation in infrastructure activities such as power, telecommunication and gradual privatization of public sector companies (Twelfth annual report of Nepal Arab Bank limited "NABIL Bank ltd") among various factors of industrialization, shortage of capital is an important factor that hinder the process of industrialization in less developed countries. In order to set up and develop industries, huge financial investment is required.

The positive aspect of joint venture banks, (Malla 2005:21)

- Increase in highly skilled personnel with modern banking technology.
- Efficient modern banking service.
- Commercialization of demotic technologies
- Advances management skills
- An international networks for banks branches
- Import of up dated technology
- Transfer of managerial skill

2.2.2 History of Joint Venture Banks

Before the establishment of joint venture bank, there were few banks operating in Nepal after the establishment of Nepal bank ltd. In 1937 A.D., Nepal have initiated Nepal Rastra Bank (Central Bank) in 195, Nepal industrial development center (NIDC) in 1957, Employees provident fund in 1963, Rastriya Banijya Bank (Commercial Bank) in 1964, agriculture development bank in 1968, Nepal

national insurance corporation act in 1968 and Small Industries Development Corporation (SIDC) in 1971.

In quest of financial institution as joint venture bank limited Nabil bank limited was first joint venture bank in country. The bank was established in 1984 and operated on July 2, 1989 sharing 50% from Dubai bank Limited was registered in united Arab Emirate, sharing by 20% from financial institution of Nepal and sharing by 30% from general public. It has 100 million authorized capital, 50 million rupees issued capital and paid up capital has 30m million rupees.

Similarly, the second bank established in joint investment was the Nepal Indosuez bank limited. It was established in 2042 (1985). But now its name is Nepal investment bank limited. It has played a great role in the development of banking system. It has also opened its branch offices. At present there is no foreign investment in it. The Nepalese shareholders won all shares.

Third joint venture bank in Nepal is standard chartered bank Nepal limited. The bank was originally established as a joint venture of Grindlays bank and Nepal bank limited in 2043 (1986) with the shareholding ratio of ANZ Grindlays Bank Limited 50% Nepal bank Limited 33.34% and general public 16.66% along with the change of ownership to standard chartered, the banking area of standard chartered bank Nepal limited saw the rise of a new dawn changing the Grindlays public image of bank. With this acquisition, standard chartered bank now owns 50% shares of Nepal Grindlays Bank previously owned by ANZ Grindlays.

Fourth JVB is Himalayan bank limited (HBL) established in 1992. It was established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking service to the country and the people. It has been financed by founder's shareholders (A class)

sharing 51%, 20% by Habib bank of Pakistan, 14% by Karmachari Sanchaya Kosh and 15% by public. The bank has Rs.120 million authorized and Rs.60 million-issued capital. It is the first joint venture bank having domestic ownership more than 50 percent.

Fifth JVB established in 1993 is Nepal SBI bank limited (NSIBIBL), which is the first Nepal India joint venture in the financial sector. Three institutional promoters, namely, state bank of India, Karmachari Sanchaya Kosh and agricultural development bank of Nepal, sponsor the bank. The main objectives of Nepal SBI Bank limited (NSBIBL) are to play an important role in facilitating aggrading indo Nepal trade, to provide a whole range of banking service of international standard and to effectively participate in the process of economic development of Nepal

Nepal Bangladesh bank limited a sixth joint venture bank in Nepal, started its operation on June 6, 1994 the bank established with the joint collaboration of international finance investment & commerce Bank Ltd (IFIC) of Bangladesh has Rs.240 million authorized and Rs.60 million paid up capitals.

Everest bank limited, a Joint venture private sector bank commenced its operation from October 18, 1994. of paid up capital Rs.60 million of the banks, 50 percent share is held by the promoters, 20 percent share by Panjab National Bank of Indian and the rest 30 percent share by the general public.

Bank of Kathmandu Limited began its operation since March 12, 1995. The bank established with the joint collaboration of SIAM commerce bank PCL, Thailand has paid up capital Rs.90 million of this paid up of 45 percent share is held by Nepalese promoters, 30 percent by collaborating bank and rest 25 percent by the general public.

Nepal bank of Ceylon, a ninth joint century bank commenced its operation from October 14, 1996. The bank established with the joint collaboration of bank of Ceylon and the rest 55 percent by general public. Srilalankan investors have sold their shares to the NB group of Nepal and its name has been changed to Nepal credit and commercial bank limited. This bank is operating its function in great speed.

In addition this there are also other commercial banks opened in Nepal. These banks are as follows.

1. Nepal industrial and commercial bank limited Biratanager
2. Lumbini bank limited, Narayanghat
3. Kumari Bank Limited Kathmandu
4. Machhapurchhare Bank Limited, Pokhara
5. Laxmi Bank limited, Pokhara
6. Shiddhartha Bank Limited, Kathmandu
7. Everest Bank Limited
8. Nepal Credit & Commerce bank, Bhairahawa

Joint Venture bank sin Nepal has achieved success in terms of market share and profitability due to third strengths on service and professionalism. The banking sector flourishing in Nepal has multiplied competition with the addition of new banks and finance companies.

2.2.3 Role of Joint Venture Banks in Nepal

Introduction of JVB in Nepal has change the scenario of banking sector in Nepal. The joint venture banks have invited a new era of banking in this one of the least developed country by introduction of high and efficient methods in the banking sectors. The banking facilities are access to only few finger counted people in the country. This sector basically helps to promote other infrastructure of the country,

on which the base of the development of can be set other areas of expertise are forward cover for foreign exchange transaction by importers and exporter, merchant banking inter-banking market for money and securities, arranging foreign currency loans etc.

Joint venture banks are important for the economic development to necessity experiences short of such institutions, which can serve such problems. The role of joint venture banks can be presented as follows,

a) Creation of Competitive Environment

Clients are beneficial either by higher rate of interest in their deposition or by lower rate of interest on credit. It is possible only under competitive environment. After the arrival of VJB, old banks are also been competitive. Fair competition among banks not only beneficial for bank themselves and economy too. Fair personnel management efficient financial performance, quality services and research-oriented development is possible only in the competitive environment

b) Introducing new method and Technology in Banking Service

Modern managerial principles and practices in banking sector have been introducing by joint venture banks in Nepal. New banking techniques such as hypothecation and syndication are also introduces under NRB guidance. Various techniques follow by international banks in deposition, lending exchange and they have been introducing by these banks in Nepal.

After the establishment of these banks, other new and old banks began to computerize the banking system. Some new banks have adopted new techniques such as tele-banking, credit, debit card system, twenty-four hour services, and ATM service. Now these banks are seeking to follow some developing techniques in international banking sectors.

c) Providing more resource for Investment

The joint venture banks have played a significant in canalizing the additional resources for investment for the development of the country. Although it is argued by many that resources raised to locally in the prevailing market those resources would have been mobilized by nay other domestic institution, it is assumed that the JBVS have mobilized net additional resources if they tap so far untapped resources in the local market.

d) Information to Foreign Investors

The role of joint venture banks is significant for the collection of fund for mega projects. The various type of publications to be acquainting with Nepalese rules, regulations and practices of concerned sector. Before the establishment of JVBs, some large projects should be established through tow or three local banks but mega project could not be established.

Because of the political instability, offer the restoration of multiparty democracy also the foreign investigation of JVBs have been playing a vital role to introduce the Nepalese financial rules, regulation, policies and practices to the foreign investors.

e) Contribution to National Economy

Join venture banks, comparatively are adopting new banking systems. They are already established in financial, garments, agricultural and housing needs and playing a significant role to contribute in national economy from own sector.

Thus, through such banks managerial and banking techniques, new ideas and philosophy, foreign investment and capital, healthy, competitive atmosphere and diversified market concepts transfer to other companies.

But here is remarkable point that joint investments should be directed by economic need and not by political interest. Financial & legal rules, regulations and practices should be clear and convenient to foreign investors.

2.3 Financial Statement

Financial statements are annual report prepared by the organization. They are prepared for period review on the progress made and results achieved during the period under review. They generally refer the income statements, profit and loss account and statements of affairs I.E. balance sheet, drawn at the end of each financial year. Financial statements provides the information pertaining,

-) The adequacy of earning to be able to attract potential investors,
-) The profitability of the firm, company or institution,
-) Liquidity position of the firm, company or institution,

Financial statements are prepared from the accounting records maintained by the firm. The generally accepted accounting principles and procedures are followed to prepare these statements. The basic objectives of financial statement are to assist in decision-making process.

The definition of financial statements by American institute of public accounts will be worthwhile to quote here: “financial statements are prepared for the purpose presenting a periodical review or report on the progress by the management. They deal with the status of investment in the business as also with the results achieved during the period. They reflect a combination of recorded facts, accounting conventions and personal judgments. And the judgments and conventions applied affect them materially. The soundness of the Judgment necessarily depends upon their competence and integrity of those makes them and on their adherence to generally accepted accounting principle and conventions”.

The definition presented above briefly explains the key contain and important feathers of the financial statements.

2.3.1 Financial Statements Analysis

Financial statement analysis involves a comparison of a firm's performance with that of other firms in the same line or business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strength and weakness and to suggest actions that might enable the firm to take advantage of its strengths and correct its weaknesses. Business enterprises communicate financial information to the users through financial statements and reports. The financial statements contain systematically organized summarized information of the enterprise's financial information. However, the information provided in financial statements doesn't say anything itself. It needs to be analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing relationship between the items of financial statements.

Financial statements analysis is important not only for the firm's managers but also for the firm's investors and creditors. Internally, financial managers use the information provided by financial analysis to help make financing and investment decisions to maximize the firm's value. Externally, stockholders and creditors use financial statements analysis to evaluate the attractiveness or the firm as an investment by examining its ability to meet its current and expected financial obligations. As investors and financial analysis examine the firm's performance in order to make investment decisions based on these statements, they should be carefully prepared and should be as much informative as possible.

“Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and a

study of the trend of these factors as shown in a series of statements”(Mayer, J.N., 1961:4).

Pradhan Surendra urged “Financial Analysis is to Analyze the Achieved Statements to see if the result meet the objective of the firm to identify problems if any, in the past or presents and of likely to be in the future, and to provide recommendations to solve the problems” (Pradhan, 2000:120).

According to Hampton “Financial analysis is used primarily to gain insight in to operating and financial problems conforming the firms, with respect to theses problems we must be careful to distinguish between the cause of problems and symptom of it.” It is thus an attempt to direct the financial statements in to their components on the basis of purpose in hand and establish relationship says between these components on the one hand as between individual components and total of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization.

Jain Says “Mush-can is learnt about business performance and financial position through an appraisal of financial statement. The appraisal or analysis of financial statements spotlights and significant facts and relationship concerning managerial performance corporate efficient, financial strength and weakness and worthiness, that would have otherwise been buries in a maze of details.

2.3.2 Importance of Financial Analysis

The importance of analysis of financial statement can be generally outlined as below:

-) Financial statement analysis measures the firm’s liquidity and solvency position.

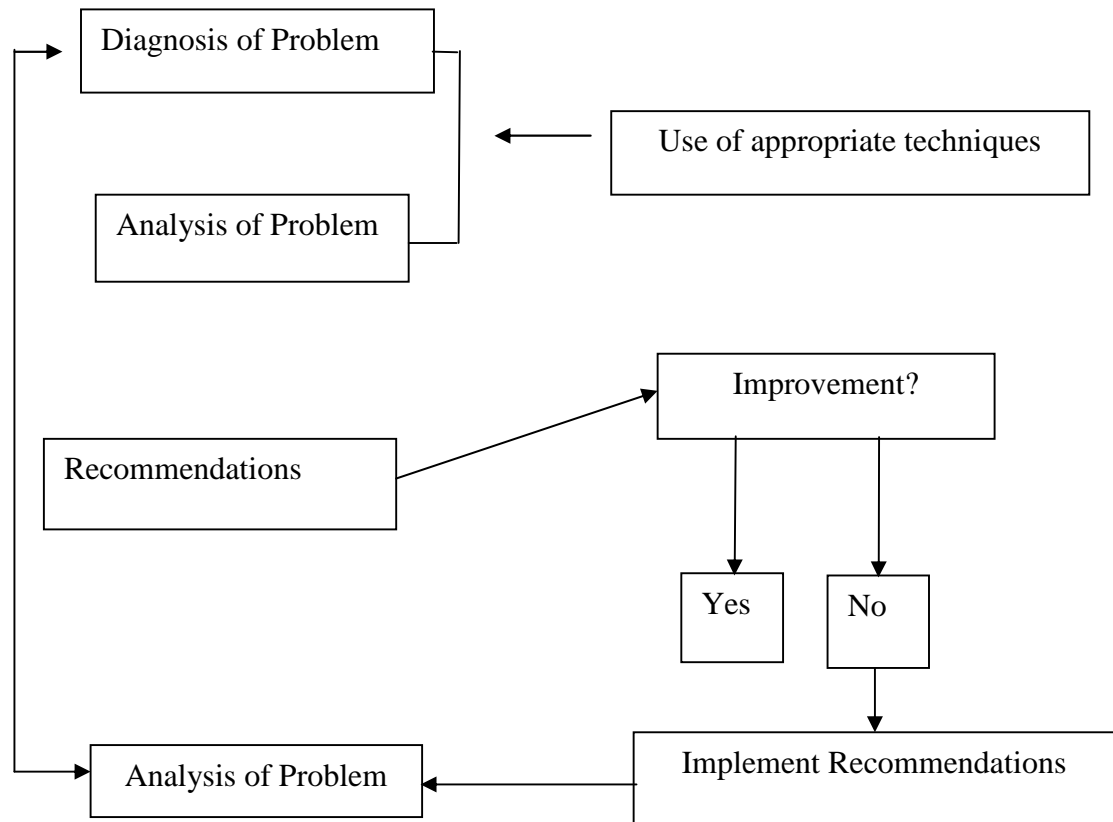
-) Financial statement analysis illustrates the profitability position of the firm.
-) Financial analysis provides sufficient information to the management in order to organize objectives device plans, formulate policies and implement them effectively.
-) Financial statement analysis furnishes necessary information to fulfill the needs of current as well as potential investors and regulatory authorities.
-) Financial statement analysis shows the true and fair picture of the firm.

2.3.3 Process of Financial Analysis

Financial analysis is the technique to answering the question about the performance of financial institutions. It answers the questions on the basis of the analysis carried out on historical data and the future prospective performance of the firm. This analysis is useful to all the stakeholders of the firm to know about the performance of the firm and to take corrective actions if any fault is found.

Financial analysis answers the problem in a systematic pattern. First the problem is to be found out before answering the problem. For this analysis of financial statements are to be carried out to diagnose the problem using appropriate tools and techniques. In the second step the identified problem is analyzed and a way is looked for the correction of the problem. Appropriate recommendations are made and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart clarifies the financial analysis process.

Chart 2.1
Process of the Analysis of financial Statement



2.4 Review of Books

Various books are written in joint venture bank and here the researcher will be reviewing few of them:

Sayers (1967) in his book ‘modern banking’ focuses in the economic importance of commercial banks and their function of creation of money according to him the special interest of economists in the bank because by their operations they can effect the monetary situation in sense of the availability of the purchasing power. When a bank makes an advance by allowing customers to overdraw his accounts the banks in effect exchanges its own promise to pay off the immediately against the customer’s promise to pay off the advance later on the economics importance

of this exchange is that the bank's promise to pay immediately is absolutely effective purchasing power, when play's and instrumental role in increasing the total demand of the goods and services. Here people use banks for the purpose of making payments and as sources of loans; the latter involves society's interest in the distribution between different uses of the resources that can be debited to adding to the real capital of nature"

The book was written by Bhuman/Sharita (2056) in their 'A hand of banking highlight in function of credit creation, accepting various types of deposits and advancing loan in different field. According to the authors, the various marketing concept by bank, commercial-oriented concept of commercial banks following Nepal Rastra Bank directives.

2.5 Review of Unpublished Thesis

Various studies have been conducted on the financial performance of commercial bank of Nepal. Many of them are concentrated to Nepalese commercial banks and few are focused on joint venture banks especially comparative studies. In this chapter different previous studies have been reviewed so that the chances of duplication will be avoided from the present study and some newness can be created in this field of study.

Acharya Gynandries (1997) in his study, "A comparative study of financial of joint venture banks in Nepal specially on Nepal Arab Bank limited and Indosuez Bank limited" concludes that the liquidity position of both banks is below the normal standard of 2:1 comparative this ratio of Indosuez Bank Limited is better on average than Nepal Arab Bank. He found that both banks are to be efficient in utilizing most of their total assets. Capital structure of both banks is highly leverages. Capital adequacy ratio of Indosuez banks is better than Nabil Bank.

Profitability ratio of both banks is nor satisfactory level. He suggested that both should improve their finance their financial performance.

Joshi Keshav Raj (1989) in his thesis entitled “A study of financial performance of commercial banks” found satisfactory liquidity position of commercial banks high leverage in compares to joint venture banks high. He found that they were adopting conservative credit policy so they were interesting much in loans and advance that form the main Joshi, “A study of financial performance of commercial banks”.

K.C. Pramesh (1989) in his thesis entitled “Dividend policy of Joint Venture banks in Nepal” Concludes that joint venture bank in Nepal are growing banks being actual capitalization rate amount of cash dividend has been raising each year. Their market values per share were significantly fluctuated and trading on high price. They are less risky. Retained earning ratio of these banks is fluctuated in smaller proportion. The earning per share of Nabil Bank Limited and indorses Bank limited were raised satisfactorily. Price earning ratio and earning yield ratio is inconsistent, these join venture banks are declaring higher dividend return on paid up capital.

Joshi Deepak (1995) in his thesis entitled “A Study on Commercial Banks of Nepal with special reference to financial analysis of RBB” by Joshi Deepak concludes that liquidity position of the banks has maintained low liquidity than required. Gradual increase in the amount of the funded debt and highly geared capital structure seem to be negative performance for bank. Moreover, return on assets is not satisfactory. The research suggests that the banks should invest its resources in more productive sectors and equity financing should be emphasized.

Bohara Bhoj Raj (1992) in his thesis entitled “A Comparative Study of Financial Performance of Nabil Bank Limited and Indosuez Bank Limited” has define that the aim of study I is to highlight on the functions and policies of joint venture banks and to evaluate the comparative financial performance of Indosuez Bank Limited and Nabil bank limited in terms of liquidity, activities and profitability of among with other various indicator including some suggestive frame work with regard to the finding to the study Nabil is better in case of liquidity, regarding the turnover and capital adequacy position. Nabil Bank is more aggressive liquidity, investment and borrowing policy to generate profit out of the all others indicators (D\ P and P\ E Ratios, MVPS, EPS, cash dividend per share TPS) except EPS, indicate the better performance of Indosuez Bank than that of Nabil Bank.

Ghimirre Lake Nath (1997) performed a research in entitles “a comparative study of financial performance of Himalayan Bank Limited and Nepal SBI Bank Limited” with the objective of analyzing and interpreting the financial performance. The major uncovers facts of this research was that the allover liquidity, earning and growth position of Himalayan Bank limited was stranger than Nepal SBI Bank Limiter’s capital adequacy, quality of assets as well as turnover position was found to be superior to that Himalayan Bank Limited. Himalayan Bank limited was more efficient in creating credit in comparison to Nepal SBI Bank Limited was more efficient in creating credit in comparison to Nepal SBI Bank Limited, correction analysis revealed the facts that Nepal SBI Bank limited was able to utilize its resources more efficiently and profitably, income and operating expenses were in increasing trend and were dominated by interest incase of both the banks.

Lamsal Rajendra () has conducted a study entitled “A Comparative financial Statement Analysis of Himalayan Bank limited and Nepal Grind lay’s bank limited”. In his study he concluded that the liquidity position of HBL is better than

that of NGBL HBL has sufficient cash and bank balance to meet its current and fixed deposited. From the analysis of utilization of ratio of these tow banks; it is found that HBL has better turnover than NGBL in term of loan and advance to total deposit ratio. But in terms of investment to the total deposit ratio, NGBL is better than that of HBL, which exhibits the NGBL's ability to pay higher dividend per share to its investor's as compared to HBL

Dhugana Pramod () has conducted another study to analyze the profits trend of Nabil Bank limited (Renamed Standard Chartered Bank Nepal Limited) since their establishment from 1991 A.D. the study revealed that profitability ratio of all the joint venture bank limited have been satisfactory over the study period exhibiting their better efficiency in utilizing their deposits. However, they have been unable to mobilize savings from different parts of country. Profit as indicated in their financial statements is an en flatted one, fluctuation the foreign currency being the main reason. He recommended that joint venture bank are earning more profit from non operational sources so these banks try to earn profit from operational sources by increasing their operational efficient. He has concentrated only the profitability aspects of joint venture banks so he has calculated profit related ratios and analyzed on the basis of these ratios.

Panday Bhishnu Dev (1997) in his thesis entitled, "A study of financial analysis on Nepal Grindlays Bank Limited" has conducted and analysis the financial position of Himalayan bank limited in the study, Mr. Pandya has tried to examine the growth of sampled bank. In his not satisfactory Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advances appeared satisfactory. Trend of deposit collection shows that the banks were in a higher risk with respect to saving deposits against the fixed deposits.

Shakya Sangita (1997) in her thesis entitled, “A comparative analysis of financial performance of selected joint venture banks, a study of Himalayan Bank Limited and Nepal Grindlays Bank Limited” with the view of being familiar with comparative strength and weakness and their ability through the analysis of liquidity ratios. The major findings drawn from the study are Himalayan Bank Limited is more efficient in the case of liquidity as well as it is more levered than Nepal Grindlays Bank Limited where as, Himalayan Bank is in better condition from the aspects of capital adequacy, activity, and profitability ratios. Study showed positive correlation between loans and advances to total debts of both banks according to trend analysis, profit before tax of Nepal Grindlays Bank limited has been increasing at the higher rate than that Himalayan Bank.

2.6 Review of Articles

Chopra Sunil (Baisakh, 2049) in his article “Rile of foreign banks in Nepal” published in Nepal Rastra bank samachara, undoubted that the the joint venture banks are playing an increasing dynamic and vital role in the economic development of country. That wills undoubtedly increase with time (Nepal Rastra Bank Samachar).

Another study conducted by Shrestha Dr. Manohar Krishna (2047) in his article “Commercial banks comparative performance evaluation” clarify that joint venture banks in Nepal are new and comparative Ely more efficient in operation and having superior performance amongst local banks. Due to theirs new and qualify technology, modern banking and skill, joint venture banks are performing better comparison to local banks. Their better performance is also due to the burden of local banks, which are facing the burden of government’s branching policy in rural areas and financing public enterprises and priority sector. Local banks are efficient and expertise in rural sector. However, having number of deficiencies, they have to face growing constrains of socio-economic political

system on hand spectrum that of issue and challenges of joint venture banks commanding significant banking in other hard spectrum (Karmachari Sanchaya Kosh, Katmandu).

Shrestha R.L (2046) in his article “Capital Adequacy of Bank, the Nepalese Context” has suggested the banks that deal in highly risky transactions to maintain strong capital base. He concluded that the capital base should neither be too much leading to efficient allocation of scarce resources nor so weak to expose to extreme risk. The study accepts that the operations of banks and the degree of risk associated with them are subject to changes country wish, bank wish and time period wise (NBR samachar, 34th anniversary 2046).

2.7 Research Gap

Prior to this, several thesis works have been conducted by various researchers regarding different aspects of commercial banks like financial performance, capital structure, investment policy, interest rate structure, and resources mobilization. The excerpts from the findings of some of these research works are presented which are relevant for this study:

Pradhan (1980) conducted a study on investment policy of Nepal Bank Ltd. The objective to that study was to evaluate the lending policy and to find out the ways to encourage the bank lending. This study has covered only five fiscal years BS 2028/29 through BS 2033/34. He used Karl Pearson's coefficient of correlation, ratio analysis and percentage analysis. He concluded with the positive relationship between deposits and loans and advances. But the same was not in a proportionate manner, greater increase in deposits led to little increase in the loans and advances. Increase in the interest rate was the main factor for the decrease in loan demand. The bank had investment only 3 percent of its total investment in the priority sector, which was lower than the percentage (7 percent) imposed by NRB.

K.C. (1991) has done a study on dividend policy of joint venture banks in Nepal. The objective of this study was to provide conceptual framework of dividend models and to analyse the financial variables affecting the stock value and interpret the implication of paying dividend in dividend valuation models. The study has covered the time span of FYs 1984/85 through 1989/90. In this study, various financial ratios have been analyzed with the help of two types of analytical tools -investment and statistical tools. Investment tools consist of dividend payout ratio, earning per share, return on paid-up capital, retention ratio and dividend valuation model. In addition to the coefficient of correlation, the researcher has used financial tools in this study. The researcher concluded that earning per share of all three joint ventures banks (Nepal Arab Bank Ltd., Nepal Indosuez Bank Ltd. and Nepal Grindlays Bank Ltd.) were satisfactory and actual capitalization rate was higher than the normal capitalization rate.

Bohara (1992) has done a study on financial performance of Nepal Arab Bank Ltd. (NABIL) and Nepal Indosuez Bank Ltd. (NIBL) The basic objectives of this study were to highlight on the functions and policies of joint ventures banks and to evaluate the comparative financial performance of NABIL and NIBL. The study has covered the five fiscal years 1986/87 through 1990/91. In this study financial tools along with statistical tools have been used. Different ratios- liquidity, activity, coverage, leverage, profitability and other indicators like earning per share, dividend per share, market value to book value ratio, have been used to evaluate the performance of NABIL and NIBL. In statistical tool the least square method has been employed. The researcher has, on the basis of different financial indicators, concluded that performance of NABIL is better than that of NIBL. The researcher further concluded that bank performance can not be judged solely in term of profit as it may have earned profit by maintaining adequate liquidity and safety position. The researcher has recommended to NIBL to extend their banking

facilities even in the rural areas by opening up branches besides the improvement in maintaining the adequate capital structure by increasing equity base.

Joshi (1993) conducted a study on commercial banks of Nepal with reference to financial analysis of Rastriya Banijya Bank. The objective of this study was to provide conceptual framework of commercial banks, and to analyze and interpret these financial variables of Rastriya Banijya Bank (RBB) on qualitative and quantitative performance basis. The study was based on the financial data of FYs 2042 B.S. through 2046 B.S. Researcher has used various financial ratios like-current liquidity, funded debt to total capitalization, and funded debt to equity in this study. The researcher had drawn the conclusion that performance of RBB was not satisfactory during the study period. Further, the researcher concluded that bank had not been managed in true professional approach but had managed in bureaucratic approach to sustain with political environment rather than commercial environment.

Shakya (1995) performs a study on financial analysis of joint venture banks in Nepal. The objective of this study was to carry out the comparative financial performance evaluation of Nepal Arab Bank Ltd. (Nabil) and Nepal Grindlays Bank Ltd. (NGBL). This study has covered the time span of FYs 1988/89 through 1993/94. In this study, he has financial ratios viz. liquidity, leverage, activity, profitability, growth and valuation, and statistical tools viz. Karl Pearson's correlation coefficient, student t-test, simple average, and index. The researcher has found that in spite of the increase in loans and deposits of both banks, their performance measured in terms of deposit utilization rate is not satisfactory. Further, the study showed that financial performance of Nabil is better than that of NGBL.

Thapa (2001) has conducted her study "A comparative Study on Investment Policy of Nepal Bangladesh Bank Ltd. and other joint ventures banks." The researcher's main objective of study was to evaluate the liquidity, assets management efficiency, profitability and risk position of NBBL in comparison Nabil and NGBL and to examine the fund mobilization and investment policy of NBBL through off-balance sheet and on-balance sheet activities in comparison to other two banks. Through research the researcher found that the liquidity position of NBBL is comparatively not better than of Nabil and NGBL. The liquidity ratios are moderately fluctuating which means the bank has not properly formulated stable policy. As per the study, NBBL is not in better position regarding its on-balance sheet as well as off-balance sheet activities in compare to Nabil and NGBL and it does not seem to follow any definite policy regarding the management of its assets. The researcher at the last suggested following a specific policy in investment and she further recommended to maintain the optimum level of relationship among deposit and loan and advances, outside assets and net profit and to maintain the adequate recovery rate.

Likewise, Deoja (2001) conducted study entitled "A Comparative Study of the Financial Performance between Nepal State Bank of India Limited and Nepal Bangladesh Bank Limited." The researcher's main objective of study was to evaluate the trend of deposits and loan and advances of NSBIL and NBBL and to evaluate the liquidity, profitability, capital structure, turnover and capital adequacy position of NSBIL and NBBL. Through research found that the cash and bank balance to current assets, saving deposit to total deposit etc. of NABIL are higher while fixed deposit to total deposits, loans and advances to current assets of NBBL are higher and NBBL has better turnover than NSBIL in terms of loan and advances to total deposits ratio and loan and advances to fixed deposit ratio. Through the study of the different ratios has concluded that both banks are highly leveraged.

Sharma (2005) in his paper on Capital Structure of Selected Commercial Banks of Nepal concludes with following key points:

-) Paid up Capital of Nepalese Commercial Banks is increasing indicating banks maintain the capital standards set by NRB
-) Total equity capital is growing as compared to total debt.
-) The fluctuating interest coverage ratio of the Nepalese Commercial Banks indicates the earnings stream and interest expenses are inconsistent over the period of past five years. The debt servicing capacity of the Nepalese Banks is not highly satisfactory but it is sufficient to meet the interest expenses in all years and is continuously improving.
-) The capital adequacy ratios of the banks are adequate against set norms of NRB indicating sound financial health and sufficient to meet on banking operation.
-) The total capital fund and capital adequacy ratios are fluctuating which indicate fluctuating risk adjusted assets of the banks.
-) Core Capital and supplementary capital ratios are in line with the NRB norms.

Bhandari (2006) used descriptive analysis in his research work of evaluating financial performance of Himalayan Bank in the framework of CAMEL during 1999 to year 2004 A.D. The analysis revealed adequate Capital of the bank. The non-performing loan though in decreasing trend is still a matter of concern. The bank is still with better ROE however it is in decreasing trend. The decreasing trend of net interest margin shows management slack monitoring over the bank's earning assets. The liquid funds to total deposit ratio is above the industrial average ratio. NRB balance and cash in vault to total deposit ratios are below the industrial average ratio during the study period.

Various studies have been conducted in the past on financial analysis of commercial banks in the US and other regions were found done. The research paper done in the context of Nepal mainly emphasized on liquidity, profitability and leverage of the commercial banks. These studies lack micro-level analyses and found applying traditional analysis of financial performance. In the context of Nepalese banking environment, there are few academic researches found conducted in the frame work.

However these researches lack analysis of the 6th component i.e. Sensitivity of Market Risk. This study attempts to evaluate financial performance of Himalayan Bank Ltd and NABIL Bank Ltd. on all the six components of the framework. There are certain gap between the present research and the previous research conducted. There are the researches which had been done through general comparison. This study attempts to evaluate financial performance of Himalayan Bank and NABIL Bank Ltd. On the all six components as the framework. This research also includes the research report of all leading commercial bank of Nepal done by New Business Age monthly magazine.

CHAPTER - III

RESEARCH METHODOLOGY

The research methodology is systematic way of solving research problem. Research methodology refers to the overall research process, which a researcher conducts during their study. Research can be conducted on the basis of primary and secondary data. Here in the study all the data and observed data are analyzed with using appropriate financial and statistical tools.

In this research, the research design, source of data collection, population and sample and method of data analysis are serially described.

3.1 Research Design

“A research design is the arrangement of conditions for collection analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. It is also said that research design is the plan structure and strategy of investigations conceived so as to obtain answer of research question and control variance. In order to make any types of research a well set of research design of this study is descriptive as well as analytical. This research design is an examination of evaluation of efficiency of bank for providing services and finding strength and weakness of Nabil bank limited. This study is closely related with the various functional and accounting statements as well actual result of these banks. This study covers the five year 1999/2000 to 2003/2004.

3.2 Source of Data Collection

This study heavily depends upon secondary sources of data. The main sources of data are annual reports of related banks, Nepal Rastra Bank and Nepal stock limited (NEPSE) database. Along with different websites are frequently visited for the purpose of data collection. The data and information are used for ratio analysis. All these data were collected personally.

3.3 Population and Sample

This thesis entitled “Comparative Study of Financial performance Nabil bank and Himalayan bank”. Therefore, all the commercial banks operating in Nepal have been considered as a population and two banks, Nabil Bank Limited and Himalayan Bank Limited have been considered as a sample. A list of population banks are presented in the table below,

**List of Licensed Commercial Banks
Mid- July 2008**

S. No.	Names	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Baniya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	1993/06/05	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar,Rupendehi
13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biaratnagar,Morang
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski
16	Kumari Bank Limited	2001/04/03	Kathmandu
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Development and Credit Bank	2008	Kathmandu
25	NMB Bank	2008	Kathmandu

Source: Banking and Financial Statistics, NRB, No. 43

Name of Sample joint Venture Banks

-) Nabil Bank Ltd
-) Himalayan Bank Ltd

3.4 Method of Data Analysis

“The term data analysis refers to the computation of certain measures along with searching for pattern of relationship that exist among data group. Thus in the process of analysis, relationship of different supporting or conflicting with original or new hypothesis and should be subjected to statistical to determine with what validity can be said to indicate any conclusion”(Kothari 200 p.51).

The first step of data analysis was the processing of the data in which classification and tabulation of data are carried out. Classification and tabulation of data has prepared for further analysis. Analysis means computation of certain indicator or measures along with searching for patterns of relationship that exist among the data group. Analysis may be categorized as descriptive analysis and inferential analysis. To achieve the predetermined. The tools are categorized as;

1. Financial Tools
2. Statistical Tools

3.4.1 Financial Tools

Out of various tools, following ratios have been used in this study.

Performance Measures

Profitability Ratio

Profit earning is the main objective of the bank. It must earn sufficient income to meet its running cost, to make payment of interest in deposits and to yield reasonable return for the owners. Profitability should be distinguished from profits. Profit returns to the absolute quantum of profit where as profitability refers to the ability to earn profits. Profitability is a measure of efficiency and control.

It is the relative measure of earning capacity.

- a) Interest Earned to Total Assets Ratio.
- b) Return on Total Deposits
- c) Return on total Assets
- d) Interest Earned to total assets ratio
- e) Return on Net Worth
- f) Return on total deposit ratio

Growth Ratio

Growth ratio measures the economic status of the firm with respect to the industry it involved. It signifies the economic position of the form. It is calculated by dividing the last period figure by the first period figure that provides a compound sum point method. The growth rules of following measures are will be calculated.

- 1) Operating Profit
- 2) Net Profit after tax
- 3) EPS
- 4) DPS
- 5) BVPS
- 6) MPS

▪ **Valuation and Measures**

Valuation ratios are the most comprehensive measures of performance for the firm is that they reflect the combined influence of return and risk ratio (Weston. Fred and Copeland Thomas E, p. 197). Naturally, the decision that management makes in the day to day operations from an operational perspective, these ratio evaluate the company largely in terms of market vales. Out of these, the most important ones are as follows.

- 1) P/E Ratio
- 2) Market to Book value Ratio
- 3) Dividend Yield

) Operating Efficiency Measures

Operating efficiency is the key for the success of the firm. The vital factor for the superb performance of a firm is operating efficiency. This measure has been used here to check how well the management of bank is doing for the success of the bank. This measure involves the following ratios,

Activity Ratio

Activity ratios are concerned to the ability of banks to convert its deposits into loans advances. It measures how the bank is utilizing its collected resources. They indicated the speed with which assets are being conversed or turned over. Greater rate of turnover signifies efficient utilization and management of assets and therefore, proper balance on sales and assets is very to any firm. To examine the investment and deposit pattern of theses banks, the following ratio are calculated,

- 1) Loan Advances to Total Deposit Ratio
- 2) Loan Advances to fixed Deposit Ratio
- 3) Loan and Advanced Saving Deposit Ratio
- 4) Performing Assets to Total Assets Ratio
- 5) Performing Assets To Total Debt Ratio
- 6) Non- Performing Assets to Total Assets Ratio
- 7) Investment to Total Deposits Ratio

Cost Effectiveness Measures

Firm incurs several costs in the course of operation. These costs are basically the determinant of the profitability of the firm. So the management should always focus their critical eyes upon the cost of the firm. This measure tries to examine the cost pattern and their ratio with different respect. Under this headings following ratios are analyzed,

- 1) Personal Expenses to Total Income Ratio
- 2) Other General Expenses to Total Operating Income Ratio

) **Financial Policy Measures**

Financial policy refers to the policy adapted by a firm regarding its overall aspects of the financial need. The comparative financial strength and weakness of any firm is evaluated by financial policy measures. Financial policy guidelines the firm in marking the decision related to capital structure, liquidity position and fund procurement. These measures have been applied here to measure the comparative performance of the sampled banks with the regard to strategic decision as well as to investment management and cost management for the study two types of financial policy have been considered. They are,

) **Leverage or, Capital Structure Ratio**

Structure refers to the composition of debts and equity in the capital structure. Debts and equity are the long term obligations of the bank and others liabilities that appears in the liability and of balance sheet are termed as short term obligations. This ratio is used to measure what types of proportion of debt to equity the bank in its capital structure had used. The different mix of debt and equity can be maintained in capital structure but an optimum is one that minimizes the financial risk of bank as well as overall cost of funds and maximizes the wealth of shareholders as well as the stock price in the market.

- a. Total debt to equity ratio
- b. Leverage Factor Ratio
- c. Capital Adequacy Ratio
- d. Coverage Ratio

Liquidity Ratio

Liquidity refers to the ability of the bank to pay the short term liabilities and drawings demanded by the depositors in time. The lack of proper liquidity management would lose the confidence of the investors. Excess liquidity implies the inefficiency in utilizing the collected fund, which ultimately reduces the profitability of the bank. One of the first concerns of most financial analyst is liquidity; will the bank be able to meet its short term maturing obligations.

A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. A very high degree of liquidity is also bad as idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity. (Pandey, I.M., 2000:114). Thus, it indicates the bank's ability to pay its current liabilities i.e. day to day financial obligation. Following ratios have been calculated with respect to liquidity ratio.

- a) Current Ratio
- b) Cash and bank balance to deposit ratio (Cash reserve Ratio)
- c) Cash and bank balance to current assets Ratio
- d) Investment on Government securities to current assets
- e) Loan and advances to current Assets ratio.
- f) Fixed deposit to total deposit ratio.
- g) Saving deposit to total deposit ratio.

Income and Expenditure Analysis

The ratios which measure the patterns of income and expenditure of the firm are termed as income and expenditure ratios. These ratios basically measure the contribution of major income sources to the total income of the banks. Every enterprise is established with the motive of profit generation from efficient performance. Thus, here an attempt is made to assess the income pattern and sources of the firm which gives the insight to the concerned banks for the corrective step if any deficiency is found. The pattern of expenditure of the bank is also important and to be analyzed thoroughly. The types of expenses vary as per nature and types of business of the firm. This ratio is classified into two groups as per the nature.

1. Income Ratios

- a. Interest Income to Total Income Ratio
- b. Commission and Discount Income to Total Income Ratio
- c. Foreign Exchange Income to Total Income Ratio

- d. Dividend Income to Total Income Ratio
- e. Other Income to Total Income Ratio

2. Expenditure Ratios

- a. Interest expenses to total expenses ratio
- b. Staff expenses to total expenses ratio
- c. General expenses to total expenses ratio
- d. Bonus facility to total expenses ratio

▪ **Cash Flow Analysis**

Cash flow is a statement setting out the flow of cash under heads of sources of funds and their utilization to deterring the requirements of cash during the given period and to prepare for its adequate provision. Since cash is the basis for carrying on operations, the cash flow statements prepared on an estimated basis for next accounting period will enable the management to plan and coordinate the financial operations properly. The management will know how much funds are needed; as to how much can be generated internally; and for how much it should arrange from outside.

3.4.2 Statistical Tools

Various statistical tools can be used in research in order to draw the reliable conclusion according to the financial data available to researcher. For this purpose the researcher in this studies uses following statistical tools:

) **Arithmetic Mean**

Arithmetic mean of a given set of observations is their sum divided by number of observations, in general $x_1, x_2, x_3 \dots \dots \dots x_n$ the given n observations then their arithmetic's, mean usually denoted by \bar{x} is given by

$$\text{Mean } (\bar{x}) = \frac{\sum x}{N}$$

Where,

Σx = Sum of Observations

N = No. of Observations

) **Standard Deviation ()**

Standard deviation is absolute measure of dispersion of the arithmetic mean. Standard deviation is usually denoted by small sigma (σ). It is defined as positive square root of the arithmetic mean of the square of the deviation taken from their arithmetic mean.

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

) **Co-efficient of Variation (C.V.)**

C.V. is the qualitative measure of the dispersion. To compare more than two assets co-efficient of frequency variation is used. It is relative measurement of dispersion based on standard deviation. Co-efficient is given by following formula,

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

Where, σ = Standard Deviation; \bar{X} = Arithmetic Mean

It is percentage of variation mean, standard deviation being considered as the total variation in average. Smaller C.V. represents more homogeneous or uniformity of the data about the average line. While greater C. V. has been employed to compute and analyze the vitality of the data over the study period.

) **Regression Analysis**

Regression analysis is the techniques of studying how the variation in one series is related to variations in another series. Regression analysis is used to estimate the unknown variables by using the relationship between two or more

variables. Regression analysis shows how the variables are related. In short, regression is the estimation of unknown values or prediction of one variable from known values of other variables.

A line fit to a set of data points to estimate the relationship between two variables is called a regression line. And the lines are expressed algebraically by means of an equation called a regression equation. The equation of a regression line where the dependent variable Y is determined by the independent variable X is

$$Y = a + bx \dots \dots \dots (1)$$

Where,

a = y-intercept and b = Slope of the regression line

In order to develop the trend line for the variables, first we need to find out the value of the coefficient i.e. a and b. The value of a and b are calculated by solving the following normal equations,

According to the principle of least squares, two normal equations for estimating two numerical constants a and b are given by,

$$\sum Y = \sum na + b \sum X \dots \dots \dots (2)$$

$$\sum XY = \sum aX + b \sum X^2 \dots \dots \dots (3)$$

Where

n = no. of years

▪ **Graphic Presentation**

Graphic presentation is a powerful and effective way of highlighting variables. A very common way of presenting data for two variables which have a relationship is in a figure or chart. Not all data can be presented in a figure. It works best when the data is continuous. This is a characteristic of parametric data (Wolf H. and Pant, Prem) in this regard pie charts have been used to conduct the relative study of sampled companies.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation of data collected and its analysis with focus on the CAMELS six components has been made. The major findings from the analysis are made following the presentation.

4.1 Data Presentation and Analysis

The data collected from different sources has been refined and documented in Excel tables, which are further processed to analyze and arrive at the findings on the financial conditions of Nabil Bank in terms of CAMELS framework.

4.1.1 Capital Adequacy

Capital adequacy component analysis of Nabil & HBL is made based on the regulations and standard ascertain by NRB as to maintaining minimum risk-based Core & Total Capital Standard, and maximum risk based Supplementary capital standard. The minimum risk-based capital standard which includes a definition for Risk Based Capital, a system for calculating Risk Weighted Assets (RWA) by assigning on and off balance sheet items to broad risk categories. Capital Adequacy Ratios take into account the most important financial risks-foreign exchange, credit and interest rate risks, by assigning risk weightings to the institution's assets.

4.1.1.1 Core Capital Adequacy Ratio

Core (Tier I) Capital, which is a capital of permanent nature, comprise of Paid Up, Share premium, Non Redeemable Preference Share, General Reserve, Dividend Equalization Fund, Capital Adjustment Reserve, Retained Earning and Profit & Loss accounts. Table 4.1 presents the observed Core Capital Ratio during the study period and minimum core capital standard set by NRB in the corresponding period along with variance from NRB Standard.

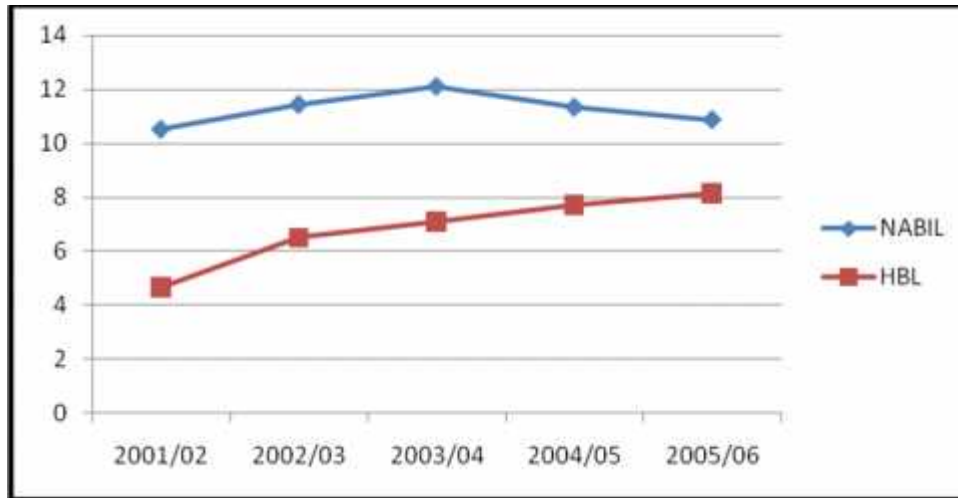
Table 4.1
Core Capital Adequacy Ratio

NABIL					
Fiscal Year	Core Capital (Million)	RWA (Million)	Core Capital To RWA %	Min. NRB Standard %*	Variance (+/-%)
2001/02	1,112	10,564	10.53	4.50	+6.03
2002/03	1,277	11,146	11.45	5.00	+6.45
2003/04	1,439	11,872	12.12	5.50	+6.62
2004/05	1,611	14,193	11.35	5.50	+5.85
2005/06	1,744	16,012	10.89	5.50	+5.39
HBL					
2001/02	699	14,957	4.67	4.50	+0.17
2002/03	835	12,746	6.50	5.00	+1.50
2003/04	1,039	14,681	7.10	5.50	+1.60
2004/05	1,297	16,861	7.70	5.50	+2.20
2005/06	1,557	19,156	8.13	5.50	+2.63

Source: Annual Reports

As shown in the table, the Tier I ratio of NABIL of 12.12% was maximum in FY 2003/04 and minimum ratio of 10.53% in FY 2001/02. The Tier I ratio increased continuously till FY 2003/04 and decreased thereafter in FY 2004/05. The reason of this decrease was due to comparatively high increase of RWA by 19.55% in FY 2004/05. Whereas Tier ratio of HBL of 7.70% was maximum in FY 2004/05 and minimum ratio of 4.67% in FY 2001/02, the tier ratio continuously increasing trend, its due to respective increase in Core Capital and RWA in the following year.

Chart 4.1
Core Capital Ratio



The graphical representation in Chart 4.1 shows, Tier I capital ratio of NABIL vitiated positively in all the 5 years of the review period, with maximum positive variance of 6.62% in FY 2003/04 and minimum positive variance of 5.39% in FY 2005/06. The bank was able to maintain positive variance greater than 6% during the period 2001/02 to 2003/04 however it slightly decreased in the concluding FY of 2004/05. Similarly, Tier I ratio of HBL also varied positively during the study period except in FY 2001/02, which is 4.67%. Maximum Positive variance of 2.63% in FY 2005/06.

In general, both banks have maintained Tier I capital adequately above the NRB standard during the study period. It means the banks are applying adequate amount of internal sources of shareholders' fund with significant core capital adequacy ratio in all the years over the study period.

4.1.1.2 Supplementary Capital Adequacy Ratio

Supplementary capital are collected by way of hybrid capital instruments, General Loan Loss Provision, Exchange Fluctuation reserve, Asset Revaluation reserve, Interest Spread Reserve, Subordinate Term Debt, and other free reserve. The ratio reflects proportion of supplementary capital components in

total risk adjusted assets and relative contribution in the CAR. NRB regulates Supplementary Capital ratio by allowing Supplementary capital not exceeding 100% of the core capital for CAR calculation.

Table 4.2
Supplementary Capital Adequacy

NABIL					
Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2001/02	353	10,564	3.34	10.53	+7.19
2002/03	178	11,146	1.60	11.45	+9.85
2003/04	167	11,872	1.43	12.12	+10.69
2004/05	156	14,193	1.10	11.35	+10.25
2005/06	150	16,012	0.94	10.87	+9.93
HBL					
Fiscal Year	Supplementary Capital (Million)	RWA (Million)	Supplementary To RWA %	Max.NRB Standard %*	Variance (+/-%)
2001/02	500	14,957	3.34	10.53	+7.19
2002/03	639	12,746	5.01	11.45	+6.14
2003/04	565	14,681	3.85	12.12	+8.27
2004/05	499	16,861	2.96	11.35	+8.39
2005/06	473	19,156	2.47	10.78	+8.31

Source: Annual Reports,

Journal of Nepalese Business Studies, (Keshar J., Baral, Dec 2006: 47), Health Check-up of Commercial Banks in the Framework of CAMEL: A Case Study of Joint Venture Banks in Nepal.

* NRB, Directive# 1, 2001-02, p.1-2

As shown in Table 4.2, the Tier II ratio of NABIL was maximum in FY 2001/02 with 3.34% and minimum in FY 2005/06 with 0.94%. The ratio is in continuous decreasing trend since 2001/02 till 2005/06. The continuous decrease owed due to regular decrease in Supplementary Capital Fund and regular increase in RWA over the study period, however, the Tier II ratio of HBL was maximum with 5.01% in FY 2002/03 and minimum with 2.47% in

FY 2005/06. The ratio is in volatile trend during the study period. The fluctuating ratio is due to the fluctuation in Supplementary Capital Fund and RWA over the study period.

Chart 4.2
Supplementary Capital Ratios

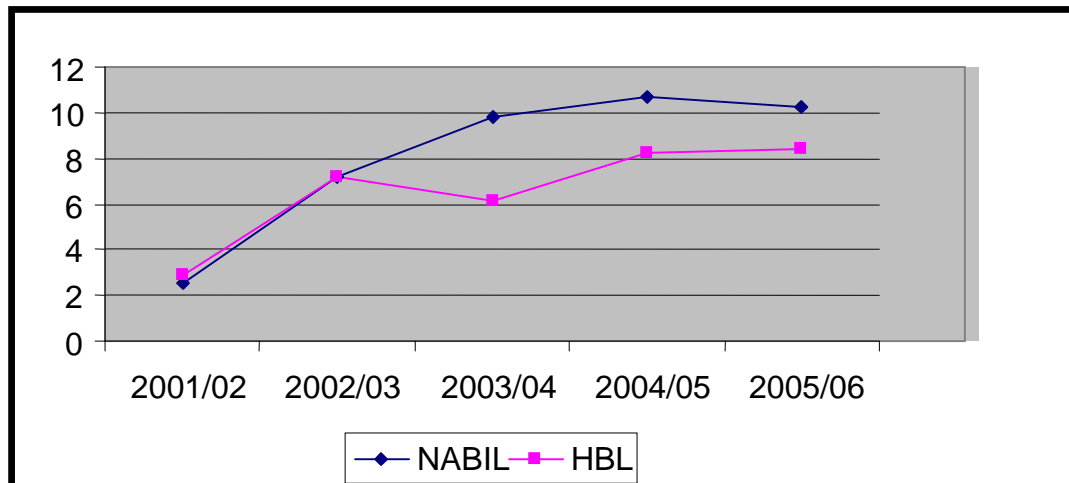


Chart 4.2 shows, Tier II capital ratios is in decreasing trend and were well below the maximum level allowed by NRB norms and thus varied positively in all the 5 years of the review period, with maximum positive variance of 10.69% in FY 2003/04 and minimum positive variance of 7.19% in FY 2001/02. Same as, Tier II capital ratio of HBL also were well below the maximum level allowed by NRB norms and varied positively in all the years with maximum positive variance of 8.39% in FY 2004/05 and minimum positive variance of 6.14% in FY 2002/03. Hence, both banks were able to maintain positive variance greater than 2% throughout the study period.

4.1.1.3 Total Capital Adequacy Ratio

Capital adequacy ratio above the NRB standard indicates adequacy of capital and signifies higher security to depositors, higher internal sources and higher ability to cushion operational and unanticipated losses. The lower value, on the contrary, indicates lower internal sources, comparatively weak financial position and lower security to depositors.

Table 4.3**Total Capital Adequacy Vs NRB Standard & Industrial Average**

NABIL						
Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2001/02	1,464	10,564	13.86	9.00	+4.86	13.82
2002/03	1,455	11,146	13.05	10.00	+3.05	11.95
2003/04	1,609	11,872	13.56	11.00	+2.56	11.62
2004/05	1,766	14,193	12.44	11.00	+1.44	11.27
2005/06	1,886	16,012	11.78	11.00	+0.78	NA

HBL						
Fiscal Year	Total Capital (Million)	RWA (Million)	Total Capital To RWA %	Min. NRB Standard %	Variance %	Industry Average%
2001/02	1,199	14,957	8.02	9.00	-1.97	13.82
2002/03	1,474	12,746	11.56	10.00	+1.56	11.95
2003/04	1,604	14,681	10.93	11.00	-0.07	11.62
2004/05	1,796	16,861	10.65	11.00	-0.35	11.27
2005/06	1,969	19,156	10.28	11.00	-0.72	NA

Source: Annual Reports,

Journal of Nepalese Business Studies, (Keshar J. Baral, Dec 2006:47) Health Check-up of Commercial Banks in the Framework of CAMEL: A Case Study of Joint Venture Banks in Nepal.

* NRB, Directive# 1, 2001-02, p.1-2

Table 4.3 tabulates the bank's , Total Capital, RWA, Total Capital Adequacy Ratio and its comparison with minimum NRB standard and Industry average; during the review period. As tabulated, the total capital to RWA of NABIL with 13.86% is maximum in FY 2001/02 and minimum with 11.78% in FY 2005/06, the ratio was found above the minimum NRB standard in all the study period with maximum positive variance of 4.86% and minimum positive variance of 0.78% in FY 2001/02 and 2004/05 respectively. In the case of HBL the total capital to RWA is maximum with 11.56% in FY 2002/03 and minimum with 8.02% in FY 2001/02, The ratio is found fluctuating with

minimum NRB standard in all the study period with maximum positive variance of 1.56% in FY 2002/03 and minimum with negative variance of 0.07% in FY 2003/04.

Chart 4.3
Total Capital Adequacy Ratio

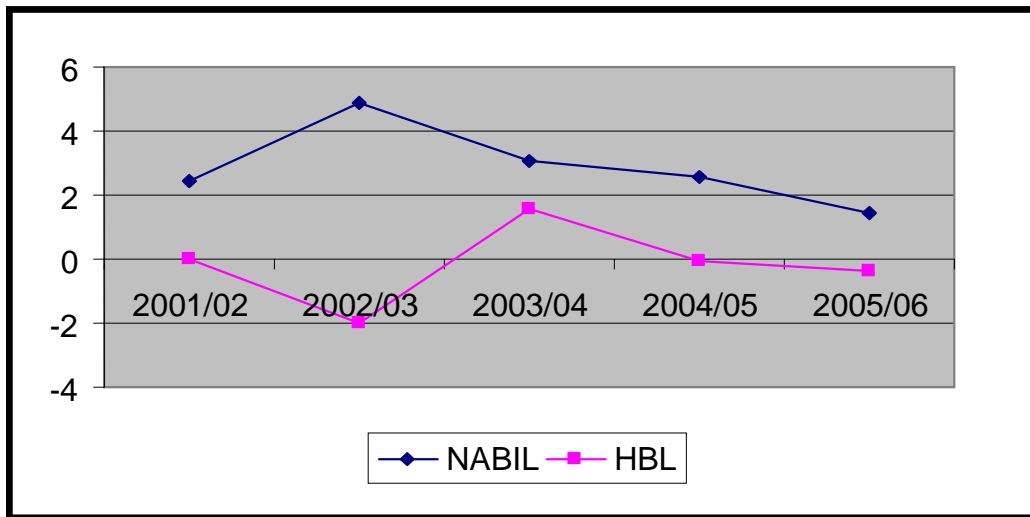


Chart 4.3 exhibits the data tabulated in Table 4.3. As shown in the chart, the capital adequacy ratio of NABIL was above the minimum NRB standard but getting closer in later years which means the positive variance is in decreasing trend represented by the variance with NRB curve. Except in Fy 2001/02, the capital ratio was seen above the industry average ratio FY 2001/02 onwards. Whereas, Capital adequacy ratio of HBL was below the minimum NRB standard in FY 2001/02, 2003/04, 2004/05 and 2005/06. Maximum positive variance of HBL is 1.56% in FY 2002/03.

In general, NABIL was able to maintain CAR above the minimum NRB standard efficiently during the study period. Also the ratio was seen above the industry average in the later years. But HBL was not able to maintained CAR above the minimum NRB standard efficiently during the review period. Hence the bank requires to increase its capital fund either through internal sources or decrease risky assets investments in the coming future.

4.1.2 Asset Quality Analysis

Here, out of the several indicators of asset quality, Asset composition, Non-Performing asset ratio and Loan Loss provisioning ratio are taken to examine the asset quality of Nabil. The total asset composition of Nabil is analyzed using time series technique over the review period with major highlight on Investment component due to its sensitive exposure. The Loans & Advances having major exposure and sensitive to bank's performance was carried out using time series and comparative analysis technique. The analysis of Loans & Advances contains examination of loan classification and Non-Performing Loans (NPLs) to Total Loans ratio which is used as a proxy for asset quality. The coverage ratio—the ratio of provisions to loans was examined since it provides a measure of the share of bad loans for which provisions have already been made.

The loan portfolio diversification analysis to assess inherent credit risks could not be conducted as the bank's financial data format (prescribed by NRB) in the annual reports lacked detailed sectoral loan portfolio unlike financial reports required in US region. It is advisable NRB to stipulate banks present with detailed Loan & Advances exposures for signaling vulnerability of, the financial system, economy and inherent credit risks.

4.1.2.1 Asset Composition

The assets portfolio of the bank represents the varied nature and consequence of the bank's function and investment policies. Usually every banker seems to arrange their assets appearing in balance sheet in descending order of liquidity. The capital and liabilities of banks are invested in various assets in the form of Cash & Bank Balance, Placements, Investments, Bills purchase, Loans and advances and Fixed Assets. Of these, Loans usually make the largest portion of all the assets. As they are the least liquid form of assets, Loans and Advances contain the high proportion of potential risk to the bank's capital.

Table 4.4
Bank Asset Composition (in%)

NABIL						
	2001-02	2002-03	2003-04	2004-05	2005-06	Mean
Cash & Bank Balance	4.43	5.96	6.91	5.79	3.25	5.93
Industry Average*		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	2.85	0.18	4.05	5.49	5.05	3.48
Industry Average*		2.11	1.69	2.15		
Investment (At Cost)	41.95	46.51	36.41	34.85	24.83	37.04
Industry Average*		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills Purchases & Discounted	45.32	42.2	46.83	48.91	61.59	48.97
Industry Average(Loans, Adv & B/P)*		47.13	47.38	47.42	N/A	
Fixed Assets	1.35	1.35	1.52	2.02	2.10	1.66
Industry Average*		0.88	0.93	0.92	N/A	
Other Assets	4.11	3.81	4.28	2.94	3.16	3.67
Industry Average*		19.29	18.23	17.87	N/A	
HBL						
	2001-02	2002-03	2003-04	2004-05	2005-06	Mean
Cash & Bank Balance	5.69	7.36	5.93	8.18	7.78	6.99
Industry Average*		9.81	8.46	9.77	N/A	
Money at Call or Short Notice	29.51	20.80	1.65	0.62	1.43	10.80
Industry Average*		2.11	1.69	2.15		
Investment (At Cost)	13.97	20.90	42.96	42.10	36.12	26.70
Industry Average*		20.78	23.32	21.86	N/A	
Loans, Advances & Overdrafts & Bills Purchases & Discounted	45.54	46.23	44.84	44.82	50.21	46.33
Industry Average(Loans, Adv & B/P)*		47.13	47.38	47.42	N/A	
Fixed Assets	1.22	1.08	1.50	0.90	1.16	1.17
Industry Average*		0.88	0.93	0.92	N/A	
Other Assets	4.07	3.63	3.12	3.38	3.30	3.50
Industry Average*		19.29	18.23	17.87	N/A	

Source: Annual Reports

Asset composition of Nabil bank like in every banks remained largely in loans and investment during the last five financial years. As shown in the Table, percentage of cash and bank balance (which form the most liquid of all assets)

cumulatively increased in the initial 3 years with 4.43%, 5.96%, 6.91% and decreased in later 2 years with 5.79% and 3.25% cumulatively. The average Cash & Bank Balance of 5 years was 5.25%. Money at Call was minimum in FY 2002/03 at 0.18% then increased rapidly for the next 2 years to reach the maximum in FY 2004/05 at 5.49%. However the following year the figure decreased but was still above the mean of 3.48%. The Investments composition of the total assets has shown steady decrease during the review period with 41.95% in 2001/02 and 24.83% in 2005/06. The Investment proportion in the 5 year period averaged 37.04%. The Loan, Advances & Bills Purchase was 45.32% in 2001/02 and 61.59% in 2005/06 with an average of 48.90%. Similarly, fixed assets proportions increased steadily during the period while the other assets proportions remained fluctuating around average 3.67%.

In the case of HBL, percentage of Bank and Cash Balance cumulatively ups and down in all the years with 5.69%, 7.36%, 5.93%, 8.18% and 7.78% respectively with average balance of 6.99%. Money at call is maximum with 29.51% in FY 2001/02 after then rapidly decreases till FY 2004/05 to 0.62% then slightly increased to 1.43% in FY 2005/06. However the trend is in tremendously fluctuating but still the above mean with 10.80%. The investment composition in rapidly increasing trend in first 3 years from 13.97% in FY 2001/02 to 42.96% in FY 2003/04, later on the trend decreased slightly to 36.12% in FY 2005/06. Loan, Advances and Bills Purchase is in slightly fluctuating trend over the period with maximum of 50.21% in FY 2005/06 and minimum of 44.82% in FY 2004/05 with average of 46.33% of 5 years. Similarly, Fixed assets and other assets proportion is in customary changing trend in the review period.

4.1.2.2 Loans And Advances

The fact that the Loans usually form the largest of the asset items and can carry the greatest amount of potential risk to the bank's capital account, the primary factor effecting overall asset quality is the quality of the loan portfolio and the credit administration program. For the evaluation of asset quality of Nabil, the

adequacy of Allowance for Loan and Lease Losses (ALLL) has been considered and the exposure to counter-party, issuer, or borrower default under actual or implied contractual agreements is weighed. Assets with inherent credit weaknesses categorized into non-performing assets components: Substandard, Doubtful and Loss grades are examined, as per minimum criteria laid down by NRB based on the overdue period of the advances. These graded loans are required require provisioning of 25%, 50% and 100% respectively, in order to safe guard the interest of the stakeholders. Quality of loans and advances of NABIL is assessed based on its Loan Classification and Loan Loss Provision mix as below.

4.1.2.2.1 Loan Classification Mix Analysis

The default in repayment of interest or principal within the stipulated time frame, the performing loan turns into non-performing loan. As per NRB directives, all Loans and Advances must be classified in order of Principal default aging into Pass (past due up to 3 months), Sub-standard (past due between 3-6 months), Doubtful (past due between 6-12 months) and Loss (past due over 1 year). NPL forms an aggregate of Substandard, Doubtful and Loss loans. The ratio of NPL to Total loan and advances shows the percentage of NPL in total loan. The lower the ratio the better is the proportion of performing loans and risk of default.

Table 4.5
Non Performing Loan Ratio

(Rs. In Millions)

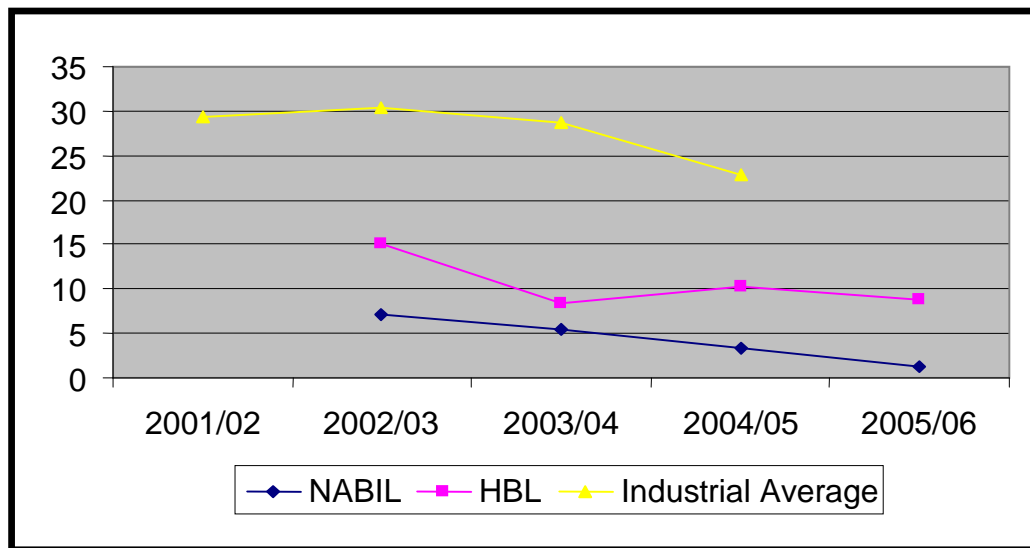
NABIL						
	2001-02	2002-03	2003-04	2004-05	2005-06	Mean
Non-Performing Loan	NA	557	450	287	145	287.8
Total Loan	8324	7802	8114	8549	10947	8747.20
NPL Ratio (%)	NA	7.14	5.54	3.35	1.32	2.87
Industry Average*	29.31	30.41	28.68	22.77	N/A	
HBL						
	2001-02	2002-03	2003-04	2004-05	2005-06	Mean
Non-Performing Loan	NA	1367	797.6	1092.8	1147.5	880.98
Total Loan	7224.7	9015.3	9557.1	10844.6	12919.6	9912.26
NPL Ratio (%)	NA	15.16	8.35	10.18	8.88	8.51
Industry Average*	29.31	30.41	28.68	22.77	N/A	

Source: Annual Reports,

**NRB, Bank & Supervision Report 2003/04*

Table 4.5 presents the NPL Ratio of the banks, the figures for the Fy 2001/02 was not available and could not be examined. Likewise the industry average figures of FY 2005/06 was also not examined due to non-availability. However the mid figures were adequate to tell the trend analysis. The NPL ratio of NABIL bank is in continuously decreasing trend and was found maximum with 7.14% in FY 2002/03 and minimum with 1.32% in FY 2005/06. Whereas, NPL of HBL was found maximum with 15.16% in FY 2002/03 and minimum with 8.35% in FY 2003/04. The average NPL ratio of both bank found below the industrial average in all the years

Chart 4.4
Non Performing Loan Ratio



In chart 4.4, the non-performing loan ratio curves of the both banks are below the industry average curve in all observed fiscal years. Due to the public sectors bank in Nepal have very high value of non-performing loan so the industrial average is also came very high. Thus, this industrial average ratios can not taken as a benchmark for non-performing loan ratio. Generally, an internationally recognized non-performing loan benchmark is less than 8 percent. With regards to the Nepalese banking scenarios, having non-performing loan ratio in a single digit is said to be acceptable.

4.1.2.2.2 Loan Loss Provisioning Ratio

The Loan Loss Provisioning ratio indicates adequacy of allowance for loans and trend in the collection of loan and the performance in loan portfolio. It is obtained by the ratio of loan loss provision to the total loan (Garden and Miller, 1988). Loan loss ratio provides useful insight into the quality of a banks loan portfolio and bad debts coverage, and the adequacy of loan loss provisions. Greater loan loss provision is required to allow in income statement if high loss is expected. This ratio shows the possibility of loan default of a bank. It indicates how efficiently it manages its loan and advances and makes effort for

the loan recovery. Higher ratio implies higher portion of non-performing loan portfolio. The ratio of loan loss provision to total loans and advances describes the quality of assets that a bank is holding. The provision for loan loss reflects the increasing probability on non-performing loans in the volume of total loans and advances. Loan loss provision on the other hand signifies the cushion against future contingency created by the default of the borrowers. The high ratio signifies the relatively more risky assets in the volume of loans and advances. The high provision for loan loss shows the recovery of loan to be difficult and irregular and the age of the loan is increasing. More delay the bank gets to collect the loan, the provision will be higher and the ratio will be higher. Altman and Sametz (1977) have identified few early warning variables based on the balance sheet data. The loan loss ratio as defined by them is the ratio of provision for loss to the total loan and investments. This ratio is defined as the measure of prospective losses that are envisioned by the bank management in relation to the bank's overall loan and investment.

Table 4.6
Loan Loss Provisioning (%)

NABIL					
	2001-02	2002-03	2003-04	2004-05	2005-06
Total Loan Loss Provision (in Million)	591.80	363.95	357.73	358.66	360.57
Total Loan & Advances	8,324.44	7,801.85	8,113.68	8,548.66	10,946.74
Total Provision to Total Loans (%)	7.11	4.66	4.41	4.20	3.29
HBL					
	2001-02	2002-03	2003-04	2004-05	2005-06
Total Loan Loss Provision (in Million)	-	344.50	643.40	842.80	967.80
Total Loan & Advances	7224.70	9015.30	9557.10	10,844.60	12919.60
Total Provision to Total Loans (%)	-	3.82	6.73	7.77	7.49

Source Annual Reports, 2001-02 to 2005-06

Table 4.6 exhibits that the loan loss provisioning ratio of NABIL for the study period is in continuous decreasing trend. The ratio ranges from 7.11% in FY

2001/02 to 3.29% in FY 2005/06 with an average of 4.73%. The coefficient of variation between them is 30.11%, which indicates that the ratios are variable and not consistent with the decreasing trend. Where in the case of HBL the loan loss provisioning ratio for the study period is in increasing trend. The ratio ranges from 3.82% in FY 2002/03 to 7.77% in FY 2004/05 with an average of 6.45%. The coefficient of Variation between them is 28.04%, which indicates that the ratios are variable and not consistent with the increasing trend.

Chart 4.5
Trend of Loan Loss Provision Ratio

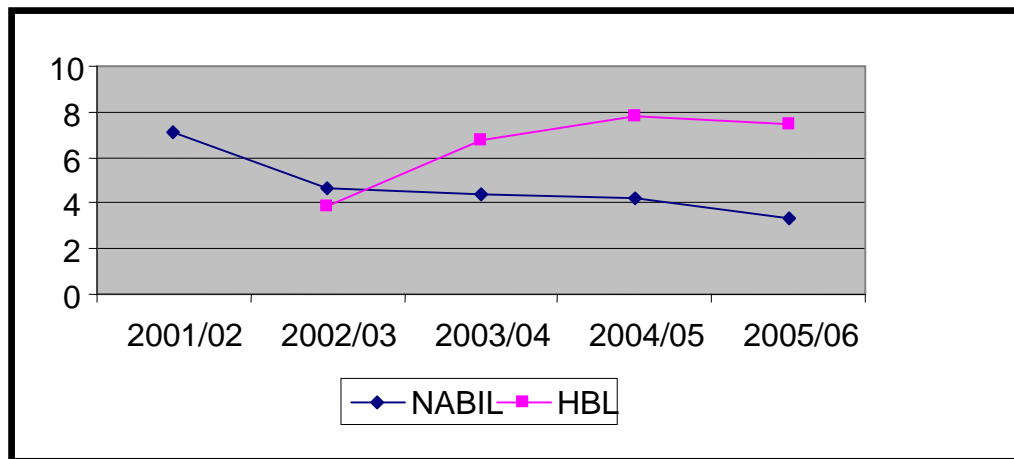


Chart 4.5 shows the observed value of loan loss provisioning ratio of NABIL is in decreasing trend, the ratio is continuously decreasing till FY 2005/06. Which indicates the trend of the loan loss ratio is decreasing over the study period. On the other hand loan loss provisioning of HBL is increasing in year 2004/05. It indicates thereafter it is observed declining in year 2005/06. It indicates the trend of the loan loss ratio is in increasing over the study period.

Management Component Analysis

Management role is very important in the performance of FIs. The key distinct areas that reflect the overall quality of management are governance, general management, human resource policy, management information system, internal control and audit strategic planning and budgeting.

While the others factors can be quantified fairly easily from current financial statements, management quality being subjective is difficult to quantify. As such no particular factor can be pointed out as a concrete measure for assessing Management quality. The qualitative assessment of aspects like Depth and succession of top management, Technical Aspects, Internal Control decisions, Operating and Lending decisions, Involvement of Board of Directors, Willingness to serve community needs etc, illustrate the level of management quality as these decisions are reflected in the final balance sheet. There is one measure that is relevant to management is the ratio of Total expenses to Total revenue. Since the profitability of an institution is determined by the gap of Total Revenues and Total Expenses which are well in direct control and monitoring of the management, it is used to represent the management quality. Another measure that is also relevant to management is the ratio of earnings per employee is used as a proxy of management quality.

4.1.2.3 Total Operating Expense to Total Operating Revenue Ratio

The ratio of total expenses to total revenue is used as a proxy measure of the management quality. This ratio is calculated by dividing the total expenses by total revenues. A high level of expenditures in un-productive activities may reflect an inefficient management. A high or increasing ratio of expenses to total revenues may give indication of inefficient operation. This can be, but necessarily due to management deficiencies. In any case, it is likely to negatively affect profitability (IMF, 2000).

Commercial bank's earnings originate from interest on Loans & Advances, Investments, Commissions & Discounts, Foreign Exchange Rate Gains and other miscellaneous income. Conversely, it expends on, Depositors' Interest, Staff Salary, Provident Fund allowances and other operating expenses like rent, water & electricity, fuel expenses, audit fee expenses, management expenses, depreciation, miscellaneous expenses, and all other expenses directly related to the operation of bank. Expenses such as loss on sale of assets, write off

expenses, losses shortage, written off, provision for income tax are non-operating expenses.

Table 4.7
Total Operating Expenses to Total Operating Revenues Ratio

NABIL					
FY (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Total Operating Expenses (TOE) (in million)	1,049.00	1,185.36	745.71	697.42	668.70
Total Operating Revenues (TOI) (in million)	1,573.06	1,639.12	1,340.50	1,333.65	1,438.44
TOE /TOI Ratio (%)	66.69	72.32	55.63	52.29	46.49
HBL					
FY (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Total Operating Expenses (TOE) (in million)	1,043.32	1,298.19	1,154.77	1,242.18	1,256.56
Total Operating Revenues (TOI) (in million)	1,242.70	1,575.23	1,389.79	1,454.30	1,519.62
TOE /TOI Ratio (%)	83.96	82.41	83.09	85.41	82.69

Source: Annual reports.

As shown in table 4.7, the total operating expenses (TOE) to total revenue ratio (TOI) of NABIL has increased in 2002/03 from 66.69% to 72.32% which is the maximum of all the review period. The ratio however has continuously decreased thereafter to reach 46.49% in 2005/06 which is the minimum ratio of the observed years. The mean ratio of the review period was 58.68%. It can be concluded that the ratios are in decreasing trend. Whereas, TOE to TOI ratio of HBL is in slightly decreased in first two year from 83.96% in FY 2001/02 to 82.41% in FY 2002/03 then increased up to 85.41% in FY 2004/05 which is maximum during the study period. The mean ratio of the review period was 83.51 which indicate the ratios are stable and consistent.

Chart 4.6

Trend Analysis of Total Operating Expenses/ Total Operating Revenue Ratio

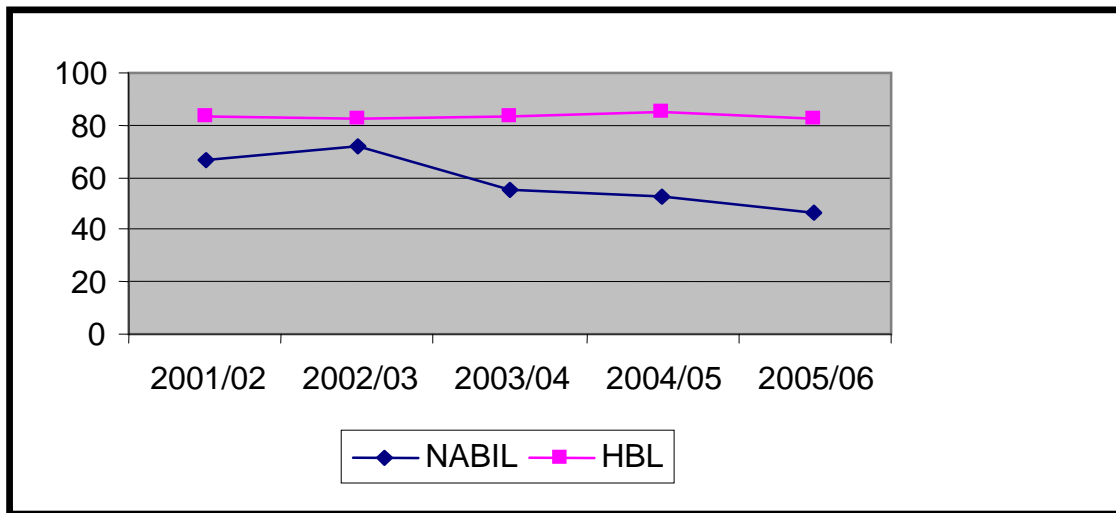


Chart 4.6 exhibits the observed TOE to TOI ratio of NABIL and HBL within the study period of last five years. As shown in the chart, the observed ratio fluctuated upwards only once 2002/03 else it is in continuous decreasing trend to reach at the all time minimum of 46.49% in FY 2005/06. In case of HBL the slope of the curve is in slightly increasing trend till FY 2002/03 thereafter it is declining in FY 2005/06. Hence, the negative slope of both banks thus indicates decreasing expenses with respect to income which is accredited to good management quality.

4.1.3 Earnings per Employee

Earning per Employee is calculated by dividing net profit after taxes by number of employees. Low or decreasing earnings per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability (IMF, 2001).

Table 4.8
Earnings per Employee

NABIL					
	2001-02	2002-03	2003-04	2004-05	2005-06
Net Profit (Rs.)	291,376,140	271,638,612	416,235,811	455,311,222	518,635,749
Number of Employees	388	382	326	372	426
Earning per Employee (Rs.)	750,969.00	711,096.00	1,276,797.00	1,223,955.00	1,21,7,455.00
HBL					
	2001-02	2002-03	2003-04	2004-05	2005-06
Net Profit (Rs.)	199,380,000	277,039,000	235,023,000	212,132,000	263,052,000
Number of Employees	311	359	357	385	455
Earning per Employee (Rs.)	641,158.00	771,588.00	658,263.00	550,909.00	578,242.00

Source: Annual reports.

Table 4.8 shows the Earnings per Employee in rupees during the study period. The ratio at first decreased in 2002/03 and thereafter abruptly increased in 2003/04. Following 2 years shows continuous decrease. The mean earning per employee of the study period was Rs.1,036,054.00, However, in the case of HBL Earning per Employee at first increased in 2002/03 then continuously decreases up to Rs. 550,909.00 in FY 2004/05, which is minimum figure in all the year. During the review period the maximum Earning per Employee is 771,588.00 in FY 2002/03. The mean earning per employee of the study period was Rs. 640,032.00.

Chart 4.7
Earning per Employee Trend

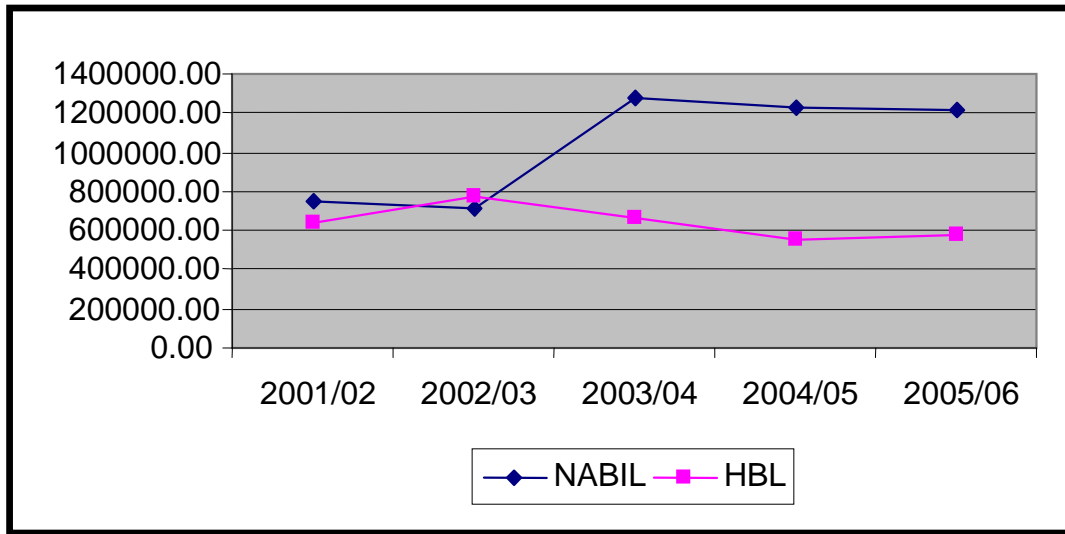


Chart 4.7 shows the observed earning per Employee the banks. The slope of the curve of NABIL is positive, which indicates the Earning per Employee is increasing over the study period. However the later periods it has shown decrement though in low level. This indicates that, in the later half of the review period the increased number of staff have decreased the earnings per employee with similar repercussion in terms of profitability. Whereas, the slope of the curve of HBL is negative, which indicates the earning per employee is declining over the study period, however the decline is not sharp, this indicates that low or decreasing earning per employee can reflect inefficiencies as a result of overstaffing, with similar repercussions in terms of profitability.

4.1.4 Earning Quality Analysis

Earning represents the first line of defense against capital depletion resulting from shrinkage in asset value. Earnings performance also allows the bank to remain competitive by providing the resources. The main objectives of bank are to earn profit and their level of profitability is measured by Profitability ratios. Profitability ratios measures the efficiency of banks, higher profit ratios indicate higher efficiency and vice-versa.

4.1.4.1 Return On Equity (ROE)

ROE is measure of the rate of return flowing to the bank's shareholders. ROE is the profit as a percentage return on the owner's stake in a firm. The level of profit depends on the ROE i.e. the profit per dollar invested (Meir Kohn, 1999). Computed as the ratio of net income to the equity, it reflects the income earned from its internal sources. The ROE measures the book return to the owners of the firm. It is a "bottom line ratio" in that sense (Weston & Copeland, 1991). Return on equity reveals how well the bank uses the resources of owners. The higher ratio represents sound management and efficient mobilization of the owner's equity and vice-versa. ROE of 15% is treated as standard and banking industry are desired to have higher than this (World Bank, 1996).

Table 4.9
Return on Equity

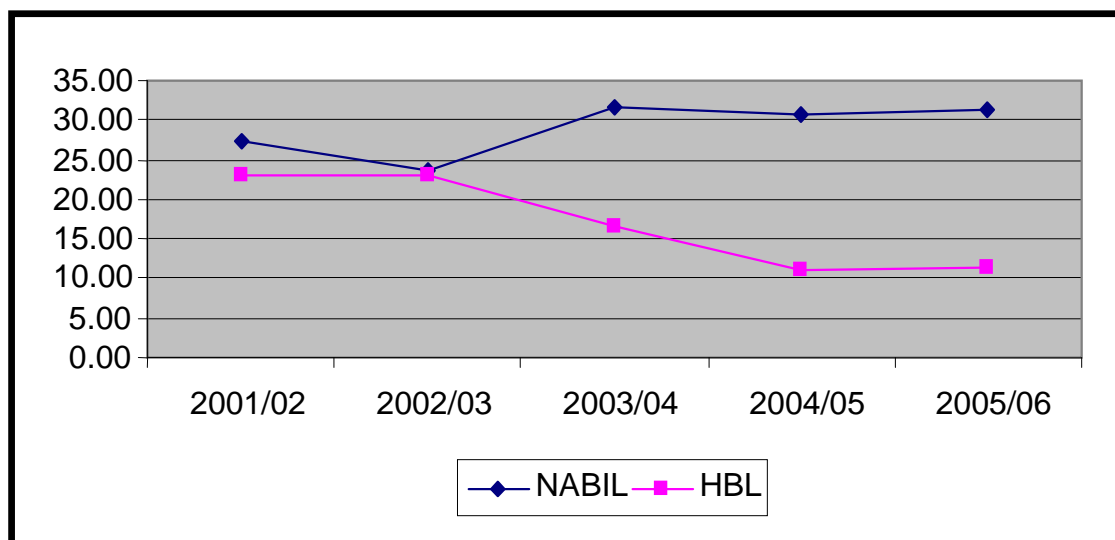
NABIL					
Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Net Profit After Taxes (in million)	291.38	271.64	416.24	455.31	518.64
Shareholders' Equity (in million)	1,062.85	1,146.43	1,314.19	1,481.68	1,657.64
Return on Equity (%)	27.41	23.69	31.67	30.73	31.29
HBL					
Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Net Profit After Taxes (in million)	194.40	277.00	235.00	212.10	263.10
Shareholders' Equity (in million)	870.60	1,198.40	1,501.50	1,906.00	2,292.10
Return on Equity (%)	22.90	23.11	15.65	11.13	11.48

Source: Annual reports.

As shown in Table 4.9, the ROE of NABIL of 23.69% is the minimum in 2002/03 and maximum in 2003/04. The ratio fluctuated between 27.41% in the initial period of 2001/02 and 31.29% of the final period of 2005/06. The mean ratio of the bank is 28.96% and the coefficient of variation of them is 11.72% which is adjustable and consistent. In all years of the review period and

obviously the mean ratio is above the 15% benchmark. Hence the bank's ROE ratio is sound. In the other hand, ROE of HBL is maximum with 22.90% in the FY 2001/02 and minimum of 11.13% in FY 2004/05, the ratio slightly increased to 11.48%. The mean ratio of the bank is 16.85% and the coefficient of variation of them is 30.41%. The average mean ratio is above the 15% benchmark so this shows that the bank's better but it is in decreasing tendency.

Chart 4.8
Return on Equity Trend



As shown in Chart 4.8, the ratio of NABIL has slightly decreased in 2002/03 and abruptly rose in 2003/04. It slightly decreased in the following year and increased again in 2005/06. The observed values of the ratio are fluctuating over study period. The slope of the curve is positive which indicates the upward trend in ratio of bank during the period of five years. The average ratio is also above the benchmark. The increasing trend of ratios implies that earning quality of bank is getting better. Comparatively, the ratio of HBL is in decreasing trend, the slope of curve is negative, which indicates the steady downward movement or decreasing trend in ratio of the bank during the period of 5 years. But the ratio is found minimum 11.13% over the study period, which is not sufficient in the Nepalese Commercial Banks. The decreasing trend of ratios implies that earning quality of bank is also declining.

4.1.4.2 Return On Assets (ROA)

ROA determines the net income produced per dollar of assets. It is a measure of profitability linked to the asset size of the bank (Saunders and Cornett, 2004). It is primarily an indicator of managerial efficiency; it indicates how capably the management of the bank has been converting the institution's assets into net earnings (Rose, 1999). ROA is a popular tool to measure how well its asset is utilized in generating profit. It measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the banks resources are well managed and efficiently utilized. Generally, the return on assets ratio should be 1% and higher is desired to the banking industry (World Bank, 1996).

Table 4.10
Return on Asset

NABIL					
Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Net Profit After Taxes (million)	291.38	271.64	416.24	455.31	518.64
Total Assets (million)*	18,175.5	17,528.5	16,437.1	16,633.0	17,064.0
Return on Assets (%)	1.60	1.55	2.53	2.74	3.04
HBL					
Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Net Profit After Taxes (million)	194.40	277.00	235.00	212.10	263.10
Total Assets (million)*	15,863.7	19,500.6	21,315.8	24,197.9	25,729.8
Return on Assets (%)	1.26	1.42	1.11	0.88	1.02

*Total Assets are net of Interest Suspense & Branch Adjustment balances included under other liabilities of the balance sheet(NRB Audit Report,2004)

Source: Annual reports.

As shown in Table 4.10, the return on asset ratio of NABIL was minimum in 2002/03 with 1.55% and maximum in 2005/06 with 3.04%. The ratio decreased in 2002/03 and thereafter ratio is in increasing trend continuously to reach at 3.04% in the concluding FY. The mean ratio of the bank is 2.29% and the coefficient of variation of them is 29.93% which is variable and not consistent.

The bank's mean ratio is two folds above the 1% benchmark and concluding FY is three folds above the benchmark. The bank's ROA is in continuous increasing trend which shows the quality of assets and their efficiency to generate return is increasing. Similarly, the ROA of HBL is minimum of 0.88% in FY 2004/05 and maximum of 1.42% in FY 2002/03. The bank's mean ratio is 1.14% and the coefficient of variation of them 20.43%, which is variable and less consistent. On the basis of mean ratio of the bank is above the benchmark 1% and higher so this indicates that the bank's ratio is better but decreasing tendency.

4.1.4.3 Net Interest Margin (NIM)

The net interest margin measures the net return on the bank's earning assets (investment securities and loans and leases). It is calculated by dividing the Net Interest Income (NII) with the earning assets (Saunders and Cornett, 2004).

Generally, the net interest margin ratio should be 3% to 4% and higher is better in banking industry (World Bank, 1996). Generally the higher this ratio, the better. However it highlights the fact that looking at returns without looking at risk can be misleading and potentially dangerous in terms of bank solvency and long run profitability (Saunders and Cornett, 2004).

Table 4.11
Net Interest Margin

NABIL					
Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Net Interest Income (in million)	688.34	658.11	500.52	718.67	825.20
Earning Assets (in million)	16,551.	15,668.7	14,457.3	14,994.6	15,721.
Net Interest Margin (%)	4.16	4.20	4.85	4.81	5.25
HBL					
Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Net Interest Income (in million)	488.90	591.90	570.90	647.10	754.40
Earning Assets (in million)	9,441.0	13,098.0	18,714.2	21,020.0	22,212.
Net Interest Margin (%)	5.18	4.52	3.05	3.08	3.40

Source: Annual reports.

In the past five years, the NIM ratio of NABIL was distributed over 4.16% of 2001/02 and 5.25% of 2005/06. The minimum ratio was observed in 2001/02 with 4.16% and the maximum ratio was found in the concluding year 2005/06 with 5.25%. The ratio continuously increased in the first three years of the review period and slightly decreased in 2004/05. Thereafter it again increased to the all time maximum in 2005/06. Despite fluctuated only once the NIM ratio is in increasing trend. The mean ratio for the study period was found 4.65% and the coefficient of variation is found 10.01%. On the basis of the coefficient of variation, it can be concluded that the ratios are slightly variable. Throughout the review period the NIM ratio was found slightly above the generally accepted benchmark. Comparatively, NIM ratio of HBL was distributed as a maximum ratio 5.18% in the initial FY 2001/02 and minimum ratio 3.05% in FY 2003/04. The ratio continuously decreases up to 3.05% in FY 2003/04 then slightly increases to 3.40% in FY 2005/06. The mean ratio for the period is 3.85% and the coefficient of variation is found 24.27%. On the basis of the coefficient of variation, it can be concluded that the ratios are variable and on the basis of mean ratio the bank is above to benchmark 3% to 4%, so the bank's ratio is higher but it is in declining tendency.

Chart 4.9

NIM Trend and Level of Earning Assets

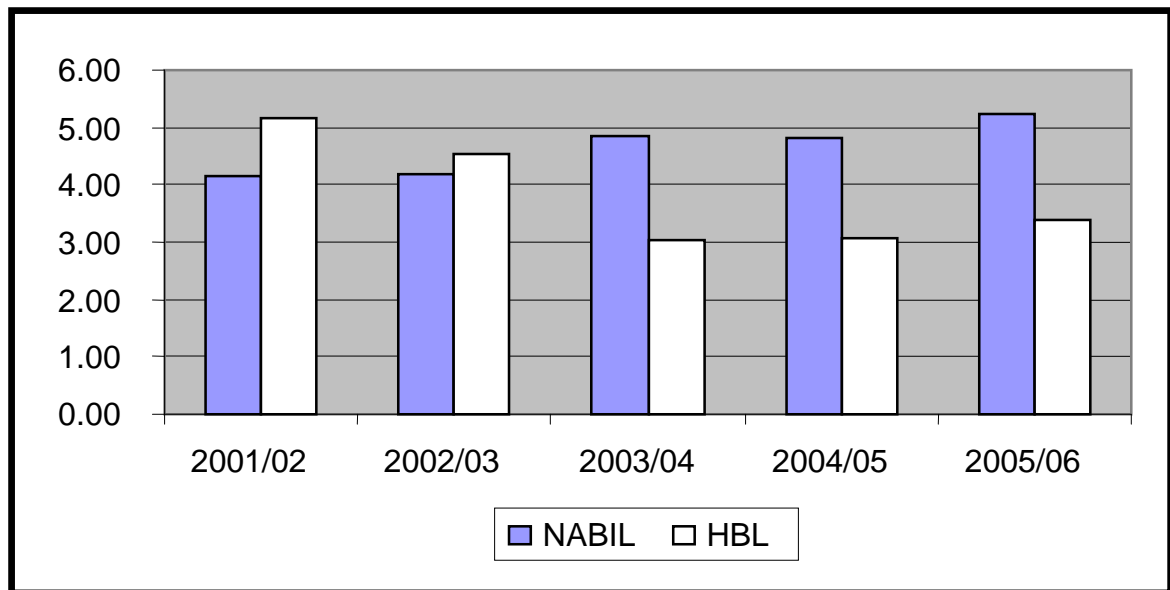


Chart 4.9 shows the trend of NIM of the banks from 2001/02 to 2005/06. The slope of the trend line of NABIL is positive which shows increasing trend of NIM ratio during the study period. This indicates bank's capacity to maintain higher interest margin than the benchmark in the later half of the review period, despite increase in earning assets. Comparatively, the trend of HBL is negative which shows decreasing trend of NIM ratio during the study period but the bank was able to maintain higher interest margin than the benchmark.

4.1.4.4 Earning Per Share (EPS)

The profitability of a firm from the point of view of the ordinary shareholders is the Earning Per Share. It measures the profit available to the equity shareholders on per share basis (Shiva Prasad Munankarmi, 2002). The earnings per share of an organization give the strength of the share in the market. The higher the EPS is supposed to be a best comparing between two banks.

Table 4.12
Earning Per Share

NABIL					
Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Net Profit (in million)	291.38	271.64	416.24	455.31	518.64

No. of Shares (in million)	4.92	4.92	4.92	4.92	4.92
Earning Per Share	59.26	55.25	84.66	92.61	105.49
HBL					
Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Net Profit (in million)	199.40	277.00	235.00	212.10	263.10
No. of Shares (in million)	2.40	3.00	3.90	4.29	5.3625
Earning Per Share	83.08	92.33	60.26	49.44	49.06

Source: Annual Report

Table 4.12 reveals that EPS of NABIL fluctuated only in the first year of the review period thereafter it increased continuously till the final year of the review period. EPS was minimum in 2002/03 with Rs.55.25/share and maximum in 2005/06 with Rs.105.49/share. The average EPS of the reperiod was Rs.79.45/share and coefficient of variation of the bank is 27.23% which shows more volatility during the study period. Whereas, in the case of HBL EPS of the bank has fluctuated over the study period. The EPS of the bank has ranged between Rs. 49.06 in FY 2005/06 to Rs. 92.33 in FY 2002/03, which is decreasing trend during the study period. The mean average of EPS is Rs. 66.83 and coefficient of variation is 38.36% which shows less consistent and more volatile during the study period.

Chart 4.10

Earning Per Share

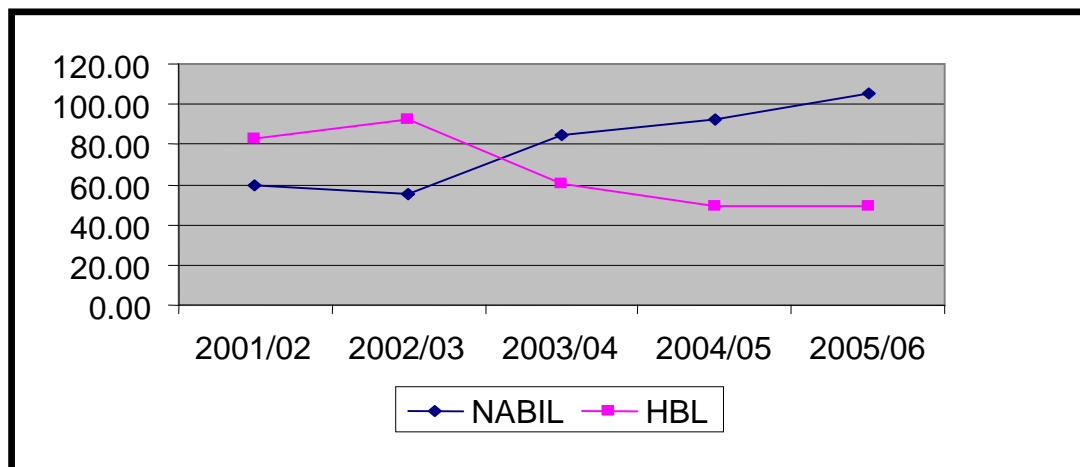


Chart 4.10 shows the EPS of NABIL fluctuated down in 2002/03 from Rs.59.26/share to the all time minimum of Rs.55.25/share. Thereafter it increased continuously in the following years. The maximum EPS was reached in 2005/06 with Rs.105.49/share. The increasing trend of EPS is also supported by positive slope of the trend line. However, the trend line of HBL is negative, which indicates that the trend of earning per share is declining over the study period and the declining also sharp.

4.1.5 Liquidity Component Analysis

The level of liquidity influences the ability of a banking system to withstand shocks. Liquidity risk arises when an FI's liability holders like depositors demand immediate cash for the financial claims they hold with an FI. The most liquid asset is cash, which FIs can use directly to meet liability holders' demands to withdraw funds. Day to day withdrawals by liability holders are generally predictable and large FIs can expect to borrow additional funds on the money and financial markets to meet any sudden shortfalls of cash. At times FIs face a liquidity crisis due to either a lack of confidence on the FIs problem or some unexpected need for cash, the liability holders may demand larger withdrawals than usual. This turns the FIs' liquidity problem into a solvency problem and cause it to fail (Saunders and Cornett, 2004).

4.1.5.1 Liquid Assets to Total Deposit Ratio

The ratio of Liquid assets to Deposit measures the levels of liquid assets available with the bank to meet short term obligations. It measures overall liquidity position. This ratio is computed by dividing liquid assets by total deposits. The higher ratio implies the better liquidity position and lower ratio shows the inefficient liquidity position of the bank. As per NRB direction, only investments in government securities are considered as liquid.

Table 4.13
Liquid Assets to Total Deposit Ratio

NABIL

Fiscal Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Liquid Assets (in million)	4,068.42	5,805.46	5,882.07	5,970.25	4,224.49
Total Deposits (in million)	15,839.0	15,506.43		14,119.03	14,586.6
Liquid Assets/Total	25.69	37.44	43.74	42.29	28.96
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial	-6.81	+5.04	+14.74	+22.09	+9.16
HBL					
Fiscal Year (as at mid July)	2001/02	2002/03	2003/04	2004/05	2005/06
Liquid Assets (in million)	5,446.50	7,192.60	8,658.80	8,281.70	8,613.50
Total Deposits (in million)	14,082.5	17,613.60	18,595.20	21,002.80	22,760.9
Liquid Assets/Total	36.68	40.84	41.19	39.43	37.84
*Industrial Average (%)	32.50	32.40	29.00	20.20	19.80
Variance from Industrial	+6.18	+8.44	+12.19	+19.23	+18.04

*Source: Annual Report, * Banking and Financial Statistics, NRB, No.43, July, 2004.pp: 4-10*

Table 4.13 shows that the liquid assets to total deposit ratio of NABIL during the period FY 2001/02 to FY 2005/06. The ratios are in increasing trend for the first three years. Thereafter it continuously decreased for the next two years. The liquid assets to deposit ratio was minimum in 2001/02 with 25.69% when the deposit were the highest with Rs.15,839.01 million. The ratio was maximum in 2003/04 with 43.74%. The extreme levels of the ratio are inversely proportional to the deposit level, in absolute terms. The ratio negatively varied with the industrial average in 2001/02. Thereafter, for the next three years till 2004/05, it varied positively with the industrial average. In 2005/06, the variance with the industrial average decreased to +9.16%. Overall, the bank held liquid assets percentage above the industrial average except in the initial period of 2001/02. Similarly, liquid funds to total deposit ratio of HBL during the period of FY 2001/02 to 2005/06 is in fluctuating trend. In absolute term, both total liquid fund and total deposit are in increasing trend during the study period. The highest ratio was 41.19% in FY 2003/04 and the lowest ratio was 38.80% in FY 2001/02. The ratios were greater than the industrial average ratios in all absorbed years i.e. difference in positive in all periods. This implies that liquidity position of the bank is up to industrial average.

Chart 4.11

Trend of Liquid Asset to Total Deposits

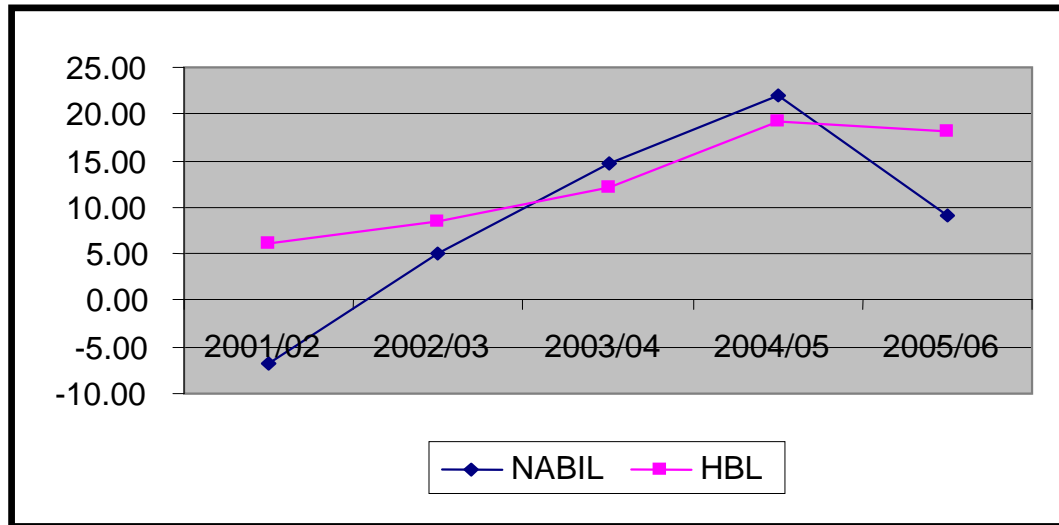


Chart 4.11 exhibits the liquid fund to total deposits ratio of NABIL in comparison to the industrial average ratio within the study period of last five years. In the chart, the total liquid fund to total deposit curve of the bank is above the industry average curve in all observed fiscal years except in 2001/02. This fact implies that the overall liquidity position of the bank is better than industrial average ratio. However the liquidity is in decreasing trend as the bank has switched to investing on more profitable assets. Similarly, the liquid funds to total deposit ratio of HBL is in above the industry average curve in all observed years. This fact implies that the overall liquidity position of the bank is better than industrial average ratio but more liquidity impacts profitability negatively..

4.1.5.2 NRB Balance to Total Deposit Ratio

This ratio shows whether bank is holding the balance as required to NRB. To ensure adequate liquidity in the commercial banks, to meet the depositors' demand for cash at any time, to inject the confidence in depositors regarding the safety of their deposited funds NRB has put the directives to maintain certain percent of total deposit in NRB by the commercial Banks. Total Deposit means Current, Savings and Fixed Deposit Account as well as Call Account

deposit and certificates of deposits. For the purpose, deposits held in convertible foreign currency, employees guarantee amount and margin account will not be included (NRB Directive Manual, 2004). The following table shows the NRB Balance to Total Deposit ratio with compare to industrial average ratio by NABIL.

Table 4.14
NRB Balance to Total Deposit Ratio

NABIL					
Fiscal Year (as at mid July)	2001/0	2002/0	2003/0	2004/0	2005/0
NRB Balance (in million Rs.)	512.07	506.67	892.75	606.69	389.71
Total Deposit less Margin & FCY	14,082.	17,613.	18,595	21,002	22,760.
NRB Balance/ Total Deposit (%)	4.65	6.10	3.74	5.38	7.13
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-6.87	-8.09	-4.14	-3.08	-6.15
HBL					
Fiscal Year (as at mid July)	2001/0	2002/0	2003/0	2004/0	2005/0
NRB Balance (in million Rs.)	655.30	1,073.2	695.40	1,130.	1,623.9
Total Deposit less Margin & FCY	11,306.	11,489.	9,642.	10,415	10,963.
NRB Balance/ Total Deposit (%)	4.53	4.41	9.26	5.82	3.55
Industrial Average (%)*	11.40	12.50	13.40	8.90	9.70
Diff. From industrial average (%)	-6.75	-6.40	-9.66	-3.52	-2.57

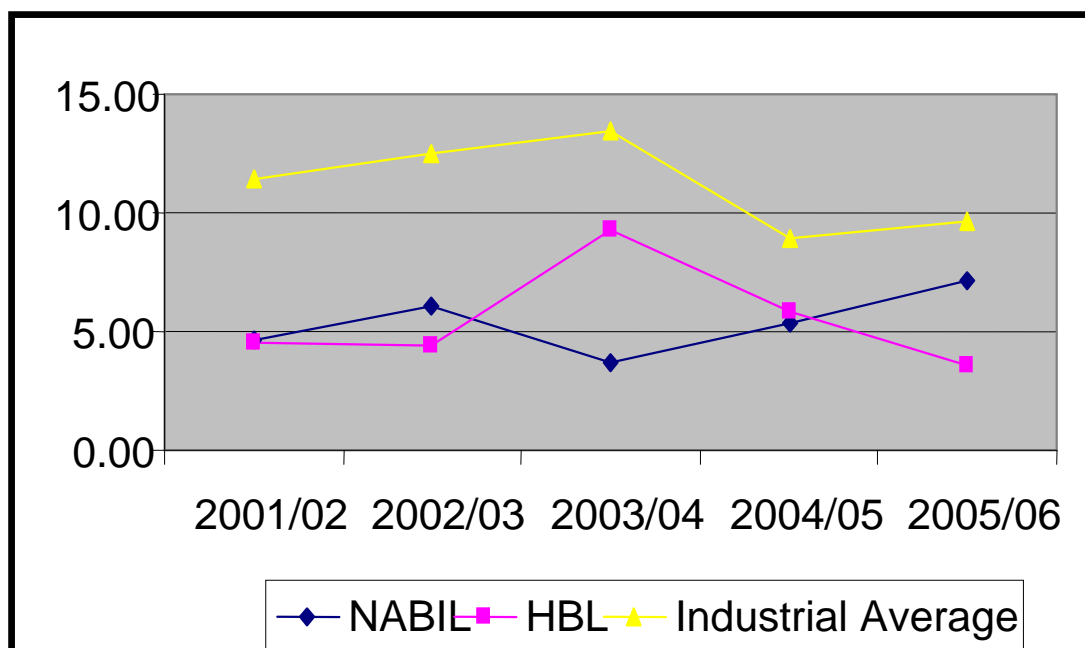
*Source: Annual Report, *Banking and Financial Statistics, NRB, No.43, July, 2004.pp: 4-10.*

Table 4.14 shows that NABIL has maintained reserve with NRB below the industry average. NRB balance was fluctuating increasingly upto 2003/04 and is in decreasing thereafter till the final year. As regard to the deposit volume, it is also fluctuating in decreasing trend upto 2003/04 and thereafter increased till the concluding year. The NRB balance to deposit ratio showed maximum in 2005/06 with 7.13% when the deposit volume was high. The ratios were less than industrial average ratio in all observed years i.e. difference is negative. This implies that deposit of NABIL with NRB is less than that of average. Similarly, HBL also has not maintained adequate liquidity by not maintaining balance with NRB. NRB balance to total deposit ratio of the bank is fluctuating during the absorbed years. Balance with NRB has increased at lower rate than deposit, which resulted in the decreasing trend in the ratio in 2001/02 and 2003/04. The ratio has been increasing in the year 2001/02, 2002/03 and 2003/04. The ratio was less than the industrial average ratio in all absorbed

years i.e. difference is negative. This implies that deposit of HBL with NRB is less than average. This indicates that the bank has less exposure towards balance with NRB. However it does not necessarily mean the Cash Reserve Ratio at NRB is not maintained. The above calculation is based on year end volumes of deposit and NRB balance where as NRB calculates CRR on weekly average balances. Hence this is a limitation of the study.

Chart 4.16 shows the NRB balance to total deposit ratio compare with the industrial average ratio within the study period of last five years. As shown in the Chart, the NRB balance to total deposit curve of NABIL is below the industrial average curve in all years during the study period. This fact implies that the balance with NRB of the bank is less than the average balance. The gap of the ratio with the industry average was narrowest in 2003/04 and widest in 2002/03. The gap is in increasing trend in the later years which implies the ratio is getting below the industry average. Same as, NRB balance to total deposit curve of HBL is below the industrial average curve in all the years during the study period. Which indicates the balance with NRB of the bank must be maintained is less than the average balance. This shows that the bank has not maintained the balance with NRB as per the directives over the study period.

Chart 4.12
NRB Balance/Deposit Ratio vs Industrial Average



4.1.5.3 Cash at Vault to Total Deposit Ratio

This ratio shows the percentage of total deposits held as cash in hand at vault. This ratio is computed by dividing cash at vault by total deposits. Cash and foreign currencies in hand are included as cash in vault. Total Deposit means Current, Savings and Fixed Deposit Account as well as Call Account deposit and certificates of deposits. For the purpose, deposits held in convertible foreign currency, employees guarantee amount and margin account will not be included (NRB Directive Manual, 2004).

Table 4.15
Vault to Total Deposit Ratio

NABIL					
Fiscal Year (as at mid July)	2001/0	2002/0	2003/0	2004/0	2005/06
Cash in Vault (in million Rs.)	208.48	318.16	187.78	286.89	146.35
Total Deposit less Margin & FCY	11,306.	11,489.	9,642.	10,415.	10,963.
Cash at Vault / Total Deposits (%)	1.84	2.77	1.95	2.75	1.33
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-0.96	-0.03	-1.25	-0.15	-0.47
HBL					
Fiscal Year (as at mid July)	2001/0	2002/0	2003/0	2004/0	2005/06
Cash in Vault (in million Rs.)	134.00	149.90	462.80	382.70	274.00
Total Deposit less Margin & FCY	14,082.	17,613.	18,595	21,002.	22,760.

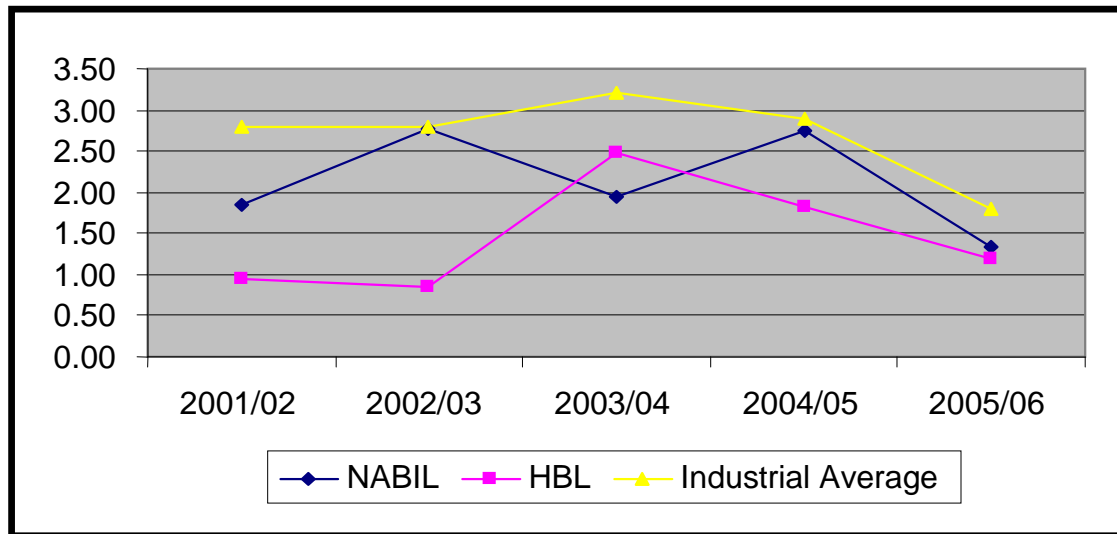
Cash at Vault / Total Deposits (%)	0.95	0.85	2.49	1.82	1.20
*Industrial Average (%)	2.80	2.80	3.20	2.90	1.80
Diff. From industrial average (%)	-1.85	-1.95	-0.71	-1.08	-0.60

*Source: Annual Report, *Banking and Financial Statistics, NRB, No.43, July, 2004.pp: 4-10.*

Table 4.15 shows that volume of Cash at Vault of NABIL is fluctuating in alternating against the alternate deposit fluctuations except in 2004/05. The Cash at Vault ratio likewise fluctuated alternating during the review period over 1.84% of 2001/02 and 1.33% of 2005/06. The ratio was maximum in 2002/03 with 2.77% in line with the highest deposit volume during the year. The ratio was minimum in the concluding year 2005/06 with 1.33%. The ratio is less than the industry average in all observed years. Whereas, the cash in vault to total deposit ratio of HBL is in fluctuating trend. The highest ratio is 2.49% in FY 2003/04 and the lowest ratio is 0.85% in FY 2002/03. The ratio has decreased till the FY 2002/03 and then increased in 2003/04 and then again decreased in final 2 years. Vaults have increased at lower rate than deposit has. So, increase in vault relatively lower rate has decreasing trend in the ratio for these years. But in year 2002/03, vault has decreased, so the ratio has come down in minimum. Ratio is less than the industrial average in all the years.

Chart 4.13

Cash at vault/ Total Deposit Ratio Vs Industrial Average



As shown in the chart 4.13, both banks have maintained the cash at vault below the industrial average. NABIL bank has maintained close to industrial average for 2 financial years in FY 2002/03 and 2004/05, but HBL has not maintained adequate cash at vault. In all the years, the vault to total deposit curve is below the industrial average and also below the NRB standard of 2%. It indicates that the bank is running with inadequate vault as liquidity during the study period.

4.1.6 Sensitivity to Market Risk

Sensitivity to Market Risk refers to the risk that changes in market conditions could adversely affect earnings and/or capital. Market Risk encompasses exposures associated with changes in interest rates, foreign exchange rates, commodity prices, equity prices, etc. While all of these items are important, the primary risk in most banks is interest rate risk (IRR), which is the focus of this study.

When a bank has more liabilities re-pricing in a rising rate environment than assets re-pricing, the net interest margin (NIM) shrinks. Conversely, if the bank is asset sensitive in a rising interest rate environment, NIM will improve because the bank has more assets re-pricing at higher rates. There are many ways to monitor exposure to IRR. Measurement systems vary in complexity

from very simple methods such as a gap model, to very sophisticated models such as a simulation or duration analysis. This study is worked with gap model, which simply measures the net quantity of assets or liabilities re-pricing within a given period to estimate the likely impact that changes in interest rates will have on earnings. With a view to minimize the IRR, NRB requires the banks to adopt Gap Analysis adopted for minimization of liquidity risks shall also be applied in respect of minimization of IRR. Banks shall classify the time interval of the assets and liabilities on the basis of maturity period of 0-90 days, 91-180 days, 181-270 days, 271-365 days, over 1 year. The effect on the profitability is measured by multiplying the change in interest rate, R_i in the i th maturity bucket annualized with Cumulative Gap (NRB Directive Manual 2004).

If the interest rates rise on RSAs and RSLs, the positive CGAP ($RSA > RSL$) would project the increase in the expected annual NII. However, if interest rate falls when CGAP is positive, NII will fall. As rates, fall interest revenue falls by more than interest expense. Thus, NII falls by approximately by $(CGAP) \times (-R)$. In general when CGAP is positive the change in NII is positively related to the change in interest rates. Thus, banks would want to keep CGAP positive when interest rates expected to rise.

Conversely, when the CGAP or the Gap Ratio is negative ($RSA < RSL$) if interest rates rise by equal amounts for RSAs and RSLs, NII will fall. Similarly, if interest rates fall equally for RSAs and RLAs, NII will increase when CGAP is negative. As rates, fall interest expense decreases by more than the revenues. In general, when CGAP is negative, the change in NII is negatively related to the change in interest rates. Thus, banks are expected to keep CGAP negative when interest rates are expected to fall.

Expressing the re-pricing gap as a percentage of assets, gives: (1) the direction of the interest rate exposure (+ or – CGAP) (2) the scale of the CGAP against the assets size of the bank.

Gap analysis of RSAs and RSLs of NABIL and HBL for the period FY 2002/03 to 2005/06 is made as shown in Table 4.17 (a,b,c,d) based on the different maturity time bucket.

Table 4.16
Gap Analysis of NABIL Bank Ltd

a. 2002-03						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	8,556.30	1,187.30	1,055.20	1,008.10	5,223.20	17,030.10
RLAs (Millions)	1,719.40	1,452.50	38.10	366.70	11,982.60	15,559.30
GAP _i (RSA-RSL) (millions)	6,836.90	(265.20)	1,017.10	641.40	(6,759.40)	1,470.80
CGAP _i (RSA-RSL) (millions)	6,836.90	6,571.70	7,588.80	8,230.20	1,470.80	1,470.80
RSA/RSL	4.98	0.82	27.70	2.75	0.44	1.09
CGAP _i Ratio[CGAP/Total RSAs](%)	40.15%	38.59%	44.56%	48.33%	8.64%	8.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				82.30	14.71	
%Change in NII				0.48%	0.09%	

b. 2003-04						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	6,329.00	1,180.70	1,694.70	1,412.00	5,320.10	15,936.50
RLAs (Millions)	2,225.40	1,126.70	52.90	357.30	10,646.70	14,409.00
GAP (RSA-RSL) (millions)	4,103.60	54.00	1,641.80	1,054.70	(5,326.60)	1,527.50
CGAP _i (RSA- RSL) (millions)	4,103.60	4,157.60	5,799.40	6,854.10	1,527.50	1,527.50
RSA/RSL	2.84	1.05	32.04	3.95	0.50	1.11
CGAP _i Ratio [CGAP/Total RSAs](%)	25.75%	26.09%	36.39%	43.01%	9.58%	9.58%
R(%)				1%	1%	

d. 2005-06						
RSA (Millions)	1-90	91-180	181-270	271-365	>365	Total
	4,690.40	1,441.50	661.20	2,026.10	8,730.00	17,549.20
c. 2004-05						
RSA (Millions)	2,794.20	780.00	325.30	346.90	13,302.70	17,549.10
	1-90	91-180	181-270	271-365	>365	Total
GAP _i (RSA-RSL)	1,896.20	6,760.80	3,351.40	1,679.20	(4,572.80)	0.10
RSA/RSL	1.66	1.11	4.49	8.92	0.49	1.00
CGAP _i (RSA-RSL) (millions)	2,130.40	2,557.70	2,893.60	4,572.80	(5,941.50)	0.10
CGAP _i (RSA-RSL) (millions)	2,130.40	2,301.60	3,507.80	5,941.50	-	-
CGAP _i Ratio [CGAP/Total RSAs] (%)	12.46%	13.46%	20.51%	34.74%	0.00%	0.00%
R(%)				1%	1%	
NII (millions) = CGAP x R				59.42	-	
%Change in NII				0.35%	0%	

NII (millions) = CGAP x R				68.54	15.28	
%Change in NII				0.43%	0.10%	

RSA/RSL	1.68	1.85	2.03	5.84	0.66	1.00
CGAP _i Ratio [CGAP/Total RSA] (%)	10.81%	14.57%	16.49%	26.06%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				45.73	0.00	
%Change in NII				0.26%	0%	

Table 4.17
Gap Analysis of Himalayan Bank Ltd.

a. 2002-03						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	7,852.40	1,250.30	9,87.20	1,173.40.	11,235.20	22,498.70
RLAs (Millions)	5,235.10	756.60	552.70	211.30	10,556.50	17,312.20
GAP _i (RSA-RSL) (millions)	2,617.30	493.70	434.30	962.10	678.70	5,186.50
CGAP _i (RSA-RSL) (millions)	2,617.30	3,111.00	3,545.30	4,507.40	5,186.10	18,867.10
RSA/RSL	1.50	1.65	1.79	5.55	1.06	1.30
CGAP _i Ratio[CGAP/Total RSAs](%)	11.63%	13.83%	15.31%	20.03%	23.05%	83.86%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.07	51.86	
%Change in NII				0.20%	0.23%	
b. 2003-04						
	1-90	91-180	181-270	271-365	>365	Total
RSA (Millions)	4,235.10	1,256.60	1,068.30	887.80	8,235.40	15,683.20
RLAs (Millions)	1,524.50	546.10	456.10	387.60	11,527.10	16,211.50
GAP (RSA-RSL) (millions)	2,710.60	710.50	612.20	500.20	(3,291.70)	1,241.80
CGAP _i (RSA-RSL) (millions)	2,710.60	3,421.10	4,033.30	4,533.50	1,241.80	15,940.30
RSA/RSL	2.78	2.30	2.34	2.29	0.71	0.97
CGAP _i Ratio[CGAP/Total RSAs](%)	17.28%	21.81%	25.72%	28.91%	7.92%	101.64%
R(%)				1%	1%	
NII (millions) = CGAP x R				45.34	12.42	
%Change in NII				0.29%%	0.08%	

c. 2004-05						
RSA (Millions)	1-90	91-180	181-270	271-365	>365	Total
		5,224.20	1,800.40	1,945.30	2,324.10	4,875.20
RLAs (Millions)	2,945.90	1,413.60	978.80	648.50	8,746.20	14,733.00
GAP _i (RSA-RSL) (millions)	2,278.30	386.80	966.50	1,675.60	(3,871)	-
CGAP _i (RSA-RSL) (millions)	2,278.20	2,665.10	3,631.60	5,307.20	-	-
RSA/RSL	1.77	1.27	1.99	3.58	0.56	1.10
CGAP _i Ratio[CGAP/ Total RSAs](%)	14.09%	16.48%	22.46%	32.82%	0.00%	0.00%
R(%)				1%	1%	
NII (millions)= CGAP x R				53.07	-	
%Change in NII				0.33%	0%	

d. 2005-06						
RSA (Millions)	1-90	91-180	181-270	271-365	>365	Total
		4,786.60	1,666.10	978.20	1,926.10	10,542.20
RLAs (Millions)	2,945.20	1,045.60	542.30	768.20	11,286.90	16,588.20
GAP _i (RSA-RSL) (millions)	1,841.40	620.50	435.90	1,157.90	(744.70)	2,629.50
CGAP _i (RSA-RSL) (millions) (a)	1,841.40	2,461.90	2,897.80	4,055.70	3,311.00	14,567.80
RSA/RSL	1.63	1.59	1.80	2.51	0.93	1.20
CGAP _i Ratio[CGAP/ Toal RSA](%)	9.25%	12.37%	14.56%	20.38%	0.00%	73.20%
R(%)				1%	1%	
NII (millions)= CGAP x R				40.56	33.11	
%Change in NII				0.20%	0%	

Here in case of NABIL, The period from 2002/03 to 2005/06 is taken for review of the sensitivity of market risk. From FY 2002/03 to 2005/06, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 day to 271-365 days was found positive except in 2002/03 when it was shortfall by Rs.265.20 million reprised in 0-90 day time bucket. In the long

term maturity bucket (>365 days) the gap was negative in all the years by Rs.6,759.40, Rs.5,326.60, Rs.5,941.50 (all figure in Millions) respectively. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short-term horizon i.e. up to one year was highest with 32.82% in 2004/05 and the lowest with 11.63% in FY 2002/03. The CGAP ratio to the earning assets over the long-term horizon was highest with 9.58% in 2003/04 and lowest with 0% in 2004/05 while it was slightly above Zero in 2005/06. It indicates the RSAs and RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs and RSLs of the bank repricing in the long-term horizon is low sensitive to interest rate. As shown in the table above with the simulated interest change by 1%, it would make the NII of the bank sensitive by the quantity of CGAP held in the short term horizon. As seen from the trend of CGAP in the short run, it is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2004/05 and 2005/06 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.

In the case of HBL from FY 2002/03 to 2005/06, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 days to 271-365 days was found positive. But in the long term maturity bucket (>365 days) the gap was negative in all the years except in FY 2002/03 which is positive by Rs. 678.70. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short-term horizon i.e. up to one year was highest with 48.33% in 2002/03 and the lowest with 26.06%. The ratio is in continuous decreasing trend. The CGAP ratio to the earning assets over the long-term horizon was highest with 23.05% in 2002/03 and lowest with 0% in 2004/05 and 2005/06. It indicates the RSAs and RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in

decreasing trend. Comparatively the RSAs and RSLs of the bank repricing in the long-term horizon is low sensitive to interest rate. As shown in the table above with the simulated interest change by 1%, it would make the NII of the bank sensitive by the quantity of CGAP held in the short term horizon. As seen from the trend of CGAP in the short run, it is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2004/05 and 2005/06 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.

4.2 Major Findings

The major findings of the study on financial performance analysis of NABIL Bank Limited and Himalayan Bank Limited in the framework CAMEL are as follows:

The bank maintained maximum Tier I ratio capital adequacy ratio i.e. 12.12% in FY 2004/05 and the minimum ratio of 6.50% was found in FY 2001/02. The Tier I ratio increased continuously till FY 2004/05 and decreased thereafter by 0.77% in FY 2005/06. The reason of this decrease was due to comparatively high increase of RWA by 19.55% in FY 2005/06. In all the 5 years of the review period, the Tier I capital ratio was above the NRB standard with maximum positive variance of 6.62% in FY 2004/05 and minimum. Positive variance of 2.00% in FY 2001/02. The bank was able maintain more than 6% above the NRB requirement in Tier I ratio during the period 2002/03 to 2004/05 however it has slightly decreased in 2005/06. In general, the bank has maintained Tier I capital adequately above the NRB standard during the study period. Similarly, Tier I ratio of HBL is distributed from the minimum of 4.44% in FY 2001/02 to maximum of 7.69% in FY 2005/06. The Core Capital (Tier I) of the bank in the increasing trend over the study period. The bank was

able to maintain more than 6% NRB standard in last 3 FY, 2003/04 to 2005/06. Hence, the core capital adequacy ratio of HBL is adequate and sufficient.

The Tier II ratio of NABIL was maximum in FY 2001/02 with 3.96% and minimum in FY 2005/06 with 1.10%. The ratio is in continuous decreasing trend since 2001/02 till 2005/06. The continuous decrease owed due to decrease in supplementary capital and regular increasing in RWA during the period. Tier II capital of the bank in all years, is below the Tier I capital (6.50%, 10.53%, 11.45%, 12.12%, 11.35%). Likewise, Tier II ratio of HBL is distributed from minimum of 3.34% in FY 2002/03 to maximum of 5.01% in FY 2003. The ratios of HBL were 3.59%, 3.34%, 5.01%, 3.85% and 2.96% in FY 2001/02 to 2005/06. Hence, the Supplementary capital ratio of both bank are within the boundary of NRB during the period.

Total Capital adequacy ratio of NABIL in the review period were 10.46%, 13.86%, 13.05%, 13.56%, 12.44%. The ratio of 13.86% was maximum in FY 2002/03 and ratio of 10.46% was minimum in FY 2001/02. The total capital adequacy ratio is fluctuating alternately from FY 2001/02 to FY 2005/06. In all the 5 years of the review period. In general, the bank was able to maintain CAR as per NRB standard during the study period. In the same way, Total capital adequacy ratio of HBL in the review period were 8.03%, 8.01%, 11.56%, 10.93% and 10.56% . The ratio of maximum of 11.56% in FY 2003/04 and minimum of 8.01% in FY 2002/03. However, the total capital ratio of the bank is above the NRB standard in all the years except in FY 2005/06 i.e. insufficient of capital in that year.

Assets composition of Nabil bank like in every banks remained largely in the loans and investment in the last five financial years. In the study period of 5 years, the average composition of Cash & Bank Balance Money at Call, Investment, Loan & Advances, Fixed and Other Assets were 5.93%, 3.48%, 37.04%, 48.90%, 1.66% and 3.67% respectively. In the same way, the average

composition of Cash & Bank Balance Money at Call, Investment, Loan & Advances, Fixed and Other Assets of HBL were 6.99%, 10.80%, 26.70%, 46.33%, 1.17% and 3.50% respectively during the study period.

The NPL ratios of NABIL were distributed 7.14%, 5.54%, 3.35% and 1.32% during the FY 2003/04 to 2005/06 which was found below the industrial average in all years. Likewise, the NPL ratios of HBL were 15.16%, 8.35%, 10.08%, & 8.88% for the same period of review. Despite the industrial benchmark not appropriately justifiable due to high proportion of NPL of two biggest government banks, the trend speaks of NPL ratio of NABIL well in control and below international standard of 5% in general. It also shows efficient credit management and recovery efforts but NPL ratio of HBL was not sufficient in banking industry, it is because the NPL ratios of HBL were above international standard of 5% although the ratios were below the industrial average.

The loan loss provisioning ratio of NABIL for the study period is in continuous decreasing trend. The ratio ranges from 7.11% in FY 2001/02 to 3.29% in FY 2005/06 with an average of 4.73%. The decreasing trend of NPL to total loan ratio also requires lower provisioning hence Loan loss ratio also decreased accordingly. It also indicates bank's quality of loan assets is getting better. Differently, the loan loss provisioning ratio of HBL for the study period was in increasing trend. The ratios range from 3.82% in FY 2001/02 to 7.70% in FY 2004/05 with an average of 6.45%. Hence, the increasing trend of NPL of HBL also requires the higher provision for loan loss. Hence, Loan loss provisioning also increased accordingly.

The observed TOE to TOI ratio of NABIL fluctuated only in 2002/03 which was the maximum of all the review period years else the trend is in decreasing trend. The ratio has reached 46.49% in 2005/06 which is the minimum of all the years of the review period, which implies decreasing expenses with respect

to income and is credited to good management quality. Likewise, the aberrated TOE to TOI ratio of HBL increased upto 2004/05 and then decreasing in year 2005/06. The ratios distributed from a minimum of 82.41% in FY 2002/03 to maximum of 85.41% in FY 2004/05. Decreasing trend of ratio is favorable on measure management quality of HBL.

The Earnings per Employee in rupees during the study period, the ratio of NABIL at first decreased in 2002/03 and thereafter abruptly increased in 2003/04. Following 2 years showed continuous decrease. The mean earning per employee of the study period was Rs.1,036,054. The trend is positive, which indicates the Earning per Employee is increasing over the study period. However the later periods it has shown decrement though in low level. This indicates that, in the later half of the review period the increased number of staff have decreased the earnings per employee with similar repercussion in terms of profitability. Whereas, the earning per employee of HBL were fluctuating over the study period. The mean earning of the employee is Rs. 640,032.00, the trend of ratio is negative, which indicates the earning of the employee is declining over the study period. However, the declining is not so sharp. This indicates that low or decreasing earning per employee can reflect inefficiencies as a result of ever staffing, with similar repercussions in term of profitability.

The mean ROE of NABIL was 29.32%. The ratio is fluctuating in upward trend. The increasing trend of ratios implies that earning quality of bank is getting better. Hence the bank's ROE ratio is sound. In the same way, the mean value of ROE of HBL is 16.85% which is above the 15% bench mark, it indicates the bank's ratio is better but it is in decreasing tendency.

The mean ROA ratio of NABIL is 2.28%. The upward movement of ROA since FY 2001/02 is also supported by the positive slope of the trend line. Whereas, the mean ROA ratio of HBL is 1.14%. The ratio of the bank is in

decreasing trend but mean ratio is above the benchmark 1%. Hence, both banks' mean ratio is above the 1% benchmark, which shows the quality of assets and their efficiency to generate return is better.

The net interest margin of NABIL, despite fluctuated only once, the NIM ratio is in increasing trend. The mean ratio for the study period was found 4.64%. Throughout the review period the NIM ratio was found slightly above the generally accepted benchmark. This indicates bank's capacity to maintain higher interest margin than the benchmark in the later half of the review period, despite increase in earning assets. On the other hand, the mean ratio of NIM of HBL is 3.85% which is above than that of generally accepted benchmark. Hence, the bank's ratio is higher but it is in decreasing tendency.

EPS of NABIL bank fluctuated only in the first year of the review period thereafter it increased continuously till the final year of the review period. The increasing trend of EPS is also supported by positive slope of the trend line. In contrary, the EPS of HBL is fluctuated over the study period. The slope of the trend line is decreasing, indicates more volatility of EPS during the study period.

The liquid assets to total deposit ratio of NABIL negatively variated with the industrial average in 2001/02. Thereafter, for the next four years till 2005/06, it variated positively with the industrial average. In 2005/06, the variance with the industrial average decreased to +9.16%. Overall, the bank held liquid assets percentage above the industrial average except in the initial period of 2001/02. This fact implies that the overall liquidity position of the bank is better than industrial average ratio. However the liquidity is in decreasing trend as the bank has switched to investing on more profitable assets. On the other hand, the ratio of HBL is above the industrial average in all the years of study period. Hence, the performance measured in terms of this ratio is better than that of

industry average. This implies that the bank's liquidity position is overall better than the industry average but this impacts profitability negatively.

NABIL has maintained cash reserve with NRB below the industry average. This implies the bank is not strictly following the directives of NRB in respect to balance must held in NRB. Likewise, HBL also has not maintained adequate cash reserve with NRB, which indicates the bank has not following the NRB directions in respect of balance, must be maintained with NRB. But in case of both banks the lack of balance in NRB does not conclude inadequate Cash Reserve Ratio at NRB. Since the calculation is based on year end volumes of deposit and NRB balances and NRB calculates CRR on weekly average balances, ratio is observed low which is a limitation of the study. However the ratio is increasing getting below the industry average.

The vault to total deposit ratio of NABIL is less than the industry average in all observed years. The observed cash in vault ratio curve of NABIL compared with industrial average ratio was giving ripples like appearance which indicates fluctuation of ratio in alternate years. In the same way, the ratio maintained by HBL also below the industrial average in all the years during the study period. Which indicates the both banks are not following the directions of NRB in respect to the balance should be maintained at vault by the banks.

From FY 2002/03 to 2005/06, net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 day to 271-365 days was found positive except in 2002/03. In the long term maturity bucket (>365 days) the gap was negative in all the years. The cumulative gap, CGAP of the RSAs and RSLs repricing in the short term maturity bucket (0-365 days) in all the years was found positive. The CGAP repricing in the long term maturity bucket was however found negative in all the years. The CGAP repricing over the one year maturity bucket was in continuous decreasing trend from 2002/03. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short

term horizon i.e. upto one year in continuous decreasing trend. The CGAP ratio repricing over the long term horizon has decreased to 0% in FY 2005/06. It indicates the RSAs/RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs/RSLs of the bank repricing in the long term horizon are low sensitive to interest rate. In a rising interest environment, as it has maintained $CGAP > 0$ (positive), the bank would profit over the 1-Year time horizon. Conversely, the bank would make loss if the interest rates are falling. With the simulated interest change by 1%, the NII of NABIL are highly sensitive due high CGAP ratio held in short term horizon. The CGAP trend in the short run is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2004/05 and 2005/06 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.

In the same way, in case of HBL from FY 2002/03 to 2005/06 , net financial assets (RSA-RSL) repricing in the short term maturity bucket ranging from 0-90 days to 271-365 days was found positive. But in the long term maturity bucket (>365 days) the gap was negative in all the years except in FY 2002/03 which is positive by Rs. 678.70. The CGAP or the Interest rate Sensitivity ratio to the total earning assets over the short-term horizon i.e. up to one year was highest with 48.33% in 2002/03 and the lowest with 26.06%. The ratio is in continuous decreasing trend. The CGAP ratio to the earning assets over the long-term horizon was highest with 23.05% in 2002/03 and lowest with 0% in 2004/05 and 2005/06. It indicates the RSAs and RSLs repricing in short term maturity bucket are highly sensitive to interest rate even though it is in decreasing trend. Comparatively the RSAs and RSLs of the bank repricing in the long-term horizon is low sensitive to interest rate. As shown in the table above with the simulated interest change by 1%, it would make the NII of the

bank sensitive by the quantity of CGAP held in the short term horizon. As seen from the trend of CGAP in the short run, it is in decreasing trend hence it can be concluded the bank in later years, is keeping the mismatch (RSA-RSL) lower in the short run. This would make the bank less asset sensitive in future. Since the CGAP in the concluding 2 years 2004/05 and 2005/06 in the long term horizon is ZERO, the RSAs and RSLs remain unaffected by the fall or rise of the interest rates. Hence the bank is low sensitive to interest rate in the long horizon.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Banking plays a great role in the development of a country. Basically, financial system is the channel through which mobilization and allocation of savings is carried out in the economy. As such, the financial system facilitates the transfer of financial resources from savers to borrowers. With these objectives, Commercial bank plays a vital role. Banking helps to mobilize small savings collectively to the huge capital investment. In this sense, systematic collection of idle funds and the subsequent mobilization or canalization has supplemented not only the financial needs of trading, manufacturing and service industries, but also provided the necessary finances for agriculture sectors. Though, the banking is considered as the platform of money market and capital markets, commercial banks help to promote the money market.

After linearization policy taken by the government in 1990 A.D. Many financial institutions are opened. The economy boosted from the date. As results the competitions among the commercial banks, finance companies development banks become very tough. As the present scenario of Nepal's entry in WTO, foreign banks are also able to operate their branch bank in Nepal, will make Nepalese financial industries more competitive. Thus, the banks of a country should be able to cope with the change of the conditions by strengthening the financial position, rendering new and effective services and techniques. undoubtedly, the role of the commercial banks has become crucial in capital formation.

Presently 25 commercial banks are operating in the country, among the fourteen banks are listed in NEPSE. Out of the fourteen commercial banks, two joint venture banks namely, Nabil bank and Himalayan bank are selected as the sample banks for this thesis work. The objectives, functions, policies and

strategies of the joint venture bank namely, Nabil bank and Himalayan bank are selected as the sample banks for this thesis work. The objectives, functions, policies and strategies of joint venture banks have been emphasized and the performances of the two sampled joint venture bank has been analyzed. The main purpose of selecting these two banks are, they have been offering all kind of available facilities available in banking sectors in the country. The study is mainly based on the secondary data publicly available in the NEPSE data base and annual report of respective banks. For the study, the five years' data of the banks have been pooled starting from FY19/01 2004/05. The collected data for the study purpose are thoroughly processed, tabulated for require format; different measures of the data have been calculated using the different statically tools with the best effort.

The entire thesis has been classified into five chapters namely,(1)introduction chapter,(2)review of literature,(3)research methodology,(4)data presentation and analysis and finally(5)summary, conclusion and recommendations.

In the first chapter, background, focuses, objectives, limitations, hypothesis formations, statement of problem are briefly discussed. In second chapter the relevant literature of the topic, articles, books, and journals are studied and reviewed. The unpublished thesis relating to the subject matter have been reviewed. In third chapter the statistical and the financial tools have been studied for study. The brief explanation of the tools and the logic for using the tools also have been presented. The methodology, research design to be followed, types of data, data collection process, method of data collection process, sample and population are presented. The fourth chapter is about the presentation and analysis of the data; the major finding of the study are presented on the basis of the analysis carried out in the thesis.

The last chapter is about the summary, conclusion and the recommendations to the concern parties are presented. The conclusion and the recommendations are

extracted from the data analysis and the computation of different financial and statistical tools; are very useful to the banks especially. Thus to follow the recommendation of this work would be a mild stone to improve their weak points in future performance and to strengthen their financial presence in the market.

5.2 Conclusion

The main conclusion of the study are presented below,

) Unsatisfactory Profit

The main objective of bank is to earn profit so that they could serve all the stakeholders of the bank. Both of the banks have been earning positive amount of profit but it is unsatisfactory. Both of the bank are just earning about just 2% around of earning on their total deposit. While comparing the profitability ratios of two banks, all the profitability ratio used to evaluate the profitability position of the banks so that Nabil bank has better profitability than Himalayan bank. The dividend yield of Nabil bank is always higher than the Himalayan bank But the earning ratio of the Himalayan bank is not sufficient as per the other financial indicators

) Satisfactory Utilization of Assets

From the findings of performance measure; it can be concluded that both of the banks have been able to use their fund successfully over the study period. While comparing the banks it is found that Nabil bank is more successful in this connection than Himalayan bank. The loan and advances of total deposits, loan and advances of fixed deposits, loan and advances to saving deposits, the ratio of investment on the performance assets are higher than those of Himalayan bank. On the light of these facts it can be concluded that Nabil bank has used its assets more efficiently for profit making purpose than Himalayan bank.

) Highly Levered Capital Structure

The leverage factor of Himalayan bank is higher than that of the Nabil bank. The total debt ratio of Nabil bank is higher than that of Himalayan bank. However, both of the banks have been used more than 80% of debt. Nabil bank has used about 14.37% interest fund in its capital structure while Himalayan has used about 30.29% of shareholders equity in its capital structure. These conclude that both of the banks are highly levered firms and between them Nabil is more highly levered firm. Higher leverage results the high percentage of risk in the form. In this context, Nabil bank is risky firm than the Himalayan bank.

) Unsatisfactory Liquidity Position

As the conclusion, the liquidity position of both of the banks is unsatisfactory. The current ratio of both of the bank is below than wide accepted standard. Both of the banks current ratio is around 0.89:1, is quite low. The cash reserve ratios of both of the banks are below than 8%, the standard of NRB. From working capitals point of view, both of the banks have used aggressive working capital policy. Himalayan bank maintain higher cash and bank balance to current assets ratio. Loan and advance to current assets ratio of Himalayan bank is higher than that of the Nabil bank and Nabil bank has collected its total deposit from fixed deposit than the Nabil bank. This implies that Nabil banks avails higher liquidity than Himalayan bank.

) High Interest Income Coverage

While analyzing the income and expenditure of both of the banks it is found that both of the banks' interest income covers about 75% to 80% of total income. Commission and discount income contribute about 9 to 10% for Nabil and 7 to 8% for Himalayan bank. And other income contributes about 2% to 4% in total income and dividend income contributes about less than 1% in Nabil banks income. This shows that although, interest is the dominant income source of banks, Himalayan banks depend mostly on interest income than Nabil

bank. And depending into a single source of income is not good practice for the health of the institution.

Regression analyses of financial indicators conclude that the financial indicators of Nabil bank at present is better than that of the Himalayan bank. But the slope of the regression line of the financial indicators of Himalayan bank show that they will grow in greater pace than those of Nabil bank. These facts emphasize that; Himalayan bank has high probability of better performance in future.

5.3 Recommendations

Based on the analysis conducted on previous chapters, some shorts are found. Thus, following recommendations could be possible helpful to improve their future financial performance.

-) Profit is essential for the survival and growth of banks. As per the findings, profits of the both of samples banks are not at satisfactory level. Therefore, they are suggested to generate higher profit for the survival and growth of the firm.
-) There is very low liquidity position in the both of the sampled banks. Therefore, both the banks should be diagnosed the root cause for low liquidity ratio and should improve the liquidity ratio. For this sake not the liquidity of the liquidity but also quality of the liquidity should be considered.
-) The deposit of Nabil bank is on the way of degradation. Low volume of deposits adversely affects in investment, which ultimately decreases the profitability of the bank. The management should start the deposit promotion programmed to increases the deposit level of the bank. For this, the bank can lunch for petty cash deposit programmed like Kopila Bachat Programme of Bank of Kathmandu, Lowering the minimum deposit

balance, insurance scheme like Ghrini Bachat Yojana of NB bank. In order to attract to those who are habitual of banking practices, the bank should provide mobile banking, debit and credit cards facilities.

) The activity ratio of Himalayan bank is poor in compare to Nabil bank. Thus, Himalayan bank is suggested to improve its activity ratio by efficiency mobilizing the fund of the bank.

) Interest Income Remains the main sources of income of both banks. Himalayan bank is even more depends upon the interest income. Therefore, it is suggested to both of the banks to diversify the income pattern to other sector as well such as involving more in foreign trade and other emerged sectors.

) Capital adequacy ratios of both of the bank are lower than the standard. Capital adequacy support against the risk of confidence, instability of the market and other various risk elements. However, while imposing capital standard, Nepal Rastra bank should have considered upon introducing certain means of complementary capital norms such as,

- I. Strengthening inspections and supervision of banks and
- II. Introducing deposits insurance

) Investors of any firm are always fascinating towards the EPS and DPS of the firm. Here it is observed that the EPS and DPS of Himalayan bank are quite low. Therefore the bank should think to improve these financial indicators so that it could convey the right message in the market.

ABBREVIATIONS

ALLL	=	Allowance for Loan and Lease Losses
BAFIO	=	Banking and Financial Institutional Ordinance
BCBS	=	Basel Committee of Banking Supervision
BHC	=	Bank Holding Company
BIS	=	Bank of International Settlement
CAR	=	Capital Adequacy Ratio
CCR	=	Cash Reserve Ratio
DEA	=	Data Envelopment Analysis
EPS	=	Earning Per Share
EVE	=	Economic Value of Equity
FFIEC	=	Federal Financial Institution Examination Council
FIs	=	Financial Institutions
IRR	=	Internal Rate of Return
LD	=	Liquid Asset
MPIS	=	Macroprudential Indicators
NII	=	Net Interest Income
NRB	=	Nepal Rastra Bank
OCC	=	Controller of the Currency
OIG	=	Office of Inspector General
PAT	=	Profit After Tax
PCA	=	Prompt Corrective Action
PLLL	=	Provision for Loan and Lease Losses
RAS	=	Rate Sensitive Assets
RLS	=	Rate Sensitive Liabilities
RNW	=	Return on Net Worth
ROA	=	Return On Assets
ROA	=	Return On Assets
ROE	=	Return On Equity

RWA	=	Risk Weighted Asset
TA	=	Total Asset
TD	=	Total Deposit
TOE	=	Total Operating Expenses
TOR	=	Total Operating Revenue
UFIRS	=	Uniform Financial Institutional Rating System

Appendix 1

List of Commercial Banks in Nepal

S.N.	Name of the Banks	Estd. Year (B.S.)
1	Nepal Bank Limited	1994
2	Rastriva Baniiva Bank	2022
3	NABIL Bank Limited	2041
4	Nepal Investment Bank Limited	2042
5	Standard Chartered Bank Nepal Limited	2043
6	Himalavan Bank Limited	2049
7	Nepal SBI Bank Limited	2050
8	Nepal Bangladesh Bank Limited	2050
9	Everest Bank Limited	2051
10	Bank ofKathmandu Limited	2051
11	Nepal Credit and Commerce Bank	2053
12	Lumbini Bank Limited	2055
13	NIC Bank Limited	2055
14	Machapuchre Bank Limited	2056
15	Kumari Bank Limited	2057
16	Laxmi Bank Limited	2058
17	Siddhartha Bank Limited	2058
18	Global Bank Limited	2063
19	Citizen Investment Bank Limited	2063

Source:<http://www.nrb.org.np>

APPENDIX 2

Shareholding Pattern of NABIL BANK LIMITED:

S.N.	Subscription	% Stake
1.	Financial Institution	20%
a.	NIDC	10%
b.		

	RBS	9.67%
c.		
	NEPSE	0.33%
2.	General Public	30%
3.	Foreign Investment	50%
a.	NB	50%
	International	

Source: Annual Reports 2062/63

APPENDIX 3

NABIL BANK LIMITED

Comparative BALANCE SHEET (Amount in Actual)

A. <u>ASSETS</u>	FY 2058-59	FY 2059-60	FY 2060-61	FY 2061-62	FY 2062-63
	2001-02	2002-03	2003-04	2004-05	2005-06
Cash	208,482,595	318,158,820	187,777,015	286,886,222	146,352,555
Local Currency	182,577,328	285,369,093	154,683,818	263,166,658	132,448,302
Foreign Currency	25,905,267	32,789,727	33,093,197	23,719,564	13,904,253
Cheques for Clearing					
Bank Balance	604,423,743	733,661,029	956,990,468	683,600,321	413,028,059
Nepal Rastra Bank	512,066,310	506,674,844	892,746,559	606,694,594	389,705,047
Other Local Banks	4,795,423	23,910,006	16,151,315	37,849,492	26,204,520
Foreign Banks	87,562,010	203,076,179	48,092,594	39,056,235	(2,881,508)

Money at Call or Short

Notice (Placements)	522,550,000	31,368,000	670,204,297	918,733,400	868,428,307
Investment (At Cost)	7,704,308,930	8,199,514,813	6,031,175,547	5,835,948,498	4,267,233,178
HMG Securities	2,732,959,430	4,120,294,813	3,588,772,854	3,672,626,438	2,413,939,370
Treasury Bills	1,857,688,530	2,517,317,913	1,593,339,152	2,193,314,736	664,627,668
Development Bonds	840,270,900	1,567,976,900	1,960,433,702	1,479,311,702	1,749,311,702
National Savings Bond	35,000,000	35,000,000	35,000,000		
Company Shares	18,820,000	22,220,000	22,220,000	22,220,000	27,363,000
NHFDC Limited	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000
Far Western Rural Development Bank	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Mid-Western Rural Development Bank	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Eastern Rural Development Bank	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
NIDC Capital Markets Limited	100,000	300,000	300,000	300,000	300,000
Other Banks/Agencies	9,095,000	12,295,000	12,295,000	12,295,000	17,438,000
Debentures & Bonds					412,919,325
Shares in Subsidiary Companies					
Other Investments					

	4,952,529,500	4,057,000,000	2,420,182,693	2,141,102,060	1,413,011,483
Mutual Fund	1,000,000	1,000,000	1,257,000	1,257,000	1,257,000
Local Banks	-	-	12,500,000	12,500,000	22,500,000
Foreign Banks	4,951,529,500	4,056,000,000	2,406,425,693	2,127,465,060	1,391,679,483
Bills Purchases & Discounted	331,157,426	302,358,410	301,689,083	236,232,975	120,903,614
Local	64,190,326	55,612,910	46,752,478	24,990,336	72,907,382
Foreign Loans, Advances & Overdrafts	266,967,100	246,745,500	254,936,605	211,242,639	47,996,232
Local	7,993,282,006	7,135,536,266	7,454,262,902	7,953,759,876	10,465,266,388
Foreign	7,964,250,621	7,050,665,802	7,378,029,069	7,582,466,725	10,261,188,129
Fixed Assets	29,031,385	84,870,464	76,233,833	371,293,151	204,078,259
Other Assets	248,665,708	237,638,807	251,915,161	338,126,262	361,235,392
Non-Banking Assets	749,583,805	671,016,247	708,610,519	492,199,084	543,883,323
Interbranch Assets					
Loan Loss Provision adjusted*	(591,802,930)		-	-	-
Total Assets	17,770,651,283	17,629,252,392	16,562,624,992	16,745,486,638	17,186,330,816

B. LIABILITIES & CAPITAL	FY 2058	FY 2059	FY 2060	FY 2061	FY 2062-63
	491,654,4	491,654,4	491,654,4	491,654,4	
Share Capital	00	00	00	00	491,654,400
	<u>500,000,0</u>	<u>500,000,0</u>	<u>500,000,0</u>	<u>500,000,0</u>	
Authorised Capital	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>500,000,000</u>
	<u>500,000,0</u>	<u>500,000,0</u>	<u>500,000,0</u>	<u>500,000,0</u>	
Issued Capital	<u>00</u>	<u>00</u>	<u>00</u>	<u>00</u>	<u>500,000,000</u>
	491,654,4	491,654,4	491,654,4	491,654,4	
Paid-Up Capital	00	00	00	00	491,654,400
	571,192,2	654,773,8	822,533,0	990,027,9	1,165,983,90
Reserve Funds	54	94	56	03	8
	514,504,3	568,832,1	652,079,2	743,200,0	
General Reserve	93	15	77	00	847,000,000
Share Premium	74,000	74,000	74,000	74,000	74,000
		49,165,44	103,247,4	162,800,0	
Capital Adjustment Reserve	-	0	24	00	228,300,000
	26,173,53		29,794,03	29,794,03	
Retained Earning	2	2,110,372	1	1	29,981,908
Contigent Reserve	2,750,000	3,750,000	4,750,000	5,750,000	6,750,000
				11,931,87	
Dividend Equalization Fund				2	13,500,000
Exchange Fluctuation Reserve	25,112,32	28,263,96	30,010,32	33,900,00	
	9	7	4	0	37,800,000
Special Reserve Fund	2,578,000	2,578,000	2,578,000	2,578,000	2,578,000
Other Reserve					
Borrowing from other Banks/Agencies	-	417,298,0	961,461,1	229,660,0	
	-	60	53	00	17,062,680
		417,298,0	961,461,1	229,660,0	
Local	-	60	53	00	17,062,680

Nepal Rastra Bank-		179,949,0	606,337,3			
Repurchase	-	60	42			
		137,349,0				
Nepal Rastra Bank-Refinance		00	5,123,811			
C. OFF BALANCE SHEET	01-02	02-03	03-04	04-05	05-06	
ITEMS						
Others Borrowings	-	00	00	00	17,062,680	
Contingent Liabilities						
Foreign						
		11,497,142	192,552,999	192,351,238	197,735,422	191,540,706
Letters of Credit		15,839,00	15,506,42	13,447,66	14,119,03	14,586,608,7
Deposits		7,783	8,215	1,064	2,115	07
		147,819,584	196,300,873	312,029,923	315,200,683	304,142,658
< than 6 months		2,850,971,	2,703,818,	3,034,002,	2,688,966,	2,799,184,97
Current		642	737	537	557	7
		147,819,584	211,219,769	356,465,223	383,833,174	386,588,460
> than 6 months		4,917,138,	4,972,056,	5,229,723,	5,994,121,	7,026,334,40
Savings		344	618	260	406	2
		5,081,104	5,564,700	1,367,509	7,554,198	
Letter of Guarantee		3,948,337,	4,944,960,	2,540,701,	2,801,405,	2,341,328,57
Call Outstanding		953	238	246	837	7
		119,419,748	261,213,416	717,900,964	713,216,660	502,516,634
Bid Bond Guarantee		3,719,202,	2,446,845,	2,252,544,	2,310,571,	2,078,535,13
Fixed		825	914	590	784	5
		3,397,456	3,830,119	3,945,298	3,320,707	3,240,846
Performance Guarantee		107,166,4	74,459,25		19,284,00	
Others		99	8	9,374,010,0	44,249,385	
		8,750,154	150,599,388	487,776,832	504,252,743	454,530,552
Advance Payment Guarantee		296,190,5	364,287,4	381,315,4	304,682,5	
Margin		20	50	21	31	296,976,231
		2,272,138	2,783,909	6,178,834	0,643,210	3,745,236
Financial Guarantee		69,696,78	67,752,85	108,943,5	173,499,2	
Bills Payable		8	9	51	87	119,753,038
		799,100,0	491,344,9	730,371,7	741,612,9	
Other Guarantee						
Other Liabilities		58	64	68	33	805,268,083
				322,100	1,803,500	
G'tee against Counter G'tee of		17,770,65	17,629,25	16,562,62	16,745,48	17,186,330,8
Total Liabilities		1,283	2,392	4,992	6,638	16
A+ Rated Banks		5,195,676	2,103,838	6,823,749	8,320,014	2,386,471
Forward Exchange Contract						
Outstanding		6,516,294	2,350,833	7,856,311	9,433,936	253,269
Bills under Collection		337,181	7,637,234	112,822	5,151,778	7,638,991
Contingent Tax Liability		0,295,679	878,888	0,349,468	368,550	841,871
Acceptance	and					

Endorsements	9,912,980	7,279,505	1,580,742	1,240,301	0,701,385
Other Contingents		-			-
			1,240		1,059,427

APPENDIX 4

NABIL BANK LIMITED

Comparative INCOME EXPENSE & APPROPRIATION STATEMENT

(Amount in Actual)

A. <u>INCOME</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Interest Income	1,266,703,645	1,120,184,120	1,017,872,280	1,001,616,901	1,068,746,769
Loans, Advances & Overdrafts	846,764,460	801,046,033	776,300,988	761,616,605	831,829,635
Loans & Advances	580,337,617	547,072,580	539,749,165	517,962,940	560,469,027
Overdrafts	266,426,843	253,973,453	236,551,823	243,653,665	271,360,608
Investments	107,843,270	175,579,132	174,861,230	198,941,190	173,985,895
Treasury Bills	49,653,080	107,137,856	61,802,717	78,792,956	62,620,921
Development Bonds	55,194,553	65,445,639	110,039,428	112,113,971	88,442,986
Natinal Savings Certificates	2,995,637	2,995,637	3,019,085	1,854,081	-

Other Investments	-	-	-	6,180,182	22,921,988
Agency Balances	17,109,316	3,445,689	2,317,666	1,827,629	1,884,371
Local Banks					
Foreign Banks	17,109,316	3,445,689	2,317,666	1,827,629	1,884,371
Money At Call & Short Notice	-	360,751	86,660	10,185,740	21,444,455
Local Banks	-	360,751	-	388,329	1,734,652
Foreign Banks	-	-	86,660	9,797,411	19,709,803
Others	294,986,599	139,752,515	64,305,736	29,045,737	39,602,413
Commission & Discount Bills Purchase & Discount	97,144,244	114,336,964	144,405,701	138,574,407	128,883,480
Local	4,767,615	2,086,512	4,492,806	5,573,718	821,643
Foreign	1,240,312	2,066,047	1,351,976	1,664,877	5,312,834
Commission	79,004,688	93,876,958	132,877,604	129,778,847	119,868,028
Letter of Credit	35,977,061	41,942,463	55,708,621	45,835,835	38,547,665
Guarantee	17,089,919	20,037,299	25,022,036	23,533,764	22,309,605
Collection Fees	5,144,283	5,364,050	1,913,769	2,371,864	2,598,879

Remittance Fee	14,321,296	19,370,843	41,090,764	43,651,993	39,441,593
Credit Cards	6,472,129	7,162,303	9,142,414	14,385,391	16,970,286
Others	12,131,629	16,307,447	5,683,315	1,556,965	2,880,975
Exchange Gain	159,514,025	154,219,398	144,075,171	157,324,299	184,878,868
Revaluation Gain	11,681,237	12,606,556	6,985,426	15,300,154	15,280,960
Trading Gain	147,832,788	141,612,842	137,089,745	142,024,145	169,597,908
Non-Operating Income	1,909,191	(50,239)	86,946,330	92,780,639	72,241,283
Profit/Loss on Sale of Assets	1,644,191	(373,239)	7,223	347,465	(524,942)
Dividend	265,000	323,000	418,000	456,000	476,853
Others	-	-	86,521,107	91,977,174	72,289,372
Recovery from Book Write Off Accounts	-	-	86,521,107	91,977,174	72,289,372
Other Income	14,978,762	250,374,804	34,150,842	38,754,927	55,933,830
Rent on Safe Deposit Lockers	1,102,200	1,191,048	1,587,251	1,222,675	1,683,000
Issue & Renewal of Credit Cards	4,136,487	5,363,303	5,505,768	9,909,732	8,257,311
Issue & Renewal of ATM Cards	-	287,550	479,700	479,504	3,630,710

Telex	4,507,245	9,695,993	10,533,298	9,912,134	7,877,445
Services Charges	4,286,032	5,336,216	5,546,763	7,394,846	22,230,077
Provision Write Back		- 227,898,217	6,221,650	-	-
Others	946,798	602,477	4,276,412	9,836,036	12,255,287
Total	1,540,249,867	1,639,065,047	1,427,450,324	1,429,051,173	1,510,684,230

B. <u>EXPENSE</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Interest Expenses	578,363,933	462,078,587	317,348,258	282,947,633	243,544,611
Deposits	564,792,747	456,769,718	307,495,747	265,472,891	227,902,747
Savings	177,021,996	136,936,306	112,585,041	116,702,485	103,927,978
Call	198,416,128	162,814,151	118,547,994	74,509,769	61,211,962
Fixed	189,354,623	157,019,261	76,362,712	74,260,637	62,762,807
Borrowings	13,571,186	5,308,869	9,852,511	17,474,742	15,641,864
Loan from NRB- Repurchase	3,984,635	2,322,668	2,892,751	3,261,882	5,904,986
Loan from NRB- Refinance	-	67,734	2,306,190	46,747	-
Other Borrowings	9,586,551	2,918,467	4,653,570	14,166,113	9,736,878
Personnel Expense	147,355,897	147,439,466	210,582,937	180,840,420	199,516,217
Salary	65,990,807	71,033,839	76,458,660	87,720,774	94,253,260
Allowances	28,035,512	34,277,930	31,044,066	42,362,928	46,933,272
Contribution to Provident Fund	6,423,043	6,676,410	6,265,928	7,165,617	7,903,593
Training	1,892,016	1,686,702	2,446,176	1,698,436	4,891,734
Uniform		436,979			

	1,064,005		1,284,382	1,236,540	2,253,395
Medical	100,995	47,171	46,261	47,065	114,614
Insurance	1,495,384	4,281,622	3,929,934	4,201,748	4,654,572
Gratuity	7,981,429	7,855,599	68,345,624	18,327,662	18,222,505
Others	34,372,706	21,143,214	20,761,906	18,079,650	20,289,272
Office Overhead Expense	122,795,028	134,316,960	166,200,160	153,374,998	190,299,470
House Rent	16,415,298	16,885,176	52,624,041	19,258,608	22,236,715
Electricity & Water	7,917,781	8,588,947	8,846,214	9,552,041	10,140,963
Repair & Maintenance	7,448,199	2,523,434	2,574,915	2,854,192	3,312,793
Insurance	7,030,101	4,773,765	4,458,718	4,433,515	5,442,553
Credit Guarantee Premium	3,512,414	1,791,996	1,344,348	1,067,477	886,342
Office Equipment Furniture & Repair	-	3,966,276	3,806,583	3,462,510	3,933,610
Stationery and Printing	10,170,438	8,736,202	8,935,123	10,118,388	9,774,743
Advertisements	1,461,363	1,021,699	497,212	3,119,757	6,146,013
Donations	36,500	190,751	121,012	113,549	98,976
Security Expenses	2,770,528	4,296,473	4,558,360	5,075,043	6,539,230

Board of Directors Expenses	1,220,531	2,649,165	3,876,887	2,781,690	4,260,791
Audit Expenses	240,000	379,238	714,456	504,499	525,957
Professional Expenses	17,114,133	3,444,206	3,989,192	5,300,290	9,362,754
Entertainment Expenses	2,291,013	1,284,669	1,476,569	1,851,138	2,875,189
Written Off Expenses	-	188,365			
Depreciation on Fixed Assets	26,269,844	39,751,107	35,041,403	46,268,659	58,709,602
Amortization of Deferred Expenses	4,658,708	5,397,450	5,957,958	3,063,645	3,069,865
Others	14,238,177	28,448,041	27,377,169	34,549,997	42,983,374
Exchange Loss					
Non-Operating Expenses					
Book Write Off of Bad Loans	-	441,525,176	51,573,896	81,821,486	31,132,974
Provision for Loan Loss	165,767,394			1,051,951	4,207,388
Provision for Staff Bonus	52,596,762	44,116,396	66,364,097	71,940,693	84,198,357
Provision for Income Tax & Special Fee	181,994,713	137,949,850	199,145,165	201,762,769	239,149,464
Net Profit Carried Down	291,376,140	271,638,612	416,235,811	455,311,222	518,635,749
Total	1,540,249,867	1,639,065,047	1,427,450,324	1,429,051,172	1,510,684,230

C. PROFIT

APPROPRIATION **2001-02** **2002-03** **2003-04** **2004-05** **2005-06**

Accumulated Profit upto

Previous Year	108,446,050	26,173,532	2,110,372	29,794,031	29,794,031
This Year's Profit	291,376,140	271,638,612	416,235,811	455,311,222	518,635,749
Prior Year's Tax adjustments			-	31,758,985	1,478,336
Appropriation	373,648,658	295,701,772	388,552,152	487,070,207	519,926,208
General Reserve Fund	58,275,228	54,327,722	83,247,162	91,120,723	103,800,000
Contingent Reserve	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Dividend Equalization fund		-	-	11,931,872	1,568,128
Employees' related Funds	15,260,454	20,000,000			-
Interim & Proposed Dividend	196,661,760	147,496,320	245,827,200	319,575,360	344,158,080
Issue of Bonus Share	98,858,400				
Exchange Equalization Reserve	2,920,309	3,151,639	1,746,357	3,889,676	3,900,000
Prior Year's Tax Capital Adjustment Reserve	672,507	20,560,651	2,649,449		
		-	49,165,440	54,081,984	59,552,576
				59,552,576	65,500,000
Accumulated Profit	26,173,532	2,110,372	29,794,031	29,794,031	29,981,908

Source: Annual Reports

APPENDIX 5

NABIL BANK LIMITED

Risk Weighted Assets (Rs. in Millions)

Risk Weighted Assets of Nabil						
		2001/02	2002/03	2003/04	2004/05	2005/06
On Balance Sheet	Total On Balance Assets	17,775	17,993	16,920	17,104	17,549
	RWA	9,869	8,702	8,801	9,568	12,132
Off Balance Sheet	Total Off Balance Assets	4,911	4,993	5,485	5,298	4,692
	RWA	1672	1,861	2,345	2,304	2,062
Total	Assets	22,687	22,986	22,405	22,402	22,241
	RWA	11,541	10,564	11,146	11,872	14,193

Source: Annual Reports

APPENDIX 6

Share Holding Pattern of Himalayan Bank Ltd.

Subscription	Percentage Holding
Promoter Share Holders	51%
Habib Bank Ltd., Pakistan	20%
Financial Institution (Employees Provident	14%
Nepalese Public Shareholder	15%
Total	100%

Source: Annual Report, 2005.

APPENDIX 7

HIMALAYAN BANK LTD.

Comparative Profit and Loss Account

(in million

Rs.)

Fiscal Year (for the mid	2000	2001	2002	2003	2004	2005
Expenses						
Interest Expenses	533.59	594.8	734.518	578.134	554.128	491.543
Staff Expenses	47.364	59.88	85.575	101.537	120.146	152.508
Office Operating Expenses	109.746	132.54	141.116	155.786	177.132	211.047
Provision for Doubtful	64.57	103.24	134.32	166.506	202.873	186.226
Provision for Staff Bonus	27.941	34.855	48.336	38.783	40.003	46.731
Non-operating Expenses	—	3.672	-	--	—	10.988
Income Tax Provision	86.221	114.31	154.323	114.023	147.896	157.522
Net Profit	165.248	199.38	277.039	235.023	212.129	263.053
Total Expenses	1034.68	1242.7	1575.23	1389.79	1454.31	1519.62
Incomes						
Interest Income	862.054	1033.6	1326.38	1149	1201.23	1245.9
Commission & Discount	101.983	110.33	96.065	101.704	102.562	123.929
Foreign Exchange Gain	63.958	87.327	119.261	104.601	109.599	112.419
Non-Operating Income	1.061	1.695	2.303	2.451	10.76	3.299
Other Income	5.624	9.685	31.22	32.038	30.154	34.076
Total Income	1034.68	1242.7	1575.23	1389.79	1454.31	1519.62

Source: Annual Reports.

APPENDIX 8

HIMALAYAN BANK LTD.

Comparative Balance Sheet

(in million

Rs.)

Fiscal Year (as at mid	2000	2001	2002	2003	2004	2005
Capital and Liabilities						
Share Capital	192.0	240.0	300.0	390.0	429.0	536.3
Reserve Funds	503.1	630.6	898.4	1111.5	1476.9	1755.5
Borrowings	232.7	128.6	79.5	534.0	645.8	659.0
Deposit Accounts	9772.7	14043.1	17532.4	18619.4	21007.4	22010.3
Other Liabilities	543.6	821.5	690.4	660.9	638.9	768.5
Total Liabilities	11244.1	15863.8	19500.7	21315.8	24198.0	25729.6
Assets						
Cash & Bank Balance	802.2	901.9	1435.2	1264.7	1979.2	2001.1
Money at Call	4125.9	4682.8	4057.7	352.4	150.1	368.9
Investment	468.9	2216.4	4083.2	9157.1	10175.4	9292.1
Loan and Advances	5246.0	7224.7	9015.3	9557.1	10844.6	12919.6
Fixed Assets	171.3	193.1	201.7	318.8	229.9	299.6
Other Assets	429.8	644.9	707.6	665.7	818.8	848.3
Total Assets	11244.1	15863.8	19500.7	21315.8	24198.0	25729.6

Source: Annual Reports.

APPENDIX 9

List of On-Balance Sheet and Off-Balance Sheet Assets and Weights Of Himalayan Bank Limited

S.N.	Particulars	Weights
A	On Balance Sheet Assets	
1	Cash Balance	0%
2	Gold (Tradable)	0%
3	Balance with Nepal Rastra Bank	0%
4	Investment in Govt. Securities	0%
5	Investment in NRB Bond	0%
6	Fully secured loan against own Fixed Deposit Receipt	0%
7	Fully secured loan against Govt. Securities	0%
8	Balance with Domestic Banks and Financial Institution	20%
9	Fully secured FOR loan against FDR of Other Bank	20%
10	Balance with Foreign Banks	20%
11	Money at Call	20%
12	Loan against Guarantee of Internationally Rated Bank	20%
13	Other Investments in Internationally Rated Banks	20%
14	Investment in Shares Debentures and Bonds	100%
15	Other Investments	100%
16	Loan Advances and Bills Purchased / Discounted	100%
17	Fixed Assets	100%
18	All Other assets	100%
B	Off Balance Sheet Items	
1	Bills Collection	0%
2	Forward Foreign Exchange Contract	10%
3	Letters of Credit with maturity of less than 6 months	20%
4	Guarantees provided against CG of A+ international	20%
5	Letters of credit with maturity more than 6 months	50%
6	Bid Bond	50%
7	Performance Bond	50%
8	Advance Payment Guarantee	100%
9	Financial Guarantee	100%
10	Other Guarantee	100%
11	Irrevocable Loan Commitment	100%
12	Contingent Liability in respect of income tax	100%
13	All other contingent liabilities	100%
A+B	Total Risk Weighted Assets	

Source: Annual Report (Himalayan Bank Ltd.), 2005.

List of Listed Companies (Commercial Bank)

<u>S.N.</u>	<u>Name of the Company</u>	<u>Listing Date</u>	<u>Address</u>
1	Nabil Bank Ltd.	24/11/1985	POB 3729, Nabil House, Kamaladi, Ktm. E-mail : nabil@nabil.com.np
2	Nepal Investment Bank Ltd.	22/07/1986	POB 3412, Darbar Marg, Ktm.
3	Standard Chartered Bank (Nepal) Ltd.	04/07/1988	POB 3990, Naya Baneshwor, Ktm. E-mail : ANZ@Dixitu.com
4	Himalayan Bank Ltd.	05/07/1993	POB 20590, Tridevi Marg, Thamel, Ktm. E-mail : hbl@hbl.mos.com.np
5	Nepal SBI Bank Ltd.	17/01/1995	POB 6049, Hattisar, Kamalpokhari, Ktm. E-mail : nsblco@mos.com.np
6	Nepal Bangladesh Bank Ltd.	24/12/1995	POB 9062, Bijuli Bazar, New Baneshwor, Ktm. E-mail : nbbl@mos.com.np
7	Everest Bank Ltd.	07/04/1996	POB 13384, EBL House, Lazimpat, Ktm. E-mail : elb@mos.com.np
8	Bank of Kathmandu Ltd.	17/07/1997	POB 9044, Kamal Pokhari, Ktm. E-mail : info@bok.mos.com.np
9	Machhapuchhare Bank Ltd.	28/05/2003	Central Off. POB:41, Naya Bazar, Pokhara-9, Corp: off: POB:12427, Putalisadak, Ktm. Email: machbank@.mbl.com.np
10	Nepal Industrial & Commercial Bank	13/06/2000	Central Off. POB 252 Main Road, Biratnagar

1	Nabil Bank Ltd.	24/11/1985	POB 3729, Nabil House, Kamaladi, Ktm. E-mail : nabil@nabil.com.np
	Ltd.		Email: nicb@brt_wlink.com.np City Off. New Road. POB 7367 Ktm Email: newroad@nicbank.com.np
11	Laxmi Bank Ltd.	20/04/2004	POB. 61, Adrashanagar, Birgunj, Parsa. Email: info@laxmibankltd.com
12	Kumari Bank Ltd.	29/07/2004	POB 21128, Putalisadak, Kathmandu Email: info@kbl.com.np
13	Lumbini Bank Ltd.	10/11/2004	Central Off, Narayanghat, Chitwan Corp: Off: Durbarmarg, Kathmandu Email: lumbiniktm@mos.com.np
14	Nepal Credit and Commerce Bank Ltd.	31/01/2005	Central Off, Bhairahawa, Siddharthanagar Corp: Off: POB 12559, Bagbazar, Kathmandu Email: corporate@nccbank.com.np

Source: www.sebonp.com

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