

**FINANCIAL PERFORMANCE OF COMMERCIAL BANKS
WITH REFERENCE TO
HIMALAYAN BANK LIMITED AND MACHHAPUCHCHHRE
BANK LIMITED**

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In partial fulfillment of the requirements for the degree of

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RECOMMENDATION

This is to certify that the thesis

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FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

WITH REFERENCE TO

HIMALAYAN BANK LIMITED AND MACHHAPUCHCHHRE BANK LIMITED

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the

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DECLARATIONS

I hereby declare that the work reported in this thesis entitled "**FINANCIAL PERFORMANCE OF COMMERCIAL BANKS WITH REFERENCE TO HIMALAYAN BANK LIMITED AND MACHHAPUCHCHHRE BANK LIMITED**" submitted to Office of the Dean, Faculty of Management, Tribhuvan University is my original work for the partial fulfillment for the requirement of Master's Degree in Business Studies (M.B.S.) under the supervision of **Achyut Raj Bhattarai** and **Shree Bhadra Naupane**, lecturer of Shanker Dev Campus, Kathmandu.

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ABBREVIATION

ATM	Automatic Teller Machine
ADB	Agriculture Development Bank
B.S.	Bikram Sambat (Nepalese Year)
CBs	Commercial Banks
C.V.	Coefficient of Variance
CDM	Central Department of Management
EBL	Everest Bank Limited
F/Y	Fiscal Year
HBL	Himalayan Bank Limited
i.e.	that is
JVBs	Joint Venture Banks
Ltd	Limited
MBL	Machhapuchchhre Bank Limited
MBS	Master's in Business Studies
NBBL	Nepal Bangladesh Bank Limited
NABIL	Nepal Arab Bank Limited
NBL	Nepal Bank Limited
NRB	Nepal Rastra Bank
NGBL	Nepal Grindlays Bank Limited
NIDC	Nepal Industrial Development Bank
P.E.	Probable Error
Pvt. Ltd	Private Limited
RBB	Rastriya Banijya Bank
ROA	Return on Assets
ROE	Return on Equity
Rs.	Rupees
r	Correlation of Coefficient
r ²	Coefficient of Determination
S.D.	Standard Deviation
S.D.C.	Shanker Dev Campus
T.U.	Tribhuvan University

CHAPTER - I

INTRODUCTION

1.1 Background of the study

In today's context a sound financial system is a hallmark of developed economy. A well developed financial system contributes to the society's well being and to raise the standard of living by channeling the nation's wealth into the best and profitable uses. It is obvious that economic development is impossible without the development of different sectors like agriculture, industry, trade, tourism, etc of the country. So, development of these sectors needs a regular supply of financial resources. In developing countries there is always shortage of the capital for the development activities. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also cannot undertake large business because per capita income of the people is very low while their propensity to consume is very high. Due to low income their saving is very low and their saving is not sufficient for carrying on development works.

The development of a country is always measured by its economic development. Economic development demands transformation of saving or investable resources into the actual investment. It is the financial institution that transfers funds from surplus the spending units to deficit units. Commercial banks, finance companies, insurance companies, corporative societies, development banks etc all are the part of financial institution. The development of financial system virtually benefits all the members of the economy. Thus, financial sector plays an important part in the development of the country.

A financial institution is the lifeblood of economic development of the country. Financial institution acts as catalyst in the process of economic growth of the country. A bank is a financial institution, which can play a significant role in the upliftment of the economic situation of the developing country like Nepal. Bank plays a vital role to encourage thrift and discourage hoarding by mobilizing the resources and removing the habit of hoarding. They pursue economic growth rapidly, developing the banking habit among the people by collecting the small-

scattered resources in one bulk, using them in the further productive purposes, and rendering other valuable service to the country. Thus, this gives the individual an opportunity to borrow funds against future income, which may improve the economic well being of the borrower. Bank deals with the offer of collected deposits and provides the loan for commercial purpose.

Nepal is one of the developing country in the world. Nepal is still a developing country characterized by high population growth rate (2.25), low per capita income of \$220 and low rate of capital formation. Gross domestic saving is around 14% of the GDP and around 31% population lives below poverty line. (www.worldbank.org). Landlocked, unfavorable topography, absence of economic infrastructure, political instability in the past and lack of political commitment are some of the reasons behind the backward economic condition. For this purpose, the process of capital accommodation among other prerequisites should be expedited. So, financial institution like as bank is very necessary fro developing country like Nepal. Because it can help to grow in Nepalese living standard and per capita income so it is very necessary to establish rapid growth.

The development of banking in Nepal is of relatively recent origin. Like other countries, the existence of unorganized money market consisting of landlords, shahukars (Rich merchant), shopkeepers and other money lenders were the ancient bankers of Nepal. In the context of modern banking, an attempt toward a more formal and organized from of banking, was made in the year 1994 B.S. with the enactment of the first codified law "Nepal Bank Kanoon" and the establishment of Nepal Bank Limited (NBL), as the first bank in the country, in the same year in kartik 30. After almost eighteen years from the establishment of NBL, the need of the central bank for the surveillance of banking activities was left. This leads to the establishment of Nepal Rastra Bank (NRB).

Nepal Rastra Bank was set up on 2031 B.S. as a central bank under NRB act 2012 B.S. with an objective of supervising, protecting and directing the function of commercial banking activities. Since than it has contributed to the government's bank and has contributed to the growth of financial sector. After this, government established Rastriya Baniya Bank (RBB) in 2022 B.S. as fully government owned

commercial bank. With the emergence of RBB, banking service spread to both the urban and rural areas but customers failed to have taste of quality service because of political interference. For industrial development, industrial development centre was set up in 2013 B.S. which was converted to Nepal Industrial Development Corporation (NIDC) in 2016 B.S. Similarly, Agriculture Development Bank (ADB) was established in 7 magh 2024 B.S. under the ADB Act 2024 with an objective to promote agricultural productivity could be enhance through introduction of modern agricultural techniques. Despite all these efforts of the government financial sector was sluggish.

1.2 A Brief Overview of the Concerned Banks

This study "Financial Performance of Commercial Banks with reference to HBL and MBL" concentrates on the financial performance of the HBL and MBL operating in Nepal and implications of new directives of Nepal Rastra Bank towards the performance. The performance of the HBL and MBL are evaluated along with the brief analysis of the state of the economy, which provides the opportunities as well as threats to the commercial banks. This study is basically focused on financial performance of the selected period to know their impacts on the national economy as a whole. The financial performance of the bank can be evaluated on the basis of meeting of their objectives and fulfilling of the functions. Analyzing financial performance is a process of evaluating relationship between components parts of financial statement to obtain a better understanding of a banks position and performance.

1.2.1 An Introduction to Himalayan Bank Limited

Himalayan Bank Limited was incorporated in 1992 under the company act 1964 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund and Habib Bank Limited, one of the largest commercial bank of Pakistan. Banking operation commenced from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese private sector. Besides commercial banking services, bank also offers industrial and merchant banking services.

The bank has six branches in Kathmandu Valley at the following locations: Thamel, New Road, Mahargunj, Teku, Pulchowk and Bhaktapur. In addition, the bank also has ten branches outside Kathmandu Valley in Banepa, Tandi, Bharatpur, Birgunj, Hetauda, Bharirahawa, Pokhara, Dharan, and Butwal. The bank also operates a counter in the premises of the Royal Palace. Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. The bank has been adopting innovative and latest banking technology. The bank already offers unique services such as SMS Banking, Internet Banking, consortium finance, working capital loan, term loan, demand loan, hire purchase loan, education loan, housing loan, trade loan, bank guarantee, remittance services all over the world, locker facilities, ATM (Automated Teller Machine), etc to customers and will be introducing more like these in the near future.

Himalayan Bank Limited was registered in 2049/10/05 and started its operation on the same date. This is the joint venture bank with maximum shareholding by the Nepalese private sector which managed by Nepali chief executive. In the time of established an authorized capital of the bank is Rs 600 million, issued Rs 300 million and paid up capital 300 million. But at the end of fiscal year 2005/06, HBL has an authorized capital of Rs 1000 million and issued capital of Rs 772 million. It's paid up capital stands at Rs 772 million. Recently to fulfill is supplementary capital requirement, HBL issued short-term unsecured subordinated bonds. HBL Bond 2006 having face value of Rs 1000 and coupon interest of 8.5%.

Himalayan Bank has access to the worldwide correspondent network of Habib Bank for fund transfer, letter of credit or any banking business anywhere in the world. Habib Bank is the largest and oldest bank in Pakistan having over 1700 domestic and 65 overseas branches covering all continents and over 1800 correspondents worldwide. Besides, Himalayan Bank has correspondent arrangement with 178 internationally renowned banks like American Express bank, Citibank, ABN Amro etc.

1.2.2 An Introduction to Machhapuchchhre Bank Ltd.

This bank was registered in 1998 as the first commercial bank in the western part of the kingdom of Nepal having head office in Pokhara. This bank has corporate office in Putalisadak, Kathmandu.

The bank with perception of tremendous business potentials outside Kathmandu, in a very short span of time, expanded branches in Kathmandu, Damauli, Bhairahawa, Birgunj, Mahendrapul(Pokhara), Rambazar(Pokhara), Bagar(Pokhara), Jomsom, Banepa. This bank aims to serve the people of urban and rural areas.

Machhapuchchhre Bank Ltd. is a pioneer in introducing the latest technology banking in the country. It is the first to introduce centralized banking software named Globus Banking Software developed by Temenos NV, Switzerland.

Machhapuchchhre Bank Ltd. strives to facilitate its customer needs by delivering the best services in combination with the state of art technologies and the best international parties. Moreover MBL provides services like loan and advance, deposits trade finance remittance, safe deposit locker, foreign exchange, ATM facilities, travel cheque, mobile banking, any where banking, MBL debit card.

The bank has an authorized capital of Rs. 1000 Million, issued capital of Rs. 550 Million, and paid up capital of Rs. 550 Million. The numbers of shareholders of the bank is 14742.

1.3 Statement of the Problem

The main objectives of the commercial bank are to mobilize ideal resources from unproductive sectors to the growth of trade, industry and commerce. They pull together the saving of the community and arrange for their productive use. They supply the financial needs of modern business by various means. In fact banking sector is considered as the back bone for economic development of the country. So sound banking system is more essential for the under developed country like Nepal. The present study basically focuses on the financial performance of sample banks. After implementation of the liberal economic policy by the government there is rapid growth in the growth in the number of the commercial bank with in short span

of time. They have been facing neck to neck competitive and they have ultimately affected their profit ability. These commercial banks have not been found much responsive to meet the increasing resources need to the economy as expected before especially in agriculture and other productive sector due to their nature of centralizing them in major cities.

Another increasing problem of these commercial banks is rather than investing in productive sectors for the development of indigenous enterprises. They have focused their investment for the promotion of overseas impact trading services being directed by their profit-maximizing objectives. So the prevailing challenge for the country is to direct these institutions to provide services to small and middle class entrepreneurs and towards the productive sectors of the nation.

The major problems of the commercial banks are their profitability. Operating expenses and dividend policies have been found inconsistent and differing according to them.

1.4 Objective of the study

Since the commercial banks have introduced advanced banking technique with international networking of bank branches, they are becoming more competent regarding creation of deposits, mobilization and investment. As a consequence they are playing vital role in economic growth of the country. In this context, the general objective of this study is to analyze, examine and interpret the financial performance of sample banks. The specific objectives of the study are as follows:

- a. To analyze the financial performance through the use of appropriate financial and statistical tools
- b. To identify various aspects relating to financial performance of sample banks for the period of last 5 years (2059/060-2063/64).
- c. To predict the value of total deposit, loan and advance, net profit of the banks for coming five years
- d. To provide decisive suggestion and recommendation to improve the financial performance of two commercial banks

1.5 Limitation of the study

Along with the significance every study has some limitations and this study cannot far from an exception. Thus the main limitation of this study will be:

- a. The study period covers data for only five fiscal years from 2095/060 to 2063/64.
- b. The study will be done mostly on the basis of secondary data collected.
- c. Due to availability of limited information, this study will not cover every part of the performance aspects
- d. Lack of sufficient time and resources, thesis has to be completed in the prescribed year by Tribhuvan University (TU).

1.6 Organization of the Study

The study has been divided into five chapters as:

Chapter 1: Introduction

This chapter deals with the introduction part of the study. It includes background of the study, sample of the study, statement of the problem, objective of the study, limitation of the study and organization of the study.

Chapter 2: Review of Literature

This chapter is the "Review of Literature". Here the previous study done by different persons both individually and institutionally are reviewed with their findings and recommendations on the associated fields. Similarly different articles, books, journals and periodicals are to be reviewed.

Chapter 3: Research Methodology

This chapter includes different financial and statistical tools, which are used to tabulate and analyze the data available from the secondary sources are discussed.

Chapter 4: Data Analysis and Presentation

The fourth chapter is analyzing chapter with deals with the presentation and analysis of data and major findings of the study are also included.

Chapter 5: Summary, Conclusion and Recommendation

The last chapter contains the findings of whole study after which major conclusion and recommendation are specified.

The appendixes and bibliography are given there after.

CHAPTER - II

REVIEW OF LITERATURE

Several research works has been done in various aspects of commercial banks, especially on their financial performance, investment policy, resources mobilization, lending policy, risk and return, compliance of NRB directives by banks etc. There are some books, journals, articles, other studies done related with analysis of financial performance. Some of the relevant studies, literatures on financial performance analysis are reviewed below. This chapter comprises review of book, previous studies received, article review and review of policy documents. It is divided into following headings.

2.1 Conceptual Review

2.2 Review of Journals and Articles

2.3 Review of Legal Provision Governing Financial Performance of Commercial Bank

2.4 Review of Previous Thesis

2.1 Conceptual Review

This chapter focuses to discuss briefly about the theoretical concept of the financial performance and its relation with other subject matter in relation to banks. This chapter is further divided into different parts as below:

2.1.1 Concept of Commercial Bank

“Banks are that financial institutions that offer the widest range of financial services especially credit, saving and payment services and perform the widest range of financial functions in the economy”. (*Vaidya; 2001:29*)

A bank is an organization whose principle operations are concerned with the accumulation of temporary idle money of the general public and mobile it in the reproductive sector. The more developed financial system of the world

characteristically falls into three parts: central banks, commercial banks and financial institutions.

Commercial banks are the dominant institution in the financial sectors and are the foundation of the national economy. They transfer monetary sources from savers to users. They involve in various functions like creation money, facilitating credit, facilitating foreign trade safekeeping of the values etc.

“The Commercial Bank Act 2031 B.S. of Nepal has stated, “A Commercial Bank means bank which deal in exchanging currency, accepting deposits, giving loans and doing commercial transactions”. (*Ministry of Law and Justice; 2031:4*)

“Commercial is a corporation, which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services” (*American Institute of Banking; 1972:345*)

The Commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, maintains economic confluence of various segments and extends credit to people. (*Ronald; 1999:87*)

The business of commercial bank hold deposits and makes loan and investments with the objectives of security profits for its primary motive is profits, other considerations are secondary. (*Vaidya; 1999:27*)

In Nepal, Nepal Bank Limited is the first modern system of commercial banks established under commercial bank act 2031 which is promoted by the government. Nepal Rastra Bank being the central bank of Nepal recommends directs and controls the establishment, operations and dissolutions of all the commercial banks in Nepal

Commercial bank is an important bank. Its functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit these commercial banks are also established to accelerate common people’s economic welfare and facility to make available loan to the agriculture, industry and commerce and to provide the banking service to the public and the state. In Nepal, the commercial banks perform the following functions:

To accept deposit

Deposit acceptance is one of main function of commercial banks. The bank allows for opening the three types accounts to accept deposit for their customer. They are current, saving and fixed deposit account.

To provide loan

Another function of commercial bank is to provide loan. A bank can provide loan to their customer as company rule.

Agency function

The commercial bank can also acts as an agent.

General Utility Function

A commercial bank discharges the function of general utility like to carryout the transaction of foreign currency, issuing travelers cheque, provides lockers to their customers.

Overseas Trading Services

Another function of the commercial banking is overseas trading service for its customers. Recognition of overseas trade has led modern commercial banks to ask specializing in the finance of foreign trade and some banks in some countries have taken interest in export house and factoring organization.

Information and Other Services

The commercial bank provides information and other services to its customers, which is very useful. Some banks produce regular bulletin on trade and economic conditions at home and abroad and special reports on commodities and market.

Providing New Services

The commercial banks have been introducing new services like credit card, traveler cheque, ATM, 24 hours banking service, merchant banking, inter-banking service and computerized services etc.

Better Relation with international market

Most of the commercial banks are operative in co-operation with international banks. So, commercial banks constitute better relationship better relationship with international market.

Creating a competitive environment

Before establishing of commercial banks, government banks were performing services with old technology. They did not face any type of competition with each other. After establishment of commercial banks, competitive environment create in the market that will benefit the business, industry and as a whole of country

Thus, commercial banks render valuable services to the community. A country with a developed banking system has a secure foundation of industrial and economic progress. It constitutes the very lifeblood of an advanced economic society. They play a critical developmental role in making their funds available to the priority sectors.

2.1.2 Financial Performance (Financial Ratio) Analysis

"Financial Performance is an analysis of better understanding of firms positions i.e. its strength and weakness. Thus it involves the uses of various financial statements. First, the balance sheet, which represents a snapshot of the firm's financial position at the moment and time and income statement, depicts a summary of the firm's profitability overtime". (*Van Horne and Walchowics; 1997:120*)

"Financial Analysis is the process of determining the significance operating and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and report". (*Hampton; 1998:98*)

"Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit & loss account. Management of the firm can undertake it or by parties outside the firm" (*Pandey; 1997:103*).

"Financial analysis is both an analytic and judgmental process that helps to answer the questions that have been properly posed to and therefore, it is a mean to an end. We can stress enough that financial analysis is an aid that allows these responsible for results to make sound decisions. (*Erich; 1984:2*)

"Financial Analysis is the assessment of a firm's past, present, and anticipated future financial condition. Its objectives are to determine the firm's financial strengths and to identify its weaknesses. Alternatively, Financial Analysis may come from outside the firm in an effort to determine the firm's creditworthiness or investment potential." (*Petty et.al.; 1993:442*)

A powerful and the most tested tool of financial analysis is the ratio analysis. "It is defined as the systematic use of ratio to interpret the financial statement. So, that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined" (*Khan and Jain; 1999:5*)

"Financial Analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and or likely to be in the future and to provide recommendations to solve the problems". (*Pradhan; 2000:120*)

Financial Analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data financial statements. Analyzing financial performance is a process of evaluating financial statements to obtain a better understanding of a firm's position and performance. The goal of financial analysis is to determine the efficiency and the performance of the firm's management as reflected in the financial records and reports.

The focus of the financial analysis is on the key figure contained in the financial statement and significant relationship existed. Management of the firm is generally interested in every aspect of the financial analysis; they are responsible for the overall efficient and effective utilization of the available resources and financial position of the firm.

The vertical and horizontal analysis could be done for the financial analysis. The vertical analysis consists of financial Balance Sheet, Profit& Loss Account of a

certain period time only, which is known as static analysis. Likewise, the horizontal analysis consists of a series of statement relating to the number of years are reviewed and analyzed. It is also known as dynamic analysis that measures the change of the position or trend of the business over the number of years. The steps of analysis are as follows

1. Selection of the information relevant to the decision.
2. Arrangement of the selected information to highlight the significant relationship of the financial yardsticks.
3. Interpretation and drawing of inferences and conclusions.

To evaluate the financial performance of a firm, the analyst needs a certain parameters of the company by which the quantitative relationship and its position come out. The most widely and effective used tool of the financial analysis is the ratio analysis. The financial ratio is the measurement of relation between two accounting figures, expressed in mathematical way or the numerical relationship between two variables expressed as (i) percentage or, (ii) fraction or (iii) in proportion of numbers. It helps to summarize the large quantities of financial data and to make quantitative judgment about the firm's financial performance. "Financial ratio helps us to find the symptoms of the operational and financial problems of a corporation can be ascertained by examining the behaviors of these ratios." (*Pradhan; 1986:1*)

"Ratio Analysis is the systematic use of financial information of the firm's strength and weakness as its historical performance, and current financial condition can be determined. After calculating various ratios, we need to compare with the certain standard and draw out the conclusion the result. The comparison classified by Weston and Brigham into six types viz, (i) Liquidity ratios (ii) Leverage ratios (iii) Activity ratios (iv) Profitability ratios (v) Growth ratios and (vi) Valuation ratios. The initial four types of ratios are popularly used and the Growth ratios measure the firm's ability to maintain its economic position and the last Valuation ratios measure the performance, which reflect the risk ratios." (*Weston and Brigham; 1987:138*)

2.1.3 Approach of Financial Analysis

The main objective of financial analysis is to explore various facts related to the past performance of business and predict the potentials for achieving desired results. Some of the main objectives of financial analysis can be pointed out as follows;

- a) The short term and long term solvency of the firm
- b) The present and future profitability of the firm
- c) Comparative study of one firm with another
- d) Forecast the future and prepare budgets
- e) The financial stability of business firm
- f) The long term liquidity of its fund

2.1.4 Need of Financial Analysis

The analysis is mainly done in order to address the following questions

- a) How was the performance of the firm? Which are the problem existing areas?
- b) What is the present performance of the firm? Is it doing better compared to past performance, competitors and industry average? Is there any problem at present? If so, in which areas?
- c) What will be the position of the firm in future? What are the projections?
- d) Is there any like problem on the way in the future? What corrective actions can be taken now to solve the problems and improve the performance?
- e) What are the recommendations?

2.2 Review of Journal and Articles

Some of the journals and articles published by management experts in financial aspects have been reviewed in the section:

Edward I Altman, (1968), in "*Journal of Finance*" employed financial ratios to predict corporate bankruptcy through multiple discriminate analyses. Out of the twenty-two financial ratios examined, Altman selected the five that did the combine

job in predicting bankruptcy. These ratios were working capital to assets, retained earnings to total assets, earnings before interest and taxes to total assets, market value of equity to book value of total debt and sales to total assets, market value of equity to book value of total debt and sale to total assets. Using these ratios, Altman found the discriminate model to be an accurate predictor bankruptcy.

Y.E. Orgler, (1970), in *"Journal of Money, Credit and Banking 2"* used a multiple regression model to predict which loans bank examiners would criticize. The principal financial ratios, he used, were the ratio working capital to current assets. The model was only moderately successful in predicting criticized loans.

Manohar Krishna Shrestha, (1990), in his article *"Commercial Banks Comparative Performance Evaluation"* views that JVBs are new, operationally more efficient, having superior performance comparing with local banks. Better performance of JVBs is due to their sophisticated technology, modern banking methods and skills. Their better performance is also due to the governments' branching policy in rural areas and financing policy that is imposed to local banks. Local banks are efficient in rural sector. Despite having number of deficiencies, local banks have to face growing constraints of socio-economic-political system.

W.H. Beaver, (1996), in *"Journal of Accounting Research"* tested the ability of financial ratios to predict failure. This study revealed five ratios, which could discriminate between failed and non-failed firms. The ratios are cash flow to total debt; net income to total asset; total debt to total assets; working capital to total asset and current ratios. It was obvious that failed firms had more debt and low return on asset. They had less cash but more receivable as well as low current ratios. The stock was very low.

Ram Krishna Shakya, (1999), 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 concludes that the capital base should neither be too much leading to inefficient allocation of scarce resources nor so weak so as to expose to extreme risk. The study accepts that the operations of banks and the

degree of risk associated with the subject to changes country wish, bank wish and time period wise. Henceforth the study suggested preparing standard capital adequacy ratios for each individual bank keeping in mind the various reason factors.

Ramesh Ranabhat, (2001), in his article entitled "*Policy less Uses and Development in Nepal Banking System*", concludes that the central bank should instead drive for an approach toward indirect monetary control rather loan on quantitative individual bank selling. Indirect monetary bill quotations and operation up of inter bank market and targeting broad financial variables like net foreign assets or for that matter. Non Domestic Assets should even out small irritants in the banking system. Small irritants it might see but its implications have been broad and fairly wide, as we have been in the forms of reluctance on the part of commercial bank in accepting his bread and basket.

Sunil Shrestha, (2003), in his article "*Role of Foreign Banks in Nepal*" undoubtedly conducted that the joint venture banks are playing an increasingly dynamic and vital role in the economic development of the country.

Ramesh Bajracharya, (2004), in his article "*Monetary Policy and Deposit Mobilization in Nepal*" concluded that mobilization of the domestic saving is one of the prime objectives of the monetary policy in Nepal and Commercial banks are the most active financial mediator for generating resource in the form of deposit of private sector and providing credit to the investor in different sectors of economy.

Narayan Poudel, (2006), in his article "*Financial Statement Analysis*" indicates that Balance Sheet, Profit and Loss A/c and the accompanying notes are the most useful aspects of the bank; we need to understand the major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and assets in the form of loans. Fixed assets account forms a small portion of total assets. Financial innovations, which are generally contingent in nature, are considered as of balance items.

2.3 Review of legal provision governing financial performance of Commercial Banks

NRB Directives no: 1/062/63

Provision for Cash Reserve Requirement (CRR)

Commercial banks shall maintain liquid assets (also called cash reserve) in such proportion of the domestic deposits liabilities as the NRB may prescribe. The cash reserve ratio requirement, after the amendment of NRB policy is fixed at 4.5% of their fixed deposits and 7% of other deposit, which should be balanced with NRB, along 2% of local currency deposits as the vault cash requirement.

NRB Directives: 2/062/63

Loan classification and loss provisions:

Any loan and advance classified as sub-standard, doubtful, and loss assets are considered as non-performing assets in Nepal. As per the directives of Nepal Rastra Bank, banks and other financial institutions classify their loans and advance into these classifications.

Furthermore, NRB has directed commercial banks to maintain certain reserves as loan loss provision. The existing loan loss provisioning is as follows:

Loan Loss Provision (LLP)

Loan Classification	Loan Loss Provision
Pass	1%
Sub Standard	25%
Doubtful	50%
Loss	100%

NRB Directives No: 3/062/063

Provision for credit to the priority sector

NRB requires commercial banks to extend loan and advance, amounting at least to 12% of their total outstanding credit to the priority sector. Commercial banks credit to the deprived sector is also a part of priority sector credit. Under priority sector, credit to agriculture, credit to the cottage and small industries and credit. Under priority sector, credit to service are counted commercial bank loan to the co-operatives licensed by the NRB is also be computed as the priority sector credit from the fiscal year 1995/96 onwards.

NRB Directives No: 8/062/63

NRB rules regarding fund mobilization of commercial bank

To mobilize bank's deposit in different sectors of the different part of the nation to prevent them from the financial problems, central bank may establish a legal framework by formulating various rules and regulation. These directives must have direct or indirect impact while making decision to discuss those rules and regulation which are formulated by NRB in terms of investment and credit to priority sector, deprived sector, other institution, single borrower limit, CRR, loan loss provision, capital adequacy ratio, interest spread and productive sector investment. A commercial bank is directly related to the fact that how much fund must be collected as paid up capital while being established at a certain place of the nation, how much fund is needed to expand the branch and counters, how much flexible and helpful the NRB rules are also important. But we discuss only those, whose are related to investment function of commercial banks.

NRB Directives No: 13/062/63

New arrangement for compulsory cash balance

NRB has cancelled all previous regarding compulsory cash balance necessary to maintain by the commercial banks. It has issued new regulations, which require commercial banks to deposit cash at NRB equivalent to 8% of the total current and saving account deposit liabilities and 6% of the domestic fixed liability. Similarly,

commercial banks have to maintain 3% cash balance of all domestic deposit liabilities in their own account.

2.4 Review of Thesis

In addition to above studies, various thesis works have been conducted by the various students regarding the various aspects of banking. Some of selected thesis is supposed to be relevant for this study purpose, which are presented below.

Ramesh Regmi, (2000), conducted a study on "*A Comparative Study on Financial Performance of Himalayan Bank Limited and Nepal Bangladesh Bank Limited*" with the following objectives:

- a) To highlight the review of previous studies
- b) To examine the current financial position of banks.
- c) To analyze the financial performance indicators.
- d) To evaluate the comparative financial position of these joint venture banks.
- e) To provide recommendations on the basis of findings for its future.

Though his research, he had presented the following findings of the study which are as follows:

- a) The study reveals that HBL has slightly higher current ratio and maintained constant where as NBBL shows decreasing trend.
- b) Long term debt to net worth ratio is higher in NBBL than in HBL but both banks are following an aggressive strategy of higher risk- higher return. Capital adequacy ratio of NBBL is greater than that of HBL during the study period.
- c) Loans and advances to total deposit ratio and loan and advances to saving deposit ratio are higher in NBBL where as loans and advances to fixed deposit ratio is higher in HBL. Both of these banks are utilizing their deposit fund through loan and advances to generate revenue efficiently, but comparatively NBBL is doing more efficiently than HBL.

- d) The analysis of credit position of these banks shows the difference with one another indicates. HBL has better credit positions than NBBL in terms of short term investment. i.e. investment or government securities to total deposit ratio.
- e) The study reveals the profitability situation of HBL is better than that of NBBL.
- f) Earning per share (EPS) of HBL is very high than of NBBL which implies the effective use of HBL's owner's equity than NBBL's.

Shetal Moktan, (2001), conducted a research on "*Financial Performance of Commercial Bank with Special Reference to Himalayan Bank Ltd. and Nabil Bank Ltd.*" with the following objectives.

- a) To examine the financial position of the banks under study.
- b) To evaluate the liquidity, efficiency of assets management and profitability position of the banks under study.
- c) To provide suggestions and recommendations on the basis of findings.

Through her research, she had presented the following findings of the study which are as follows:

- a) The measurement of liquidity has revealed that the mean current ratio of both the banks is not widely varied. It has fallen within the value of 1.0529 to 1.0593. Both the banks are capable in discharging their current liability by current asset.
- b) Both the commercial banks had maintained high liquidity ratio.
- c) The measurement of assets management had revealed that the total liability of total assets of HBL has the highest ratio than that of Nabil. The high ratio is the result of high volume of shareholders equity in the liability mix.
- d) Nabil has deployed the highest proportion of its total deposits in earning activities and this ratio is significantly above the ratio of HBL. The mean ratio of Nabil is higher than that of HBL. This indicates that Nabil has able to mobilize its funds more significantly than that of HBL.

- e) Considering the EPS, performance of HBL is better than Nabil through the year. But comparing net profit and shareholder's equity, the performance of Nabil is better.

Nabin Kishore Luintel, (2001), conducted a research on "*A Study on Financial Performance of Nepal Bank Limited*" with following objectives:

- a) To analyze the growth, objectives, functions and role of NBL.
- b) To study the major regulations such as NRB Directives, Government Policy and other policies, which govern the bank.
- c) To evaluate whether the bank is efficient to face the challenges and assist the government in the points outlined in the statement of the problems of the study.
- d) To highlight the functions and policies of NBL.
- e) To measure the comparative financial strength and weakness and to analyze the banks performance under priority sectors of government.
- f) To provide suggestion and possible guidance to improve the banking operation in order to maximize the wealth the aspiration of promoting the economic condition of the nation.

Through his research, he had presented the following findings of the study which are as follows:

- a) The liquidity position of the bank is not satisfactory during both periods. It is even worse during the 2nd period.
- b) Regarding the cash and bank balances to current assets ratio, there was no significant difference between the two periods. The ratios for the first and second period were 18.59% and 18.44% respectively.
- c) The bank seems to have no particular policy regarding investment as well. There is unexpected high difference between the averages of total investment to total deposit ratios of two periods.
- d) On the basis of turnover ratios, the bank's position was better during the 2nd period than during the 1st period.

- e) Net worth to total assets ratios had rapidly fluctuated during the 2nd period. The standard deviation of these ratios was 3.12 against the standard deviation of 0.27 of the 1st period.

Binisha Malla, (2002), conducted a research on *"Financial Performance of Commercial Banks in Nepal: A Comparative study of Nepal Bank Ltd. and Nabil Bank Ltd"* with following objectives:

- a) To analyze the liquidity position of the selected banks.
- b) To evaluate the financial ratios, to calculate efficiencies, valuation, profitability, capital structure ratios.
- c) To recommend measure for the improvement of the financial performance and efficiency on the basis of the conclusion drawn from the research.

Through her research, she had presented the following findings of the study which are as follows:

- a) Analysis of activity ratio indicates better turnover position of Nabil. This implies that Nabil is efficiently utilizing its deposit on loans and advances and others.
- b) Analysis of leverage or capital structure indicates that long term debt to net worth ratio is NBL is higher than Nabil and also total debt to total assets ratio of NBL is higher than that of Nabil. This proves both banks are extremely leveraged.
- c) Capital adequacy ratio calculated for the banks stood below the prescribed adequacy ratio by NRB to absorb unexpected losses than can be incurred in the bank. Comparatively, Nabil's position is better than NBL.
- d) The price earning ratio, dividend payout ratio and MVPS to BVPS is better than NBL. So, the market judges Nabil's performance and prospects better than that of NBL.
- e) The rate of change of deposit, loan and advances, profit after tax, earning per share and market value per share of Nabil is higher than that of NBL.

Susan Shrestha, (2003), conducted a research on "*A Comparative Study of Financial Performance of Nepal Bangladesh Bank and Himalayan Bank Ltd*" with following objectives:

- a) To analyze the financial performance through the use of appropriate financial and statistical tools.
- b) To identify various aspects relating to financial performance of NBBL and HBL for the period of last five years.
- c) To provide decisive and primitive suggestions to improve the financial performance of two joint venture bank.

Through his research, he had presented the following findings of the study which are as follows:

- a) The liquidity position of the banks in terms of current ratio shows that the ratios of NBBL are always above than normal standard (i.e.2:1) where as HBL's ratios is always below than normal standard. It shows that the liquidity position in terms of current assets to current liability of NBBL is better than HBL.
- b) The activity turnover of NBBL in terms of loan and advances to total deposit ratio is better than that of HBL. The NBBL has been successfully utilized their deposits in terms of loan and advances for profit generating purpose as compare to HBL.
- c) The turnover position in term of loan and advances to saving deposit ratio, NBBL is always greater than HBL within the study period of five years. So, it is concluded that NBBL has better turnover than HBL.
- d) Capital Structure ratio has clearly referred that total debt to shareholder's fund and total assets slightly higher for HBL as compared to NBBL.
- e) Profitability in term of net profit to total assets ratio of NBBL is found higher than that of HBL. The yearly ratio of NBBL is in fluctuating trend over the study period.

- f) The average rate of return of NBBL is higher than that of HBL, which concludes that NBBL has found better performance by utilizing overall resources.
- g) The return on investment (ROI) of NBBL and HBL are in fluctuating trend. The average ratio of NBBL is 21.01% over the study period where as the average ratio of HBL is 13.52% over the study period. This shows that NBBL seems better financing performance.

Salim Shrestha, (2003), conducted a research on "*A Study on Financial Performance of Nabil Bank Limited*" with following objectives:

- a) To analyze the growth, objectives, functions and role of NBL.
- b) To study the major regulations, such as NRB Directives Government Policy and other policies, which govern the bank.
- c) To evaluate whether the bank is efficient to face the challenges and assist the government in the points outlined in the statement of the problems of the study.
- d) To highlight the functions and policies of NBL.
- e) To measure the comparative financial strengths and weakness and to analyze the banks performance under priority sectors of government.
- f) To analyze income and expenditure areas.
- g) To recommend necessary improvement for their effective financial performance by establishing the relationship between various components of assets and liability side of bank's balance sheet, analyzing the different financial ratios and studying the operational aspects and the products offered by them.
- h) To provide suggestion and possible guidance to improve the banking operating in order to maximize the wealth the aspiration of promoting the economic condition of the nation.

Through his research, he has presented the following findings of the study, which are as follows:

- a) The liquidity position of the bank is not satisfactory during both periods. It is even worse during the 2nd period.
- b) Regarding the cash and bank balances to current assets ratio, there was no significant difference between the two periods. The ratios for the first and second period were 18.59% and 18.44% respectively.
- c) The bank seems to have no particular policy regarding investment as well. There is unexpected high difference between the averages of total investment to total deposit ratios of two periods.
- d) On the basis of turnover ratios, the bank's position was better during the 2nd period than that during the 1st period.
- e) Net worth to total assets ratios had rapidly fluctuated during the 2nd period. The standard deviation of these ratios was 3.12 against the standard deviation of 0.27 of the 1st period.

Yojana Pokharel (Dhakal), 2004, conducted a research on "*Finacial Performance of NB Bank Limited*" with the following objectives:

- a) To study the contribution of NB Bank in the industrial development in Nepal.
- b) To examine the investment policy of NB Bank and its impacts on industrial development of Nepal and evaluate its operational performance.
- c) To provide some suggestion for improvement of investment policy of NB Bank.

Through her research, she had presented the following findings of the study that are as follows:

- a) The cash and bank balance maintained by NB Bank is higher than the directives of NRB.
- b) Cash and bank balance to total deposit excluding fixed deposit in the average is 0.38 range deviation 0.2 of NB Bank during the study period.
- c) Total fund is divided as net worth and total deposit. The average net worth and total deposit ratio in case of bank is 0.06 with range deviation 0.02 and 0.94 with range deviation 0.02 respectively during the study period.

- d) Average interest paid to interest earned ratio of bank is 0.65 with range deviation 0.06 during the study period.
- e) Bank is maintaining more cash and bank balance than the regulation of NRB. It is utilizing or investing insignificant proportion of amount collected under other types of deposits. This may have negative impact on profitability though it is sound from the viewpoint of liquidity. It is consistent in maintaining over all liquidity.
- f) Bank is maintaining net worth and total deposit more or less in the same proportion on the average. As regards the collection of long-term deposit bank is very capable. Thus, the capacity of providing long-term loans and advance is greater in bank. As regards the resource mobilization bank is efficient. Thus Bank has utilized more of its resources. This helps to increase profitability or it may be risky.

Suman Prakash Sharma, (2005), conducted a research on "*A Study on Financial Performance of Commercial Banks*" with following objectives:

- a) To evaluate the financial performance of Nepal SBI Bank (NSBL), NBB and EBL in terms of their liquidity, efficiency of assets management and profitability position of the banks under study.
- b) To compare the performance of three banks.
- c) To provide meaningful suggestions and recommendations to these banks for the improvement of their future performance.

Through his research, he had presented the following finding of the study which are as follows:

- a) Current ratio of three banks showed slightly fluctuating trend. The average ratio showed that the banks could not maintain the conventional standard of 2 to 1 except NBB.
- b) Average cash and bank balance to current deposit of EBL appeared greater than NSBL and NBB. Average liquidity position of NBB and EBL is almost

same during the study period. It indicates that solvency position of NBB and EBL is better than NSBL.

- c) Debt-equity ratio of the banks depicted the employment of debt in their capital. Comparatively, capital structure of NSBL seemed more leverage than NBB and EBL.
- d) The average total investments to total deposit ratio of EBL seemed higher among the three banks. The average ratio of NSBL seemed lower among the three banks. The average ratios of NBB and EBL do not differ significantly. The greater ratio indicates efficiency in utilizing total deposits for investment purpose.
- e) Loans and advances to total deposit ratio appeared considerably higher in NBB. It indicates that NBB is more successful in utilizing the depositor's fund to earn profit. The ratio of NSBL and EBL is almost same. The average ratios of the banks do not differ significantly.
- f) The average return on shareholders equity ratio of NBB remained greater among the banks. The ratios of EBL were found in decreasing trend. The trend ratios of NSBL and NBB are fluctuation. The higher average ratios of NBB and EBL reveal that the banks have utilized the shareholders equity more efficiently than NSBL.

Sami Joshi, (2005), conducted a research on "*Financial Performance of Everest Bank Limited*" with the following objectives:

- a) To analyze the financial indicators of the bank such as liquidity ratio, leverage ratio, capital structure ratio, profitability ratio, leverage of EBL.
- b) To find the future trend of total deposit, loan and advances & net profit.
- c) To identify financial strength and weakness of EBL.
- d) To highlight the review of previous study.
- e) To provide the suggestion and recommendations for the improvement of the bank on the basis of the findings.

Through her research, she had presented following findings of the study which are as follows:

- a) Although EBL could not maintain conventional standard of 2:1, current ratio seems to be satisfactory. EBL had made enough investment in HMG securities like treasure bond, development bond and shares of debentures in the final years of the study.
- b) Cash and bank balance to current and saving deposit seems to be inconsistent. In year 2004/2005, the ratio was 15.68%. This exhibit that EBL may not be able to meet its immediate obligation as the bank balance is much lower than the current and saving deposit.
- c) Only 7.83% of total deposit was held as cash and bank balance in year 2003/2004 by EBL which shows liquidity position is very inconsistent in maintaining its liquidity position.
- d) EBL has maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB.
- e) EBL has more debt than equity in the total capital as revealed by debt equity ratio. Debt assets showed that more than 50% of the total assets had been financed by the outsider's fund.
- f) Return on assets ratio showed that profitability with respect to financial resources investment of the bank assets is unsatisfactory as well as unstable.
- g) Correlation coefficient between DPS and MVPS is negative. Coefficient of correlation is less than probable error that means the value of 'r' is insignificant.
- h) The trend analysis of total deposit, loan and advances and net profit shows the increasing trend.

Richa Neupane, (2006), in her thesis, "*A Study on Financial Performance Analysis of Himalayan Bank Limited*" with the following objectives:

- a) To analyze liquidity, efficiency of assets and cost management and earning generating capacity of HBL.
- b) To provide suggestion and recommendation that will help management to improve the performance of HBL based on the findings of the analysis.

She has analyzed various financial ratios i.e. liquidity ratio (current ratio, working capital ratio, cash and bank balance to current assets ratio, loan and advance to current ratio, cash and bank balance to current assets ratio, loan and advance to current ratio, cash and bank balance to total deposit ratio, total deposit to fixed deposit ratio and acid test or quick ratio), profitability ratio (basic earning power ratio, ROA, ROE Du point analysis, net income to total deposit ratio), debt management or solvency ratio (debt to total assets ratio, time interest earned ratio, debt to equity ratio), market value ratio (price earning ratio and earning per share ratio). With the help of the findings of the study she had concluded that:

- a) The current ratio of HBL over six year is 1.06 times on an average. It indicates margin for safety for customers has not been maintained satisfactorily.
- b) The average of cash and bank balance to current assets ratio is 7.10%, which indicates that the cash and bank balance proportion with respect to the current assets is moderate.
- c) The ratios for loan and an advance to current assets revealed that more than 46.96% of current assets have been lent to the customers as loan and advances.
- d) The share of fixed deposit is quite high in the total deposit, which may be termed as favorable one from view point of liquidity.
- e) Cash and bank balance has been maintained properly against anticipated call of its depositors. In general the liquidity position of HBL is good enough to meet the short-term obligations.

Mandira Maharjan, (2006), conducted a research on "*A Study on Financial Performance of Nabil Bank Limited*" with the following objectives:

- a) To analyze the liquidity, profitability, capital structure, capital adequacy, leverage, ownership ratios and operation of Nabil Bank.
- b) To analyze the relationship between dividend per share (DPS), EPS of the bank.

- c) To evaluate the soundness of profitability and operating efficiency of the bank.
- d) To analyze the bankruptcy source of the bank.
- e) To provide recommendations and suggestions of improvement of financial performance of the bank for the future on the basis of study.

Through her research, she had presented the following findings of the study, which are as follows:

- a) The current ratio analysis of the bank over the seven years period indicates that the bank has been able to meet its short-term obligations and is in sound liquidity position.
- b) The analysis designates that the bank is mobilizing its total deposits in loan and advances adequately and it has efficiently utilized its total deposit for loans and advance purpose.
- c) Debt-Equity Ratio analysis indicated that the bank has the high debt ratio, which means the creditors have invested more in the bank than the owners.
- d) Net profit to total deposit ratio reveals that the bank is mobilizing its funds effectively and efficiently.
- e) Earning per share of bank is good in overall years.
- f) Dividend per share of bank is low and the shareholder's are being compensated slowly.

Research Gap

Financial Performance is the major factor of commercial bank, which is made on the basis of NRB directives, and policy of concerned bank. The directives of NRB change over time. NRB makes necessary amendments in prevailing directives and circulars and communicate to commercial banks. So, the up to dated study over the change of time frame is major concern for the change of time frame is major concern for the researcher and concerned organization as well as industry as a whole. Commercial banks should follow these directives and circulars of NRB; otherwise they should bear penalty of NRB.

There are numbers of studies conducted in order to analyze the financial performance of different commercial banks. But, no study has yet has been conducted about the financial performance of Machhapuchchhre Bank comparing with Himalayan Bank. This study on financial performance of commercial banks with reference to MBL and HBL covers the data of 5 years including latest data to analyze and identify the financial position of the banks. Therefore, this study is quite can be regarded as one of the distinct and useful study for fulfilling the research gap about financial performance of the commercial banks. Hope this study will be helpful to other in future in their related field.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study various steps that are generally adopted by a researcher in studying his research problem along with logic behind them. It is necessary for the researchers to know not only research methods/techniques but also the methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the mean, mode, median or standard deviation or chi-square, how to apply particular research techniques are relevant or not and what they mean and indicate and why. Researchers also need to understand the assumptions underlying various techniques and they need to know the criteria by which they can decide that certain techniques and procedures will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design his methodology has many dimensions and research methods do constitute a part of the research methodology (*Kothari; 2000:10-11*).

The main objective of the study is to evaluate the financial performance of HBL and MBL. In order to reach and accomplish the objectives of the study, different activities are carried out and different stages are crossed during the study period. For this purpose the chapter aims to present and reflect the methods and techniques those are carried out and followed during the study period.

3.2 Research Design

A definition of research that fits to different views is a systematic careful inquiry or examination to discover new information or relationship and to expand verifies existing knowledge for some specific purpose. The purpose may be academic (i.e. problem of theory) or applied (i.e. problem of practice) or both.

Research design is a plan, structure and strategy to obtain the objective of the study. It bears the techniques and systematic steps of research, helps to collect various information required to researcher thesis writing or any investigation. In lack of the research design, the functional process on researches is never achieved.

Thus research methodology is the systematic method of finding solution of the problem. i.e. systematic collection, regarding, analysis, interpretation and reporting of information about various facts of a phenomenon under study. In this study, research methodology refers to achieve the objective of the study.

3.3 Source of Data

Both primary and secondary data has been used in this study.

3.3.1 Primary Data

The primary data are those, which are collected for the first time, and thus happen to be original in character. In this study, primary data are collected by distributing questionnaire to 40 individual, which include business person, service holder and students to support the analysis.

3.3.2 Secondary Data

The secondary data are those that have used from published sources or used by someone previously. The annual reports of the banks are the major source of data for the study. Besides, the annual reports of the bank, other sources of data like test book, articles published in newspaper, journals, magazine, unpublished thesis, various reports published NRB, laws, guidelines and directives regarding the subject matter have also used in this study.

3.4 Data Collection Techniques

The study has been conducted to examine and evaluate the financial performance of HBL and MBL. For this purpose, data are required. The secondary data, annual report of HBL and MBL for the period of five years from the fiscal year 2058/059

to 2062/063 were obtained from the related banks. Various publication of NBR was collected from its library at Baluwatar, Kathmandu. Various websites were surfed to gather relevant information. References materials were collected from libraries of Shanker Dev Campus, Central Library, T.U., Journals, Magazines, Newspaper etc. helped a lot in conducting this study.

3.5 Data Analysis Tools

Presented and analysis of the collected data is the core of the research work. The collected raw data are first scanned and tabulated under various heads. The calculated results were compared and interpreted, suitable tools and proper data analysis makes data effective. The data collected and processed have been analyzed using financial and statistical tools to achieve research objectives. The tools are:

3.5.1 Financial Tools

Financial tools are used to examine the strength and weakness of a business firm. In this study, financial tools like ratio analysis and financial statement analysis have been used. Ratio analysis is one of the important financial tools which are used to compare a firm's financial performance and status to that of other firm's to it over time.

3.5.2 Liquidity Ratios

The liquidity ratio measures the firm's ability to meet its short-term obligation and reflect short term financial strength of the firm. It measures the speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations. A commercial bank must obtain its satisfactory liquidity position to satisfy the credit needs of the community, to meet demands for deposit withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent infact on long run profit. Liquidity ratio establishes a relationship between cash and other asset to current obligation and provides a measure guide of liquidity. The following ratios have been calculated under liquidity ratios.

a. Current Ratio

This ratio shows the bank's short-term solvency. It shows the relation between current assets and current liabilities. The widely accepted standard of current ratio is 2:1. This ratio can be computed as

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

Current assets are those assets, which can be converted into cash within a year and so it includes cash and bank balance investment in treasury bills, bills purchased, bills receivable prepaid, expenses bills for collection etc. Likewise, current liabilities denotes current account deposits, saving account deposits, margin deposits, bills payable, call deposit, bank overdraft, provisions, customer's liabilities etc.

b. Cash and Bank Balance to Total Deposit Ratio

Deposit is one of the major liabilities of the bank. Bank has to manage its liquidity to meet depositor's demand. This ratio indicates the proportion of total assets held as most liquid assets. Optimum ratio shows the strong liquidity position of the bank. High ratio is not favorable as it affects profitability due to idleness of high interest bearing fund. Total deposit consists of current deposit, fixed deposit, money at call and other deposits. This ratio is computed by dividing to cash and bank balance by total deposit as follows:

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

c. Cash & Bank Balance to Current Asset Ratio

Cash and bank balance are the most liquid form of current assets. This ratio examines the bank's liquidity capacity on the basis of its most liquid assets. This ratio reveals the ability of the bank to make the quick payment of its customer deposits. A high ratio indicates the sound ability to meet their daily cash

requirements of their customer deposit. If bank maintains low ratio, bank may not be able to make the payment of against cheque. So, bank has to maintain cash & bank balance to current assets ratios properly. This ratio can be calculated by using the following formula.

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

d. Fixed Deposit to Total Deposit Ratios

This ratio indicated that percentage of total deposit has been collected in forms of fixed deposit. High ratio indicates better opportunity available to the bank to invest in sufficient profit generating long-term loans. This ratio is computed by using the following formula.

$$\text{Fixed and Deposit to Total Deposit Ratios} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

3.5.1.2 Debt Management Ratio/Leverage Ratio

It is also called solvency ratio or capital structure ratio. Debt management ratios measures the extent to which firm is using debt financial or financial leverage and the degree of safety afforded to creditors. Leverage ratio shows the proportion of debt capital and equity capital. The debt management ratios analyzed in this study are:

a. Debt to Total Asset Ratio

This ratio measures the percentage of the firm's assets financed by creditors. Total debt includes both current liabilities and long term debt creditor prefers low debt ratios because the lower the ratio, the greater the protection afforded creditors in the event of liquidation. The owners, on the other hand, can benefit from leverage because it magnifier earnings, thus the return to stockholders. But too much debt often lead to financial difficulty, which eventually might cause bankruptcy (*Weston Besley and Brigham, 101*).

This ratio is computed by dividing to total debt by total assets as follows:

$$\text{Debt to Total Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

b. Debt to Equity Ratio

It is a test of long-term solvency of the bank. Debt equity ratio measures the relative claims of creditors and owners against the assets of the bank. This ratio indicates the relationship between debt and equity. It calculated to measure the extent of debt financing used in business (*Munankarmi, 2059: 474*).

Total debt consists of all interest learning long term debt. These include loans and advances taken from other financial institutions deposits carrying interest etc. Shareholders equity includes paid up capital, reserves and surplus and undistributed profit.

The ratio found by diving to total debt by shareholders equity as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$$

c. Interest Coverage Ratio

IT is the ratio of net profit before interest and tax to interest charges. It measures the ability of the firm to meet its annual interest payment. It is sometimes called as debt service ratio. This ratio measures how much net income before interest and taxes could decline and still provide coverage of total interest expenses.

This ratio is obtained by dividing to net profit before deduction on interest and taxes by interest charges as follows:

$$\text{Interest Coverage Ratio: } \frac{\text{Net Pr ofit Before Interest and Tax}}{\text{Interest}}$$

3.5.1.3 Assets Management Ratio/Activity Ratio

Assets management ratio measure the efficiency of the firms. It is set of ratio that measures how effectively firm is managing its assets. It is also known as utilization ratios or turnover ratios, or efficiency ratio. They measured how effectively the firm uses investment and economic resource at its command. High ratio depicts the managerial efficiency in utilizing the resources. They show the sound profitability position of the bank low ratio is the result of insufficient utilization of resources.

The following ratios are used under this asset management ratio.

a. Loans and Advances to Total Deposit Ratio

This ratio measures the extent to which the banks are successful to mobilize their total deposit on loan and advance. Loan and advance consists of loans, advances, cash credit overdraft and foreign bill purchased and discounted. This ratio indicates the proportion of total deposits invested in loan and advances.

This ratio is obtained by dividing to total loan and advances by total deposit as follows.

$$\text{Loan and Advance to Total Deposit} = \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

b. Loan and Advances to Fixed Deposit Ratio

This ratio indicates how much fixed deposits are used as loan and advances. As fixed deposit carry high ratio of interest fund so collect need to be in such sectors which yield at least sufficient return to meet the obligation.

This ratio is computed by dividing to loan and advantage by fixed deposit as follows:

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

c. Loan and Advance to Saving Deposit Ratio

Loan and Advances to saving deposit ratio measures what extent of saving deposit has been turned over to loan and advances.

This ratio is calculated by dividing to loan and advance by saving deposit as follows:

$$\text{Loan and Advance to Saving Deposit Ratio} = \frac{\text{Loan \& Advance}}{\text{Saving Deposit}}$$

d. Loan and Advances to Total Working Fund Ratio

Loan and advances are the major components in the total working fund which indicates the ability of bank in successful mobilization its deposits in the form of loan and advances to earn high return. This ratio measures the management attitude towards risk assets.

This ratio is calculated by dividing to loan and advance by total working fund (total assets) are follows:

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

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

e. Investment of Government Security to Total Deposit Ratio

Investment on Government security to total deposit ratio shows how efficiently the major resources of the bank have been mobilized. Investment consists of investment in Nepal Government (NG) Treasury bills, development bonds, company shares and other type of investment.

This ratio is computed by dividing to investment on government security by total deposits collected in the bank as follows:

$$\text{Investment on Govt. Securities to Total Deposit} = \frac{\text{Investment on Govt. Securities}}{\text{Total Deposit}}$$

3.5.1.4 Profitability Ratio

Profit is the difference between total revenues and total expenses over a period of time. Profit is essential for the survival of business, so, it is regarded as the engine that drives the business and indicates economic progress. Profitability is an indicator of efficiency of business organization. Profitability ratio measures the management overall efficiency as shown by the return generated from sales and investment. Profitability ratios and profitability is those ratios which indicate degree of success in achieving desired profit levels. Profitability ratio is the indicator of the financial performance of bank. Moreover, higher the profitability ratio is better the financial performance of bank and vice-versa.

a. Return on Total Assets

This ratio measures the productivity of assets. It shows the relationship of net profit and total assets and indicates the ability of the firm's assets to generate operating income. This ratio evaluates the overall return on investment earned by the firm. Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in asset side of balance sheet. It measures the efficiency of bank in utilization of the overall operation. Higher ratio shows the higher return on assets used in business thereby indicating effective use of the resources available and vice versa.

This ratio is calculated by dividing to net profit after tax by total assets.

$$\text{Return on total asset} = \frac{\text{Net Profit after tax (EBIT)}}{\text{Total Assets}}$$

b. Return on Common Equity (ROE) Ratio

It is the ratio of net income to common equity. It measures the rate of return on common shareholders investment. This is the king amongst ratios. Higher ROE shows better operating efficiency of a firm and vice versa. The ROE can be computed by following formula.

$$\text{ROE (Return on Common Equity)} = \frac{\text{Net Income}}{\text{Common Equity}}$$

c. Return on Total Deposit

This ratio measures the earning capacity of commercial banks through its fund mobilization as loan and advance. Higher ratio indicates greater success to mobilize fund as loan and advance and vice versa. Mostly, loan and advances includes cash credit, over draft bill purchased and discounted.

This ratio is calculated by following process:

$$\text{Return on Loan and Advance} = \frac{\text{Net Profit}}{\text{Loan and Advance}}$$

3.5.1.5 Earning Performance Ratio

The true owners of any business firms are common stockholders who invest their fund in the firm because of their expectation of future returns. This ratio is also known as ownership ratios. From the point of view of shareholders of the following financial ratios indicates the financial performance of the business firm.

a. Earning Per Share (EPS)

The value of a firm increases with the increase in earning per share. Earning per share, commonly used as EPS is the total amount earned by a share during a year and calculated by dividing total net profit of a firm during a year by total number of shares outstanding ordinary shares. Hence higher the amount of net profit will be

higher the amount of EPS. The objective of computing this ratio is to measure the profitability of the firm on per equity share basis.

This ratio is calculated by dividing to total earning available to the common shareholders by number of equity share outstanding as follows:

$$\text{EPS} = \frac{\text{Earning available to the common shareholder}}{\text{No. of equity shares outstanding}}$$

b. Price Earning Ratio

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

The ratio is calculated by dividing to market value per share by earning per share as follows:

$$\text{P/E ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

3.5.2 Statistical Tools

Various statistical tools may be used for the evaluation of financial performance of banks. It analyze the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization, deposit collection, fund utilization through providing loan and advances or investment on other companies. Among various, some important statistical tools are used here to achieve the objectives of the study. The statistical tools which are used are as follows:

3.5.2.1 Arithmetic Mean

Arithmetic mean is also called 'the mean' or 'average' is the most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of numerical data.

A mean is obtained by adding together all the items and dividing this total by the number of items. It is denoted as (\bar{X}) and formula used to calculate it is as follows:

$$\bar{X} = \frac{\sum X}{N}$$

Where,

\bar{X} = Arithmetic mean

$\sum X$ = Sum of observation

N = Number of observation

3.5.2.2 Standard Deviation

Standard deviation is an important and widely used to measure dispersion. A standard deviation is the positive square root of the arithmetic means of the squares of the deviations of the given observations from their arithmetic mean. It is said that higher the value of S.D. the higher the variability and vice versa. It is denoted as σ (Sigma) and formula used to calculate S.D. is as follows:

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

Where,

σ = standard deviation

N = No. of observations

3.5.2.3 Correlation Coefficient

Correlation coefficient is the mathematical method of measuring the degree of association between two variables i.e. one dependent and one independent. This analysis interprets and identifies the relationship between two or more variables. However, it doesn't tell anything about cause and effect relationship. Thus, correlation does not necessarily imply causation while implies correlation. Correlation Coefficient is denoted as 'r' and formula used to calculate 'r' is as follows:

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

Where,

n = number of observation in series x and y

$\sum X$ = sum of observation in series X.

$\sum Y$ = sum of observation in series Y.

$\sum X^2$ = sum of squared observation in series X.

$\sum Y^2$ = sum of squared observation in series X.

$\sum XY$ = sum of the product of observation in series X and Y.

The value of 'r' falls between -1 to +1. The value of -1 denotes perfect negative correlation and the value of +1 denotes perfect positive correlation and value of 0 denotes that there is no correlation.

Coefficient of Variation

The coefficient of variation is the most commonly used measure of relative variation. It is the native measure of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others or vice versa. It is calculated as:

$$\text{Coefficient of variation} = \frac{\text{Standard deviation}}{\text{Mean}} \times 100$$

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

3.5.2.5 Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement or deterioration of its financial situation. Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative turn on the basis of the tendencies in the dependent variable in the past period. Straight line trend implies that irrespective of the seasonal, cyclic and irregular fluctuation the trend value increases or decreases by absolute amount per unit of time. Using this least square method, the projection for five years is done. For the estimation of linear trend line following formula has been used.

$$y = a + bx$$

Where,

y = dependent variable

x = independent variable

b = slope of trend line

a = y-intercept

Normal equations fitting above are

$$\Sigma y = na + b\Sigma X$$

$$\Sigma xy = a\Sigma x + b\Sigma X^2$$

Since, $\Sigma x = 0$

$$a = \frac{\Sigma y}{n}$$

$$b = \frac{\Sigma xy}{\Sigma x^2}$$

By using above method, trend analysis of following variable is conducted.

- a. Trend analysis of total deposit.
- b. Trend analysis of loan and advances.
- c. Trend analysis of investments.
- d. Trend analysis of net profit.

CHAPTER – IV

PRESENTATION AND DATA ANALYSIS

In this chapter, the data collected from various sources have been presented and analyzed to measure the various dimensions of the problems of the study and then major findings of the study are presented systematically.

4.1 Primary Information Analysis

The questionnaire (detail in appendix no. 1) was distributed to the 40 individuals at each sample bank who include managers and bank staff to support the analysis. Here the analysis of primary information's collected through survey is analyzed which are as follows:

4.1.1 Primary Information Collected from HBL

First, the primary information's collected from HBL are as follows:

❖ **Analysis of Question No. A: Reason for holding account in HBL.**

Table: 4.1
Analysis of Question No. A

Respondents	Sample No.	Prompt Service	ABBS System	Others
Managers	8	4	3	1
Bank Staff	32	20	8	4
Total (%)	100%	60%	27.5%	12.5%

Source: Field survey in Sample Bank

When asked about the reason behind to select a particular organization, 60% respondents said due to prompt service, 27.5% respondents said due to ABBS System and 12.5% respondents said due to others.

❖ **Analysis of Question No. B: Effectiveness of NRB in monitoring and supervision**

Table: 4.2
Analysis of Question No. B

Respondents	Sample No.	Effective	Not so effective	Don't Know
Managers	8	7	1	-
Bank Staff	32	25	3	4
Total (%)	100%	80%	10%	10%

Source: Field survey in Sample Bank

When asked whether the present monitoring and supervision of Nepal Rastra Bank is effective, 80% respondents said it is effective, 10% respondents said the present monitoring and supervision is not so effective as well as 10% respondents said they do not know.

❖ **Analysis of Question No. C: Affect from non-performing loan**

Table: 4.3
Analysis of Question No. C

Respondents	Sample No.	Not so affective	Normally affected	Severely affected
Managers	8	1	4	3
Bank Staff	32	3	19	10
Total (%)	100%	10%	57.5%	32.5%

Source: Field survey in Sample Bank

When asked what extend banking industry is affected by the problem of non-performing loan, 10% respondents said the bank are not affected, 57.5% respondents said the bank are normally affected while 32.5% respondents said the bank are severely affected by non-performing loan

❖ **Analysis of Question No. D: Sectors that bank should contribute to the nation**

Table: 4.4
Analysis of Question No. D

Respondents	Sample No.	Employment & Tax	Remittance & Money Transfer	Investment towards poverty & deprived sector
Managers	8	1	1	6
Bank Staff	32	2	4	26
Total (%)	100%	7.5%	12.5%	80%

Source: Field survey in Sample Bank

When asked in which sector bank should contribute to the nation, 7.5% respondents said in the sector of employment and tax, 12.5% respondents said in remittance and money transfer while 80% respondents said in investment towards poverty and

deprived sector i.e. almost majority said the banks should invest towards poverty stricken and deprived sector.

❖ **Analysis of Question No. E: Sector that bank should increase L&A**

Table: 4.5
Analysis of Question No. E

Respondents	Sample No.	Agriculture	Production	Service
Managers	8	4	2	2
Bank Staff	32	10	5	17
Total (%)	100%	35%	17.5%	47.5%

Source: Field survey in Sample Bank

When asked for better performance of bank in which sector should the bank increase loan and advance, 35% respondents said in agricultural sector, 17.5% respondents said in production and 47.5% respondents said in service sectors.

❖ **Analysis of Question No. F: Necessity of flowing L&A towards rural areas**

Table: 4.6
Analysis of Question No. F

Respondents	Sample No.	Yes	No	Don't Know
Managers	8	8	-	-
Bank Staff	32	32	-	-
Total (%)	100%	100%	-	-

Source: Field survey in Sample Bank

When asked whether it is necessary to flow loan and advances towards rural areas of the country by the banks, all managers and bank staff said the bank should flow loan and advances towards rural area, none of them said they should not flow and they do not know.

❖ **Analysis of Question No. G: Reason behind why HBL is not interested to open branch in rural areas**

Table: 4.7
Analysis of Question No. G

Respondents	Sample No.	Profit Oriented	Political Disturbance	Lack of Client
Managers	8	5	2	1
Bank Staff	32	20	2	10
Total (%)	100%	62.5%	10%	27.5%

Source: Field survey in Sample Bank

Why bank is not found so interested in opening branch in rural areas, 62.5% respondents said due to profit oriented, 10% respondents said due to political disturbance while 27.5% respondents said due to lack of clients.

❖ **Analysis of Question No H: Increasing threshold balance and reduce the interest rate.**

Table: 4.8
Analysis of Question No. H

Respondents	Sample No.	Lack of productive areas	Due to low return from investment	Others
Managers	8	2	2	4
Bank Staff	32	5	4	23
Total (%)	100%	17.5%	15%	67.5%

Source: Field survey in Sample Bank

When asked why HBL have increased the threshold balance and reduced the interest rate, 17.5% respondents said due to lack of productive areas, 15% respondents said due to low return from investment and 67.5% respondents said due to others.

❖ **Analysis of question no I: Opinion and suggestion**

When asked whether they have any opinion and suggestion about the topic of my research, only 24 respondents i.e. 60% answered this question and their opinions were as follows:

- Banks should increase its lending activities in deprived sector.
- Banks should focus on retail banking and search new areas for lending.
- Banks should also invest in rural areas.
- Banks should not differentiate its client in interest rate on loan & advance.

4.1.2 Primary Information Collected from MBL

Likewise, the primary information's collected from MBL are as follows:

❖ **Analysis of Question No a: Reason for holding account in MBL.**

Table: 4.9
Analysis of Question No. a

Respondents	Sample No.	Prompt Service	ABBS System	Others
Managers	8	5	2	1
Bank Staff	32	22	6	4
Total (%)	100%	67.5%	20%	12.5%

Source: Field survey in Sample Bank

When asked about the reason behind to select a particular organization, 67.5% managers said due to prompt service, 20% respondents said due to ABBS System while 12.5% respondents said due to others.

❖ **Analysis of Question No. b: Effectiveness of NRB in monitoring and supervision**

Table: 4.10
Analysis of Question No. b

Respondents	Sample No.	Effective	Not so effective	Don't Know
Managers	8	6	2	-
Bank Staff	32	28	4	-
Total (%)	100%	85%	15%	-

Source: Field survey in Sample Bank

When asked whether the present monitoring and supervision of Nepal Rastra Bank is effective, 85% respondents said it is effective and 15% respondents said the present monitoring and supervision is not so effective.

❖ **Analysis of Question No. c: Affect from non-performing loan**

Table: 4.11
Analysis of Question No. c

Respondents	Sample No.	Not so affective	Normally affected	Severely affected
Managers	8	1	5	2
Bank Staff	32	4	16	12
Total (%)	100%	12.5%	52.5%	35%

Source: Field survey in Sample Bank

When asked what extend banking industry is affected by the problem of non-performing loan, 12.5% respondents said the bank are not affected, 52.5% respondents said the bank are normally affected as well as 35% said the bank are severely affected by non-performing loan.

❖ **Analysis of Question No. d: Sectors that bank should contribute to the nation**

Table: 4.12
Analysis of Question No. d

Respondents	Sample No.	Employment & Tax	Remittance & Money Transfer	Investment towards poverty & deprived sector
Managers	8	2	2	4
Bank Staff	32	5	6	21
Total (%)	100%	17.5%	20%	62.5%

Source: Field survey in Sample Bank

When asked in which sector bank should contribute to the nation, 17.5% respondents said in the sector of employment and tax, 20% respondents said in remittance and money transfer while 62.5% respondents said in investment towards poverty and deprived sector i.e. almost majority said the banks should invest towards poverty stricken and deprived sector.

❖ **Analysis of Question No. e: Sector that bank should increase L&A**

Table: 4.13
Analysis of Question No. e

Respondents	Sample No.	Agriculture	Production	Service
Managers	8	3	2	3
Bank Staff	32	11	7	14
Total (%)	100%	35%	22.5%	42.5%

Source: Field survey in Sample Bank

When asked for better performance of bank in which sector should the bank increase loan and advance, 35% respondents said in agricultural sector, 22.5% respondents said in production as well as 42.5% respondents said in service sectors.

❖ **Analysis of Question No. f: Necessity of flowing L&A towards rural areas**

Table No. 14
Analysis of Question No. f

Respondents	Sample No.	Yes	No	Don't Know
Managers	8	8	-	-
Bank Staff	32	32	-	-
Total (%)	100%	100%	-	-

Source: Field survey in Sample Bank

When asked whether it is necessary to flow loan and advances towards rural areas of the country by the banks, 100% respondents said the bank should flow loan and advances towards rural area, none of them said they should not flow and they do not know.

❖ **Analysis of Question No. g: Reason behind why MBL is not interested to open branch in rural areas**

Table: 4.15
Analysis of Question No. g

Respondents	Sample No.	Profit Oriented	Political Disturbance	Lack of Client
Managers	8	3	3	2
Bank Staff	32	18	7	10
Total (%)	100%	52.5%	25%	30%

Source: Field survey in Sample Bank

When asked bank is not found so interested in opening branch in rural areas, 52.5% respondents said due to profit oriented, 25% respondents said due to political disturbance and 30% respondents said due to lack of clients.

❖ **Analysis of Question No h: Increasing threshold balance and reduce the interest rate.**

Table: 4.16

Analysis of Question No. h

Respondents	Sample No.	Lack of productive areas	Due to low return from investment	Others
Managers	8	1	3	4
Bank Staff	32	7	20	5
Total (%)	100%	20%	57.5%	22.5%

Source: Field survey in Sample Bank

When asked why MBL have increased the threshold balance and reduced the interest rate, 20% respondents said due to lack of productive areas, 57.5% respondents said due to low return from investment while 22.5% said due to others.

❖ **Analysis of question no I: Opinion and suggestion**

When asked whether they have any opinion and suggestion about the topic of my research, 32 respondents i.e. 80% answered this question and their opinions were as follows:

- Banks must give priority to customer choice.
- Banks should focus on retail banking and search new areas for lending.
- Banks should follow new technology expanding new branches.
- Banks should pay role in social sector.

4.2 Liquidity Ratio

Commercial banks collect funds from community on commitment of return when they demand it. Thus, a commercial bank must maintain satisfactory liquidity position to satisfy the credit needs of the community, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to the bank and without consequent impact on long-run profitability of the bank. To

measure the liquidity position of the bank, the following measures of liquidity ratio has been calculated and a brief analysis has been done as below.

4.2.1 Current Ratio

Current ratio indicates the ability of the bank that it meets its current obligation. This is the board measure of liquidity position of the banks. It shows the relationship between current assets and current liabilities. This ratio is computed as dividing current assets by current liabilities.

Table: 4.17
Current Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V. (%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	1.08	1.09	1.09	1.08	1.08	1.08	0.005477	0.51
MBL	1.23	1.17	1.09	1.12	1.08	1.14	0.062209	5.47

Source: Appendix no. 2

The above table indicates the current ratios of the sampled banks for five consecutive years. The table shows that both of the bank's current assets had exceeded current liabilities. The ratio of HBL is in average trend.

The mean ratio of HBL is 1.08 and MBL mean ratio is 1.14. If we measure the performance ratio of these banks based on this mean, the performance of HBL is weak than of MBL. This implies low level of liquidity ratio. The standard ratio is 2:1. The current ratio in the table shows that the solvency position of the bank is not good.

Besides, the standard deviation of HBL is 0.0054 and that of MBL is 0.0622 which is higher than that of MBL. The coefficient of variation (C.V.) of HBL is 0.51% and that of MBL is 5.47%. Lower coefficient of variation shows that more significant and consistence. Thus, the current ratio of HBL is more significant and consistence than that of MBL.

4.2.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio measures the capacity of the banks to meet unexpected demand made by the depositors i.e. current account holders, saving account holders and other margin account holders. The bank needs to maintain cash balance to meet its day-to-day withdrawal of customer. Total deposits are the most important source of a bank's fund, which should be utilized in a profitable sector. As this is a non-earning asset, the bank has to plan to maintain optional amount of cash balance according to its needs. From this viewpoint of liquidity, excess cash and bank balance shows strong position of bank while in viewpoint of profitability, excess cash and bank balance is negative aspect. This ratio is computed dividing cash and bank balance by total deposit.

Table: 4.18
Cash and Bank Balance to Total Deposit

Sample Bank	Fiscal Year					Mean	S.D.	C.V. (%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	9.42	9.09	8.12	6.48	5.85	7.79	1.5760	20.23
MBL	11.34	14.91	13.09	10.31	13.55	12.64	1.8236	14.43

Source: Appendix no. 3

The above table shows that cash and bank balance to total deposit ratio of sample banks. The cash and bank balance to total deposit ratio of HBL is in decreasing trend and ranges from maximum ratio of 9.42 in 2059/60 to the minimum ratio of 5.85 in 2063/64. But the cash and bank balance to total deposit ratio of MBL had a fluctuating trend. The MBL has the highest ratio of 14.91 in 2060/61 and lowest ratio of 10.31 in 2062/63.

The mean ratio of HBL is 7.79 and mean ratio of MBL is 12.64. So, the MBL had maintain the highest mean ratio among the sample banks, which shows that MBL had been successful in maintaining the higher cash and bank balance to total deposit ratio. But it does not mean that it had invested in profitable sector. It actually means that MBL was successful in meeting the daily cash requirement. Holding cash and bank balance have a negative impact on the goodwill and reputation of the bank to fulfill the demand of the profit holders and lower cash balances have a negative impact on the customers. Therefore, banks should maintain the enough liquidity.

4.2.3 Cash and Bank Balance to Current Assets Ratio

This ratio reflects the portion of cash and bank balance to current assets of the bank. Cash and bank balance are highly liquid assets than other current assets. It represents what percentage of current assets is in form of cash. The cash and bank balance are already in state of cash, which can be used any time and anywhere according to the need of firm. Hence, the cash and bank balance to current assets ratio shows what portion of total current assets represents cash or how many total current assets can be used as ready cash to discharge short term obligation of the bank. The ratio is computed dividing cash and bank balance by current assets.

Table: 4.19
Cash and Bank Balance to Current Assets

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	8.26	7.87	7.05	5.72	5.21	6.82	1.32581	19.43
MBL	8.62	12.13	11.50	9.80	12.17	10.84	1.57151	14.49

Source: Appendix no. 4

The above table shows that the ratios of HBL were in decreasing trend and ranges from maximum ratio of 8.26 in 2059/60 to minimum ratio of 5.21 in 2063/64. The table shows the ratios of MBL were in fluctuating trend which ranges from maximum ratio of 12.17 in 2063/64 to minimum ratio of 8.62 in 2059/60.

HBL had a mean ratio of 6.82 and that of MBL is 10.84. Since the mean ratio of MBL is higher than average mean of HBL. MBL had been successful in maintaining its higher cash and bank balance to current assets ratio. It means MBL can meet its daily cash requirement more efficiently than HBL.

The coefficient of variation (C.V.) of MBL is 14.49% and that of HBL is 19.43%, which is higher than that of MBL. Lower coefficient of variation shows more significance and consistence. Thus, the cash and bank balance to current asset of MBL is more significant and consistent than of HBL.

4.2.4 Fixed Deposit to Total Deposit

It is the ratio, which shows the percentage of fixed deposit on total deposit. Fixed deposit is also known as time deposit, which can carry a fixed maturity and a penalty is charged for early withdrawal. This type of deposit usually offers highest interest rates can pay by a bank. Hence, this ratio shows the percentage of total deposit, which bears cost at a fixed rate. This ratio is computed by dividing fixed deposit by total deposit.

Table: 4.20
Fixed Deposit to Total Deposit

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	15.26	21.40	24.61	23.97	27.29	22.51	4.56028	20.26
MBL	51.81	44.55	34.27	33.00	30.28	38.78	9.07017	23.39

Source: Appendix no. 5

The above table shows that the fixed deposit to total deposit of the sample banks. The table shows that the ratios of HBL were in fluctuation trend which ranges from maximum ratio of 27.29 in 2063/64 to minimum ratio 15.26 in 2059/60. The ratio of MBL were in decreasing trend, where maximum rate of 51.81 in 2059/60 to minimum ratio of 30.28 in 2063/64.

The mean ratio of HBL and MBL was 22.51 and 38.78 respectively. The above analysis helps to conclude that the fixed deposit to total deposit ratios of MBL was better than of HBL, which indicates better liquidity position of MBL. Fixed deposit, however, is higher cost, long-term sources which affects the profitability of bank adversely.

The C.V. of HBL and MBL were 20.26% and 23.39% respectively. In consistency level, HBL seems more consistent than of MBL, which is indicated by lower C.V.

4.3 Debt Management Ratio/Leverage Ratio

A bank should have strong short-term as well as long-term financial position. The long-term financial position of the bank is judged by the leverage or capital structure ratio analysis. It measures the extent of the bank's total debt burden. It reflects the bank's ability to meet its short-term as well as long-term obligation. This ratio also reveals the proportion of funds used by the institution either from the creditor's side or from the owner side. In order to maintain healthy financial position of any institution need to maintain proper proportion of debt and equity. The following ratios calculate the leverage of the sample banks

4.3.1 Debt to Total Assets Ratio

This ratio measures the relationship between financial contribution of outsiders and owners on total assets of the firm. It measures the proportion of debt out of total assets of the firm. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and lower ratio indicates lower financial risk as well as decreasing claim of outsiders over the total assets of the firm. The ratio is computed dividing total debt by total assets.

Table: 4.21
Total Debt to Total Assets Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	92.12	91.09	91.10	90.56	91.43	91.26	0.57293	0.63
MBL	79.09	83.93	90.12	88.28	90.74	86.43	4.89235	5.66

Source: Appendix no. 6

The table shows the debt asset ratio of sample banks. Both of the bank's ratios were in fluctuation trend. The maximum ratio of HBL was 92.12 in 2059/60 and minimum ratio was 90.56 in 2062/63. The ratio of MBL was in fluctuating trend range from maximum ratio of 90.74 in 2061/62 to minimum ratio of 79.09 in 2059/60.

The mean ratio of HBL was 91.26 and that of MBL was 86.43. The mean ratio helps us to conclude that the sample banks were aggressive and using high proportion of their debt capitals. Among sample banks, HBL had higher mean ratio which indicates that the bank was highly levered in comparison to MBL.

In case of consistency, HBL seems to be more consistency than MBL which is shown by lower C.V. i.e. 0.63. The MBL had C.V. 5.66.

4.3.2 Debt to Equity Ratio

The debt equity ratio implies the debt equity proportion used by the institution. It is a test of long-term solvency of the bank. This ratio shows the percentage of debt in compare to equity (net worth). This ratio indicates the lender's contribution for each rupee of the owner's contribution. A high ratio shows that claims of creditors are greater than those of owners and vice versa. There is a need to strike a proper balance the use of debt and equity. The most appropriate debt-n-equity combination would involve a trade-off between return and risk (*Pandey, 1997: 115*). The ratio is computed dividing total debt by shareholders equity.

Table: 4.22

Debt to Equity Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	11.70	10.23	10.24	9.60	10.66	10.49	0.77703	7.41
MBL	3.78	5.22	9.12	8.60	9.81	7.31	2.64665	36.23

Source: Appendix no. 7

The above table shows the debt equity ratio of sample banks. The ratios of both banks were in fluctuation trend. The ratio of HBL ranged from maximum ratio of 11.70 in 2059/60 to minimum of 9.60 in 2062/63. The ratio of MBL ranged from maximum ratio of 9.81 in 2063/64 to minimum of 3.78 in 2059/60.

The mean ratio of HBL was 10.49 and that of MBL was 7.31. MBL had lower mean which declare that the bank had lowest debt cost and higher investment from equity

fund. Since highest mean ratio was recommended HBL, they had more investment from debt than equity fund which cost a higher than equity. Higher debt investment brings a higher cost to the bank.

The C.V. of HBL was 7.41% and that of MBL was 36.23%. Among sample banks, HBL had lower C.V., which defines that HBL had consistency in debt equity ratio.

4.3.3 Interest Coverage Ratio

The interest coverage ratio or times interest earned is one of the most conventional coverage ratio used to test the firm's debt serving capacity. The interest coverage ratio shows the number of times that the interest charges are covered by funds which are ordinary available for their payment (*Pandey, 1997: 116*). This ratio is computed by dividing net profit before interest and tax (NIBT) by interest.

Table: 4.23
Interest Coverage Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V. (%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	1.65	1.86	1.93	2.04	1.93	1.88	0.14481	7.69
MBL	1.20	1.41	1.62	1.67	1.23	1.43	0.21617	15.16

Source: Appendix no.8

The above table shows the interest coverage ratio of sample banks. Both of the banks interest coverage ratios were in increasing trend upto 2062/63 and fall down in 2063/64. The maximum ratio of HBL was 2.04 in 2062/63 and minimum ratio was 1.65 in 2059/60. The maximum ratio of MBL was 1.67 in 2062/63 and minimum ratio was 1.2 in 2059/60.

The mean ratio of HBL was 1.88 and that of MBL was 1.43. HBL had higher mean ratio than the MBL. According to conventional rule, higher ratio is desirable. In case of HBL, it seems capable to meet its interest commitments from its profits. But in case of MBL, it seems that the bank was not capable to meet its interest commitments from its profit.

The C.V. of HBL and MBL were 7.69% and 15.16% respectively. In consistency level, the HBL seems more consistency than MBL, which is indicated by lower C.V. 7.69%.

4.4 Assets Management Ratio

This ratio measures the effectiveness of asset utilization, reflecting the management's efficiency to creditors and owners in various profit generating assets like loan and advances, investment etc. So, an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

4.4.1 Loan and Advances to Total Deposit Ratio

This ratio measures the extend to which commercial banks are successfully utilizing outsiders fund to total deposit in profit generating purpose by extending for use of loan and advances. Higher the ratio is the higher the utilization of its deposits as loan and advances and vice versa. This ratio is computed dividing loan and advances by total deposit.

Table: 4.24
Loan and Advances to Total Deposit Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	51.60	58.70	54.21	59.50	59.22	56.65	3.54915	6.27
MBL	82.31	90.51	90.60	76.88	75.25	83.11	7.2817	8.76

Source: Appendix no.9

The above table shows the loan and advances to total deposit ratio of the sample banks. Both of the bank's ratios were in fluctuation trend. The maximum ratio of HBL was 59.50 in 2062/63 and minimum ratio was 51.62 in 2059/60. Such as the maximum ratio of MBL is 90.60 in 2061/62 and minimum ratio was 75.25 in 2063/64.

The mean ratio of MBL was 83.11, which is higher than that of HBL mean ratio 56.25. Higher mean ratio shows that the MBL was successful in mobilizing the loan and advances to profitable sector with respect to total deposits.

As concern with the consistency, MBL had failed to maintain consistency in comparison to HBL, which is indicated by higher C.V. 8.76%. HBL had C.V. 6.27%.

4.4.2 Loan and Advances to Fixed Deposit Ratio

Fixed deposits are the higher interest-bearing obligation for any commercial bank. As loan and advances are major sources of earning interest, the ratio measures how many times the fixed deposit is utilized in loan and advances for income generating purpose. This ratio is computed dividing loan and advances by fixed deposit.

Table: 4.25

Loan and Advances to Fixed Deposit Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	338.33	274.29	220.24	248.21	216.97	259.61	49.7757	19.17
MBL	158.87	203.14	264.34	232.96	248.51	221.56	41.7005	18.82

Source: Appendix no. 10

The above table shows that the loan and advances to fixed deposit of HBL and MBL. Both of the banks ratios were in fluctuation trend. The maximum ratio of HBL was 338.33 in 2059/60 and minimum ratio was 216.97 in 2063/64. Such as MBL is maximum ratio was 264.34 in 2061/62 and minimum ratio was 158.87 in 2059/60.

The mean ratio of HBL was 259.61 and that of MBL was 221.56. HBL had efficiently and properly utilized its loan and advances with respect to fixed deposit, which is denoted by highest mean ratio.

As far as consistency level, MBL seems more consistency than HBL which is indicated by lower C.V. 18.82. Thus, MBL was able to success in maintaining the stability in investing loan and advances with respect to fixed deposit.

4.4.3 Loan and Advances to Saving Deposit Ratio

Saving deposit is the second highest interest bearing deposit. This ratio measures the utilization of short-term interest bearing deposit for income generating purpose i.e. to what extent saving deposit are utilized in generating revenue by providing loan and advances to the clients. This ratio is computed dividing loan and advances by saving deposit.

Table: 4.26
Loan and Advances to Saving Deposit Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	99.76	109.86	104.66	108.09	112.73	107.02	5.00229	4.67
MBL	508.81	505.60	404.50	260.07	283.96	392.59	118.091	30.08

Source: Appendix no. 11

The above table shows the loan and advances to saving deposit ratio of HBL and MBL. The HBL had fluctuating trend ratio ranges from maximum ratio of 112.73 in 2063/64 to minimum ratio of 99.76 in 2059/60. MBL had also fluctuation trend ratio ranges from maximum ratio of 508.81 in 2059/60 to minimum ratio of 260.07 in 2062/63.

The mean ratio of HBL was 107.02 and that of MBL was 392.59. In comparison to HBL, MBL seems to have utilized its saving deposits in loan and advances to generate profit, which is indicated by higher, mean ratio.

As concern with consistency, HBL had succeeded to maintain the consistency in comparison of MBL because HBL had a lower C.V. 4.67 and MBL had higher C.V. 30.08%. Thus, HBL was able to maintain consistency better than MBL.

4.4.4 Loan and Advance to Total Working Fund

This ratio measures the volume of loan and advances in the structure of total assets. The high degree of this ratio indicates the good performance of the bank in

mobilizing its fund by way of lending function. The low ratio is indicative of low productivity and high degree of safety in liquidity and vice-versa. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. This ratio is computed dividing loan and advances by total assets.

Table: 4.27
Loan and Advances to Total Working Fund

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	44.82	50.21	46.59	51.54	51.85	49.00	3.13523	6.40
MBL	61.01	72.29	78.39	66.91	65.97	68.91	6.63981	9.63

Source: Appendix no. 12

The above table shows the loan and advances to total working fund ratio. The HBL had fluctuating trend where maximum ratio was 51.85 in 2063/64 and minimum ratio was 44.82 in 2059/60. The ratio of MBL was in increasing trend up to third period and start decreasing from fourth period. The maximum ratio was 78.39 in 2061/62 and minimum ratio was 61.01 in 2059/60.

The mean ratio of HBL was 49.50 and that of MBL was 68.91. MBL was successful to maintain higher mean ratio, which mean that MBL was successful in mobilizing loan and advances with respect to total assets (Working fund).

As far as consistency level, HBL was successful in maintaining consistency in mobilizing total assets in loan and advances. This is shown by lowest C.V. 6.40%. MBL had C.V. 9.63%.

4.4.5 Investment to Total Deposit Ratio

This ratio measures the extend to which the bank is successful to mobilize its total deposit of the public toward different securities. This ratio indicates the proportion of deposits utilized for the purpose of income generation. A high ratio indicates the success to mobilize deposits in investment and vice-versa. This ratio is computed dividing total investment by total deposits.

Table: 4.28

Investment to Total Deposit Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	48.44	42.22	47.12	41.10	39.35	43.65	3.93771	9.02
MBL	22.39	9.96	8.39	15.09	13.49	13.86	5.46675	39.43

Source: Appendix no. 13.

The above table shows the investment to total deposit ratio of the HBL and MBL were in fluctuating trend. The ratio of HBL ranges between maximum ratios of 48.44 in 2059/60 to the minimum ratio of 39.35 in 2063/64. The ratio of MBL ranges between maximum ratios of 22.39 in 2059/60 to the minimum range of 8.39 in 2061/62.

The mean ratio of HBL was 43.65 and that of MBL was 13.86. HBL has higher mean ratio, which indicates that HBL was more successful in utilization of deposits in investment sector in comparison to MBL.

The C.V. of HBL was 9.02% and that of MBL was 39.43%. In consistency level, HBL seems more consistency than MBL, which is indicated by lower C.V. 9.0%.

4.5 Profitability Ratio

Profitability measures the success of the banks in terms of profit margin, return on assets, return on loan and advances and reflects the overall efficiency and effectiveness of management. The operating efficiency of the bank and its ability to ensure adequate return to its shareholders depends ultimately on the profit earned by the bank. Thus, profitability ratios are computed to measure the efficiency of the banks. So an attempt has been made to analyze and interpret financial data of the subject matter in sequential order.

4.5.1 Return on Total Assets Ratio

This ratio measures the profit ability of total funds and investment of a firm, the ratio measure the relationship between net profit and all financial resources invested in the bank's assets. If bank's working fund (total assets) is well managed and

utilized efficiently, return on such assets will be higher efficiently; return on such assets will be higher and vice-versa. Higher ratio indicates higher efficiency in the utilization of total assets and vice-versa. This ratio is computed dividing net profit by total assets.

Table: 4.29
Return on Total Assets

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	0.88	1.02	1.07	1.50	1.43	1.18	0.27046	22.92
MBL	0.64	1.35	1.31	1.48	0.69	1.09	0.39703	36.29

Source: Appendix no. 14

The above table shows that the return on total assets ratio of HBL & MBL. The ratio of HBL was in increasing trend upto 2062/63 and fall in 2063/64 where the maximum ratio was 1.50 in 2062/63 and minimum ratio was 0.88 in 2059/60. MBL's ratio was in fluctuating trend. The ratios of MBL range between maximum ratios of 1.48 in 2061/62 to minimum ratio of 0.64 in 2059/60.

The mean ratio of HBL was 1.18 and that of MBL was 1.09. HBL had higher mean, which indicates that HBL was more successful in utilizing the total assets for earning the net in compare to MBL.

In terms of consistency level, HBL also able to maintain the consistency in profit which shown by lowest C.V. 22.92%.

4.5.2 Return on Common Equity Ratio

This is the ratio of net income to common equity. It measures the rate of return of common shareholders investment. This is the king amongst all ratios. Higher ROE shows better operating efficiency of a firm and vice-versa. This ratio is computed dividing net profit by common equity.

Table: 4.30
Return on Common Equity

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	11.13	11.48	12.00	15.85	16.72	13.44	2.63713	19.63
MBL	3.05	8.42	13.31	14.39	7.41	9.32	4.6205	49.60

Source: Appendix no. 15

The above table shows the return on common equity of HBL & MBL. The ratio of HBL was in increasing trend where maximum ratio was 16.72 in 2063/64 and minimum ratio was 11.13 in 2059/60. But the ratio of MBL was in increasing trend upto fourth period and fall in fifth year. The ratios of MBL range between maximum ratios of 14.39 in 2063/64 to the minimum ratio of 3.05 in 2059/60.

The mean ratio of HBL was 13.44 and that of MBL was 9.32. HBL had higher mean, which indicates that HBL was more successful to return on shareholders common stock in compare to MBL.

As far as consistency level, HBL was successful in maintaining consistency that MBL which was shown by lowest C.V. 19.63%. MBL had C.V. 49.60%.

4.5.3 Return on Total Deposit Ratio

Total deposit refers to all the depositors (i.e. fixed, saving, current deposits etc.) made by the customers. Deposits made by the customers are the major source that can be mobilized by investing in different profitable areas for making profit. This ratio shows the percentage profit earned on total deposits. This ratio indicates how efficiently the collected deposits are utilized in profit generating sector. This ratio is computed dividing net profit by total deposit.

Table: 4.31
Return on Total Deposit

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	1.01	1.20	1.24	1.73	1.64	1.36	0.30729	22.53
MBL	0.86	1.69	1.52	1.70	0.78	1.31	0.45387	34.65

Source: Appendix no. 16

The above table shows the return on total deposit ratio of HBL and MBL. The ratio of HBL was in increasing trend up to 2062/63 and fall in 2063/64 while the ratio of MBL was in fluctuation trend. The ratios of HBL range between maximum ratios of 1.73 in 2062/63 to minimum ratio of 1.01 in 2059/60. Likewise the ratios of MBL range between maximum ratios of 1.70 in 2062/63 to minimum ratio of 0.86 in 2059/60.

The mean ratio of HBL was 1.36 and that of MBL was 1.31. HBL has higher mean, which indicates HBL had higher performance in utilizing its total deposits to earn a higher profit than MBL.

As concern with consistency level, HBL was successful in maintaining consistency in mobilizing total deposit to earn profit even though it had low success rate than MBL. This is shown by lowest C.V. 22.53% of HBL. MBL had C.V. 34.65%.

4.5.4 Return on Loan & Advances Ratio

This measures the earning capacity of a bank through its mobilized funds in the form of loan & advances. A high ratio indicates greater success to mobilize fund as loan & advances and vice-versa. This ratio is computed dividing net profit by loan & advances.

Table: 4.32
Return on Loan & Advances Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	1.96	2.04	2.29	2.90	2.76	2.39	0.42261	17.68
MBL	1.05	1.87	1.68	2.21	1.04	1.57	0.51551	32.83

Source: Appendix no.17

The above table shows the return on loan and advances of HBL & MBL. The ratios of both banks were in fluctuation trend. The ratio of HBL range between maximum ratios of 2.90 in 2062/63 to minimum ratio of 1.96 in 2059/60. Likewise the ratio range of MBL between maximum ratios of 2.21 in 2062/63 to minimum ratio of 1.04 in 2063/64.

The mean ratio of HBL was 2.39 and that of MBL was 1.57. The above analysis helps to conclude that return on loan and advances to HBL was better than that of MBL. As far as consistency level, HBL was successful in maintaining consistency in mobilizing loan and advances which is indicated by lowest C.V. 17.68% MBL had C.V. 32.83%.

4.6 Earning Performance Ratio

4.6.1 Earning Per Share

Earning per share measures the amount profit that a unit of share receives. The amount of earning per share shows the performance of an organization and plays key role in the fluctuation of market price of share. This ratio is computed dividing total profit by total number of out standing shares.

Table: 4.33
Earning Per Share

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	49.15	49.05	47.91	59.24	60.65	53.20	6.19664	11.65
MBL	2.81	8.49	15.43	18.74	9.02	10.90	6.26053	57.45

Source: Appendix no. 18

The above table shows that earning per share of HBL was in fluctuating trend ranges from maximum ratio of 60.65 in 2063/64 to minimum ratio of 47.91 in 2061/62. The ratio of MBL were in increasing trend up to fourth year and fall in fifth year which ranges from maximum ratio of 18.74 in 2062/63 to minimum ratio of 2.81 in 2059/60.

The mean ratio of HBL was 53.20 and that of MBL was 10.90. HBL had higher mean which means the bank earned more profit on per share basis. It also indicates the greater profitability available to each shareholder out of total earning than MBL.

On the basis of C.V. it seems that HBL was more consistent than MBL which is indicated by lower C.V. 11.65% MBL had C.V. 57.45%.

4.6.2 Price Earning Ratio (P/E Ratio)

Price earning Ratio is used to assess the bank performance as expected by the investors. Higher the ratio, the better it is for the owners and vice-versa. This ratio is computed dividing market value per share by earning per share.

Table: 4.34
Price Earning Ratio

Sample Bank	Fiscal Year					Mean	S.D.	C.V.(%)
	2059/60	2060/61	2061/62	2062/63	2063/64			
HBL	16.91	17.13	19.20	18.57	20.03	18.37	1.33732	7.28
MBL	17.21	14.72	16.59	17.08	19.35	16.99	1.65371	9.73

Source: Appendix no. 19

The above table shows that the P/E ratio of HBL & MBL. The P/E ratios of both sample banks were in fluctuating trend. HBL had ratio ranged from maximum ratio of 20.03 in 2063/64 to minimum ratio of 16.91 in 2059/60. The ratio of MBL ranged from maximum ratio of 19.35 in 2063/64 to the minimum ratio of 14.72 in 2060/61.

The mean ratio of HBL was 18.37 and that of MBL was 16.99. HBL had higher mean compared to MBL, which indicates that HBL had better market value than

MBL. As far as consistency, HBL seems more consistency than MBL which is shown by lower C.V. 7.28%. MBL had C.V. 9.73%.

4.7 Measuring Correlation Coefficient between Different Variables

4.7.1 Correlation Coefficient between Total Deposit and Loan & Advances

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

Table: 4.35

Correlation Coefficient between Total Deposit and Loan & Advances

Sample Bank	r	P.Er.	6*P.Er.	Remarks
HBL	0.97	0.0177	0.1062	$r > 6*P.Er.$
MBL	0.99	0.0065	0.0399	$r > 6*P.Er.$

Source: Appendix no. 20 (I), (II)

The coefficient of correlation of HBL and MBL were 0.97 and 0.99 respectively. Since the values were in positive sign, it shows that the positive relation between two variables. Both the banks had coefficient of correlation almost '1', which indicates there was proportion relationship between deposit and loan & advances. While testing 6*P.Er. of both banks, both HBL and MBL were found to be significant as the 'r' value for the both banks was greater than 6*P.Er., which implies that there was found to be perfect between the deposit and loan & advances. It shows that the loan & advances depends upon the deposit and the bank was successful in mobilizing the deposits to loan & advances effectively.

4.7.2 Correlation Coefficient between Total Deposit and Investment

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

Table: 4.36

Correlation Coefficient between Total Deposit and Investment

Sample Bank	r	P.Er.	6*P.Er.	Remarks
HBL	0.78	0.118	0.708	$r > 6*P.Er.$
MBL	0.92	0.046	0.278	$r > 6*P.Er.$

The coefficient of correlation of HBL and MBL were 0.78 and 0.92 respectively. Since the values were in positive sign, which indicates there was proportion relationship between the deposit and investment for both banks. While testing $6*P.Er.$ of both banks found to be significant as the 'r' value for both banks which implies that there found to be perfect correlation between the deposit and investment. This shows that banks were successful in investing with respect to deposit. It is seemed that bank's investment was depending upon the deposits.

4.7.3 Correlation Coefficient between Loan & Advances and Net Profit

Loan & advance also pays a vital role in earning the profit. By mobilizing deposit in loan & advances, bank earns the profit. So, it is necessary to study the relation between these two variables loan & advances and net profit. Following table shows the coefficient for correlation between loan & advances and net profit of banks. For this study loan & advances (X) is taken as independent variable and net profit (Y) is taken as dependent variable.

Table: 4.37

Correlation Coefficient between Loan & Advances and Net profit

Sample Bank	r	P.Er.	6*P.Er.	Remarks
HBL	0.97	0.0178	0.1062	$r > 6*P.Er.$
MBL	0.78	0.118	0.708	$r > 6*P.Er.$

The above table shows that the correlation coefficient between loan & advances and net profit of HBL and 0.97 and that of MBL was 0.78. Since the values were in positive sign, it shows that the positive relation between two variables. HBL had coefficient of correlation almost '1', which indicates there was proportion relation between loan and advances and net profit. While testing 6*P.Er., both HBL and MBL were found to be significant as the 'r' value for both banks was greater than 6*P.Er. which implies that there found to be correlation between loan & advances and net profit. It shows that both banks were successful in earning the net profit by mobilizing the loan & advances.

4.8 Trend Analysis

In this portion of study, trend of total deposit, loan & advances, investment and net profit are found out and forecast for next five years.

4.8.1 Trend Analysis of Total Deposit

Deposit is one of the major liabilities of commercial banks. Its trend is determined by various factors. Under this chapter, an effort has been made to calculate the trend values of deposit of HBL and MBL from 2060 to 2064 and forecast for the next five years till 2069.

Table: 4.38

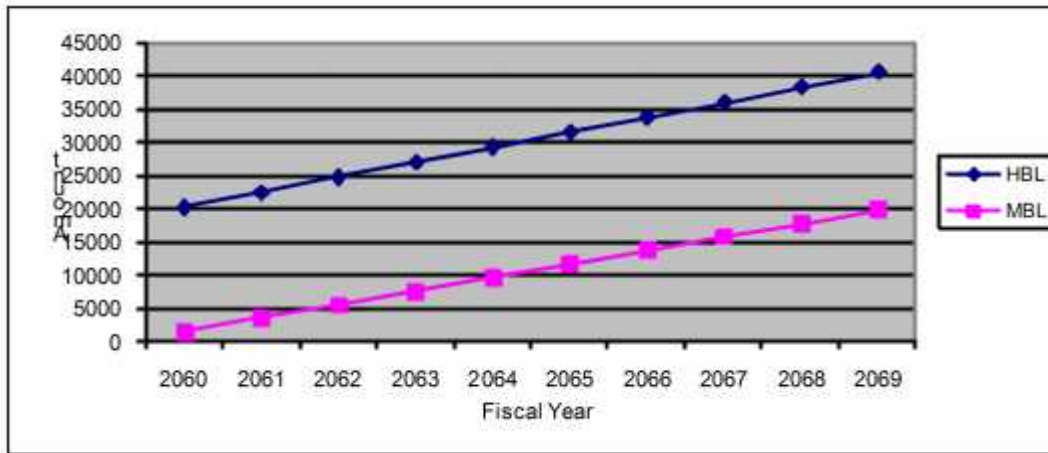
Trend Value of Total Deposit

Year	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	
Trend	HBL	20361	22617	24874	27130	29386	31642	33899	36155	38411	40668
Value	MBL	1391	3444	5497	7551	9604	11657	13710	15763	17817	19870

Source: Appendix no. 21(I), (II)

Figure: 4.1

Trend Value of Total Deposit



The above table and figure shows that the total deposits of HBL & MBL were in an increasing trend. Other things remaining the same, total deposit of HBL and MBL will be Rs. 40668 million and Rs. 19870 respectively in 2069, which is the highest under the study.

4.8.2 Trend Analysis of Loan & Advances

Lending is one of the major functions of commercial bank. Its trend is determined by various factors. Here, an effort has been made to calculate the trend value of loan & advances of HBL and MBL from 2060 to 2064 and forecast next five years till 2069.

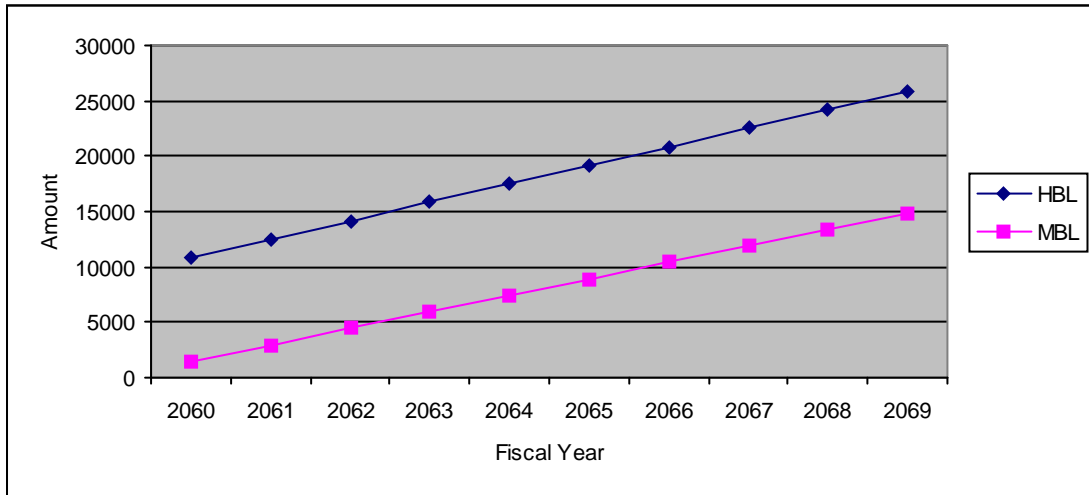
Table: 4.39

Trend Value of Loan & Advances

Year	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	
Trend	HBL	10806	12480	14154	15828	17502	19176	20850	22524	24198	25872
Value	MBL	1462	2952	4443	5934	7424	8915	10406	11896	13387	14878

Figure: 4.2

Trend Value of Loan & Advances



The above table and figure shows that the loan & advances of both banks were in increasing trend. Other things remaining the same, loan & advances of HBL in 2069 will be Rs. 25872 million and that of MBL will be Rs. 14878 million which is the highest under the study.

4.8.3 Trend Analysis of Investment

Here, an effort has been made to calculate the trend values of investment of HBL and MBL from 2060 to 2064 and forecast for five years till 2069.

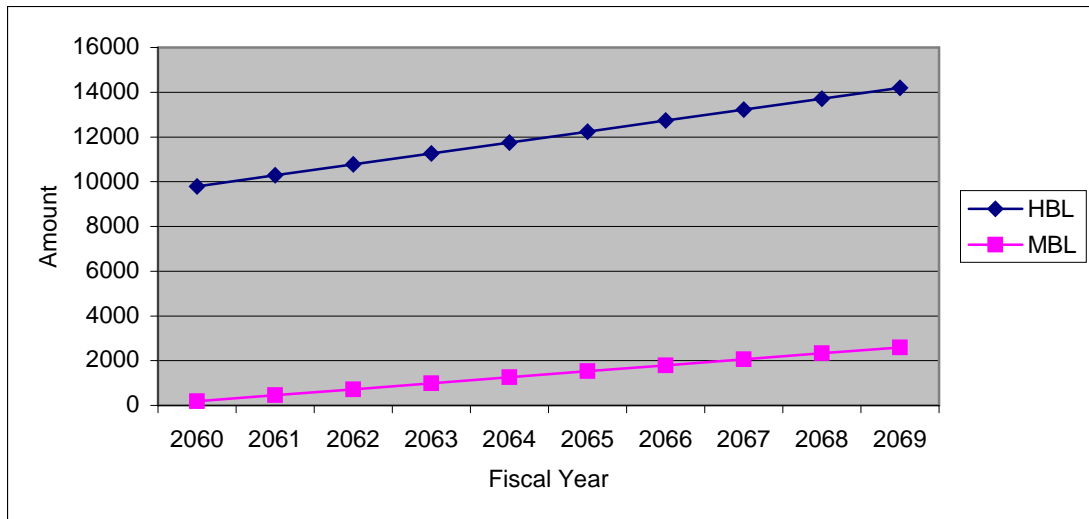
Table No. 40

Trend Value of Investment

Year	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	
Trend	HBL	9795	10285	10774	11263	11752	12241	12731	13220	13709	14198
Value	MBL	186	454	722	989	1257	1525	1792	2060	2328	2595

Figure: 4.3

Trend Value of Investment



The table and figure shows that the investment of HBL and MBL were in an increasing trend. Other things remaining the same investments of HBL and MBL in 2068 will be Rs. 14198 millions and Rs. 2595 millions respectively which is the highest under the study period.

4.8.4 Trend Analysis of Net Profit

Net profit measures the success of firm in every aspect of its operation and strategy. Under this chapter an effort has been made to calculate the trend values of net profit from 2060 to 2064 and forecast for next five years till 2069.

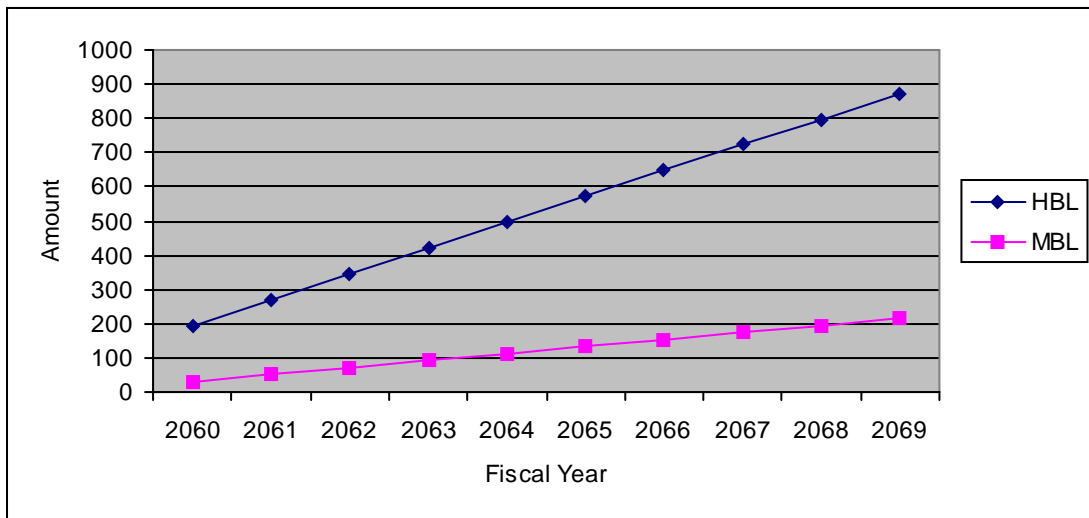
Table: 4.41

Trend Values of Net Profit

Year	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	
Trend	HBL	195	271	346	421	497	572	648	723	798	874
Value	MBL	30	50	70	91	111	132	152	173	193	214

Figure: 4.4

Trend Value of Net Profit



The above table and figure shows that the net profits of HBL and MBL were in increasing trend. Other things remaining the same, net profit of HBL will be Rs. 874.21 millions in 2069 and that of Rs. 214.42 millions which is the highest under the study period.

4.9 Major Findings of the Study

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

4.9.1 Findings from the Primary Analysis

- a) In the total respondents, 60%, 27.5% and 12.5% respondents seek prompt service, ABBS system and others respectively in HBL while 67.5%, 20% and 12.5% respondents seek prompt service, ABBS system and others respectively in MBL.
- b) In the total respondents, 80%, 10% and 10% said that monitoring and supervision of NRB is effective, not so effective respectively and don't

- know respectively in HBL while 85% and 15% said that monitoring and supervision of NRB is effective and not so effective respectively in MBL.
- c) In the total respondents, 10%, 42.5% and 32.5% said that banking industry is not so affected, normally affected and severely affected respectively by non-performing loan in HBL while 12.5%, 52.5% and 35% said that banking industry is not so affected, normally affected and severely affected respectively by non-performing loan in MBL.
- d) In the total respondents 7.5%, 12.5% and 80% respondents said that banks should contribute in employment & tax, remittance & money transfer and investment towards poverty stricken and deprived sector respectively in HBL while 17.5%, 20% and 62.5% respondents said that banks should contribute in employment & tax, remittance & money transfer and investment towards poverty stricken and deprived sector respectively in MBL.
- e) In the total respondents, 35%, 17.5%, 47.5% and respondents said that bank should in loan and advance in agriculture, production and service sector respectively for better performance in HBL while 35%, 22.5%, and 42.5% and respondents said that bank should in loan and advance in agriculture, production and service sector respectively for better performance in MBL.
- f) In the total respondents, 100% respondents said that the bank should flow loan and advance rural areas of the country in both sample banks.
- g) In the total respondents, 62.5%, 10% and 27.5% respondents said that the banks are not interest in opening branch in rural areas because they are profit oriented, political disturbance and lack of client respectively in HBL while 52.5%, 25% and 30% respondents said that the banks are not interest in opening branch in rural areas because they are profit oriented, political disturbance and lack of client respectively in MBL.
- h) In the total respondents, 17.5%, 15% and 67.5% respondents said that bank are increasing the threshold balance and reduce the interest because they

have enough deposits, lack of productive areas, and due to low return from their investment respectively in HBL while 45%, 25% and 30% respondents said that bank are increasing the threshold balance and reduce the interest because they have enough deposits, lack of productive areas, and due to low return from their investment respectively in MBL.

- i) In the total respondents, most of them said that bank should diversity it's lending and focus on customer financing. Moreover bank should also lend in rural areas of the country.

4.9.2 Findings from the Liquidity Ratio

- a) During the five years period of HBL and MBL, the current ratio was in fluctuating trend. It seemed that both banks current asset had exceed current liabilities. Though MBL had high ratio, its performance were better than HBL. However, average of all banks shows the satisfactory level of current ratio.
- b) The cash and bank balance to total deposit of HBL were in decreasing trend and that of MBL were in fluctuating trend. MBL found to be in better position to main cash & bank balance ratio. But it doesn't mean that it had mobilized it more funds in profitable sector. It actually means that it can meet the daily cash requirement. The ratios of sample banks were more variable and less consistent. The analysis indicates that the banks were better to serve customers deposit withdraws demands.
- c) The cash and bank balance to current assets ratio of HBL were in decreasing trend and that of MBL were in fluctuating trend. HBL had a lowest mean ratio which means it may have invested more fund in the production sector. The ratios of sample banks were more variable and less consistent.

- d) The fixed deposit to total deposit ratios of HBL were in fluctuating trend and that of MBL were in decreasing trend. Since, MBL had high mean ratio, its performance was better than HBL.

4.9.3 Findings from the Debt Management Ratio

- a) Debt assets ratio of HBL was in fluctuating trend and that of MBL was in increasing trend except in fourth year. Debt assets ratio of HBL was highest among the sample banks where as HBL had more consistences in maintaining the ratio. Debt assets ratio showed that more that 80% of the total assets had been financed by the outsider's fund in both sample banks.
- b) Debt Equity ratios of both banks were in fluctuating trend. HBL was able to maintain the debt equity ratio than MBL. In case of MBL, they were able to maintain consistency.
- c) Interest coverage ratios of both banks were in increasing trend except in fifth year. MBL had lower ratios which indicate that there was excessive use of debt for which interest was to be paid.

4.9.4 Findings from the Assets Management Ratio

- a) The loan & advances to total deposit value of HBL were in increasing trend except in third study period and that of MBL were in increasing trend, upto third study period. The analysis indicated that the bank had satisfactory invested on loan & advances. However MBL had a highest mean ratio it showed that MBL's liquidity position with respect to this ratio is more satisfactory than HBL.
- b) The loan & advances to fixed deposit ratios of HBL and MBL were in fluctuating trend. The analysis indicates that bank had utilized the high interest bearing fixed deposit. However HBL had high ratios it indicates that HBL had used more fixed deposit as loan & advances in comparison to MBL.

- c) The loan & advances to saving deposit ratios of both sample banks were in fluctuating. Among the sample bank, MBL were successful to mobilize their saving deposit as loan & advances for income generating purpose due to high mean ratio.
- d) The loan & advances to total working funds of HBL were in fluctuating trend and that of MBL were in increasing trend up to third study period and then it had decreased. The analysis indicated that both bank had taken optimum risk towards risky assets. They were also successful to mobilize their funds as loan & advances with respect to total assets.
- e) The investment to total deposit of both banks was in fluctuating trend. The ratios were less consistent and more variable. The analysis indicated that HBL had satisfactory investment in comparison to MBL.

4.9.5 Findings from Profitability Ratios

- a) Return on total assets ratios of HBL were in increasing trend upto fourth study period and that of MBL were in fluctuating trend. Among them, HBL found to be best since it had higher mean. The analysis indicates that the fund mobilization of the sample banks were unsatisfactory as well as unstable.
- b) Returns of common equity ratios of HBL were in increasing trend and that of MBL were in increasing trend up to fourth study period and fall down in fifth study period. Since HBL had higher mean, its performance was best. The analysis indicates that the sample banks had been utilizing their equity effectively for generating income.
- c) Return of Total Deposit ratios of HBL were in increasing trend upto fourth study period and that of MBL were in fluctuating trend. Among them, HBL found to be best since it had higher mean ratio. The analysis indicated that he sample were unable to invest their total deposit in profitable sector.

- d) Return on loan & advances ratios of both banks were in fluctuating trend. Among them found to be best since it had higher mean ratio. The analysis indicated that the earning capacity of loan & advanced both banks were unsatisfactory in an average.

4.9.6 Findings from the Earning Performance Ratio

- a) The EPS of HBL were in fluctuating trend and that of HBL were in increasing trend upto fourth period. Increasing trend indicates better performances in generating income. The analysis indicates that the earning per share of HBL was very good.
- b) The P/E ratios of both sample banks were in fluctuating trend. The analysis indicates that the P/E ratios of both banks were satisfactory.

4.9.7 Findings from the Correlation Coefficient Analysis

- a) The positive correlation between the deposit and loan & advances were found in both sample banks. Though both banks correlation between the deposit and loan & advances were near about equal. MBL had better performed. It seems that MBL had provided the loan & advances from its deposit. MBL was successful in mobilizing the deposits as loan & advances.
- b) There was perfect positive correlation between the deposits and investment in both sample banks. It showed that both banks had effectively mobilized its deposit on investment is depends upon the deposits.
- c) There was perfect positive correlation between loan & advances and net profit in both sample banks. HBL was successful in earning the net price by mobilizing the loan & advances due to correlation.

4.9.8 Findings from the Trend Analysis

- a) The trend analysis of total deposits of both banks showed that the total deposits of banks were in an increasing trend. If other things remain same,

the total deposit of HBL and MBL in 2069 will be Rs. 40668.02 million and Rs. 19870.20 millions respectively.

- b) The trend analysis of loan & advances of both banks showed that the loan & advances of banks were in an increasing trend. If other things remain same, the loan & advances of HBL and MBL in 2069 will be Rs. 25872.64 million and Rs. 14878.17 million respectively which is highest under the study.
- c) The trend analysis of investment of both banks showed that the investments of banks were in an increasing trend. If other things remain same, the investment of HBL and MBL in 2069 will be Rs. 14198.78 million and Rs. 2595.76 respectively.
- d) The trend analysis of net price of both banks showed that the net profit of banks were in an increasing trend. If other things remain same, the net profit of HBL & MBL in 2069 will be Rs. 874.21 millions and Rs. 214.42 millions respectively, which is the highest under the study period.

Chapter – V

SUMMARY, CONCLUSION & RECOMMENDATION

This is the last chapter which indicates summary, conclusion & recommendation based on the result of the analysis of data. This chapter includes two aspects of the study. First aspect of the study focuses on summarizing the fact-findings of the study and making concluding remarks upon them. The second aspect of the study focuses on making some useful suggestions and recommendation based on findings of the study to improve the financial performance of sample banks.

5.1 Summary

Commercial banks in Nepal have come across a long way to reach at the present status they hold in the national economy. Since from the beginning of the establishment of Rastriya Banijya Bank to the present scenario with the emergence of new and growing banks like Everest Bank Ltd., Kumari Bank Ltd., Laxmi Bank Ltd., Siddhartha Bank Ltd., NIC Bank Ltd., NABIL Bank Ltd., etc commercial banks have brought tremendous changes in terms of services, capacity development and the way they serve customers. Modern banking practices have been introduced by almost all the commercial banks in Nepal. Commercial banks the were initially involve in lending and deposit sector have now modified their traditional business concept and introduced new and new products to the Nepalese customers like credit cards, ATM cards, SMS banking, E-banking etc. Banking sector has made significant improvements after the government of Nepal adopted liberal economic policy. Commercial banks, at the present scenario are mainly focusing their business in foreign trade, remittance transactions and retail loans etc. They have diversified their lending portfolios in new products like retail banking and are trying to contain people from all the classes. Commercial banks have also kept eyes over agriculture and service industry.

Financial analysis is the process of determining the significant operation and financial characteristic of a firm accounting data. It shows the relationship between the various components which can be found in balance sheet and profit and loss statement. The analyzed statements contain that information which is useful for management, shareholders, creditors, investors, depositors, etc. The main objectives of the study are to analyze financial performance of Himalayan Bank Ltd. and Machhapuchchhre Bank Ltd. and to improve the financial performance of both banks. The study has been constrained by various common limitations. The study is based on secondary data from F/Y 2059/60 to 2063/64. The data have been basically obtained from annual reports, financial statements, official records, various published reports and relevant unpublished master's thesis.

Both primary and secondary data have been used in this study. Primary data have been collected by distributing questionnaire while secondary data have been obtained from annual reports. The data collected from various sources are recorded systematically and presented in appropriate forms of tables and charts. Moreover financial tools like liquidity ratio, leverage ratio, activity ratio, profitability ratio, earning performance ratio and statistical tools like correlation coefficient and trend analysis have been applied to analyzed data.

5.2 Conclusion

In the total respondents, it is shown that most of the respondents have faith towards banking sector. Moreover, it also showed that banking sector have been successful to collect the scattered saving of the people which is their primary function. Improper credit appraisal system, economic recession, political pressure, lack of productive area and borrower's misconduct is the major factors that lead to increase of non-performing loan. Bank should contribute more to the nation in the employment and tax sector, recognition of the global perspective, investment towards poverty & deprived sector and others as well as open new branches in rural areas to collect small deposits also.

The liquidity position of both sample banks was satisfactory to meet the short-term obligation. All the sample banks had maintained a good percentage of cash and bank balance to total deposit but the ratios were inconsistent. The consistency of the ratios showed the lack of specific policy of all banks about the maintenance of liquidity.

The debt ratio showed that all the sample banks had used higher proportion of debt in their capital structure financing assets form. Capital structure of both banks appeared to be levered. The C.V. of HBL was low, which indicates that HBL had more consistency in debt ratio. HBL had maintained its interest coverage ratio.

The asset management efficiency of both sample banks showed that banks had successfully utilized their deposits into income generating assets and most of them in the form of loan and advances. This showed that both sample banks had given priority to risky assets i.e. loan and advances as compared to risk free assets. HBL and MBL had utilized about 49% and 69% respectively of its total assets for income generating purpose which indicated the aggressive risk taking policy of the banks. It seems that NBL was slightly ahead in terms the effectiveness of assets utilization.

The analysis of profitability ratios showed HBL was better among the sample banks because they pay lower interest rate for debt fund and earn higher interest by mobilizing its deposits and assets to different productive and profitable sector. MBL profitability ratios were in fluctuating trend though, HBL of EPS was satisfactory.

The correlation coefficient between total deposit and loan and advances was positive for both sample banks but MBL had strong positive correlation between total deposit and loan and advances. Similarly, the correlation coefficient between total deposit and investment were positive for both sample banks and also found to be significant while testing 6P.Er. which indicates that HBL had

strong positive correlation between deposit and investment. Moreover, analysis showed that correlation coefficient between loan advances and net profit was positive for both sample banks. While fasting 6P.Er., MBL was found to be significant which indicates that MBL had strong positive correlation between loan and advance and net profit.

The trend analysis showed that deposits, loan and advances, investment and net profit of both banks were in an increasing trend. The increasing trend indicates that estimated amount of the above variables for coming five years will be higher.

5.3 Recommendation

On the basis of analysis and findings of the study, following recommendations are made as suggestion to overcome weakness and inefficiency and to improve lending and investing activities of all sample banks.

- (a) During the study period cash and bank balance to total deposit ratios were inconsistent in both sample banks. Thus, sample banks should make specific policy regarding cash and bank balance. Since cash and bank balance are the most liquid assets, banks should have moderate level of cash and bank balance.
- (b) It is recommended to increase total deposits because it is the main source of resources. Moreover, the banks should collect a large variety of deposits by introducing new schemes. Such as prize/gift scheme, child deposits schemes, housewife scheme, giving attractive interest rate etc. Further, the banks should introduce new and new scheme to exist in the competitive banking industry.
- (c) The overall investments of the banks should be concentrated on productive sector such as business and industrial loan rather than

consumer product such as hire purchase and housing loan. Because industrial and business sector will create the employment opportunities which is necessary for capital formation and economic growth.

- (d) Both the sample banks had more creditors fund to acquire an assets and investment. This mean they all had debt financing in assets. Since, debt financing needs to pay an interest regularly, higher debt are burden to bank. Therefore, they should decrease a debt financing and increase an equity financing which may help in increasing profit to some extend.
- (e) Loan and advance is the main source of investment of total deposit from which more profit can be earned and it is also risky to over in time. So, while granting loan and advances to the customer bank must do detail study of purposes of taking loans, sources of payment of loan and fixing the duration of paying loan etc. Before granting loan, bank also needs to take sufficient collateral. So that there will be no problem of collecting loan.
- (f) Profit is the motive that drives banks to invest and no bank can exist without profit. Thus, it is recommended to use large volume of shareholder's fund to increase net profit of the banks.
- (g) HBL was not successful as MBL to earn a net profit by utilizing its assets and deposits. So, it is recommended to HBL to invest its deposits and utilize its assets in different productive sectors on the basis of portfolio management.
- (h) It is recommended to open branch in rural areas also. Though profit is the motive but they should not forget the development of the country. The bank should study about the rural areas and open branches in rural areas which may also be tourist destination. Further it is recommended to flow loan in that areas and collect very small savings of the people also.

- (i) It is recommended to invest in human resources also. Without capable human resource the banks cannot innovate new marketing approach and at present new approach is needed every now and then. Thus, it is recommended to invest in human resources and search new areas for lending and investing which is most important at present time.

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www.himalayanbank.com

www.machbank.com

Appendix No. 1

Questionnaire

Dear Respondent

Thank you for accepting this questionnaire. This questionnaire is prepared for my research work on "Financial Performance of Commercial Banks with reference to Himalayan Bank Ltd. and Machhapuchchhre Bank Ltd." Your valuable opinion and suggestions are precious to my research. I would like to ensure that all your answers and suggestions will be kept confidential. Furthermore, I express my sincere thanks for completing this questionnaire.

Name:

Gender: () Male () Female Age:

Address:

Occupation:

A. What is the reason behind to select a particular organization?

() Prompt service () ABBS System () Others

B. Do you think, the present monitoring and supervision of Nepal Rastra Bank is effective?

() Effective () Not so effective () Don't know

C. To what extend, banking industry is affected by the problem of non-performing loan?

() Not affected () Normally affected () Severely affected

D. In which sector out of given below, should banks contribute to the nation?

() Employment and Tax () Recognition of the global perspective

() Investment towards poverty stricken and deprived sector

E. In your opinion, in which sector should the banks increase loan & advances for better performance?

- Agriculture Production Service

F. In your opinion, is it necessary to flow loan & advances towards rural areas of the country by the banks?

- Yes No Don't know

G. Bank is not found so interested in opening branch in rural areas. What may be the reasons behind it?

- They are profit oriented Political disturbance

 Lack of client

H. Why bank is increasing threshold balance and reduce the interest rate?

- Lack of productive areas Due to low return from investment

 Others

I. If you have any opinion and suggestion about the topic of my research please free to write

Thank you once again for providing your precious time

Appendix No. 2

Current Ratio

Rs. in
Million

Fiscal Year	HBL			MBL		
	Current Assets	Current Liabilities	Ratio(%)	Current Assets	Current Liabilities	Ratio(%)
2059/60	23,968.10	22,292.09	1.08	2,340.62	1,898.16	1.23
2060/61	25,430.14	23,437.86	1.09	3,386.22	2,894.42	1.17
2061/62	28,575.52	26,302.95	1.09	6,359.21	5,818.72	1.09
2062/63	30,038.98	27,694.22	1.08	8,964.89	8,007.06	1.12
2063/64	33,740.80	31,372.65	1.08	10,548.09	9,807.36	1.08

Source:- Annual Report of HBL and MBL

Appendix No. 3

Cash & Bank Balance to Total Deposit

Rs. in
Million

Fiscal Year	HBL			MBL		
	Cash & Bank Bal.	Total Deposit	Ratio(%)	Cash & Bank Bal.	Total Deposit	Ratio(%)
2059/60	1,979.21	21,007.38	9.42	201.72	1,778.79	11.34
2060/61	2,001.18	22,010.33	9.09	410.75	2,754.65	14.91
2061/62	2,014.47	24,814.01	8.12	731.33	5,586.60	13.09
2062/63	1,717.35	26,490.85	6.48	813.92	7,893.30	10.31
2063/64	1,757.34	30,048.41	5.85	1,284.08	9,475.46	13.55

Source:- Annual Report of HBL and MBL

Appendix No. 4
Cash & Bank Balance to Current Assets

**Rs. in
Million**

Fiscal Year	HBL			MBL		
	Cash & Bank Bal.	Current Assets	Ratio(%)	Cash & Bank Bal.	Current Assets	Ratio(%)
2059/60	1,979.21	23,968.10	8.26	201.72	2,340.62	8.62
2060/61	2,001.18	25,430.14	7.87	410.75	3,386.22	12.13
2061/62	2,014.47	28,575.52	7.05	731.33	6,359.21	11.50
2062/63	1,717.35	30,038.98	5.72	813.92	8,964.89	9.08
2063/64	1,757.34	33,740.80	5.21	1,284.08	10,548.09	12.17

Source:- Annual Report of HBL and MBL

Appendix No. 5
Fixed Deposit to Total Deposit

**Rs. in
Million**

Fiscal Year	HBL			MBL		
	Fixed Deposit	Total Deposit	Ratio(%)	Fixed Deposit	Total Deposit	Ratio(%)
2059/60	3,205.37	21,007.38	15.26	921.63	1,778.79	51.81
2060/61	4,710.18	22,010.33	21.40	1,227.28	2,754.65	44.55
2061/62	6,107.43	24,814.01	24.61	1,914.76	5,586.80	34.27
2062/63	6,350.20	26,490.85	23.97	2,604.90	7,893.30	33.00
2063/64	8,201.13	30,048.41	27.29	2,869.10	9,475.46	30.28

Source:- Annual Report of HBL and MBL

Appendix No. 6

Debt to Total Assets Ratio

Rs. in
Million

Fiscal Year	HBL			MBL		
	Total Debt	Total Assets	Ratio(%)	Total Debt	Total Assets	Ratio(%)
2059/60	22,292.09	24,197.97	92.12	1,898.16	2,399.85	79.09
2060/61	23,437.86	25,729.79	91.09	2,894.42	3,448.63	83.93
2061/62	26,302.95	28,871.34	91.10	5,818.72	6,456.46	90.12
2062/63	27,694.22	30,579.81	90.56	8,007.06	9,069.83	88.28
2063/64	31,372.64	34,314.87	91.43	9,807.36	10,807.62	90.74

Source:- Annual Report of HBL and MBL

Appendix No. 7

Debt to Equity Ratio

Rs. in
Million

Fiscal Year	HBL			MBL		
	Total Debt	Shareholder's Equity	Ratio(%)	Total Debt	Shareholder's Equity	Ratio(%)
2059/60	22,292.09	1,905.88	11.70	1,898.16	501.71	3.78
2060/61	23,437.86	2,291.93	10.23	2,894.42	554.22	5.22
2061/62	26,302.95	2,568.40	10.24	5,818.72	637.74	9.12
2062/63	27,694.22	2,885.59	9.60	8,007.06	931.09	8.60
2063/64	31,372.64	2,942.27	10.66	9,807.36	1,000.03	9.81

Source:- Annual Report of HBL and MBL

Appendix No. 8 Interest Coverage Ratio

Rs. in
Million

Fiscal Year	HBL			MBL		
	EBIT	Interest	Ratio(%)	EBIT	Interest	Ratio(%)
2059/60	914.16	554.13	1.65	91.46	76.16	1.20
2060/61	912.12	491.54	1.86	160.27	113.58	1.41
2061/62	1,084.51	561.96	1.93	302.84	187.03	1.62
2062/63	1,321.24	648.84	2.04	480.91	288.66	1.67
2063/64	1,484.82	767.41	1.93	488.82	397.72	1.23

Source:- Annual Report of HBL and MBL

Appendix No. 9 Loan & Advances to Total Deposit Ratio

Rs. in
Million

Fiscal Year	HBL			MBL		
	Loan & Advances	Total Deposit	Ratio(%)	Loan & Advances	Total Deposit	Ratio(%)
2059/60	10,844.60	21,007.38	51.62	1,464.17	1,778.79	82.31
2060/61	12,919.63	22,010.33	58.70	2,493.11	2,754.65	90.51
2061/62	13,451.17	24,814.01	54.21	5,061.43	5,586.80	90.60
2062/63	15,761.98	26,490.85	59.50	6,068.43	7,893.30	76.88
2063/64	17,793.72	30,048.41	59.22	7,129.90	9,475.46	75.25

Source:- Annual Report of HBL and MBL

Appendix No. 10
Loan & Advances to Fixed Deposit Ratio

Rs. in
Million

Fiscal Year	HBL			MBL		
	Loan & Advances	Fixed Deposit	Ratio(%)	Loan & Advances	Fixed Deposit	Ratio(%)
2059/60	10,844.60	3,205.37	338.33	1,464.17	921.63	158.87
2060/61	12,919.63	4,710.18	274.29	2,493.11	1,227.28	203.14
2061/62	13,451.17	6,107.43	220.24	5,061.43	1,914.76	264.34
2062/63	15,761.98	6,350.20	248.21	6,068.43	2,604.90	232.96
2063/64	17,793.72	8,201.13	216.97	7,129.90	2,869.10	248.51

Source:- Annual Report of HBL and MBL

Appendix No. 11
Loan & Advances to Saving Deposit Ratio

Rs. in
Million

Fiscal Year	HBL			MBL		
	Loan & Advances	Saving Deposit	Ratio(%)	Loan & Advances	Saving Deposit	Ratio(%)
2059/60	10,844.60	10,870.54	99.76	1,464.17	252.09	580.81
2060/61	12,919.63	11,759.60	109.86	2,493.11	493.10	505.60
2061/62	13,451.17	12,852.42	104.66	5,061.43	1,250.20	404.85
2062/63	15,761.98	14,582.86	108.09	6,068.43	2,333.37	260.07
2063/64	17,793.72	15,784.77	112.73	7,129.90	2,510.92	283.96

Source:- Annual Report of HBL and MBL

Appendix No. 12
Loan & Advances to Total Working Fund

Rs. in
Million

Fiscal Year	HBL			MBL		
	Loan & Advances	Total Assets	Ratio(%)	Loan & Advances	Total Assets	Ratio(%)
2059/60	10,844.60	24,197.97	44.82	1,464.17	2,399.85	61.01
2060/61	12,919.63	25,729.79	50.21	2,493.11	3,448.63	72.29
2061/62	13,451.17	28,871.34	46.59	5,061.43	6,456.46	78.39
2062/63	15,761.98	30,579.81	51.54	6,068.43	9,069.83	66.91
2063/64	17,793.72	34,314.87	51.85	7,129.90	10,807.62	65.97

Source:- Annual Report of HBL and MBL

Appendix No. 13
Investment to Total Deposit

Rs. in
Million

Fiscal Year	HBL			MBL		
	Investment	Total Deposit	Ratio(%)	Investment	Total Deposit	Ratio(%)
2059/60	10,175.44	21,007.38	48.44	398.36	1,778.79	22.39
2060/61	9,292.10	22,010.33	42.22	274.41	2,754.65	9.96
2061/62	11,692.34	24,814.01	47.12	468.61	5,586.80	8.39
2062/63	10,889.03	26,490.85	41.10	1,190.83	7,893.30	15.09
2063/64	11,822.99	30,048.41	39.35	1,278.47	9,475.46	13.49

Source:- Annual Report of HBL and MBL

Appendix No. 14
Return on Total Assets

**Rs. in
Million**

Fiscal Year	HBL			MBL		
	Net Profit	Total Assets	Ratio(%)	Net Profit	Total Assets	Ratio(%)
2059/60	212.13	24,197.97	0.88	15.31	2,399.85	0.64
2060/61	263.05	25,729.79	1.02	46.69	3,448.63	1.35
2061/62	308.28	28,871.34	1.07	84.87	6,456.46	1.31
2062/63	457.46	30,579.81	1.50	133.99	9,069.83	1.48
2063/64	491.82	34,314.87	1.43	74.09	10,807.62	0.69

Source:- Annual Report of HBL and MBL

Appendix No. 15
Return on Common Equity

**Rs. in
Million**

Fiscal Year	HBL			MBL		
	Net Profit	Common Equity	Ratio(%)	Net Profit	Common Equity	Ratio(%)
2059/60	212.13	1,905.88	11.13	15.31	501.71	3.05
2060/61	263.05	2,291.93	11.48	46.69	554.22	8.42
2061/62	308.28	2,568.40	12.00	84.87	637.74	13.31
2062/63	457.46	2,885.59	15.85	133.99	931.09	14.39
2063/64	491.82	2,942.27	16.72	74.09	1,000.03	7.41

Source:- Annual Report of HBL and MBL

Appendix No. 16
Return on Total Deposit

**Rs. in
Million**

Fiscal Year	HBL			MBL		
	Net Profit	Total Deposit	Ratio(%)	Net Profit	Total Deposit	Ratio(%)
2059/60	212.13	21,007.38	1.01	15.31	1,778.79	0.86
2060/61	263.05	22,010.33	1.20	46.69	2,754.65	1.69
2061/62	308.28	24,814.01	1.24	84.87	5,586.80	1.52
2062/63	457.46	26,490.85	1.73	133.99	7,893.30	1.70
2063/64	491.82	30,048.41	1.64	74.09	9,475.46	0.78

Source:- Annual Report of HBL and MBL

Appendix No. 17
Return on Loan & Advances Ratio

**Rs. in
Million**

Fiscal Year	HBL			MBL		
	Net Profit	Loan & Advances	Ratio(%)	Net Profit	Loan & Advances	Ratio(%)
2059/60	212.13	10,844.60	1.96	15.31	1,464.17	1.05
2060/61	263.05	12,919.63	2.04	46.69	2,493.11	1.87
2061/62	308.28	13,451.17	2.29	84.87	5,061.43	1.68
2062/63	457.46	15,761.98	2.90	133.99	6,068.43	2.21
2063/64	491.82	17,793.72	2.76	74.09	7,129.90	1.04

Source:- Annual Report of HBL and MBL

Appendix No. 18 Earning Per Share

Rs. in
Million

Fiscal Year	HBL			MBL		
	Net Profit	No. of Share Outst.	Ratio(%)	Net Profit	No. of Share Outst.	Ratio(%)
2059/60	212.13	429.00	49.45	15.31	544.20	2.81
2060/61	263.05	536.25	49.05	46.69	550.00	8.49
2061/62	308.28	643.50	47.91	84.87	550.00	15.43
2062/63	457.46	772.20	59.24	133.99	715.00	18.74
2063/64	491.82	810.81	60.66	74.09	821.65	9.02

Source:- Annual Report of HBL and MBL

Appendix No. 19 Price Earning Ratio

Rs. in
Million

Fiscal Year	HBL			MBL		
	MPS	EPS	Ratio(%)	MPS	EPS	Ratio(%)
2059/60	836.00	49.45	16.91	100.00	5.81	17.21
2060/61	840.00	49.05	17.13	125.00	8.49	14.72
2061/62	920.00	47.91	19.20	256.00	15.43	16.59
2062/63	1,100.00	59.24	18.57	320.00	18.74	17.08
2063/64	1,215.00	60.65	20.03	368.00	19.02	19.35

Source:- Annual Report of HBL and MBL

Appendix No. 20 (I)

Correlation Coefficient between Total Deposit and Loan and Advances of HBL

Fiscal Year	Total Deposit (x)	Loan Advance (y)	$X_1 = X - \bar{X}$	$Y_1 = Y - \bar{Y}$	X_1^2	Y_1^2	X_1Y_1
2059/60	2100.738	1084.460	-386.68	-330.96	149522.97	109534.52	127976.27
2060/61	2201.033	1291.963	-286.39	-123.46	82017.51	15241.63	35356.48
2061/62	2481.401	1345.117	-6.02	-70.30	36.23	4942.51	423.15
2062/63	2649.085	1576.198	161.67	160.78	26135.57	25849.57	25992.18
2063/64	3004.842	1779.372	517.42	363.95	267725.53	132461.06	188316.77
			$\Sigma X_1 = 0$	$\Sigma Y_1 = 0$	$\Sigma X_1^2 = 525437.81$	$\Sigma Y_1^2 = 288029.29$	$\Sigma X_1Y_1 = 378064.86$

Source: Annual Report of HBL.

$$\bar{X} = \frac{\Sigma X}{N} = \frac{12437.10}{5} = 2487.42$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{7077.11}{5} = 1415.42$$

$$\text{Now, } r = \frac{n\Sigma XY - \Sigma X \cdot \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \cdot \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Here, n = 5

$$\therefore r = \frac{5 \times 378064.86 - 0}{\sqrt{5 \times 525437.81 - (0)^2} \cdot \sqrt{5 \times 288029.29 - (0)^2}}$$

$$= \frac{1890324.28}{\sqrt{2627189.05} \sqrt{1440146.44}}$$

$$= \frac{1890324.28}{1620.86 \times 1200.06}$$

$$= \frac{1890324.28}{1945129.25}$$

$$= 0.971$$

Probable error of the Correlation Coefficient

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

$$= 0.6745 \times \frac{1-(0.97)^2}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.059}{2.236}$$

$$= 0.0177$$

$$\therefore 6 \times \text{P.Er.} = 0.1062$$

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Appendix No. 20 (II)

Correlation Coefficient between Total Deposit and Loan and Advances of MBL

Fiscal Year	Total Deposit (x)	Loan Advance (y)	$X_1 = X - \bar{X}$	$Y_1 = Y - \bar{Y}$	X_1^2	Y_1^2	$X_1 Y_1$
2059/60	1778.79	1464.17	-3719.01	-2979.238	13831035	8875859	11079816
2060/61	2754.65	2493.11	-2743.15	-1950.298	7524872	3803662	5349960
2061/62	5586.80	5061.43	89	618.022	7921	381951.2	55003.96
2062/63	7893.30	6068.43	2395.5	1625.022	5738420	2640697	3892740
2063/64	9475.46	7129.90	3977.66	2686.492	15821779	7217239	10685952
			$\Sigma X_1 = 0$	$\Sigma Y_1 = 0$	$\Sigma X_1^2 =$ 42924028	$\Sigma Y_1^2 =$ 22919408	$\Sigma X_1 Y_1 =$ 31063472

Source: Annual Report of MBL.

$$\bar{X} = \frac{\Sigma X}{N} = \frac{27489}{5} = 5497.8$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{22217.04}{5} = 4443.408$$

$$\text{Now, } r = \frac{n\Sigma XY - \Sigma X \cdot \Sigma Y}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \cdot \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Here, $n = 5$

$$\therefore r = \frac{5 \times 31063472 - 0}{\sqrt{5 \times 42924028 - (0)^2} \cdot \sqrt{5 \times 22919408 - (0)^2}}$$

$$= \frac{155317360}{\sqrt{214620140} \cdot \sqrt{114597040}}$$

$$= \frac{155317360}{14649.92 \times 10705.0007}$$

$$= \frac{155317360}{156827403.9}$$

$$= 0.99$$

Probable error of the Correlation Coefficient

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

$$= 0.6745 \times \frac{1-(0.99)^2}{\sqrt{5}}$$

$$= 0.6745 \times \frac{0.0199}{2.236}$$

$$= 0.6745 \times 0.00889$$

$$= 0.0065$$

$$\therefore 6 \times \text{P.Er.} = 0.0399$$

Similarly correlation coefficient and probable error for other variables are also calculated.

Appendix No. 21 (I)

Calculation of Total Deposit Trend of HBL

Year (t)	Total Deposit (Y)	t-2062 (X)	X ²	XY	Trend value y = a + bx
2060	2100.738	-2	4	-42014.76	20361.70
2061	2201.033	-1	1	-22010.33	22617.95
2062	2481.401	0	0	0	24874.20
2063	2649.085	1	1	26490.85	27130.45
2064	3004.842	2	4	60096.84	29386.70
			ΣX ² = 10	ΣXY = 22562.60	

Source: Annual Report of HBL.

$$\bar{X} = \frac{\Sigma X}{N} = \frac{124370.99}{5} = 24874.20$$

$$\bar{Y} = \frac{\Sigma XY}{\Sigma X^2} = \frac{22562.60}{10} = 2256.26$$

Substituting the value of a and b in equation (i), the least square total deposit trend line is given by $y = 24874.20 + 2256.26x$

Trend Value of Total Deposit (Projected for Five Years)

Year (t)	t - 2062 (x)	Trend values y = a + bx
2060	3	31642.98
2061	4	33899.24
2062	5	36155.50

2063	6	38411.76
2064	7	40668.02

Appendix No. 21 (II)

Calculation of Total Deposit Trend of MBL

Year (t)	Total Deposit (Y)	t-2062 (X)	X ²	XY	Trend value y = a + bx
2060	1778.79	-2	4	-35.758	13914.40
2061	2754.65	-1	1	-2754.65	3444.60
2062	5586.80	0	0	-	5497.80
2063	7893.30	1	1	7893.30	7551.00
2064	9475.46	2	4	18950.30	9604.20
	ΣY = 27488.99		ΣX ² = 10	ΣXY = 22562.60	

Source: Annual Report of MBL.

$$\bar{X} = \frac{\Sigma X}{N} = \frac{27488.99}{5} = 5497.80$$

$$\bar{Y} = \frac{\Sigma XY}{\Sigma X^2} = \frac{20531.97}{10} = 2053.19$$

Substituting the value of a and be in equation (i), the least square total deposit trend line is given by $y = 5497.80 + 2053.19x$

Trend Value of Total Deposit (Projected for Five Years)

Year (t)	t - 2062 (x)	Trend values y = a + bx
2060	3	11657.4
2061	4	13710.6
2062	5	15763.8

2063	6	17817.0
2064	7	19870.2

Similarly computation of linear trend and their protection for five years of other variables are also calculated accordingly.