CHAPTER - ONE

INTRODUCTION

1.1 Introduction: Background of the Study.

1.1.1 Meaning of the Bank:

Banks can be defined as financial institution, which acts as intermediaries challenging saving to investment and consumption; through them the investment requirement of several are reconciled with the credit needs of investors and other customers. For study purpose, bank is that financial institution which collects funds from customers (public/ organization) and invests the same to them, thereby making profit from the difference of interest amount that it pays and collects the customers for the deposit and loan investment.

Banking means acceptance for the purpose of lending or investment of deposit of money from the public repayable on demand or otherwise, withdraw able by cheques, drafts or other negotiable instrument order or otherwise. Besides just investing the deposit money bank also performs many other services to the customers such as draft facility, remittance, money transfer, bank guarantee, and telex transfer of money, etc. A bank is an institution whose debts (bank deposit) are widely accepted is settlement of their people's debts to each other.

Commercial banks are the largest and most diversified intermediaries in the range of assets held liabilities issued. The salient features of commercial banks lie in fact, not in their assets, but in their liabilities.

Since the banking plays important role in overall development of a country, the importance of the banking sector in the present day for a country like Nepal can hardly be overemphasized. A sound banking system helps the economic grow of a country.

In today's 21st century, the area of bank is increasing so largely

that we can't imagine. It is obvious that in a common sense, an institution involved in monetary transaction is called bank. In simply we can say bank carries out the work of exchange money, providing loan, accepting deposits & transferring the money.

1.1.2 A Short glimpse of Nepal and Financial Sector:

Nepal is the one of the least developed country of the world, with 38% of the total population still below poverty line. Its economy is based on agricultural, as 81% of the people rely on it for their livelihood. Among 26 million populations, 86% are living on the rural areas. The extreme geographical variation comprising 17% plain area, 68% mountainous and 15% Himalayan areas has made the inter connectivity difficult for the development purpose . Per capita income of people is only $240, according to the data's forwarded by the in 2003. Population of Nepal has grown up from 1.5 million in 1981 to 18.5 million 25.7 million in 2007.

The geographical distribution of population is on mountain, hill and terai respectively. Country is administratively divided into 5 development region, 14 zones and 75 districts. Tourism is the main industry for country, contributing the major portion of the national economy. Agricultural sector contributes 40% to total Gross Domestic Product (GDP). Asian Development Bank (ADB), World Bank (WB), United Nation Development Fund (UNDP), etc make regular fund grants to Nepal for the various social and economic betterment of the country.

The speedy development of any country in this modern era depends upon to some extent with some financial activities of the country. Financial activities play a role of catalyst in the process of economic development of the nation. Bank and other financial institution and corporate house play a vital role in economic development of a country. The current state of Nepalese economy is characterized by unutilized natural resources, miserable agricultural, deficit trade, mass poverty, illiteracy and so on. The main occupation is agricultural but it is

also in traditional ways, because people are until applying old technology and date expired resources.

Nepal is rich in the natural resources which can't be seen from nacked eyes. All natural resources is scattered in all over the country and they are valuables. Nepal is one of the richest countries in terms of natural resources but it is still in the condition of unutilized due to mass poverty, illiteracy and so on.

A tiny landlocked country in south Asia, it remains in the queue of least developed country in the world. The country's per capita income has been growing at little over only one or two percent per annum at a situation when more than two-fifth of the country's population is still under the poverty line.

Investment is necessary to develop the country's level of income. But in Nepal investment is limited only in the area of land and house. The World is moving in the base of 21st century but economic health of Nepal looks like as of the 10th century. Nepal's current economic situation is best with nearly half of the population living below poverty line and unemployment. The unutilized financial and natural resources should be diversified in the area of economic and productive and utilized sector which increases income as well as economic wealth. To develop the income level of people, financial institution and big corporate house plays vital role, hence government should promote and encourage for established the financial institution and other big corporate house. This helps to increase the economic activities.

1.1.3 Introduction of Joint Venture Banks:

"Joint venture is a general model for direct foreign direct investment. Joint venture is a mode of trading through the partnership among nations and also a form negotiation between the various groups of industrialists, traders and mercantile to achieve mutual

exchange of goods and services for sharing comparative advantage in their contribution. Joint Venture is joining the forces between two or more enterprises for the purpose of carrying out a specific operation." (Gupta; 1984:15)

1.1.4 Brief History of Joint Venture Banks in Nepal

Before the establishment of joint venture bank, there were few banks operating in Nepal After the establishment of Nepal bank ltd. In 1937 A.D, Nepal have initiated Nepal Rastra bank (central bank) in 1956, Nepal industrial development center (NIDC) in 1957, Employees Provident fund in 1963, Rastriya Banijya bank (Commercial bank) in 1964, agriculture Development Bank in 1968, Nepal national insurance corporation Act in 1968 and Small Industries Development corporation (SIDC) in 1971.

In quest of financial institution as joint venture bank Limited, Nabil Bank Limited was first joint venture bank in country. The bank was established in 1984 and operated on july12, 1984 sharing 50 % from Dubai Bank Limited was registered in United Arab Emirate, sharing by 20 % from financial institution of Nepal and sharing by 30 %from general public. It has 1600 million authorized capital, 689 million rupees issued capital and paid up capital 689 million rupees.
Similarly, the second bank established in joint investment was the Nepal Indosuez Bank Limited. It was established in 2042 (1985). But now its name is Nepal Investment Bank Limited. It has played a great role in the development of banking system. It has also opened its branch offices. At present there is no foreign investment in it. The Nepalese shareholders own all shares.

Third joint venture bank in Nepal is Standard Chartered Bank Nepal Limited. The bank was originally established as a joint venture of Grindlays Bank and Nepal Bank Limited in 2043 (1986) with Grindlays Bank Limited.

Along with the change of ownership to standard chartered, the banking area of Standard Chartered Bank Nepal Limited saw the rise of a new dawn changing the general public image of bank.

Fourth JVB is Himalayan bank Limited (HBL) established in 1992. It was established to maintain the economic welfare of the general people to facilitate loan for agriculture, industry and commerce to provide the banking services to the country and the people. It was financed by founder's shareholders (A class) sharing 51 %, 20 % by Habib bank of Pakistan, 14% by Karmachari Sanchaya Kosh and 15% by public. Now there is 20% share of foreign investors, 15% of public & 65% of other entities. The bank has Rs.2000 million authorized and Rs 1013 million issued capital. It is the first joint venture bank having domestic ownership more than 50 percent.

Fifth JVB established in 1993 is Nepal SBI Bank Limited, which is the First Nepal-India joint venture in the Financial Sector. Three institutional Promoters, namely, Stat e Bank of India, Karmachari Sanchaya Kosh and Agricultural development Bank of Nepal, sponsor the bank. The main objectives of Nepal SBI Bank Limited (NSBIBL) are to play an important role in facilitating growing Indo-Nepal trade, to provide a whole range of banking service of international standard and to effectively participate in the process of economic development of Nepal.

Nepal Bangladesh Bank Limited, a sixth joint venture bank in Nepal, started its operation on June 6, 1994. The bank established with the joint collaboration of International Finance Investment & Commerce Bank Ltd (IFIC) of Bangladesh having Rs.240 million authorized and Rs 60 million paid-up capitals.

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

percent share by the general public.

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

Nepal Bank of Ceylon, a ninth joint venture bank commenced its operation from October 14, 1996. The bank established with the joint collaboration of Bank of Ceylon (Sri Lanka) has Rs 500 million paid up capital, 45 percent share is held by bank of Ceylon and the rest 55 percent by general public. Srilankan investors sold their shares to the NB group of Nepal and its name has been changed to Nepal credit and commercial Bank Limited.

(Source: website of banks)

1.1.5. Role of Joint Venture Banks in Nepal

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

Other areas of expertise are forward cover for foreign exchange transaction by importers and exporter, merchant banking inter-banking market for money and securities, arranging foreign currency loans etc.

Joint venture banks are important for the economic development to mixed economy follower like Nepal. Nepalese economic situation and investment necessity experiences short of such institutions which can

serve such problems. (Pandey; 1997:341)

The role of joint venture banks can be presented as follows,

Creation of Competitive Environment

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

Introducing new method and Technology in Banking Services

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

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

Providing more Resource for Investment

The joint venture banks have played a significant in canalizing the additional resources for investment for the development of the

country. Although it is argued by many that resources raised to locally in the prevailing market those resources would have been mobilized by any other domestic institution, it is assumed that the JVBs have mobilized net additional resources if they tap so far untapped resources in the local market.

Information to Foreign Investors

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

Because of the political instability, offer the restoration of multiparty democracy also the foreign investors have still been hesitating to invest in Nepal. In such a situation, the publication of JVBs has been playing a vital role to introduce the Nepalese financial rules, regulation, policies and practices to the foreign investors.

Contribution to National Economy

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

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

But here is a remarkable point that joint investments should be directed by economic need and not by political interest. Financial &

legal rules, regulations and practices should be clear and convenient to foreign investors.

1.1.6 Evolution of Banking and Financial sectors in Nepal:

Nepal was under the dark clouds in terms of economy and access to the outer world before the restoration of democracy in 1950. After the democracy many laws and regulation were enacted in the favor of industry, and commerce. Because many banks and financial came into operation. Earlier it was only Nepal Bank Limited which was operating in Nepal established in 1937, with 51% government share and 49% public share. With the objective of expanding the banking service to the nooks and corners of the country, Rastriya Banijya Bank was set up in 1966 with 100% government investment. After realizing the need Nepal Rastra Bank was established as a central in 1956 with special law and power of operation.

Then came Nepal Industrial Development Corporation (NIDC) established by government under the special charter with the objective of promoting private industrial sector. Similarly Agricultural Development Bank was established in 1968 under special Act with the aim of providing institutional credit to agriculture sector.

Development Banks: Nepal Industrial and Development Corporation (NIDC) was pioneer institution in Nepal having the objective of promoting private industrial sector. Later come Agricultural Development Bank. With the introduction of Development Bank Act 1996, the number of the development banks increased. Currently there are 25 development banks.

Commercial banks: In early 1980s the government opened up Nepalese banking sector foreign investment. As a result, Nepal Arab Bank limited (renamed Nabil Bank Limited on January 2002) was established in 1984 with joint venture between Dubai Bank Limited, Nepalese financial institution (Rastriya bema sansthan, Nepal Industrial Development Corporation) in 1986 and 1987, Nepal

Indosuez Bank Limited and Nepal Griendlays Bank Limited came into operation with 50% holding by Banque Indosuez Bank, Paris and ANZ Grindlays Bank Limited, Australia respectively.

With the restoration of historical multiparty democracy in 1990, the government pursued liberal economic policy, which paved the way for the way for establishment of commercial banks by the private sector with or without foreign investment. Presently, there are 31 commercial banks in Nepal. Commercial banks are the major players of the financial market as they have the lions share in the country's deposit (81%) and credit (72%) country's advance and deposit respectively. Commercial banks are one of the major financial intermediaries whose primary function is the transfer of monetary resources from the savers to the users. Besides these, they render services like collection of bill, and cheques, providing services of locker and different financial information and provide advice to their customer.

Besides these the function of commercial banks can be divided into primary and secondary function.

Primary Function:

Accepting deposit
saving deposit
Invest in Securities & Banks
Provide loan
Overdraft
Cash Credit

Secondary Function:

Safety of valuable goods by providing locker
Issue credit cards
Transaction with foreign exchange
General Utility function
Economic and finance function
Work as mediator
Encourage foreign imports & exports
Government transaction

Finance Companies

Though Finance company Act was enacted in 1985 the first finance company named Nepal Housing Development Finance Company came into operation only in 1982. Currently, there are 59 finance companies with 7% share in country's deposits and 9% share in advances. Recently Nepal Bangladesh Finance Company merged with Nepal Bangladesh Bank Limited.

Cooperatives

Despite the concept of cooperatives being very old in Nepal, the formal cooperatives working under NRB regulation and supervision was established in 1999. Currently, there are 21 cooperatives working under NRB with 1% market share in both the deposit and share.

1.1.7 Impact of Nepalese economy on banking sector:

Nepal has gone through several ups and down since restoration of democracy in 1990 basically in terms of political instability , social insecurity , and crisis, because of which the country has seen no meaningful economic growth , since last decade. Compared to last year exports and imports of goods have been decreased. Because of imports exceeding exports trade loss has been increased. Last year's exports were increased with 6.4%, as compared to this year's 5.6%. Beside all these data's Nepalese banking sector has seen a growth as the net deposit has been increased from last year's 10.3% (190 billion) to 15.2%(308.6 billion).CD ratio has been increased with 250 billion. Foreign exchange deposit has been increased by 20.2% and the interchangeable deposit has been increased by 17.9%. The total foreign exchange deposit is 129.8640 billion.

Therefore because of the internal political instability, and affect in the peace and security of the nation all the trade, industries, and business organizations faced a great loss in the past decade, and the banks were of no exception. Beside the slack of economy and of unfavorable conditions banks and financial institutions grew a lot in the decade. But after then peace talks between the political parties and

restoration of peace and security, Nepalese trade and commerce, industrial sector and banking and financial institutions has been increased tremendously. Therefore the banking and financial institution are going through stiff competition, and are facing challenging to grow. Banking has also been affected by new technology. Which has made it possible for money to be transferred from one place now use plastic cards, which give them credit. Moreover, the ability of banks to gather and analyze financial information has given rise to another view of why banks exist in modern society.

1.1.8 List of Commercial Banks in Nepal

As we know due to high scope in banking and financial sector in Nepal, total no of commercial banks are increasing day by day. The total numbers of commercial banks are listed as below.

Name of Commercial Banks	Head office
Nepal Bank Limited	Kathmandu
Rastriya Banijya Bank Limited	Kathmandu
Agricultural Development Bank Limited	Kathmandu
NABIL Bank Limited	Kathmandu
Nepal Investment Bank Limited	Kathmandu
Standard Chartered Bank Nepal Limited	Kathmandu
Himalayan Bank Limited	Kathmandu
Nepal SBI Bank Limited	Kathmandu
Nepal Bangladesh Bank Limited	Kathmandu
Everest Bank Limited	Kathmandu
Bank of Kathmandu Limited	Kathmandu
Nepal Credit & Commerce Bank Limited	Rupendehi
Lumbini Bank Limited	Narayanghad
Nepal Industrial &Commercial Bank Limited	Biratnagar
Machhapuchhre Bank Limited	Pokhara,Kaski
Kumari Bank Limited	Kathmandu
Laxmi Bank Limited	Birgunj, Parsa
Siddhartha Bank Limited	Kathmandu
Global Bank Limited	Birjunj,Parsa
Citizens Bank International Limited	Kathmandu
Prime Bank Limited	Kathmandu
Sunrise Bank Limited	Kathmandu
Bank of Asia Nepal Limited	Kathmandu
Development Credit Bank Limited	Kathmandu
NMB Bank Limited	Kathmandu
Kist Bank Limited	Kathmandu
Janata Bank Limited	Kathmandu
Mega Bank Nepal Limited	Kathmandu
Commerze and Trust Bank Nepal Limited	Kathmandu
Civil Bank Limited	Kathmandu
Century Commercial Bank Limited	Kathmandu

1.1.9 Introduction of sample Banks

Short Introduction of Everest Bank Limited

Everest Bank Limited (EBL) started its operations in 1994 with a view and objective of extending professionalized and efficient banking services to various segments of the society. The bank is providing customer-friendly services through its Branch Network. All the branches of the bank are connected through Anywhere Branch

Banking System (ABBS), which enables customers for operational transactions from any branches.

With an aim to help Nepalese citizens working abroad, the bank has entered into arrangements with banks and finance companies in different countries, which enable quick remittance of funds by the Nepalese citizens in countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore and U K. Bank has set up its representative offices at New Delhi (India) to support Nepalese citizen remitting money and advising banking related services.

Joint Venture Partner

Punjab National Bank (PNB), joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. Among the clients of the Bank are Indian conglomerates, medium and small industrial units, exporters, non-resident Indians and multinational companies. The large presence and vast resource base have helped the Bank to build strong links with trade and industry.

Recognizing the value of offerings a complete range of services, EBL pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

EBL was one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal.

EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of

Nepalese society.EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

Vision

- To evolve & position the bank as a progressive, cost effective & customer friendly institution providing comprehensive financial and related services.
- To integrate the frontiers of technology & serving the various segments of society.
- To be committed to excellence in corporate values.

Mission

- To provide excellent professional services & improve its position as a leader in the field of financial related services.
- To build & maintain a team of motivated and committed workforce with high work ethos.
- To use the latest technology aimed at customer satisfaction & act as an effective catalyst for socio-economic developments.

(www.Everestbank.com.np)

Short Introduction of Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 47 points of representation across the kingdom and over 170 reputed correspondent banks across the globe.

Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of

modern banking with customer satisfaction measured as a focal objective while doing business.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Banglore, India, Internet banking system and Telebanking system.

(www. nabilbank.com.np)

Short Introduction of Himalayan Bank Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster

Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal RemitTM. By deputing their own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.HBL is not only a Bank, It is committed Corporate Citizen. Corporate Social Responsibility (CSR) holds one of the very important aspects of HBL. Being one of the corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as a large.

The Bank's Vision:

Himalayan Bank Limited holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

The Bank's Mission:

The Bank's mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services. The Bank always strives positioning itself in the hearts and minds of the customers. The Bank's Objective: To become the Bank of first choice is the main objective of the Bank.

(www. hblbank.com.np)

Short Introduction of NIC Bank Nepal Limited

Nepal Industrial & Commercial Bank Limited (NIC Bank)

commenced its operation on 21 July 1998 from Biratnagar. The Bank was promoted by some of the prominent business houses of the country. The current shareholding pattern of the Bank constitutes of promoters holding 51% of the shares while 49% is held by the general public. NIC Bank has over 34,000 shareholders. The shares of the Bank are actively traded in Nepal Stock Exchange with current market capitalization of about NPR 10,493 million.

The Bank has grown rapidly with 34 branches throughout the country while several branches are planned to be opened this year. All branches are inter-connected through optical fiber as well as V-Sat and are capable of providing real time on-line transactions.

NIC Bank was the first commercial bank in Nepal to have received ISO 9001:2000 certification for its Quality Management System standard in the year 2006. The Bank has recently been certified under the upgraded ISO 9001:2008 standards for the Bank's Quality System on Commercial Banking Activities for the first time in Nepal. Furthermore, NIC Bank became the 1st Bank in Nepal to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide.

To add to these achievements, the Bank has also been awarded the "Bank of the Year 2007-Nepal" by the world-renowned financial publication of The Financial Times, U.K.-The Banker. This is the fruit of the Bank's outstanding performance backed by belief and support of its customers towards the Bank. The Bank is run by professionals and believes in the highest standards of corporate governance.

The Board of Directors of the Bank is supported by a management team, which comprises of young, enthusiastic

professionals. The Bank has successfully embarked on a multi-pronged strategy of consolidation, administrative streamlining, human resource up-skilling, strategic cost management, focused non-performing assets management, balance sheet and treasury management and controlled asset growth, in tandem with strengthening the credit culture as well as strategic marketing and sales.

NIC Bank's organizational structure is designed to support its business goals. However, it is flexible enough in seeking to ensure effective control and supervision and consistency in standards across all businesses at the same time. The organization structure is divided into five major areas viz Consumer Banking, Business Banking, Special Assets Management, Treasury and Liability Marketing and Transaction Banking all of which are supported by the corporate center. The Bank is committed towards providing financial services to its patrons by the means of efficient and cost effective service delivery through its Transaction Banking, Consumer Banking, Business Banking and Treasury divisions.

Consumer Banking comprises of consumer lending, retail credit products and banking services for individuals with dedicated teams. Consumer Banking services include home loans, auto loans, personal loans, education loans, travel loans, etc. Liability Marketing & Transaction Banking comprises of institutional and personal deposit products and transaction banking services including debit cards, ATMs, safe deposit lockers, payment services, drafts, remittance, SMS Banking, Travelers' Cheques, etc.

Business banking group comprises of corporate banking business including credit products and other banking services. It also includes corporate transaction banking, trade finance services, foreign exchange and corporate financing solutions including project & infrastructure finance, working capital & term loan credit, structured financing, syndication, cash management and advisory services. Special Assets Management division is responsible for managing non-

performing and restructured loans.

Treasury is responsible for management of liquidity and exposure to market risk, mobilization of resources, balance sheet management, pricing, investor relations and international operation. The Bank's treasury division offers a full range of Risk Management and Cash Management products and provides effective Treasury advisory services. Further, Treasury also leverages its strong relationships with financial institutions to provide a wide range of banking services. The Corporate center comprises all shared services and corporate functions including finance, secretarial, risk management, legal, human resources, branding and corporate communications. The Bank believes in continuously offering new and value added services to its customers, with commitment to quality and value to its clients at the same time. Accordingly, the Bank has been in the forefront in launching innovative and superior products having unique customer friendly features with immense success.

(www. nicbank.com.np)

Short Introduction of Bank of Kathmandu Limited

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. They put in conscious efforts to glorify their corporate slogan, "We make your life easier". Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally.

Vision

To become a significant contributor to the economic development of Nepal by distinguishing the Bank as an efficient, competitive, safe and top-quality financial institution.

Mission Statement

- To offer financial services and become the "Bank of Choice" by dedicating the progress and growth of the institution to the community, customers, employees and stockholders
- Promoting economic growth and becoming a caring corporate citizen
- Providing excellent customer services by offering personalized quality services and products
- Including modern technologies of banking that add value to customer services
- Following strict risk-control mechanisms
- Enhancing shareholders value
- Providing challenging career and learning opportunities for employees

Mission:

- Embrace a commitment to excellence
- Develop knowledgeable, competent and professional employees
- Deliver quality services
- Provide value to the stockholders
- Be accountable for delivering what they promise
- Demonstrate honesty and integrity in all actions
- Be balanced in customer orientation and risk consciousness

(www. bok.com.np)

1.2 Statements of the Problems

The analysis of financial soundness is not much older concept in business organization. The Profit planning tool is a new concept in a new business environment. By earning sound profit organization can sustain in competitive business environment. But still many

organizations are ignoring to the concept of financial soundness. But by proper profit planning business can managed their operation more effectively and efficiently.

Profit is a life blood of any business organization. No organization can sustain and alive without making appropriate profit. Profit is necessary for the fulfillment of assigned responsibilities and duties. Major responsibilities/activities of every commercial bank comprise mobilization of its resources, which involves cost and utilization of these resources in such a way which generates profit. Its functions are very attractive for people. Commercial banks are that bank that collects saving of the community and arrange it for their productive work. Although these banks are truly inspires with the objective of gaining profit. The income over expenses, generally called gross profit less other operating expenses called net income. The bank attempts to compensate the other operational expenses by generating other income out of nun- fund based business activities of the bank.

The present study aims to analyze and examines the application of PPC tools in the commercial banks taking a case of Everest Bank Limited, Himalayan Bank Limited, Nabil Bank Limited, Bank of Kathmandu Limited and NIC Bank Limited. In this ground, the study deals with the following issues for the purpose of this study.

- Analyzing the profitability position of the bank.
- What is the proportion of net profit in terms of net deposit?
- Proper CD ratio maintained or not?
- To checkout whether deposit position is strong or not?
- To checkout whether bank's deposit position is in improving order or not?
- Analyzing the relationship between deposit, loan, net profit margin and total investment.
- Analyzing the effect of investment decision on profitability position of the banks?

- What is relationship between deposit, loan and advances and profit margin?

1.3 Objective of the study

To study something, there is existence of objective. It is path. The specific objectives of the study are as follows:

- To find out the profitability position of the bank.
- To find out the area of the investment such as corporate sector , industrial sector and deprived sector
- To find the impact of investment on financial soundness
- To determine the structure of deposit utilization in the period of five years
- Comparison of CD ratio among the sample banks
- Comparison of liquidity ratio of three years data among sample banks
- Comparison of different ratio of EBL, HBL, NIC Bank, NABIL and BOK.
- To provide suggestion and possible guidelines to improve investment policy and its problems.

1.4 Importance of the study

The project work report will be meaningful to those in search of information on the subject of profit analysis. No organization can sustain in the market scenario without earning sufficient profit. Profit is the life blood of any business organization and it also defines the earning capacity of that organization. Hence this project work is mainly concerned with financial soundness which means earning capacity of that organization. This study analyzes and examines the applicability of profit planning system of the bank. Profit is main motivational factor which forced to put their best effort in their job and it also helps to improve the overall performance. Profit planning process significantly contributes to improve the profitability as well as

the overall financial performance of an organization with the help of best utilization of resources.

This study provides a kind of revised edition in detail about the profitability position. This analysis over present data will be helpful to be familiar with the financial position. Profit planning is a part of an overall process and is in area in which finance function plays a major role. This study will be beneficial to the management, outsider and shareholder, to the customer. It is now an important responsibility of financial manager while activities of those require an accounting background. They may also find it helpful to trace out the loopholes & problems arise in their performance & implement a corrective measure. Shareholders are the owner of the company. So they are interested to know either their funds are being utilized in proper way or not. Profit planning is crucial for the management. Profit is the most important indicators for judging the managerial efficiency and does not just happened for this every organization has to manage. Various functional budgets are the basic tools for proper planning of financial soundness. Therefore this study will be helpful for the students who are interested about this project work and also guideline for further study and reference to next researcher.

1.5 Limitation of the study

Although the study is a practical requirement of study yet there is certain constraints fraud during the project.

- The report is limited to the financial soundness.
- The total analysis is depended upon the secondary sources of data collected from the company & fiscal year report so it is liable to have some limitation owing to it inherent quality that secondary data faces.
- This study confines only profit planning aspects of Everest Bank Limited, Himalayan Bank Limited, Nabil Bank Limited, Bank of Kathmandu Limited and NIC Bank

Limited.

- This research explains and analysis the subject matter with the help of already established analytical methods and design.
- This study is barred on a period of 5 years. So that result obtained from it may be totally different from the one obtained from combining all years from day it came into existence till today.
- There are many external factors which affects the analysis of deposit position. However, I have considered only internal factors related with the bank for this study.
- The margin ratio of providing loans is too high which makes deposits unutilized.
- Although the concerned staffs were very cooperative in providing the data & other relevant materials needed for the report writing, yet they could not give some facts due to secrecy they had to keep. Hence, the accuracy of the research work will be dependent on data provided by banks.

1.6 Chapterization of Analysis

The study is divided into the following five chapters.

Chapter 1: Introduction

Chapter 2: Conceptual framework and Review of Literature

Chapter 3: Research Methodology

Chapter 4: Data Presentation and Analysis

Chapter 5: Summary, Conclusion and Recommendation.

In chapter 1 it deals with the meaning of commercial banks, details of profile and Evolution and impact of commercial banks in Nepalese economy in banking sector, list of commercial bank, statement of problem, objective of study, importance of the study and limitation of the study.

In chapter 2, I have observed the review of literature taken from

different article, books, journal and writer, primary sources and secondary sources of data and different raw data taken from unpublished sources.

In chapter 3, I have presented the different methodology taken to analyze the data. It deals with different research design, population and sample taken to study, different raw data, presentation model and technique using various formulas of ratio, mean and bar diagram, different bar diagram and pie chart.

In chapter 4, I have presented the data of commercial banks and analysis of the study. It is important chapter because it gave the overall conclusion of the study.

In chapter 5, I have presented the summary of whole report writing and also present summary, & at last I gave some recommendation to manager of bank, students & all related person directly or indirectly.

CHAPTER -TWO

Review of Literature

This chapter is basically divided into two parts. In the first chapter, it deals with conceptual framework and second chapter deals with review of literature performance analysis, meaning and objective of financial soundness of analysis with factor affecting financial soundness. An organization can sustain only when it can earn sufficient profit, hence, in this chapter we basically deals profit part for financial soundness. As the commercial banks are private & public corporate bodies which strive to maximize the profit carrying on transaction on money. Normally banks takes deposit from the customers & invests to trade, business and other with little margin. Any business organization can earned profit by satisfying its customer. For any business organization, it assumes that customers are king; neglecting customers no business organization can survive. To find out actual and correct result various newspaper, books, article and journal have been reviewed and analyzed. In chapter all study are concerned on introduction and conceptual framework of data and the focus of second chapter is reviewed in the study.

So this study is under taken to have clear picture of financial soundness of sample banks. For the fulfillment of this objective, presentation and analysis of data is necessary.

Conceptual Framework

Identifying financial soundness is very difficult. There is no hard and fast rule for measurement whether they have applied a sound financial system or not. Financial soundness is identifying the major strength and weakness of business of business enterprises which deals whether the firm has maintained enough cash or not to meet its obligation, utilization of resources, investing purpose and for maintain

liquidity position etc. Financial soundness is also important as on ongoing enterprises and determines whether a satisfactory return is being earned for the risk taken. Hence, in this chapter, we give much our attention on profit planning but profit is not only one indicator of analyzing the financial soundness. Financial soundness is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. It is a plan of the firm's expectation and is used as a basis for measuring the actual performance of managers and their units. Financial soundness has an immense value in management; it helps in planning and coordinating if used appropriately, but not a replacement for management. Financial soundness is a comprehensive and coordinated plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future. For appropriate measurement of financial soundness all the part of business organization likes Profit, resources, capital structure, appropriate allocation of budget, auditing are must be in place.

For our expediency, the topic ***financial soundness*** can be studied from segregating into two parts:

1. Review from books and journals
2. Review from Previous researchers

2.1 Reviews from Books and Journals

It is the first part of literature review which includes the review of books and journals. Different article, notes published in Newspaper and definition of writers will be taken in this part of research.

2.1.1 Concept of Financial Soundness

Financial Soundness is a comprehensive statement of intentions expressed in financial terms for the operation of both short and long period. In the subject of financial soundness it will become more appropriate when the subject matter is more concerned in the area of

profit because no organization can sustain without earning appropriate profit. It is a plan of the firm's expectation and is used as a basis for measuring the actual performance of managers and their units. A financial soundness has an immense value in management; it helps in planning and coordinating if used appropriately, but not a replacement for management. Analysis of financial soundness is a comprehensive and coordinated plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future. Financial soundness is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus we can say that financial soundness is a tool which may be used by the management in planning the future course of actions and controlling the actual performance. A financial analysis is identifying the major strength and weakness of business enterprises, it indicates whether a firm has enough cash to meet its obligations utilizing of resources, investing opportunity, profitability, and capital structure of organization etc. financial analysis can also be used to assess a firm's viability as an ongoing enterprise and determine whether a satisfactory return is being earned for the risks taken.

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

While financial ratios are currently the method most often used to evaluate a bank's performance, there is no clear cut rationale which would allow one to acquire a composite score on the overall financial soundness of a bank. Today's competitive banking environment has heightened the need for methods to evaluate the risk and returns involved in banking. This need exists in both industrialized and newly industrialized countries. Currently bank regulators often use financial ratios of accounting data to screen banks.

For example, ***The Central Deposit Insurance Corporation of Taiwan*** found that financial ratios regarding the capital adequacy, earning liquidity, liability and Growth of saving deposits are useful in evaluating the economic performance and management quality of the bank in Taiwan. Financial ratio analysis, however, has one disadvantage. This is each single ratio must be compared with some benchmark ratio one at a time while one assumes that other factors are fixed and the bench mark chosen are suitable for comparison. To overcome with this problem a number of financial ratios are generally required to calculate and combined to form a meaningful picture of a firm's financial structure. While the calculation of a set of financial ratios are generally required to be calculated and combined to form a meaningful picture of a firms financial structure. While the calculation of the set of financial ratios is a relatively easy task, the aggregation of those ratios can be quite complicated process involving imagination and experienced judgment. Changing economic conditions have made such aggregation even more difficult, increasing the need for a more flexible way to express a bank's financial condition. ***(Source: National Cheng- Kung University, Taiwan. The Journal of the Operational Research Society © 1996 Operational Research Society)***

2.1.2 Study purpose of Financial Soundness:

The development of indicators of financial soundness responds to the need for better tools to assess the strengths and vulnerabilities of the financial system. The financial system plays a critical role in the economy. It enables the financial intermediation process which facilitates the flow of funds between savers and borrowers, thus ensuring that financial resources are allocated efficiently towards promoting economic growth and development. Any organization is in sound financial situations when it becomes stable in changing environment.

2.1.3 Indicators of Financial Soundness:

Indicators of Financial Soundness can be studied into two different parts: The Core and Encouraged Sets.

Core Set

- Deposit-takers
- Capital adequacy
- Regulatory capital to risk-weighted assets
- Regulatory Tier 1 capital to risk-weighted assets
- Nonperforming loans net of provisions to capital
- Asset quality
- Nonperforming loans to total gross loans
- Sectoral distribution of loans to total loans
- Earnings and profitability
- Return on assets
- Return on equity
- Interest margin to gross income
- Noninterest expenses to gross income
- Liquidity
- Liquid assets to total assets (liquid asset ratio)
- Liquid assets to short-term liabilities

- Sensitivity to market risk
- Net open position in foreign exchange to capital

Encouraged Set

- Deposit-takers
- Capital to assets
- Large exposures to capital
- Geographical distribution of loans to total loans
- Gross asset position in financial derivatives to capital
- Gross liability position in financial derivatives to capital
- Trading income to total income
- Personnel expenses to noninterest expenses
- Spread between reference lending and deposit rates
- Spread between highest and lowest interbank rate
- Customer deposits to total (no interbank) loans
- Foreign-currency-denominated loans to total loans
- Foreign-currency-denominated liabilities to total liabilities
- Net open position in equities to capital
- Other financial corporations
- Assets to total financial system assets
- Assets to GDP
- Nonfinancial corporations sector
- Total debt to equity
- Return on equity
- Earnings to interest and principal expenses
- Net foreign exchange exposure to equity
- Number of applications for protection from creditors
- Households
- Household debt to GDP
- Household debt service and principal payments to income
- Market liquidity
- Average bid-ask spread in the securities market1

- Average daily turnover ratio in the securities market1
- Real estate markets
- Residential real estate prices
- Commercial real estate prices
- Residential real estate loans to total loans
- Commercial real estate loans to total loans

(Source: Matthew T. Jones, Paul L. Hilbers, and Graham L.: 127:2004)

2.1.4 Financial Stability:

No organization can stable in any competitive environment. Financial stability describes the condition where the financial intermediation process functions smoothly and there is confidence in the operation of key financial institutions and markets within the economy.

Crockett (1997) expresses financial stability as requiring "that the key institutions in the financial system are stable, in that there is a high degree of confidence that they continue to meet their contractual obligations without interruption or outside assistance; and that the key markets are stable, in that participants can confidently transact in them at prices that reflect the fundamental forces and do not vary substantially over short periods when there have been no changes in the fundamentals**"(*Source: Crockett, A., (1997), "Why is Financial Stability a Goal of Public Policy?", in Maintaining Financial Stability in a Global Economy, Symposium Proceedings, Federal Reserve Bank of Kansas City, August, Page 55:96.)***

Lager (1999) posits that "the objective of financial system stability could therefore be defined, in broad terms, as the avoidance of disruptions to the financial system that are likely to cause significant costs to real output". He went on to say that "such disruptions might have their origins in difficulties facing financial institutions or in

disturbances in financial markets" ***(Lager, J., (1999), "Monitoring Financial System Stability", Reserve Bank of Australia Bulletin, October.)***

According to Foot (2003), "…we have financial stability where there is: (a) monetary stability; (b) employment levels close to the economy's natural rate; (c) confidence in the operation of the generality of key financial institutions and markets in the economy; and (d) where there are no relative price movements of either real or financial assets within the economy that will undermine (a) or (b)". ***(Foot, M., (2003), "What is "financial stability" and How do we get it?" The Roy Bridge Memorial Lecture, Financial Services Authority, April.)***

Padoa-Schioppa (2002) contends that "……financial stability is a condition where the financial system is able to withstand shocks without giving way to cumulative processes, which impair the allocation of savings to investment opportunities and the processing of payments in the economy……". ***(Source: Padoa-Schioppa, T., (2002), "Central Banks and Financial Stability: Exploring a Land in Between", paper presented at the Second ECB Central Banking Conference, Frankfurt am Main, 24-25 October.)***

Financial stability is a state of affairs in which the financial services sector can channel the savings of the population and provide a nationwide payments system in a manner that is efficient, secure and sustainable over time.

Financial stability can be defined as a condition in which the financial system-comprising of financial intermediaries, markets and market infrastructures-is capable of withstanding shocks and the unraveling of financial imbalances, thereby mitigating the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities***.(Source: European Central Bank, (2005), "Assessing Financial Stability: Conceptual Boundaries and***

Challenges", in Financial Stability Review, June, Page.117-125)

Financial stability is viewed in terms of a specific, attainable condition of the financial system. However, the financial system is characterized by constant change and continuously influenced by changes in the domestic, regional and global macro-financial environment.

2.1.5 Major Issues of Financial Stability:

1. What is the current financial condition and performance of the different components of the financial system?
2. What is the current financial condition of the non-financial sector (households and business enterprises)?
3. What are the vulnerabilities in the balance sheets of both the financial and non-financial sectors?
4. How are these vulnerabilities being managed and how resilient are the financial and non-financial sectors to shocks?

(Source: European Central Bank, (2005), "Measurement Challenges in Assessing Financial Stability", in Financial Stability Review, December, page. 131-141.)

2.1.6 Importance of Financial Stability:

Financial instability and its effects on the economy can be very costly due to its contagion or spillover effects to other parts of the economy. Indeed, it may lead to a financial crisis with adverse consequences for the economy. Hence, it is fundamental to have a sound, stable and healthy financial system to support the efficient allocation of resources and distribution of risks across the economy.

2.1.7 Financial Stability and Market Analysis

The Bank's work under financial stability and market analysis covers a wide field of analysis. The inherent soundness of the financial system

as a whole, and its capacity to absorb `shocks' from various sources (including from abroad and the real economy), are the focus of work on financial stability. Understanding and analyzing interactions among the various components of financial institutions, markets, and the rest of the economy is crucial to promoting the maintenance of a sound and efficient financial system.

Financial stability can be monitored in a number of ways. It assumes to be ongoing analysis and surveillance of trends and developments in financial institutions and markets, mainly from the standpoint of assessing whether they are consistent with maintenance of financial resilience through a range of economic conditions. Information about how financial institutions and markets function - domestically and globally - and pricing, volumes and flows of financial instruments, provide insights into financial system robustness. We also assess the robustness to shocks of the various sectors of the economy, such as households, the corporate and government sectors***.*** ***(source:www.source.rbnz.govt.nz/finstab/mktanalysis/index.htm)***

2.1.8 Review -Factor Influencing Financial Soundness:

In any organization must preserve the minimum level of accumulated funds that are required to maintain for smooth operation of Business and also controlled the unexpected high levels of expenditure. In banking sector financial soundness should take place when the following factors are in appropriate place.

- When organization can recover its interest in quarterly basis or Equal Monthly Installment (EMI) basis.
- When all its resources are properly utilized, such resources are human resources or may be other resources.
- When organization must maintain appropriate balance of capital structure such as Debt-Equity Ratio(may be 70:30)

- Availability of funds frequently or constantly when needed.
- Proper control through Auditing(Internal and External)
- Capacity to sustain in changing environment such that External Environment of Internal Environment.
- Healthy organizational activity
- Appropriate allocation of budget which is sufficient to maintain the daily activity of organization.
- Proper monitoring channel

2.1.9 Determinant of Financial Soundness:

The concept of financial soundness is most often thought of in terms of avoiding financial crises but also managing systemic financial risk. If the latter is managed reasonably well by market participants, through their private risk management and by the authorities through its banking supervision and market surveillance, then systemic financial crises will most likely not occur.

At this point, it is necessary to define the systemic financial risk. It is the risk that an event will trigger a loss of economic value or confidence in a substantial portion of the financial system that is serious enough to have significant adverse effects on the real economy.

Financial soundness of an economy depends on two fundamental sets of factors.

- The first comprises the macroeconomic and structural conditions in the real economy bearing on financial decisions and which form the environment within which the financial system operates.
- The second is the robustness of the financial system itself, comprising the financial markets, institutions, and arrangements

through which financial transactions are carried out. Major instabilities or distortions in the real economy almost inevitably pose risks to financial stability, however robust the financial system. Nevertheless, a robust financial system can lower the risk that problematic real economic conditions will lead to financial crisis as well as reduce the damage from a crisis if it occurs.

Financial stability depends not only on having the requisite institutions and other capabilities; there must also be sufficient political and social consensus supporting the measures needed to establish and maintain that stability.

A robust financial system is essentially one that meets the "test of markets", insofar as it remains stable and efficient under a wide range of market conditions and circumstances. Robust financial systems can take a number of specific forms but all have three basic attributes. ***(Source: The Romanian Economic Journal Year XI, no. 29 (3) 2008)***

1. First, a robust system is flexible in that it continues to function efficiently in allocating finance in accordance with underlying economic fundamentals under a full range of economic circumstances - in particular when those circumstances are changing rapidly.
2. Secondly, the system is resilient in the sense that markets continue to function and payments are carried out reliably and expeditiously in the face of economic disturbances.
3. And thirdly, a robust system is internally stable in the sense that it does not itself generate major financial shocks, or magnify external shocks, that can lead to financial crisis,

For example: when banks continue to lend for the purpose of real estate even when prices have gone beyond economically justifiable levels in the expectation that they will be bailed out if a contraction occurs. The degree to which a financial system possesses the qualities needed for robustness depends largely on how well it performs three basic functions: maintaining appropriate incentives for financial actors; generating the available information bearing on financial decisions; and providing the necessary capabilities for institutions and individuals to respond effectively to market incentives and utilize information.

Appropriate incentives are essential to ensure that investors, creditors, owners and managers, in the pursuit of their private interests, pay heed to the social consequences of their actions and take necessary precautions in the face of risk. For this to be the case, private actors need to reap the full gains, and bear the full costs and risks, of their financial decisions; and the gains, costs and risks to private actors need to be in line with those available to the economy as a whole. Markets must also be able to exercise adequate discipline, and stakeholders must be able to reward and penalize the managers of financial institutions for their successes and failures. Timely access to relevant and reliable information is essential for effective financial decisions, as well as for effective market discipline, corporate governance and supervisory oversight. Robust and efficient financial systems possess means for gathering and disseminating all material information needed by lenders and investors to assess the creditworthiness of their counterparties, by stakeholders to monitor the performance of those to whom they have delegated responsibility, and by supervisory authorities to exercise prudential oversight. To respond effectively to incentives and information, individuals and institutions also need to possess the capabilities to implement their financial

decisions. There needs to be a robust infrastructure to ensure that transactions can be carried out reliably and in a timely manner and are enforceable; that information is disseminated adequately; and that there is a sufficient array of markets and financial vehicles to allow actors to allocate their resources effectively among alternative uses and over time, and to diversify risks. In addition, financial actors need to be free from undue regulatory or other legal restrictions on their ability to carry out transactions.

We will further consider key requirements for promoting financial stability. These requirements can be regarded as end-point objectives that efforts to improve financial robustness should seek to attain over time, rather than as a set of characteristics that can be attained immediately or which currently are fully present in any financial system. The discussion begins with conditions in the real economy and then delineates the key elements of a robust financial system under three headings: infrastructure, market functioning and regulatory and prudential oversight.

Two points concerning the discussion should be emphasized:

1. No single step or narrow group of steps can be sufficient to ensure a robust financial system. Robustness is a function not only of the individual factors themselves but of their interaction; thus improvements in one area typically require complementary measures in other areas if their benefits are to be fully realized.
2. The specific institutional arrangements needed to ensure robustness will change as markets and the economic environment evolve; thus the ability of the financial system, including regulatory and supervisory arrangements, to adapt to economic change is essential to maintaining financial robustness.

2.1.10 Prerequisites for a sound financial system:

Conditions in the real economy, macroeconomic and structural, provide the basic signals to which the financial system responds. Financial soundness depends critically upon the degree to which these conditions promote the following objectives. The first is to provide as much predictability as possible in economic outcomes by minimizing fluctuations in real activity and avoiding unnecessary swings in asset prices and resource allocation.

Realization of the full benefits of stable macroeconomic conditions requires sound structural conditions; and certain structural imperfections can greatly magnify the financial risks arising from unstable macroeconomic conditions.

The following macroeconomic requirements are crucial for the maintenance of financial stability:

- Macroeconomic policies should seek sustainable growth in line with the economy's potential, and avoid "stop and go" growth since it creates widespread uncertainty and risks of pervasive financial reverses.
- Achieving and maintaining price stability is of equal importance to sustain incentives to enter into long-term contracts and to minimize distortions and the uncertainty about relative prices fostered by inflationary environments.
- There must be an adequate level of national saving, private and public, to finance domestic investment needs without unsustainable reliance on foreign borrowing.

Financial stability depends not only upon the present or recent effectiveness of macroeconomic policies but also upon their future credibility.

a. Structural requirements in the real economy Structural policies should seek to ensure that relative prices are in line with economic fundamentals so that they provide proper financial incentives; and that structural conditions promote the efficient and sustainable allocation of real and financial resources. Sound structural conditions promote the smooth adjustment of prices and quantities to changing economic conditions, and reduce risks that asset values will be impaired by sudden shifts of relative prices that have become misaligned in relation to their long-term fundamental determinants.

b. Institutional infrastructure of financial markets :The availability of information necessary for sound financial decisions, the ability to respond to incentives and the capacity to implement financial transactions efficiently all depend upon the quality of a number of infrastructure building blocks that support effective market functioning. These include the legal and judicial framework governing financial markets and operations, the accounting systems used to gather and disseminate information, the payment systems for executing transactions, and the infrastructure features of the markets themselves.

2.1.11. Regulation and supervision of financial systems

Official oversight of the financial system encompasses financial regulation, including the formulation and enforcement of rules and standards governing financial behavior as well as the ongoing supervision of individual institutions. Financial regulation and supervision play an essential role in fostering financial robustness. They should seek to support and enhance market functioning, rather than to displace it, by establishing basic "rules of the game" and seeing that they are observed. *(ECB,* ***Macroeconomic and financial***

stability challenges for acceding and candidate countries, *occasional papers series, no 48/July 2006, http://www.ecb.int.)*

Effective and adaptable regulatory/supervisory structures are critical in all economies. Special vigilance and skill are needed by the regulatory/supervisory authorities to contain the risks arising when the financial system is undergoing rapid and extensive change. A fundamental guiding principle in the design of all regulatory/ supervisory arrangements is that they should seek to support and enhance market functioning, rather than to displace markets. Where financial systems are less developed, a key objective of policy is to reduce the need for regulation in the future by improving the quality of private market forces. The historical experience of industrial countries suggests that the emphasis in regulatory and supervisory approaches shifts as markets liberalize from explicit limits or other rules towards primary reliance on guidelines, supervisory assessments and incentives for sound business behavior on the part of owners, stakeholders and management.*(Source: Brouwer, H., de Haas R. and Kiviet Bas,* ***Banking Sector Development And Financial Stability****, In the Run up To the UE Accession, Paper prepared for the FONDAD-conference "Financial Stability in Emerging Economies: Steps Forward for Bankers and Financial Authorities",3-4 June 2002,* ***http://econpapers.repec.org/workingpapers****.)*

2.1.12. Measurement Tools used for Sound Financial Systems:

A Sound financial system provide as much predictability as possible in economic outcomes by minimizing fluctuations in real activity and avoiding unnecessary swings in asset prices and resource allocation. The concept of financial soundness is most often thought of in terms of avoiding financial crises but also managing systemic financial risk. Hence, for our convenience we can study it by

segregating it into different sector, which are as follows:

a. Real Economy: In real economy various measurement tools are used like GDP, Fiscal Position of the government and Inflation. Basically it measures:
   - GDP is the key measure especially used in conjunction with measures such as credit expansion and fiscal deficit.
   - Ability of government to find financing, vulnerability of sovereign debtor to unavailability of financing.
   - Rate of increase of various price indices.

b. Corporate Sector: In corporate sector various measurement tools are used like Total Debt to Equity Ratio, Earnings to Interest and principal expenses, Net Foreign exchange exposure to equity and corporate defaults. Basically it measures:
   - Corporation' leverages.
   - Corporation' ability to meet payment obligations relying on internal resources.
   - Currency mismatch
   - Insolvencies in the corporate sector.

c. Household Sector: In household sector tools like Household assets like financial and real estate, Household income, Household consumption, Household debt services and principle payments are used. It measure:
   - Assets and Debt can be used to compute net household assets.
   - Income, consumption and debt service payments can be combined to compute net disposable income

d. External Sector: Real Exchange rate, Foreign Exchange Reserve, Current account/capital flows and Maturity/currency mismatches are used as prime tools. It measures:
   - Rate of increase of various price indices
   - Cost of credit, ability to attract deposits sustainability of debt.

- Ability of country to resist external shocks
- Trade position of country
- Disparity in the currency/maturity composition of assets and liabilities

e. Financial Sector: Monetary aggregates, Growth in bank credit, Bank leverage ratios are used in measurement tools. It measures:

- Cost of credit, ability to attract deposits sustainability of debt.
- Riskiness of the banking sector
- Banks' capital cushion size to address expected or unexpected losses
- Ratio of banks' readily available short-term resources that can be used to meet short-term obligations
- Individual strength of banks, after the effect of government or other guarantees has been taken into account
- Concentration or diversification of banks' lending strategy
- Net worth of, present value of future cash-flows of firms comprising the index
- Riskiness of debt compared to risk-free instruments
- Price attached by the market to the ease with which liquid instruments can be traded.*(**Source**: Measuring the financial assets of households are complicated by the measurement issues related to house price measures and the treatment of owner-occupied housings: **IFC conference held in August 2006 in Basel**, **published in IFC Bulletins**, page: 25 and 26.)*

It has been argued that the current approach is overly conservative and creates a disincentive for schemes to offer savings accounts. Savings accounts are distinguishable from risk pools in that savings accounts do not carry the same risk as the risk pool. This is because a member's benefits are limited to the

amount contributed to a savings account. The risks that a scheme faces in so far as the savings accounts are concerned are limited to the following:

- Bad Debts. This relates to the risk of bad debts on savings advances. It is argued that only a few schemes face this risk and the risk reduces as the year progresses anyway. This risk should be addressed through appropriate provisions for bad debts in the income statement.
- Investment risk. This relates to the risk of savings balances being held in equities that experience a reduction in value. It is argued that this risk should be more appropriately addressed through a restriction of savings balances to cash or through a reduced reserve requirement more commensurate with this risk.
- Fraud and Mismanagement. The risk that the scheme will incur financial losses through fraud or mismanagement of the savings accounts does not warrant the current approach. It is argued that this risk is better addressed through appropriate service level agreements with administrators, with penalty clauses for losses incurred for instance.

It should be recalled that the basis for the current requirement stems from the Champagne Report of 1957. This report stated the following:

- The minimum solvency requirement should be an alarm bell mechanism to warn against possible future failure.
- It should indicate the need for further investigations rather than providing absolute information as to the solvency position of the organization.
- Recommended the use of 25% of gross contributions to test solvency

The Risk Based Capital approach is currently touted as a possible way of comprehensively identifying risks elements and addressing them more appropriately. ***(Cooper: Solvency and Medical Schemes in South Africa, 2001)***

Basically financial soundness can be measured from three different parts:

1. Profit Point of view
2. Short term liquidity
3. Long term liquidity
4. Position of share capital and Debenture
5. Capital adequacy

2.1.13. Measuring as a profit point of view:

Profit is a life blood of business organization. It is a basic element of planning so that any business can achieve its overall goals. (a) Financial gain and amount of money gained in business especially the difference between the amounts earned and the amount spent (b) Advantage or benefits gained from something (Hornby & Cowie, 1992; 63).

Profit is a part of risk. Investor can earned profit by taking risk. Higher the risk, higher will be returned and lower the risk, lower will be returned. Without making, no business organization can think about the long term survivability of the enterprises.

Profit Planning is a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus we can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance (Gupta, 1992;3)

A profit planning and control program can be one of the more

effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities, ensure a degree of understanding not otherwise understanding of responsibilities, and ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, fouls on assigned responsibilities likewise enhance the degree of communication essential to sound management (Welsch, et.al.,2001:215).

Profit Planning is an example of short range planning. This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here, it is not the same as corporate planning of a cost rendition program (Terry, 1968; 245).

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or prospect of time. It is established against which actual accomplishment is regularly compared (Niel, 2001; 305).

Profit Planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect due to this hanging relationships between volume and cost. (Young Dong, 200; 74).

In banking sector, profit can be earned by three different sectors.

- Operational Profit
- Branch Business Profit
- Trade Profit

Operational Profit

Operational Profit indicates the profit earned through operation department. Operation department includes:

- Cash Department
- Remittance Department
- Bills Department

This department deals with basic service such as issuing cheque book, cash , remittance , bills and clearing and account department, demand draft, fax transfer, mail transfer, bills department . Business and personal customer receives cheque and drafts of other bank in which they don't have their account maintained. Telegraphic transfer is also one of the ways of transferring payment from one place to another through internet.

Branch Business Profit

Bank provides interest on deposits to its customers so, it needs to earn the revenue to meet its requirement. Hence for this purpose bank provides loan for the customer who needs it for production purpose. For maintaining, the bank charges certain interests on the loan. This enables the bank to generate the revenue to meet its expenses and help in economic development by effective utilization of the ideal fund in the field of industry and business. Loan against collateral and fixed assets, immovable assets, stock of different companies, guarantees etc. It lends different types of credit; interest rate and condition vary according to the type of loan.

Business profit is mainly related with profit earned through credit department. In simply, Profit earned through providing credit facility, loan processing fees, recovery charges.

Trading Profit (L/C)

L/C is a written document issued by bank undertaking to

payment a certain sum of money to certain party upon presentation of certain documents complying specified terms and conditions mentioned in the credit instrument. It is the written note of guarantee issued by the bank on behalf of its client in favor of the seller's bank, starting the assurance of payment of sum specified upon the receipt of the good or necessary documents verifying its departments.

Trade Profit means profit earned through facilitating trade business to vender of any business organization. Which is also called letter of credit (L/C). Now a day, letter of credit widely used as convenient and confirmed mode of payment in international business.

The L/C issuing bank issues the L/C on behalf of the Applicant (importer) and advises to the Beneficiary (exporter) through their (the bank's) Corresponding bank (the advising bank) specifying the details of the documents to be presented for payment.

Parties involved in an import transaction with a letter of credit:

Applicant	: Party applying for the letter of credit : The buyers of the goods : The customer of the issuing bank
Beneficiary	: Party who receives the L/C : Party who supplies the goods :Party who enjoys the proceed of the L/C
Issuing Bank	: Bank who establishes the L/C :The bank of the applicant (applicant bank)
Advising Bank	: The bank who advises the L/C to beneficiary at the request of issuing bank

Negotiating Bank	: The beneficiary's bank :The bank that negotiate the documents
Conforming Bank	: The bank who confirms the documents issued by the applicant's bank.
	: The bank who undertakes the risk of the issuing bank
Reimbursing Bank	: The bank who reimburse the proceeds to the negotiating / collecting bank.
	The bank through which the L/C issuing bank makes the payment normally, the L/C issuing bank holds Nostro a/c with reimbursing.

2.1.14. Measuring as per short term liquidity:

Short term accounting liquidity ratio includes:

- ***Working Capital:*** Working capital is a measure of a firm's ability to pay off short term debt and have enough money to finance its day to day business operations. The formula for Working Capital is:

  Working Capital = Current Assets - Current Liabilities

Therefore, if Current Assets are greater than Current Liabilities, than the firm is financially healthy in the short term. However, if Current Liabilities are greater than Current Assets, the company may have to borrow additional debt (bond financing) to finance its day to day business operations, and if conditions do not change, it may be heading towards bankruptcy.

A low ratio of Current Assets could indicate that the company is having a hard time getting Cash Sales and thus focusing its business on Accounts Receivable Sales. It also indicates that the company is having a hard time collecting these accounts receivable sales (customers are not paying on time, or not paying at all).

If Working Capital is low, this can also indicate the company's business operations are not very efficient. The cycle of making a sale, collecting the cash and paying down current expenses is not at optimum level and needs to be improved.

- ***Current Ratio:*** The current ratio is a measure of a firm's short term liquidity. The formula is:

Current Ratio = Current Assets / Current Liabilities

Higher the current ratio means that organization has too much cash on hand, that could be used for better purposes such as expanding business operation or investing in short term securities and earning interest.

- ***Quick or Acid -Test Ratio:*** The Quick or Acid-Test Ratio is very similar to the Current Ratio only that it eliminates Inventory and Prepaid Assets from the calculation of Current Assets. Inventory is often the least liquid current asset that the company can hold. Inventory is also prone to obsolescence, damage or theft. Furthermore, a large amount of inventory being held shows operation inefficiency of the firm. Thus, the formula for Acid-Test Ratio is:

Acid-Test Ratio = (Current Assets - Inventory - Prepaid Assets) / Current Liabilities

2.1.15. Measuring as per long term liquidity:

These include the Gearing and Interest Cover ratios and measure the extent to which the capital employed in the business has been financed either by shareholders or by borrowing and long term finance.

Profitability Ratio: The absolute level of profit may provide an indication of the size of the business, but on its own it says very little about company performance. In order to evaluate the level of profit, profit must be compared and related to other aspects of the business. Profit must be compared with the amount of capital invested in the business, and to sales revenue. Profitability ratios will inevitably reflect the business environment of the time. So, the business, political and economic climate must also be considered when looking at the trend of profitability for one company over time. Comparisons with other businesses in the same industry segment will provide an indication of management's relative ability to perform in the same business and economic environment.

The key profitability ratios are:

- Return on Total Assets (ROTA): Return on total assets is a measure of profit in relation to the total assets invested in the business, and ignores the way in which such assets have been financed. The total assets of the business provide one way of measuring the size of the business. This ratio measures the ability of general management to utilize the total assets of the business in order to generate profits.

  = (Net profit before interest and taxes/ Fixed assets plus current assets) x 100

- Return on capital employed (ROCE): ROCE, sometimes called Return on Net Assets, is probably the most popular

ratio for measuring general management performance in relation to the capital invested in the business. ROCE defines capital invested in the business as total assets less current liabilities, unlike ROTA, which measures profitability in relation to total assets.

= (Net profit before interest and taxes / Total Capital Employed) x 100

- Net profit margin: The net profit margin, sometimes known as the trading profit margin measures trading profit relative to sales revenue. Thus a trading profit margin of 10% means that every 1.00 of sales revenue generates .10 (10p) in profit before interest and taxes. Some industries tend to have relatively low margins, which are compensated for by high volumes. Conversely, high margin industries may be low volume. Higher than average net profit margins for the industry may be an indicator or good management.

  = (Net profit before interest and taxes/ Sales revenue) x 100

2.1.16 Measuring as per Position of Share Capital and Debenture:

A unit of ownership interest in a corporation or financial asset. While owning shares in a business does not mean that the shareholder has direct control over the business's day-to-day operations, being a shareholder does entitle the possessor to an equal distribution in any profits, if any are declared in the form of dividends. The two main types of shares are common shares and preferred shares. An unsecured bond issued by a civil or governmental corporation or agency and backed only by the credit standing of the issuer.

A debenture is an unsecured loan offered by a company. The company does not give any collateral for the debenture, but pays a higher rate of interest to its creditors. In case of bankruptcy or financial difficulties, the debenture holders are paid later than bondholders.

Debentures are different from stocks and bonds, although all three are types of investment. Below are descriptions of the different types of investment options for small investors and entrepreneurs. Debentures are more secure than shares, in the sense that debenture holders are guaranteed payments with high interest rates. The company pays interest on the money until the maturity period, after which, whatever invested in the company is paid back to the debenture holders. The interest is the profit make from debentures. While shares are for those who like to take risks for the sake of high returns, debentures are for people who want a safe and secure income.

2.1.17 Measuring as per Capital Adequacy Ratio (CAR):

Capital adequacy ratio is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk, etc. In the simplest formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. Banking regulators in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system. CAR is similar to leverage; in the most basic formulation, it is comparable to the inverse of debt-to-equity leverage formulations (although CAR uses equity over assets instead of debt-to-equity; since assets are by definition equal to debt plus equity, a transformation is required). Unlike traditional leverage, however, CAR recognizes that assets can have different levels of risk. ***(Source: Capital Adequacy Ratio – "CAR". Investopedia Retrieved 2007-07-10.)***

2.1.18 Concept of Planning

Planning is a bridge between action and actual performance. It is a initial stage of measurement and all other functions are performed within the framework of planning. It is a future programmed which has to be planned in advance. Planning helps them to run efficiently in competitive environment. Planning is a technique whereby the use pattern of resources is carried out. Planning means deciding in advance what is to be done in future. “Planning starts from forecasting and predetermination of future events. Planning is the whole concept of any business organization with proper and effective planning. No firm can accomplish its predetermined goals and objectives. Hence, it is the life blood of any organization which helps them to run efficiently in competitive environment. Planning is a technique whereby the use pattern of resources is carried out. (Agrawal, & Kundom, 1989; 24).

Planning is a systematic process which includes goals, measuring available scare resources forecasting by different method and evaluating a long term strategic plan. But it varies from organization to organization and organized objectives. For this purpose, the company has established divisional departmental and individual job objectives. Specific objectives are those objectives that have been specified as to tome and magnitude which is also known as goals. Planning must be done in specified time period within a right a right period of time to gain charm profit. Proper planning always provides guideline to various senses of management planning. Objective setting of a firm is very difficult task. Unfortunately, most strategic planner fails to develop clear-cut objective and idea and long-term statement of company objective. More carefulness is necessary for this tedious job and it started from firm’s objectives.

Proper planning would yield at least the following benefits:

1. It helps to provide the long term criteria for resolving difficult company decision and ,

2. Company objectives are the starting point for long term goal of profit planning.

Planning is the process of developing enterprises objectives and selecting future course of action to accomplish them. It included (Welsch et.al., 1992; 127).

i. Establishing enterprises objectives,

ii. Developing premises about the environment in which they are to be accomplished,

iii. Decision making,

iv. Identifying activities necessary to translate plans in to action, and

v. Current re-planning to current deficiencies.

2.1.19 Types of Planning

Planning is a bridge between action and actual performance. It is a process a process of developing management objectives and goals for future course of action.

Higher level corporate planning

It is a higher level planning made by higher management and it was initiated and implemented from the USA in the late 1950's. Now a day, it has been used in several companies in all over the world.

The premises of the corporate planning are as follows (Robertson, 1968; 245).

1. Before drawing up a plan which is designed to decide something what the corporation wants to do.
2. In these days of rapid change it is necessary to look ahead as for as possible to anticipate these changes.
3. Instead of treating a company as a collection of departments, treat it as a corporate whole, and
4. Take full accounts of the company's environment before drawing up and plan.

Robertson has also defined corporate planning as, “it is to determine the long term goals of a company as a whole and then to generate plans designated to achieve these goals bring in mind probable change in its environment.”

Strategic Long-Range Planning

It is also known as long term planning. All circumstance regarding the objective, goals and strategy should be made by top authority level. It is a long term planning which is made for 10-20 years. It refers to the overall objective, competitive environment. It is one of the most difficult times span involved in planning as many problems in short range of planning can be traced to the absence of clear sense of direction and practice which a comprehensive long range plan provides. Basically, the long range planning is more important for broad and long living enterprises. A long range planning is closely concerned with the concept of the corporation as a long lining institution. (David, 1964; 298).

The planner must include the following factors in his/her plan from the analysis of available information.

a. Factor regarding the gain in future

b. Future uncertainty

c. Challenges and threat

Long range planning is a long term and long term continuous process of making present entrepreneurial (risk taking) decision. Top management takes risk about future decision making and present entrepreneurial decision. Systematically and best possible organizing efforts are needed to carry out these decisions and measuring the result of these decisions against the expectations through organized and systematic feedback. (Drucker, 1964; 165).

It is a decision making process. It has the following points:

- Strategy formulation and set goals.
- Expenses of capital of organization.

- Calculation of target area for the source of funds.
- Organization design and hierarchy of levels etc.

Tactical Short Term Planning

It is basically presented and prepare in lower level management. Operational level manager are mainly appointed to prepare to short term planning.

A tactical planning is done at all level and involves directing the organizations activities to achieve overall strategic objectives with the organization's mission and policies. Standing plans provide consistency and efficiency for non going operations, and single use plans are developed for unique situation. Projects are short term plans designed to achieve objective within large scale programs. Short term plans cover about a year, and are less formal and detailed than long range plans, which usually cover more than three months. The short range planning is selected to conform to fiscal quarters or years because of the practical need for conforming plans to accounting periods and then some. What arbitrary limitation of the long range to three to five years is usually based as has been indicated on the prevailing belief that the degree of uncertainty over all along period makes planning of questionable value" (Horold &Cyric, 1964;45).

2.1.20 Role of forecasting in planning

Forecasting in planning is important decision making process. Every organization sets goals and objectives for the future decision making. An organization established goals and objectives seek to predict the long term factors. Forecasting is the role of predicting future decision making in the uncertain environment. Forecasting involves the determination of what should be done, how the goals may be reached and what reached and what individual or units are to assume responsibility and be hold accountable.

Forecasting is statement of expected future conditions

definite statement of what will actually happen are patently impossible. Forecasting has been made by different assumption which may or mayn't be real. It depends upon the nature, size and design of organization.

Both short term and long term planning should be included in decision making process and budgeting. A budget is a statement of coming year will be much useful. It will be set by assuming all market factor and assumption, capacity of organization. As budget distributed according to current sales may establish policy as to lines of emphasis but will obviously required successive adjustment if sales level changes. (Bratt, 1985; 246).

2.1.21. Planning verses forecasting:

Planning is clearly distinct from forecasting. Forecasting is one of the essential elements of planning. It is a prediction of what will happen on the basis of certain assumption. Planning is an attempt to determine what should happen and what will make it likely to happen. A forecast is not a plan, rather it is a statement of quantified assessment of future conditions about a particular subject (sales revenue) based on one of more explicit assumption. A forecast should be viewed only as one input in the development of a sales plan. The management of a company may accept modify or eject the forecast. In contrast, a sales plan incorporates management decision that are based on the forecast, other inputs and management judgment about such related items as sales volume, price, production and sales, effort and financing (Welsch, et.al., 2001;109).

2.1.22 Financial Statements

Financial Statements provides the information pertaining,

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

“Financial statements are prepared for the purpose presenting a periodical review or report on the progress by the management. They deal with the status of investment in the business as also with the results achieved during the period. They reflect a combination of recorded facts, accounting conventions and personal judgments. And the judgments and conventions applied affect them materially. The soundness of the judgment necessarily depends upon their competence and integrity of those makes them and on their adherence to generally accepted accounting principle and conventions”. (American Institute of Public Accounts; 1995:20)

2.1.23 Financial Statement Analysis

“Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and a study of the trend of these factors as shown in a series of statement”. (Mayer; 1974:105)

“Mush can be learnt about business performance and financial position through an appraisal of financial statement. The appraisal or analysis of financial statements spotlights and significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and worthiness, that would have otherwise been buries in a maze of details.”(Jain; 1991:37)

“Financial analysis is used primarily to gain insight in to operating and financial problems conforming the firms, with respect to these problems, we must be careful to distinguish between the cause of problems and symptom of it. It is thus an attempt to direct the financial statements in to their components on the basis of purpose in hand and establish relationship as between these components on the one hand as between individual components and total of these items on the other. Along with this, a stud y of various important

factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization." (Hampton; 1993:99).

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

2.1.24 Role of Commercial Banks in the Development of Economy

Commercial Banks play an important role in facilitating the affairs of the economy in various ways. The operations of commercial Banks record the economic pulse of the country. The size and composition of their transaction reflect the economic happening in the country. Commercial Banks have played a vital role in giving the direction in economic growth over the time by financing the requirement of industries and trade in the country.

By encouraging thrift among the people, banks have fostered the process of capital formation in the country. In the context of deposit mobilization, commercial banks induce the savers to hold their savings in the form of bank deposits thus help bringing the scattered resources into the organized banking sector which can be allocated to the different economic activities. In his way they help in country's capital assets formation. Through their advances, banks also help the creation of income out of which further saving by the community and further growth potentials emerge for the good of the economy. In a planned economy, banks make the entire planned productiveprocess possible by providing funds to the public sector, joint sector or private sector for any type of organization. All employment income distribution and other objectives of the plan as far as possible subsumed into the production plan which banks finance (Vaish, 1996; 265).

2.1.25 Basic Assumptions and Limitations of Financial Soundness:

Financial analysis systems are more common in business organizations and non-business organization. But there are so many assumptions of using financial statement analysis. Although financial statement analysis is highly useful tool, it has two limitations. These two limitations involve the comparability of financial data between companies and the need to look beyond ratios.

Comparison of one company with another can provide valuable clues about the financial health of an organization. Unfortunately, differences in accounting methods between companies sometimes make it difficult to compare the companies' financial data. ***For example*** if one firm values its inventories by LIFO method and another firm by the average cost method, then direct comparison of financial data such as inventory valuations and cost of goods sold between the two firms may be misleading. Sometimes enough data are presented in foot notes to the financial statements to restate data to a comparable basis. Otherwise, the analyst should keep in mind the lack of comparability of the data before drawing any definite conclusion. Nevertheless, even with this limitation in mind, comparisons of key ratios with other companies and with industry average often suggest avenues for further investigation.

An inexperienced analyst may assume that ratios are sufficient in themselves as a basis for judgment about the future. Nothing could be further from the truth. Conclusions based on ratios analysis must be regarded as tentative. Ratios should not be viewed as an end, but rather they should be viewed as starting point, as indicators of what to pursue in greater depth. They raise many questions, but they rarely answer any question by themselves.

In addition to ratios, other sources of data should be analyzed in order to make judgment about the future of an organization .The analyst should look, for example, at industry trends, technological changes, changes in consumer tastes, changes in broad economic factors, and changes within the firm itself.

Financial statements are based on historical costs and as such the impact of price level changes is completely ignored. They are interim reports. The basic nature of financial statements is historic. These statements are neither complete nor exact. They reflect only monetary transactions of a business. The following limitations may be noted:

1. The financial position of a business concern is affected by several factors-economic, social and financial, but financial factors are being recorded in these financial statements. Economic and social factors are left out. Thus the financial position disclosed by these statements is not correct and accurate.

2. The profit revealed by the Profit and Loss Account and the financial position disclosed by the Balance Sheet cannot be exact. They are essentially interim reports.

3. Facts which have not been recorded in the financial books are not depicted in the financial statement. Only quantitative factors are taken into account. But qualitative factors such as reputation and prestige of the business with the public, the efficiency and loyalty of its employees, integrity of management etc. do not appear in the financial statement.

4. The rupee of 1995, as for example, does not mean the same as the rupee of 2010. The existing historical accounting is based on the assumption that the value of monetary unit, say rupee, remains constant and accordingly assets are recorded by the business at the price at which they are required and the liabilities are recorded at the amounts at which they are contracted for. But monetary unit is never stable under inflationary condition. This instability has resulted in a number of distortions in the financial statements and is the most serious limitation of historical accounting.

5. Many items are left to the personal judgment of the accountant. For example; provision of depreciation, stock valuation, bad debts provision etc. depend on the personal judgment of accountant.

6. On account of convention of conservation the income statement may not disclose true income of the business since probable losses are considered while probable incomes are ignored.

7. The fixed assets are shown at cost less depreciation on the basis of "going concern concept" (one of the accounting concept). But the value placed on the fixed assets may not be the same which may be realized on their sale.

8. The data contained in the financial statements are dumb; they do not speak themselves.

The human judgment is always involved in the interpretation of statement. It is the analyst or user who provides tongue to those data and makes them to speak. ***(www.erim.eur.nl/researchmaster)***

2.1.26 Performance Reports

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive profit planning program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as the action necessary to assure the objectives plans, policies and standards are being attended.

Special external reports, reports to owner and internal reports are specially presented in the organization. Performance reports include in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management.

2.2 Review from previous Researcher

In previous section, it has been already discuss about the conceptual framework of study. All commercial banks and financial institution have played a vital role in giving the direction in economic growth over the time by financing the requirement of industries and

trade in the country. The major function of commercial banks are collecting the deposit and granting the loans. Besides these they also provide secondary service such as Draft and Remittance facility, Travelers cheque, Currency exchange, Debit card and Credit cards.

As these study is mainly concerned with financial soundness of commercial banks. There have been so many research have been available in the field of financial soundness of commercial banks in Nepalese Environment, some of them have been studied in these section.

Shrestha, (2004) on his thesis entitled "*Role of Rastriya Banijya Bank in priority sector credit & its recovery*" has tried to reveal the following objectives:

1. To analyzed the CD ratio with total deposit.
2. To study the function of RBB in the business sector.
3. Providing the credit facility on deprived sector as prescribed by NRB.
4. To analyze the mortgage process, recovery of interest repayment of principle, ratio of NPL & NPA position under priority deprived sector of RBB.
5. Bank provides 76% to 78% loan to deprived sector and remaining 28% to 29% has been scattered under deprived sector credit.
6. RBB followed every guideline and circular of NRB.
7. But still the bank is searching the appropriate sector for investment.
8. As per NRB, RBB invested the fund in deprived sector but it seems to be difficult in recovery of interest and principal.
9. Interest recovery under corporate sector was more satisfactory than deprived sector.

Manandhar, (2005) in his thesis *"Financial performance analysis*

of Nepal Bangladesh bank ltd" In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are:

1. To analyze the functions, objectives procedure and activities of the NB bank.
2. To analyze the lending practices and resources utilizations of NB bank.
3. To determine the impact of growth in deposit on liquidity and lending practices.
4. To examine the lending efficiency and its contribution to profit.
5. To make suitable suggestions based on the findings of this study.

The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The research findings of the study are summarized

- NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.

- NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.
- The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank.
- Bank is providing different schemes to attract good customers.
- After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank

Recommendations

- The bank has enough liquated but enables to invest the liquidity in proper sector so it is recommended that the bank should made proper investment to commercial sector.
- The bank providing different scheme to attract good customer and has issued the deposit to the needy are to make profit for the bank.

Deoja, (2002), on *"A Comparative study on Financial Performance of Nepal SBI Bank Ltd and Nepal Bangladesh Bank Ltd."* focuses on the following objectives:

- To evaluate the trend position of loans and advances.
- To evaluate the liquidity, profitability, capital structure, turnover and capital adequacy position.
- To study the relationship between deposit, credit on financial strength and net profit.
- To analyze the financial strength and weakness of these two joint venture banks namely Nepal SBI bank and

Nepal Bangladesh Bank Ltd.

The major findings of the study are as follows:

- To evaluate the liquidity, profitability, capital structure, turnover and capital adequacy position.
- Total cash position and fund to NRB and total saving deposit of Nepal SBI Bank is much higher than Nepal Bangladesh Bank Limited.
- But due to high interest rate in fixed term deposit and low interest rate in loan and advances to current assets of Nepal Bangladesh Bank Limited is Higher than Nepal SBI Bank Limited.
- Also, Nepal Bangladesh Bank Limited has better turnover than Nepal SBI Bank limited, in terms of creditability and fixed term deposit.

Joshi, (2003), in his thesis ***"A study of Financial Performance of Nepal Investment Bank Ltd (NIBL)."*** With the major objectives as:

- Forecasting the overall financial position of Nepal Investment Bank Limited.
- To evaluate the major issues of financial ratios in terms of liquidity ratio, profitability ratio.
- Determination and evaluate the statement of banks total income and expenditure.

On the basis of analysis of different ratios, The Current Ratios of the bank is 1.09 times on average but the liquidity position is showing normal. The bank has maintained the sufficient cash and fund to NRB which is enough for day to day operations. As per the analysis, bank has high amount in the fixed deposit in comparison to other saving deposit due to high interest in fixed deposit account. Hence, the liquidity position of the bank is more than it required and

enough to meet its short term and long term obligation. The Debt to total equity ratio is high which indicate that it has collected more fund from its customers than owners.

Dangol, (2004), in her thesis ***"Financial Performance Analysis of Nepal Credit and Commerce Bank Limited (NCC)"***, she concluded this study to evaluate financial performance of NCCB Ltd. with the major objectives as follows:

- Evaluation of financial performance of NCC bank.
- Calculation of overall ratios in terms of liquidity and investment portfolio.
- To find out the relationship of total deposit, funded loan and non funded loan and evaluation of profit.

The major findings of the study are:

On the basis of analysis of different financial aspects the researcher came out in the following conclusion. The financial position of the NCC Bank from the year 1999 to year 2003 the collection of deposits and loan investment are increasing satisfactory and there be also improvement in the operating profit but there is heavy fluctuation in the financial position of the bank. It is due to the provision of the various rules of NRB and due to change in the management in the short period or the many times.

Financial investment of the bank assets is not satisfactory and net profit of the bank is not satisfactory through there is improvement in the profit earning than year 2002 in which the profit is negative of Rs. (397.1) million the negative profit shows that the bank has just done the job of paying interest.

2.3 Research Gap

Financial soundness control system should be used for decision making process. But the past researches about financial soundness are mainly related to only one part like production part or raw material. The researcher could find only study which has been related to financial soundness of a one bank i.e NCC Bank or SBI Bank. No proper suggestion or recommend for the efficient implementation of financial soundness.

Also, all study were related to only one bank so they have no idea about other organization. This study shall give new idea on the field of research i.e comparative analysis of Nabil Bank Limited, Bank of Kathmandu, NIC Bank Limited, Everest Bank Limited and Himalayan Bank Limited This research has analyzed the overall position of Nabil Bank Limited, Bank of Kathmandu, NIC Bank Limited, Everest Bank Limited and Himalayan Bank Limited by applying the correlation coefficient, regression analysis, PE ratio and ratio analysis.

CHAPTER - THREE

RESEARCH METHODOLOGY

Research in common parlance refers to a search for knowledge. Once can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation.

The Advanced Learner's Dictionary of Current English lays down the meaning of research as "a careful investigation or inquiry especially through search for new facts in any branch of knowledge. (The Advanced Learner's Dictionary of Current English, Oxford, 1952:1069.)

Redman and Mory define research as a "systematized effort to gain new knowledge."(L.V. Redman and A.V.H. Mory, The Romance of Research, 1923:10)

Some people consider research as a movement, a movement from the known to the unknown. It is actually a voyage of discovery. We all possess the vital instinct of inquisitiveness for, when the unknown confronts us, we wonder and our inquisitiveness makes us probe and attain full and fuller understanding of the unknown. This inquisitiveness is the mother of all knowledge and the method, which man employs for obtaining the knowledge of whatever the unknown, can be termed as research. Research is an academic activity and as such the term should be used in a technical sense.

Research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing and evaluating data; making deductions and reaching conclusions; and at last carefully testing the conclusions to determine whether they

fit the formulating hypothesis. D. Slesinger and M. Stephenson in the Encyclopedia of Social Sciences define research as “the manipulation of things, concepts or symbols for the purpose of generalizing to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art.” (The Encyclopaedia of Social Sciences, Vol. IX, MacMillan, 1930.)

Research is, thus, an original contribution to the existing stock of knowledge making for its advancement. It is the pursuit of truth with the help of study, observation, comparison and experiment. In short, the search for knowledge through objective and systematic method of finding solution to a problem is research. The systematic approach concerning generalization and the formulation of a theory is also research. As such the term ‘research’ refers to the systematic method consisting of enunciating the problem, formulating a hypothesis, collecting the facts or data, analyzing the facts and reaching certain conclusions either in the form of solutions towards the concerned problem or in certain generalizations for some theoretical formulation.
Research in common parlance refers to a search for knowledge. Once can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation.

The above description of the research brings to light the fact that there are two basic approaches to research, viz., quantitative approach and the qualitative approach. The former involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion. This approach can be further sub-classified into inferential, experimental and simulation approaches to research. The purpose of inferential approach to research is to form a data base from which to infer characteristics or relationships of population. This usually means survey research where a sample of population is studied (questioned

or observed) to determine its characteristics, and it is then inferred that the population has the same characteristics.

Experimental approach is characterized by much greater control over the research environment and in this case some variables are manipulated to observe their effect on other variables. Simulation approach involves the construction of an artificial environment within which relevant information and data can be generated. This permits an observation of the dynamic behavior of a system (or its sub-system) under controlled conditions.

The term 'simulation' in the context of business and social sciences applications refers to "the operation of a numerical model that represents the structure of a dynamic process. Given the values of initial conditions, parameters and exogenous variables, a simulation is run to represent the behavior of the process over time."(Robert C. Meir, William T. Newell and Harold L. Dazier, Simulation in Business and Economics: 1)

Simulation approach can also be useful in building models for understanding future conditions. Qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior. Research in such a situation is a function of researcher's insights and impressions. Such an approach to research generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis. Generally, the techniques of focus group interviews, projective techniques and depth interviews are used.

Whatever may be the types of research works and studies, one thing that is important is that they all meet on the common ground of scientific method employed by them. One expects scientific research to satisfy the following criteria :(James Harold Fox, Criteria of Good Research, Phi Delta Kappan, 1958: 285–86.)

- The purpose of the research should be clearly defined and

common concepts be used.

- The research procedure used should be described in sufficient detail to permit another researcher to repeat the research for further advancement, keeping the continuity of what has already been attained.
- The procedural design of the research should be carefully planned to yield results that are as objective as possible.
- The researcher should report with complete frankness, flaws in procedural design and estimate their effects upon the findings.
- The analysis of data should be sufficiently adequate to reveal its significance and the methods of analysis used should be appropriate. The validity and reliability of the data should be checked carefully.
- Conclusions should be confined to those justified by the data of the research and limited to those for which the data provide an adequate basis.
- Greater confidence in research is warranted if the researcher is experienced, has a good reputation in research and is a person of integrity.

3.1 Research Design

Research design is not related to any particular method of collecting data or any particular type of data. Any research design can, in principle, use any type of data collection method and can use either quantitative or qualitative data. Research design refers to the structure of an enquiry: it is a logical matter rather than a logistical one. It has been argued that the central role of research design is to minimize the chance of drawing incorrect causal inferences from data. Design is a logical task undertaken to ensure that the evidence collected enables us to answer questions or to test theories as unambiguously as possible. When designing research it is essential that we identify the

type of evidence required to answer the research question in a convincing way. This means that we must not simply collect evidence that is consistent with a particular theory or explanation. Research needs to be structured in such a way that the evidence also bears on alternative rival explanations and enables us to identify which of the competing explanations is most compelling empirically. It also means that we must not simply look for evidence that supports our favorite theory: we should also look for evidence that has the potential to disprove our preferred explanations.

3.2 Population and Sample

The term population is used in statistics to represent all possible measurements or outcomes that are of interest to us in a particular study. The term sample refers to a portion of the population that is representative of the population from which it was selected. The sample is described thoroughly in terms of clinical and demographic characteristics in the methods section of a research article so that others can draw conclusions, apply the results, and compare one investigation with another. It is not the target population, but rather a group of patients or individuals who are actually studied. Here, all the commercial banks are population of the study and EBL, NABIL, BOK, EVEREST and HIMALAYAN have been selected as sample for the present study.

3.3 Data Collection Procedures and Sources of Data

All the research is conducted through the two types of data collection method. This study is mainly based on secondary data. For the study purpose data can be collected through primary and secondary sources but maximum data that have been used for study

purpose is collected through secondary sources. However, primary data and information have been obtained through informal discussions with the staffs of the bank. Secondary data have been collected through the website of banks. Similarly other necessary data have collected from website, newspapers and related publications.

3.4 Research Variable

Loans/Advances,overdrafts and Bills discounted(LDO),customer deposits, total resources, total deployment interest expenses, other expenses, interest income, other income etc. of the banks are the research variables of this study.

3.5 Analysis of data

Analysis is the careful study of available facts so that one can understand and drew conclusion from them on the basis of established principles and sound logic (Cottleetal; 1988; 29). This study mostly based the analysis of secondary data with the help of different statistical tools. Therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary.

Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, correlation, mean, standard deviation, coefficient of variance, percentile increment, etc.

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

2000:51)

To achieve the predetermined objective of the research, the study can be done by the segregating it into two major parts, which are as follows:

1. Financial Tools
2. Statistical Tools

3.6 Financial Tools(Ratio Analysis)

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

A ratio is defined as “The indicated quotient of two mathematics expression” and as the relationship between two or more things.” (Source: Spring Mass & Merriam; 1975:958)

There are many ratios that can be calculated from the financial statements pertaining to a company's performance, activity, financing and liquidity. Some common ratios include the price-earnings ratio, debt-equity ratio, earnings per share, asset turnover and working capital.

3.6.1. Liquidity Ratio as a tool to Financial Analysis:

“A firm should insure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. A very high degree of liquidity is also bad; idle assets earn nothing. The form’s funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance high liquidity and lack of liquidity.”(Pandey; 2000:114).

Current Ratio = (Current Assets) / Current Liabilities.

The quick ratio is a tougher test of liquidity than the current ratio. It eliminates certain current assets such as inventory and prepaid expenses that may be more difficult to convert to cash. Like the current ratio, having a quick ratio above one means a company should have little problem with liquidity. The higher the ratio, the more liquid it is, and the better able the company will be to ride out any downturn in its business.

Quick Ratio = (Cash + Accounts Receivable + Short-Term or Marketable Securities) / (Current Liabilities)

a) Current Assets to Current Liabilities Ratio (Current Ratio)

The current ratio is a financial ratio that measures whether or not a firm has enough resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities.

b) Cash and bank balance to current assets ratio

It measures the portion of cash and bank balance in compare to current ratio. It measures the ability of the firm’s to pay its current obligation. This ratio indicates that, if the ratio is higher, there is high margin and if lower, the bank is less liquid.

c) Loan and Advances to Current Assets Ratio

It measures the utilization of loan and advances in terms of current ratio. If the bank is able to deploy its large percentage of current assets in the form of loan and advances, greater will be the amount of profit that help the bank to operate smoothly forever, It is

calculated by dividing loan and advances to total assets.

d) Fixed Deposit to Total Deposit Ratio

Fixed deposit is of fixed type of nature and it will be pay after expiry of maturity period. It measures the portion of fixed deposit in terms of total deposit. It is calculated by dividing fixed deposit to total deposit.

e) Cash Reserve Ratio

Cash reserve ratio measures the ability of bank to pay its liability holders. It is also called cash and bank balance to total deposit ratio. It can be calculated by using the following formula.

3.6.2. Assets Management Ratio as a tool to Financial Analysis:

Assets Management Ratio compares the assets of a company to its sales revenue. Asset management ratios indicate how successfully a company is utilizing its assets to generate revenues. Analysis of asset management ratios tells how efficiently and effectively a company is using its assets in the generation of revenues. They indicate the ability of a company to translate its assets into the sales. Asset management ratios are also known as asset turnover ratios and asset efficiency ratios.

a) Loan and Advance to Total Deposit Ratio

The relationship of loan & advances to total deposit is called loan & advances to total deposit ratio. It measures the utilization of the collected deposit from the depositors on loan and advances for making interest or to make profit.

b) Total Investment to Total Deposits Ratio

The ratio which reflects the proportion of investment in government securities and other in relation to the total deposit is known as Investment to total deposit ratio.

c) Loan & Advances to Fixed Deposits Ratio

Fixed deposit is regarded as the main source and permanent capital for the banks which the banks can use for long run because such deposit is not to be paid on prompt demand.

Fixed deposit is high interest bearing obligation and loan and advances is the major source to generate income for the bank. This ratio is calculated by dividing loan and advances by fixed deposit,

3.6.3. Capital Structure Ratio as a tool to Financial Analysis:

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

a) Total Debt to Total Assets Ratio

This ratio reflects the external obligation of the firm in relation to the total assets. It indicates the financial contribution of outsiders and owners on total assets of the firm. It also measures the financial security of outsiders. Generally creditors prefer a low debt

ratio whereas, owners prefer high debt ratio in order to magnify their earnings on the one hand and to maintain their concentrated control over the firm. Higher the ratio depicts higher the contribution of debt in total assets consequently higher the risk association.

b) Total Debt to Shareholder's Equity Ratio

This ratio measures the proportion of external liability in the total capital of the firm. This ratio indicates how well creditors are protected in case of the company's insolvency. It is calculated to measure the firm's obligation to creditors in relation to the funds invested by the owners.

c) Interest Coverage Ratio

This ratio is also called time interest ratio (TIE). Time interest ratio measures the extent to which operating income can decline before the firm is unable to meet its annual interest costs. Failure to meet this obligation can bring legal action by the firm's creditors, possibly resulting in bankruptcy. This ratio is determined by dividing earnings before interest and taxes (EBIT) by the interest charges.

3.6.4. Profitability Ratio as a tool to Financial Analysis:

Profit earning is the main objective of the bank. It must earn sufficient income to meet its running cost, to make payments of interest in deposits and to yield reasonable return for the owners. Profitability should be distinguished from profits. It is the relative measure of earning capacity.

a) Interest Earned to Total Assets Ratio

The ratio which shows the effect of generating the interest through the mobilization of bank's total assets is known as interest earned to total assets ratio.

b) Net Profit to Total Assets Ratio (Return on Total Assets)

The ratio which measures the profitability of all financial resources invested in the firm's assets is net profit to total assets ratio. It is also known as return on total assets ratio.

c) Net Profit to Net worth Ratio (Return on Net Worth)

The ratio which indicates that how the firms have been utilizing the owners fund is net profit to net worth ratio. Higher the ratio indicates higher the return and lower the ratio indicates lower return. It is also known as return on net worth ratio.

d) Net Profit to Total Deposit Ratio (Return on Total Deposit)

The ratio which measures the degree of net profit after tax earned by using total deposit is called net profit to total deposit ratio. It reflects the relationship of net profit with the total deposit. It is also known as return on total deposit ratio.

3.6.5. Market Value Ratio as a tool to Financial Analysis:

A final group of ratios, market value ratio, relates the firm's stock price to its earnings and book value per share, and thus give management an indication of what investors think of the company's

past performance and future prospects. If the firm's liquidity, assets management, debt management and profitability ratios are all good, then its market Value ratios will be high, and its stock will probably be highs can be expected. Following ratios are analyzed.

a) Price Earnings Ratio (P/E Ratio)

The ratio which reflects the ratio of price in which the shares are currently traded in the market and currently reported earnings per share is called price earnings ratio. This can be calculated by,

b) Market to Book Value Ratio

The relationship between the market price per share and book value per share is known as Market to book value ratio. Higher market to book value ratio reflects the firm is earning in a satisfactory level.

c) Dividend Yield Ratio

This ratio shows the ratio of proportion of earnings distributed to shareholders as dividend and proportion of earnings retained in the firm for the future purpose as retained earnings.

The major statistical tools used to analyze the data is arithmetic mean, multiple bar diagram, pie-chart are used and tabulation are used to implicit the comparative results.

3.7 Statistical tools

To draw the conclusion by analyzing the collected data simple statistical tool like arithmetic mean, multiple bar diagram, pie-chart are used and tabulation are used to implicit the comparative results.

3.7.1 Arithmetic mean average

A mathematical representation of the typical value of a series of numbers, computed as the sum of all the numbers in the series divided by the count of all numbers in the series. Arithmetic mean is commonly referred to as "average" or simply as "mean". Arithmetic mean or arithmetic average is one of the important statistical measures of average.

3.7.2 Multiple Bar- diagrams and graphs

A diagram for showing the frequencies of a variable that is categorical or discrete. The lengths of the bars are proportional to the frequencies. The widths of the bars should be equal. If the widths of the bars are negligible then the diagram may be called a line graph. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3.7.3 Percentage

In mathematics, a percentage is a way of expressing a number, especially a ratio, as a fraction of 100. The word is derived from the Latin per centum meaning “by the hundred”. It is often denoted using the percent sign, “%”, or the abbreviation “pct.” For example, 45% (read as “forty-five percent”) is equal to 45/100, or 0.45. Percentages are used to express how large/small one quantity is, relative to

another quantity. Although percentages are usually used to express numbers between zero and one, any ratio can be expressed as a percentage.

3.7.4 Coefficient of correlation(R)

The correlation coefficient, denoted by r, is a measure of the strength of the straight-line or linear relationship between two variables. The correlation coefficient takes on values ranging between +1 and -1.

Correlation can either be negative or positive. It always lies between +1 to -1. The degree of association between the two variables, say X and Y, and is defined by correlation coefficient (R).

The following points are the accepted guidelines for interpreting the correlation coefficient:

- 0 indicates no linear relationship.
- +1 indicates a perfect positive linear relationship: as one variable increases in its values, the other variable also increases in its values via an exact linear rule.
- -1 indicates a perfect negative linear relationship: as one variable increases in its values, the other variable decreases in its values via an exact linear rule.

3.7.5 Regression analysis

Regression analysis includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. More specifically, regression analysis helps one understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed.

3.7.6 Standard deviation (σ)

Standard deviation shows how much variation or "dispersion" exists from the average (mean, or expected value). A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data points are spread out over a large range of values.

3.7.7 Coefficient of variation (C.V.)

The coefficient of variation (CV) is defined as the ratio of the standard deviation to the mean. Less the C.V., more will be the uniformity, consistency, stable and homogeneous etc. and vice versa. C.V measure the dispersion of a probability distribution. It is also known as unitized risk or the variation coefficient.

$$\text{C.V.} = \frac{\delta}{x} =$$

CHAPTER-FOUR
PRESENTATION AND ANALYSIS OF DATA

This chapter implies the presentation and analysis of data collected from various secondary sources. The chapter has been divided into two main sections. The first section of the chapter includes the presentation and analysis of data while the second section includes major findings of the study.

4.1 Financial *Analysis of Commercial Bank*

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet. Here relevant ratio is calculated and appropriate interpretations are made. Analysis of financial ratio shows the performance of the concern banks.

4.1.1. Liquidity Ratio

Commercial Banks must maintain its satisfactory liquidity position to satisfy the credit needs of the commercial to meet demands for deposits, withdrawals, pay nation by obligation in time and convert non-cash assets into cash to fulfill immediate needs without loss of bank and consequent impact on long run profit.

a. Current Ratio

It is the relationship of current assets and current liabilities. Current assets can be converted in to cash with in short period of time normally not exceeding one year. Current liabilities are those obligation which are payable within short period. Current assets consist of cash and bank balance, money at call or short terms notice, loan & advances, investment in government securities and other interest receivable and other miscellaneous current assets. Current liabilities consist of deposits, loan and advances, bills payable, Tax provision, staff bonus, dividend payable and miscellaneous current liabilities.

Table 4.1
Current Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	0.94	2.38	1.14	1.16	1.53
NABIL	0.97	2.08	0.93	1.04	1.05
BOK	1.02	1.21	1.20	1.14	1.15
HBL	1.05	1.19	1.12	1.15	1.15
NIC	1.06	1.31	1.09	1.13	1.08
Mean	1.43	1.21	1.14	1.13	1.13
SD	0.82	0.67	0.11	0.08	0.16
CV%	0.57	0.56	0.10	0.07	0.14

(Source: Appendix No. 1)

b. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are assets that constitute the banks first line of defense and consist of cash and hand foreign cash on hand cheques and other cash items balance with demotic banks and balance help aboard. This ratio measures the promotion of most liquid assets i.e. cash and balance among the total current asset of bank. Higher ratio shows the bank ability to meet demand for cash. The table below shows cash and bank balance to total deposit ratio of EBL, NABIL and BOK from the FY 2005/06 to 2009/10.

Table 4.2
Cash and Bank Balance to Total Deposit Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	10.39	11.25	13.15	11.23	10.24
NABIL	3.83	3.26	5.99	8.37	7.29
BOK	8.28	6.95	10.62	9.09	9.16
HBL	7.87	6.95	6.76	8.17	8.06
NIC	7.83	9.23	5.54	5.36	4.79
Mean	11.25	5.78	8.82	7.56	6.55
SD	4.24	3.83	4.02	1.79	3.09
CV%	0.38	0.67	0.45	0.23	0.47

(Source: Appendix No. 2)

The table 4.2 shows the percentage of cash and bank balance to total deposit ratio position of EBL, NABIL, BOK, HBL and NIC. The cash reserve ratio (i.e. cash and bank balance to total deposit ratio) determined by Nepal Rastra Bank is 5 times. The mean standard deviation and coefficient of variation of cash and bank balance to total deposit ratios of all banks are better because the average mean ratio of all sample banks are higher than the reference cash reserve ratio determined by Nepal Rastra Bank. The above table reflects EBL has fluctuating trend likewise 10.39%, 11.25% 13.15%, 11.23% and 10.24% from the FY 2006/07 to 2010/11 respectively. It has maintained highest ratio in the FY 2008/09 i.e. 13.45% and lowest ratio in the FY 2007/08 i.e. 10.39%. Similarly NABIL, BOK, HBL and NIC have maintained fluctuating trend from the FY 2007/08 to 2010/11. In average EBL has higher cash and bank balance to total deposits ratio than BOK, NABIL, HBL and NIC. It states that the liquidity position of EBL is better in this regard.

The above analysis helps to conclude that, the cash and bank balance position of HBL with respect to deposits is not better against the readiness to serve its customers deposits than that of the EBL. So HBL may invest in more productive sectors like short-term marketable securities, treasury bills etc ensuring enough liquidity which will helps the bank to improve its profitability.

c. Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and bank balance among the total current assets of bank. Higher ratio indicated the bank's ability to meet the daily cash requirement of their customers' deposit. Bank has to balance the cash and bank balance to adequate cash for the customers demand against deposit when required and less interest is required to be paid against the cash deposit. The table below shows the Cash and

bank balance to current asset ratio of EBL, NABIL, BOK, HBL and NIC from the FY 2006/07 to 2010/11.

Table 4.3
Cash and Bank Balance to Current Assets Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	10.13	13.62	14.69	12.49	11.54
NABIL	3.74	4.55	7.77	12.51	9.17
BOK	7.95	8.17	10.72	10.19	9.50
HBL	8.64	7.68	6.06	6.72	7.11
NIC	6.74	7.33	4.30	3.74	3.49
Mean	12.49	7.54	9.03	7.24	5.12
SD	4.91	5.98	3.16	2.64	3.06
CV%	0.39	0.79	0.33	0.36	0.59

(Source: Appendix No. 3)

This table 4.3 shows the mean standard deviation and coefficient of variance of cash and bank balance to current asset ratio of all three banks are in fluctuating trend during the study period. They show the ability to manage the deposit withdraws from the customers. EBL has maintained a highest ratio of 14.69% in the year 2008/09. Similarly NABIL, BOK, HBL & NIC have a highest ratio of 10.72%, 12.50%, 8.64% & 7.33% in the year 2008/09, 2009/10, 2006/07 & 2007/08 respectively. The mean value of EBL is highest in comparisons to other banks.

Similarly the coefficient of variation of BOK is 0.33, which is lower than EBL, NABIL, HBL and NIC; it reflects that the current ratio of BOK is less heterogeneous than other sample bank.

Lastly, the analysis reveals that EBL is better position during the study period as the bank shows the ability to manage the deposit with drawl from the customers although it has the fluctuating trend.

d. Investment on Government Securities to Current Assets Ratio

The ratio examines portion of a commercial banks current assets which invested in different government securities i.e. treasury bills and government bonds. Commercial banks are interested to invest their collected fund on different securities issued by government to utilize their excess funds. Even governments securities are not so liquid as cash and bank balance of commercial bank, they can easily be sold in the market or it can also be converted into cash in other ways. The ratio is computed as:-

Table 4.4
Investment on Government Securities to Current Assets Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	20.29	29.15	28.90	22.85	19.50
NABIL	16.12	16.61	26.68	21.78	15.71
BOK	23.06	29.81	18.99	14.96	11.66
HBL	22.67	23.25	22.11	19.26	11.22
NIC	30.06	17.96	21.09	9.70	14.88
Mean	24.13	19.38	19.69	19.70	18.73
SD	10.87	16.32	11.73	6.90	13.28
CV%	0.45	0.84	0.59	0.35	0.70

(Source: Appendix No. 4)

The above table 4.4 reflects that investment in government securities to current asset ratio of BOK is fluctuating trend, where as HBL and NIC is in decreasing trend.

The mean ratio of EBL is higher than other sample banks. It means that EBL has invest it's as much as portion of its current assets as government securities as that of NABIL, BOK and HBL and higher than of NIC. The coefficient of variation of HBL is lower in comparison to the other banks.

Lastly it can be conclude that it has invested it's more of portion assets as government securities than other banks and

investment made is consistence of coefficient of variation reveals. But its liquidity portion is slightly poor than other banks ion view point of investment on government securities.

e. Loans and Advances to Current Assets Ratio

Loan and advances include short and long term loan overdrafts and cash credit. Commercial banks should not keep its all collected funds as cash and banks balance in order to invest as loan and advances to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those un-utilized deposits funds. Even high loan and advances may also effects to keep the bank in most liquid position because they can only be collected at the time of maturity. This, a bank must maintain its loan and advances on proper way.

Table 4.5
Loan and Advances to Current Assets Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	73.60	85.99	82.09	85.89	74.18
NABIL	70.71	93.25	86.26	100.05	72.25
BOK	63.51	81.39	76.64	88.20	68.74
HBL	54.76	58.39	70.79	42.39	22.71
NIC	60.49	50.85	50.91	36.90	38.67
Mean	80.35	84.50	75.69	49.80	47.56
SD	10.77	22.51	16.99	46.91	16.05
CV%	0.13	0.26	0.22	0.94	0.33

(Source: Appendix No. 5)

The table shows the percentage of loan and advances to current assets ratio position of EBL, BOK, NABIL, HBL and NIC. The loan and advances to current assets ratio of all banks are in fluctuating trend.

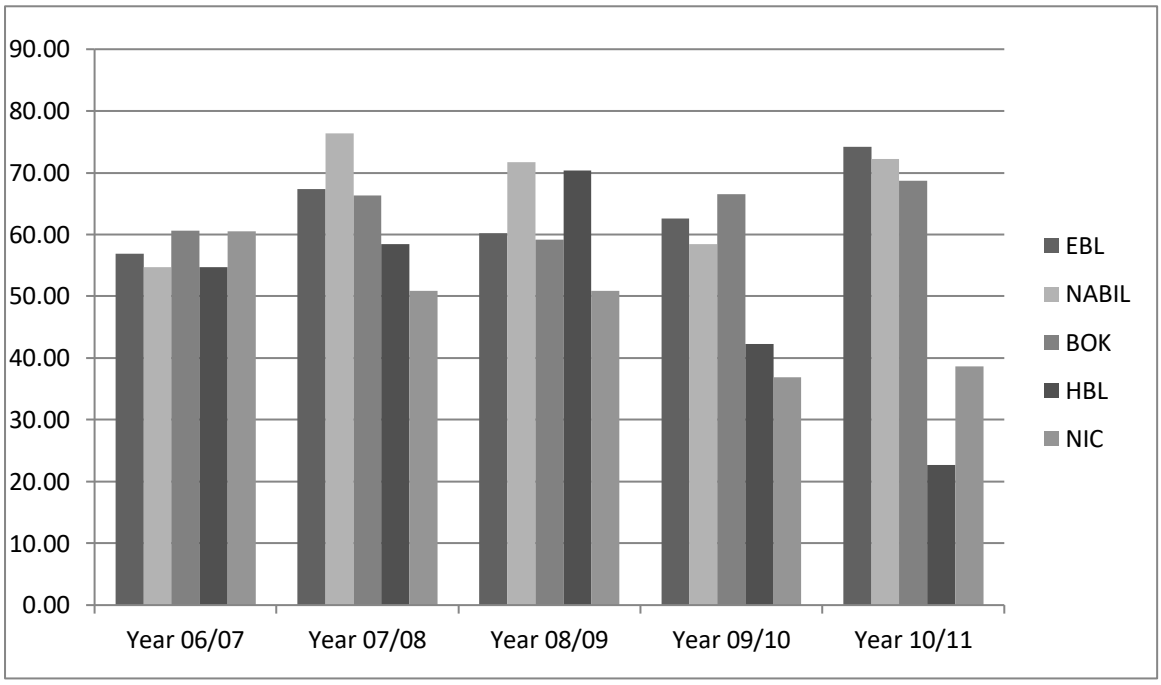
It reflects that loan and advances to current asset ratios of the EBL has maintained a highest ratio of 85.89% in the FY 2009/10.

Similarly NABIL & BOK have in 100.05% and 88.20% in the FY 2009/10 and HBL have 70.79% ratios in the FY 2008/09 & NIC have 60.49% in the FY 2006/07. The coefficient of variation among ratio is lower in case of EBL, which indicates uniformity of EBL in comparison to other banks. So it can conclude that it is better to mobilize its funds as loan and advances.

Lastly it can be conclude that it has invested it's more of portion assets as government securities than other banks and investment made is consistence of coefficient of variation reveals. But its liquidity portion is slightly poor than other banks ion view point of investment on government securities.

Figure 4.1

Loan and Advances to Current Assets Ratio



4.1.2 Asset Management Ratio

Commercial bank must be managed its assets very well to satisfy its customers to earn high profit and for its own existence. It measures the efficiency of the bank.

a. Loans and Advances to Total Deposits Ratio

This ratio measures how successfully the banks are able to mobilize the total deposit on loan and advances for profit generating purpose. Higher the ratio indicates the better mobilization of total deposits, but too high is not be better from its liquidity point of view. This table 4.6 reflects the percentage of loan and advances to total deposit ratios position of EBL, NABIL, BOK, HBL and NIC

Table 4.6

Loan and Advances to Total Deposit Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	75.45	71.01	73.48	76.49	65.81
NABIL	72.57	66.79	66.60	66.94	57.38
BOK	66.12	69.23	75.87	78.71	66.30
HBL	49.84	52.82	78.56	51.39	25.74
NIC	70.24	64.01	65.67	52.93	53.04
Mean	72.44	66.56	71.24	51.67	61.17
SD	3.94	4.91	6.91	31.67	8.31
CV%	0.05	0.07	0.09	0.61	0.13

(Source: Appendix No. 6)

The ratio of EBL and NABIL have in decreasing trend where as BOK, HBL & NIC ratio is in fluctuating trend for study period. In the case of EBL has maintained higher loan and advances to total deposit i.e. 76.49% in a year 2009/10, likewise NABIL has maintained higher ratio in a year 2006/07 and BOK is in 78.71% in a year 2009/10 respectively.

The mean value of EBL i.e. 72.44% is higher than other sample banks. The CV of EBL is lower than that of the other banks which indicate that loan and advances of it is stable and consistent.

Lastly it can be concluded that EBL & NIC is in strong position or in better position regarding the mobilization of total deposits on loan and advances and acquiring higher profit in comparison with BOK & HBL and lower than NABIL. Higher ratio is not good from the

view point of liquidity as the loan and advances are not a liquid as cash and bank balance.

b. Relationship between Deposit and Loan and Advances

It measures the intensity or magnitudes or degree of relationship between the two variables. In the analysis, deposit is independent variable (X) and loan and advances are dependent variable (Y). The objectives of computing coefficient of correlation (r) between the two variables are to justify whether deposit is significantly used as loan and advances or not. The table 4.7 shows the value of 'r', r2, P. E. and6. P. E between deposit and loan and advance of EBL in comparison with NABIL, BOK HBL & NIC.

Table 4.7

Correlation between Deposit and Loan and Advances

	Evaluation Criterions			
Bank	R	r_2	P.E.	6 P.E.
EBL	0.9798	0.9599	0.245	1.47
NABIL	0.9772	0.9550	0.247	1.48
BOK	0.9846	0.9713	0.240	1.44
HBL	0.1636	0.0268	0.663	3.98
NIC	0.9532	0.9086	0.268	1.61

(Source: Appendix No. 7, 8, 9, 10 & 11)

The table 4.7 shows the value of 'r', r_2, P. E., 6P.E. between deposit and loan and advances of EBL with comparison to BOK, NABIL, HBL & NIC from the 2006/07 to 2010/11. In case of EBL, it is found that coefficient of correlation between deposit and loan and advances is 0.9798. It shows the positive relationship between two variables. The value of coefficient of determination (r_2) is 0.9599, which means 95.99% of the variation in the dependent variable (loans and advances), has been explained by the independent variable (deposit). Similarly, considering the value of 'r' i.e. 0.9798 and

comparing it with 6 P.E. i.e. 0.1.47, we can find, it is greater than the value of 6P.E. which reveals the value of 'r' is significant or there is significant relationship between deposit and loan and advances.

In the case of NABIL ,BOK, HBL and NIC have positive correlation between deposit and loan and advances when we consider the value of coefficient of determination (r_2) it indicated than NABIL, BOK, HBL and NIC are 97.98%, 97.72%, 98.46%, 16.36% and 95.32% and respectively of the variation in the dependent variable has been explained by the independent variable. Since the value r_2 of NABIL is less than 6P.E, so its value of 'r' is significant i.e. there is no significant relationship between deposit and loan and advances.

After analyzing, the conclusion it can be drawn that in EBL, NABIL, BOK, HBL and NIC there is no significant relationship between deposit and loan and advances because 'r' is less than 6 P.E. It can conclude that it is not successful to grant loan and advances to mobilize the collected deposits in a proper way.

b. Total Investment to Total Deposit Ratio

The commercial banks must mobilize its deposit fund by investing in different securities issued by government and other financial, non financial sectors. This ratio measures the extent to which the banks are capable to mobilize their deposits on investment in various securities. This ratio is computed by dividing total investment by total deposit ratio. The table 4.8 shows the total investment to total deposit ratio of the banks EBL, NABIL, Bok, HBL and NIC.

Table 4.8

Total Investment and Total Deposit Ratio

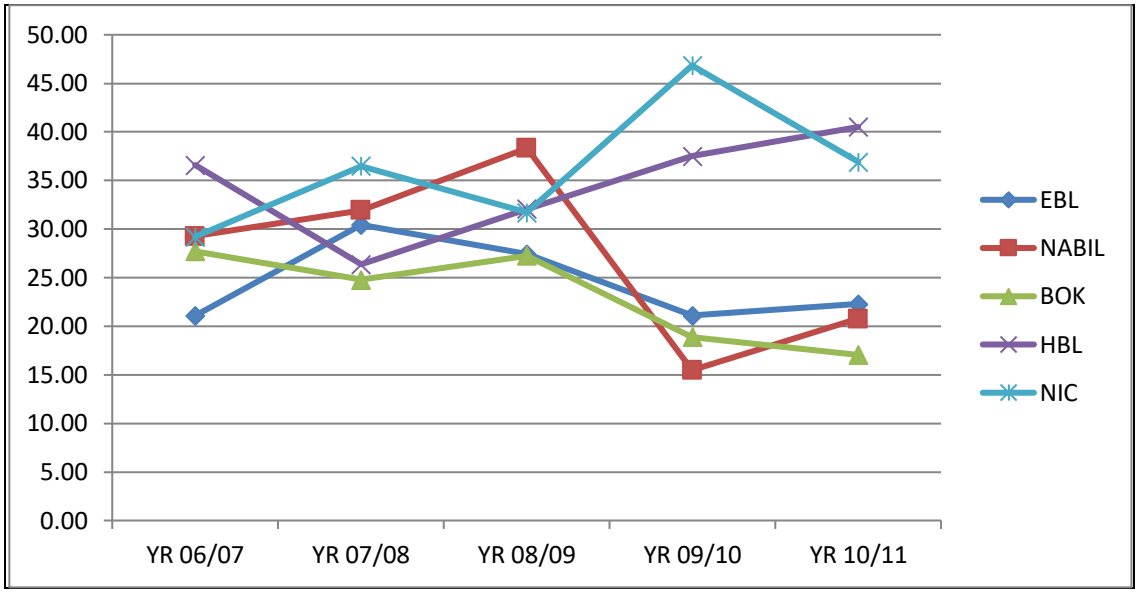
Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	21.08	30.43	27.41	21.10	22.28
NABIL	29.25	31.93	38.32	31.14	20.78
BOK	29.05	32.32	24.15	20.24	17.04
HBL	36.58	26.37	32.08	37.51	46.84
NIC	29.21	36.49	31.71	46.84	36.90
Mean	24.46	30.28	24.56	35.86	36.23
SD	4.80	7.47	5.59	7.74	7.54
CV%	0.19	0.24	0.22	0.21	0.20

(Source: Appendix No. 12)

From the table 4.8, it is found that, total investment to total deposit ratio all five banks are in either increasing or decreasing trend or in fluctuating trend during study period 2006/07 to 2010/11. The total investment to total deposit ratio of EBL has highest ratio of 30.43% in FY 2006/07 and lowest ratio 21.08% in FY 2006/07. Similarly NABIL and BOK have highest and lowest ratio of 38.32% and 20.78% in FY 2006/07 and 2010/11. Similarly HBL and NIC have highest and lowest ratio of 46.84% and 26.37% in FY 2010/11 and 2007/08 and 46.84% and 29.21% in the FY 2009/10 and 2006/07 respectively.

In comparison with mean value, NIC has higher mean value and BOK has lower value in comparison to other sample banks. Likewise the value of coefficient of variation on EBL is lower than that of other banks. After analysis it is clear that the investment policy of EBL is in better position in comparisons to other banks. The total investment to total deposits ratio of EBL and NIC is more homogeneous because it has low coefficient of variation.

Figure 4.2
Total Investment to Total Deposit Ratio



Relationship between Deposit and Total Investment

Coefficient of correlation between deposit and total investment measure the degree of relationship between these twovariables.

Deposit is independent variables (X) and total investment is dependent variable (Y). The purpose of computing it is to find out whether deposit is significantly used as investment or not.

The table 4.9 shows the value of 'r', r_2, P.E, 6 P.E. between outside asset and net profit of EBL, NABIL, BOK, HBL and NIC for the study period 2006/07 to 2010/11.

Table 4.9

Coefficient of Correlation Deposit and Total Investment

Banks	Evaluation Criterions			
	r	r_2	P.E.	6P.E
EBL	0.9161	0.8392	0.299	1.80
NABIL	0.3566	0.1272	0.618	3.71
BOK	0.6727	0.4525	0.472	2.83
HBL	0.8902	0.7925	0.320	1.92
NIC	0.9286	0.8623	0.289	1.73

(Source: Appendix No. 13, 14, 15, 16 & 17)

The table 4.9 shows the value of 'r', r_2, P.E., 6 P.E. between deposit and total investment of EBL with comparison of BOK, NABIL, HBL and NIC. From table, it is found that coefficient of correlation between deposit and total investment of EBL is 0.9161. It shows the positive relationship between two variables i.e. deposit, independent (X) and total investment, dependent (Y). Moreover, when we consider the value of coefficient of determination (r_2) it is 0.8392 and it means 83.92% of the variation in the dependent variable is explained by the independent variable. Similarly considering the value of 'r' and comparing with P.E. it is lesser than 6P.E. which reveals that the value is significant. Likewise in the case of NABIL, BOK, HBL and NIC value of 'r' is less than 6 P.E.so we can say that there is also not significant relationship between total deposit and total investment.

On the other hand, in case of BOK has positive correlation between deposit and total investment. By considering the probable error since the value of 'r' i.e. 0.6727 is more than 6 P.E. i.e 2.83, so it indicates that there is significant relationship between total deposits and total investment. Likewise by the application of coefficient determination i.e. r_2 which indicates BOK and HBL to be 45.25% and 79.25% of the variation in the dependent variable has been explained by the independent variables.

The above analysis clears that in case of EBL there is significant relation between total deposit and total investment because 'r' is less than 6P.E. That means EBL has not able to follow the policy of maximizing the investment of their deposits. It has not certain investment policy to invest their deposit where there as NIC there is significant relationship between deposit and total investment.

Lastly we can say that BOK has followed the policy of maximizing the investment of their deposits or BOK is successful in maximizing the investment of their deposit.

c. Loan and Advances to Total Working Fund Ratio

Loan and advances is the major components of the total working fund, which indicate the ability of banks to utilize its deposits in the form of loan and advances to earn high return. It is an appropriate level to generate profit. The ratio reflects some extend to which the commercial banks are able to utilizing their assets loan and advances for the purpose of profit generation.

Total working fund is the total assets. It is composed up of current assets, fixed assets, miscellaneous assets and investment, loan and advance and interest receivable.

The table 4.10 shows the loan and advance to total working fund ratio of EBL, NABIL, BOK, HBL and NIC.

Table 4.10
Loan and Advances to Working Fund Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	64.61	61.41	62.35	67.55	54.05
NABIL	61.60	57.87	57.06	57.54	47.60
BOK	59.98	59.12	64.46	70.32	70.31
HBL	59.09	55.05	76.90	41.51	20.51
NIC	30.96	28.71	32.69	22.88	22.23
Mean	61.99	56.33	64.83	50.61	27.49
SD	4.51	4.71	4..84	32.33	6.7
CV%	0.07	0.08	0.07	0.63	0.24

(Source: Appendix No. 18)

This reflects that loan and advances to working fund ratio of EBL, HBL and NIC is a fluctuating trend. NABIL is a decreasing trend and BOK is in increasing trend. EBL has the highest ratio 67.55% in the FY 2009/10. NABIL, BOK, HBL and NIC have the highest ratio i.e. 61.60%, 70.32%, 76.90% and 32.69% in the FY 2006/07, 2009/10, 2006/07 and 2008/09.

The mean value of BOK has maintained average loan and

advances to total working fund ratio than that of EBL, NABIL, HBL and NIC. This regard, BOK is in better position among other banks. The coefficient of variation of EBL and NIC is lower than that of both banks i.e. 0.07 < 0.07 <0.08 <0.24<0.63 respectively, which clear that loan and advances to total working fund ratio of EBL and NIC is less variable than other banks.

d. Investment on Government Securities to Total Working Funds Ratio.

The commercial banks should never use all the total deposits resources as loan and advances and other credit from security and liquidity point of view. So to some extent commercial bank seem to be interested to utilize their resources by purchasing government securities. This ratio reflects the relationship between the banks investment securities in comparison to the total working funds.

The table 4.11 shows the investment on government securities to total working fund ratio of EBL, NABIL, BOK, HBL and NIC.

Table 4.11

Investment on Government Securities to Total Working Fund Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	17.81	20.82	21.95	17.76	14.21
NABIL	14.05	10.31	17.64	12.51	10.35
BOK	21.78	21.65	15.97	11.92	11.92
HBL	24.47	21.92	24.15	18.91	10.13
NIC	15.38	10.14	13.54	6.02	8.56
Mean	18.51	12.97	16.64	19.91	10.73
SD	4.37	5.40	4.44	6.7	4.39
CV%	0.23	0.41	0.26	0.33	0.40

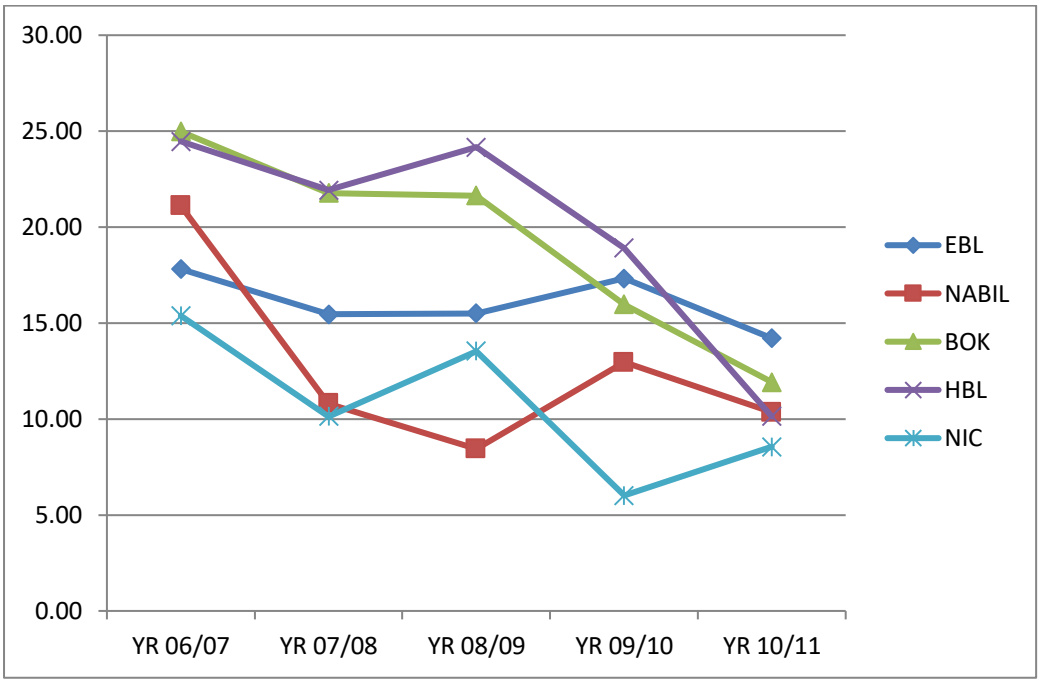
(Source: Appendix No. 19)

The comparison of mean ratio of HBL with other banks reveal that HBL is successful; to mobilize their working fund as investment in government securities. Similarly EBL is also variability between

ratios during the study period is greater mean value than that of NABIL and NIC.

The table 4.11 reflects that investment on government securities to total working fund ratio of all three banks are in fluctuating trend. Likewise the coefficient of variation of NABIL is higher than that of other banks i.e. 0.41>0.40>0.33>0.26>0.23. This means NABIL has invest its more portion of working funds on government securities as than other banks.

Figure 4.3
Investment on Government Securities to Total Working Fund Ratio



e. Total Off Balance Sheet Operation to Loan and Advances Ratio

This ratio shows the proportion of free based off balance sheet activities are very much dependent on made operation management strategy banking net work with foreign banks etc. Commercial banks should not concentrate only on fund based activities such as loan and advances, investment on different sectors and so on. It should pay its attention to increase free based off balance activities. Income generated through the free based off balance sheet activities constitutes a significant

proportion in the total income of most of the commercial banks statement. A high ratio indicates the highest OBS transaction or vice versa.

Table 4.12
Total TOBS Operation to Loan and Advances Ratio

	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	35.80	29.54	25.32	28.50	25.69
NABIL	40.27	44.32	11.03	36.64	20.23
BOK	31.01	37.08	48.20	22.80	11.44
HBL	46.33	39.23	18.76	51.09	41.98
NIC	39.15	35.09	27.96	44.79	47.66
Mean	28.97	30.48	21.98	39.47	38.93
SD	5.25	23.25	21.98	23.50	13.01
CV%	0.18	0.76	0.73	0.59	0.33

(Source: Appendix No. 20)

The total OBS operation to loan and advances ratio of EBL is in decreasing trend in FY 2006/07 to 2008/09 but in FY 2009/10 to 2010/11 it slightly increase. Similarly NABIL and BOK have maintained the maximum ratio of 44.32% and 75.75% in the FY 2006/07 and 2007/08 respectively. But HBL and NIC both have fluctuating trend in the overall trend period.

The mean value of NABIL is higher and EBL is lower than that of other banks i.e. 39.47 >28.97, which indicates that, NABIL has lowest OBS transaction or vice versa. The coefficient of variance of EBL is lower than that of other banks, which indicated that it is giving attention to increase free based off balance activities.

f. Loan Loss Provision

It is occurred when the debtors fail to pay their loan. Loss of the loan is not only the default of debtors but it is because of the failure of recovery of loan by the bank. Negligence in its part makes a negative impact on the earning and capital of a bank very badly.

Greater loan loss provision is made in income statement if high loss is expected.

But this will lead to low profit and possible losses and produces low increase or decrease in capital. The loan loss ratio shows how efficiently the bank manages its loan and advances and makes effort for timely recovery of loan.

Table 4.13
Loan Loss Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	1.14	0.72	0.65	0.54	0.45
NABIL	0.04	0.02	0.09	0.30	0.21
BOK	2.27	1.08	0.87	0.31	0.24
HBL	0.54	0.22	0.36	0.42	0.48
NIC	1.59	1.10	0.86	1.01	0.66
Mean	0.70	0.13	0.95	0.40	1.04
SD	0.24	0.11	0.73	0.11	0.36
CV%	0.34	0.86	0.77	0.29	0.34

(Source: Appendix No. 21)

The table 4.13 reflects that EBL has fluctuating trend, it has the maximum ratio of 1.14% in the FY 2006/07 and minimum ratio of 0.45% in the FY 2010/11. Similarly, in case of NABIL and BOK, both have also followed the fluctuating trend. Likewise in the case of HBL and NIC, it has followed the regular trend.

The mean value of NIC is higher and NABIL is lower in comparison to EBL, BOK and HBL, which indicated that its position is better in this regard. It has managed its loan and advances and makes effort for timely recovery of loan. Similarly, the coefficient of variance of HBL is lower than that of other. In average, HBL has no highest loan loss ratio in comparing with two other banks. So it shows that its performance in terms of recovery of loan is satisfactory in comparison to sample banks.

4.1.3 Profitability Ratio

Profitability ratios are useful to measure the efficiency of operation of a firm in term of profit. Profit is the indicator of the financial performance of any firm. Commercial banks acquire profit by providing different kinds. Higher the profitability ratio shows the efficiency of the management.

The following profitability ratios are related to study under this heading:-

a. Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of banks on its total deposits mobilized on loan and advances. Mostly loan and advances included loan, cash credit, and overdraft, bills purchased and discounted. In other words return on loan and advances ratio indicates how efficiently the banks have employed its resources in the firm of loan and advances.

Table 4.14
Return on Loan and Advances Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	2.24	2.42	2.18	2.46	2.86
NABIL	4.90	4.92	4.34	3.49	4.02
BOK	2.36	2.79	2.29	2.04	4.01
HBL	8.20	7.92	4.98	9.09	12.64
NIC	4.02	5.11	4.92	6.03	5.98
Mean	2.43	4.33	2.69	8.56	5.21
SD	0.34	0.54	0.80	4.34	0.80
CV%	0.14	0.12	0.30	0.50	0.15

(Source: Appendix No. 22)

The table 4.14 reveals that EBL return on loan and advances ratio has increasing trend in the beginning years and in the FY 2008/09 it is slightly increase and again from 2009/10 it is slightly

decreased. NABIL has also decreasing trend up to 2009/10 and increase in 2010/11. Similarly HBL and NIC is in fluctuating trend where BOK has also same the NABIL data.

The mean of EBL is lesser and HBL is higher than that of other banks i.e. 8.56 >2.43 respectively. The standard deviation of EBL is lesser than other banks. Similarly the coefficient of variation of NABIL is less than other banks. Thus it can be concluded that HBL is in better position in earning loan and advances in comparison to NABIL, BOK, NIC and EBL.

Table 4.15

Return on Total Working Fund Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	1.45	1.49	1.39	1.66	1.55
NABIL	3.02	2.85	2.47	2.01	1.92
BOK	2.42	1.65	1.79	2.04	2.82
HBL	4.84	4.36	3.83	3.78	2.59
NIC	1.24	1.47	1.61	1.38	1.33
Mean	1.51	2.45	2.14	3.88	1.40
SD	0.14	0.43	0.55	0.75	0.23
CV%	0.09	0.17	0.25	0.19	0.17

(Source: Appendix No. 24)

The table 4.15 reflects the mean, S.D and C.V of EBL, NABIL, BOK banks from FY 2006/07 to 2010/11. EBL has the fluctuating trend which indicates that its profitability ratio is not consistent. It has highest profit ratio is 1.66% in the FY 2009/10 and minimum profit ratio is 1.39% in the FY 2008/09. Similarly NABIL have highest ratio on in F/Y 2006/07 it has 3.02.There after it has slightly decrease position. Likely BOK and HBL has maintained increasing trend of profit ratio and NIC is in fluctuating trend .In average, EBL, NABIL, BOK, HBL and NIC have able to maintain a satisfactory position of net profit during the stuffy period. If the mean values are observed NIC is lowest than other banks respectively. The

coefficient of variation of EBL is lesser than that of NABIL, BOK, HBL and NIC. It indicates the return on total working fund ratio of NIC is stable and consistent in comparison to EBL, HBL, NABIL and BOK. The analysis clear the profitability ratio with respect to financial resources investment of EBL is better as well as stable.

4.1.4Risk Ratio

Risk taking is the prime business of banks investment management which increases effectiveness and profitability of the bank. Bank has to take risk to get return on investment. Risk taken is compensated by the increase in profit. So a bank has to take higher risk if it expects higher return on its investment.

a. Credit Risk Ratio

Bank utilized its collected funds in providing credit to different sectors while making investment. It is essential for a bank to examine the credit risk involved in the project.

This ratio shows the proportion of non-performing assets in total loan and advances of the bank.

Due to the unavailability of the relevant data the ratio is measure with the help of loan and advances to total assets.

Table 4.16
Credit Risk Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	73.60	61.50	63.75	67.55	53.49
NABIL	70.71	56.96	57.04	57.54	50.13
BOK	63.51	63.13	64.46	70.32	58.33
HBL	54.76	58.39	70.39	42.29	22.71
NIC	60.49	50.85	50.91	36.90	38.67
Mean	63.78	58.47	63.95	49.70	47.56
SD	6.60	6.85	3.86	26.27	9.35
CV	0.10	0.11	0.06	0.52	0.19

(Source: Appendix No. 23)

The table 4.16 shows the percentage of credit risk ratio of EBL, NABIL, BOK, HBL and NIC. The credit risk ratio of EBL, NABIL, BOK and HBL is in fluctuating trend during the study period. Similarly NIC credit risk ratio is decreasing trend up to FY 2009/10 and slightly increased in the FY 2010/11. It has maintained maximum ratio of 60.49% and minimum 36.90%.

The mean of BOK is higher which mean BOK has average credit in comparison to both banks. The coefficient of variance of EBL is 0.10, NABIL has 0.11, BOK has 0.06, HBL has 0.52 and NIC has 0.19. Among five banks BOK has less C.V, it indicates that its credit policy is consistent than other banks.

b. Liquidity Risk Ratio

The liquidity risk of the bank defines it liquidity need for deposit. A higher liquidity indicates less risk and less profitable bank and vice-versa. The ratio of cash and bank balance to total deposits is the indicator of the bank liquidity needed. The cash and bank balance are the most liquid assets and they are considered as bank liquidity sources and deposits as the liquidity needs.

Table 4.17

Liquidity Risk Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	10.39	11.25	13.14	11.23	10.24
NABIL	3.83	3.26	5.99	8.37	7.29
BOK	8.28	6.95	10.62	9.09	9.16
HBL	7.87	6.95	6.76	8.17	8.06
NIC	7.83	9.23	5.54	5.36	4.79
Mean	11.25	5.74	8.20	7.56	6.55
SD	2.15	1.97	2.16	0.99	1.97
CV	0.19	0.34	0.24	0.13	0.30

(Source: Appendix No. 25)

In the table 4.17 shows the percentage of liquidity risk ratio of

EBL, NABIL, BOK, HBL and NIC. This table reflects the liquidity risk ratio of EBL, NABIL, BOK, HBL and NIC is fluctuating trend i.e. EBL has maintained a maximum ratio of 13.14% in the FY 2008/09 and the minimum ratio of 10.24% in the FY 2010/11.NABIL has maintained a maximum ratio of 8.37% in the FY 2009/10 and the minimum ratio of 3.26% in the FY 2007/08.BOK has maintained a maximum ratio of 10.62% in the FY 2008/09 and minimum ratio of 6.95% in the FY 2007/08. Similarly HBL has maintained a maximum ratio of 8.06% in the FY 2009/10 and the minimum ratio of 6.76% in the FY 2008/09. NIC has maintained a maximum ratio of 9.23 % in the FY 9.23% in the FY 2007/08 and 4.79% in the FY 2010/11.

While comparing the mean of five banks, HBL is between EBL and BOK, NABIL and NIC i.e. 11.25>8.20>7.56>6.55>5.74, which indicates that HBL liquidity risk is average in compare to other banks. The coefficients of variance of five sample banks are 0.19, 0.34, 0.24, 0.13 and 0.30 respectively. In comparison them, HBL has less C.V which indicates that liquidity risk ratio of it's in consistent.

c. Capital Risk Ratio

The capital risk ratio indicates how much assets value may decline by bank before the position deposition and other creditors is jeopardized. So a bank needs to maintain adequate capital in relation to the nature and condition of its assets, its deposits liabilities and other corporate responsibilities. This ratio measures ability of bank to attract deposits and inter-bank funds. It also determines the level of profit. A bank can earn if a bank choose to take high capital risk.

Table 4.18
Capital Risk Ratio

Bank	Fiscal Year				
	2006/07	2007/08	2008/09	2009/10	2010/11
EBL	8.37	6.82	7.27	8.43	6.50
NABIL	11.68	9.76	9.71	8.00	10.36
BOK	10.41	9.50	10.00	10.01	16.02
HBL	11.79	6.93	6.86	7.88	8.87
NIC	12.01	9.54	8.18	9.18	10.16
Mean	7.47	9.90	11.18	8.50	9.81
SD	0.81	1.20	2.70	2.42	2.07
CV	0.10	0.12	0.24	0.28	0.21

(Source: Appendix No. 26)

From the table 4.18, it is clearly seen that the percentage of capital risk ratio of EBL, NABIL, HBL and NIC is fluctuating trend in the FY 2006/07 to 2010/11 during the study period. EBL has maximum ratio of 8.37% in the FY 2006/07 and minimum ratio of 6.50% in the FY 2010/11. NABIL and BOK have maximum ratio of 11.68% in the FY 2006/07 and 16.02% in the FY 2010/11 and minimum ratio of 8.00% in the FY2009/10 and 9.50% in the FY 2007/08 respectively. Similarly NIC has maximum ratio of 12.01% in the FY 2006/07 and minimum of 8.18% in the FY 2008/09.But BOK has increasing trend from the FY 2007/08.

The mean value of BOK has higher capital risk ratio in comparison with other four banks. The coefficient of variance of BOK is 11.18%. Among five banks EBL has less C.V.

Thus it can be concluded that EBL is stable and heterogeneous than other sample banks but less stable and less heterogeneous in comparison to the other sample banks because it has maintained less C.V among five banks.

4.1.5 Growth Ratio

It represents how well the commercial banks those growth ratios are maintaining their economic and financial position. Here

those growth ratios are analyzed and interpret ate, which are related to the fund mobilization and investment management of a bank. In this topic, there are four types of growth ratio and under this section growth ratio of total deposit, total investment, loan and advances and net profit are calculated.

a) Growth ratio of total deposit

Growth ratios of total deposit of sample banks are calculated to find out the trend of growth of total deposit and to detect better position of banks. The growth ratios are derived from the interpolation of the factor, which is calculated by dividing final deposit with initial deposit.

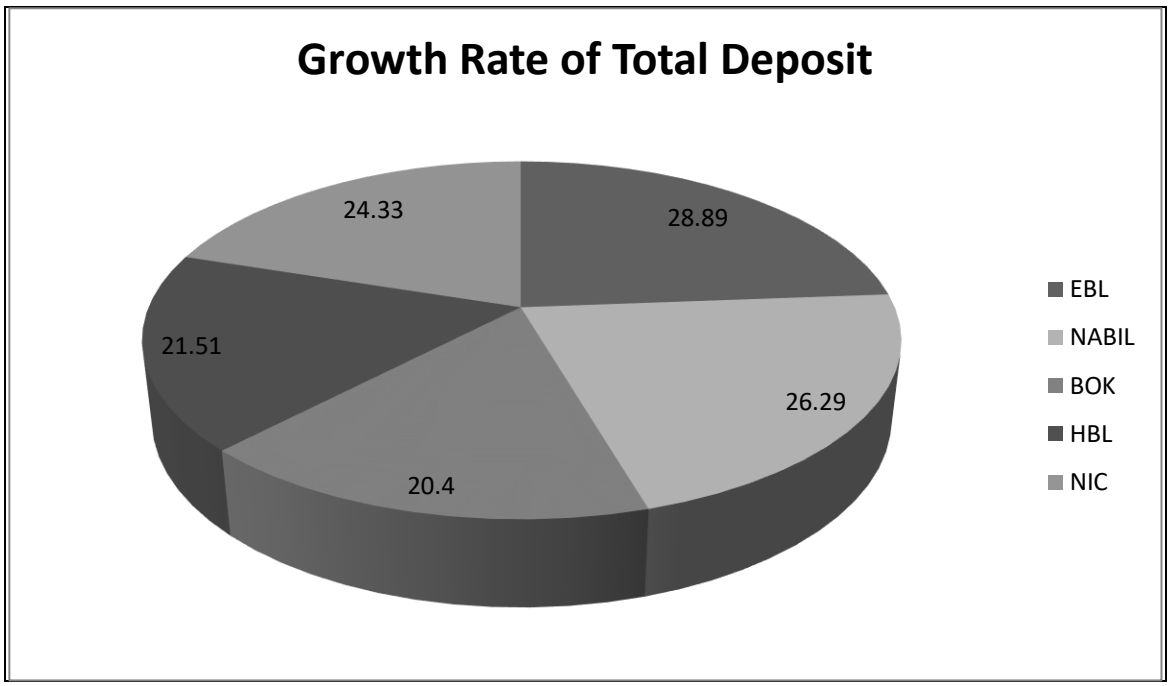
Table 4.19

Growth Ratio of Total Deposit

Bank	Fiscal Year					Growth Rate (%)
	2006/07	2007/08	2008/09	2009/10	2010/11	
EBL	10097.69	13802.44	18186.25	23976.29	27867.12	28.89%
NABIL	14586.66	19347.40	23342.29	31915.04	37232.12	26.39%
BOK	8942.75	10485.65	12388.93	15833.75	18798.13	20.40%
HBL	10327.12	13427.15	16512.13	18223.14	22518.19	21.51%
NIC	8063.90	10512.42	14119.03	16527.67	19273.11	24.33%

(Source: Appendix No. 82)

Figure 4.4
Growth Ratio of Total Deposit



The comparative table 4.19 shows that the growth ratio of EBL deposit is higher than that of NABIL & BOK. EBL has maintained ratio of 31.31% where as NABIL and BOK 22.62% and 19.59% respectively. This means the performance of Everest Bank Limited to collect greater deposit compared to other banks. NABIL and BOK are improving year by year. Among three banks BOK has lowest growth ratio i.e.19.59%.

b) Growth ratio of loan and advances

Growth ratios of total loan and advances of sample banks are calculated to find out the trend of growth of total loan advances and to detect better position of banks.

Table 4.20

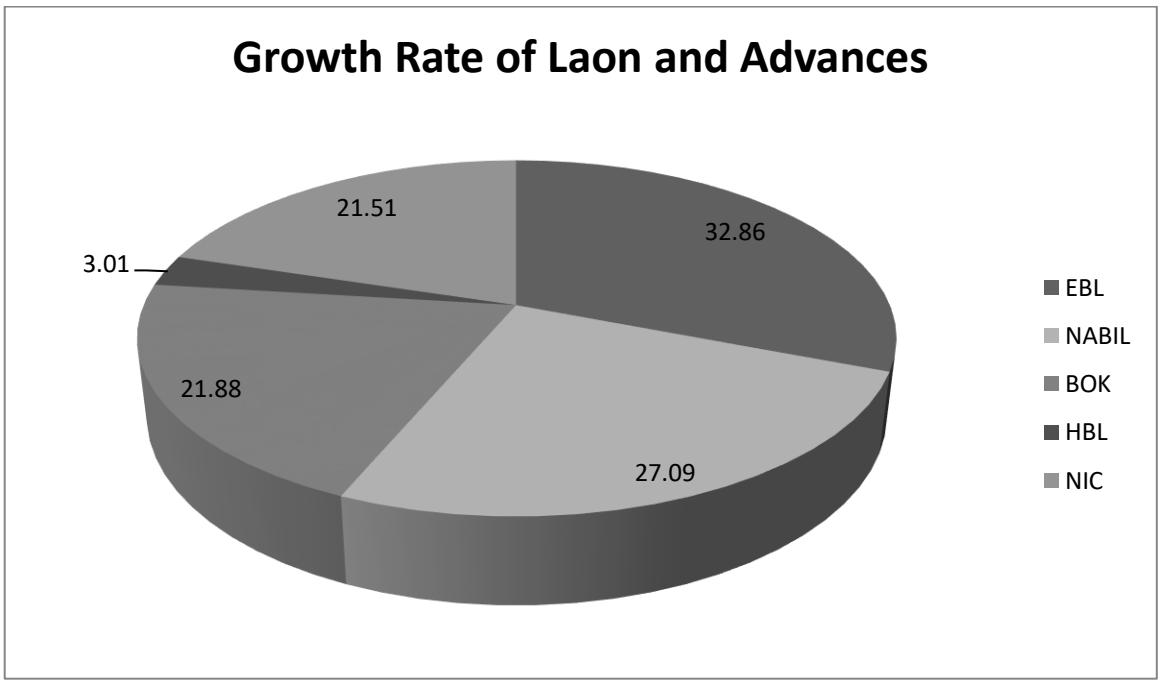
Growth Ratio of Loan and Advances

Bank	Fiscal Year					Growth Rate (%)
	2006/07	2007/08	2008/09	2009/10	2010/11	
EBL	5884.12	7618.67	9801.31	13364.08	18339.09	32.86%
NABIL	8189.99	10586.17	12922.50	15545.78	21365.05	27.09%
BOK	5646.69	5912.58	7259.08	9399.33	12462.64	21.88%
HBL	5146.96	7092.21	12971.13	9364.80	5795.46	3.01%
NIC	5664.13	6729.19	9271.31	8748.88	10222.12	21.51%

(Source: Appendix No. 82)

Figure 4.5

Growth Ratio of Loan and Advances



The growth ratios are derived from the interpolation of the factor, which is calculated by dividing final loan and advances with initial loan and advances.

The comparative table 4.20 shows that the growth ratio of EBL loan and advances is higher than that of other banks. EBL has able to maintain of 32.86%, whereas NABIL and BOK able to have

maintained 27.09% and 21.88% respectively. Similarly HBL and NIC able to have maintained growth rate of 3.01% and 21.51%. The performance of BOK and NIC to grant loan and advances is better in comparison to other banks i.e. NABIL and HBL. The highest growth ratio is 32.86% and lowest growth ratio is 3.01%. The above table clearly has shown that BOK in comparison to other banks is better year by year and EBL also maintained the average performance to grant loan and advance in the study period.

c) Growth ratio of total Investment

Growth ratios of total investment of sample banks are calculated to find out the trend of growth of total investment and to detect better position of banks. The growth ratios are derived from the interpolation of the factor, which is calculated by dividing final investment with initial investment.

Table 4.21

Growth Ratio of Total Investment

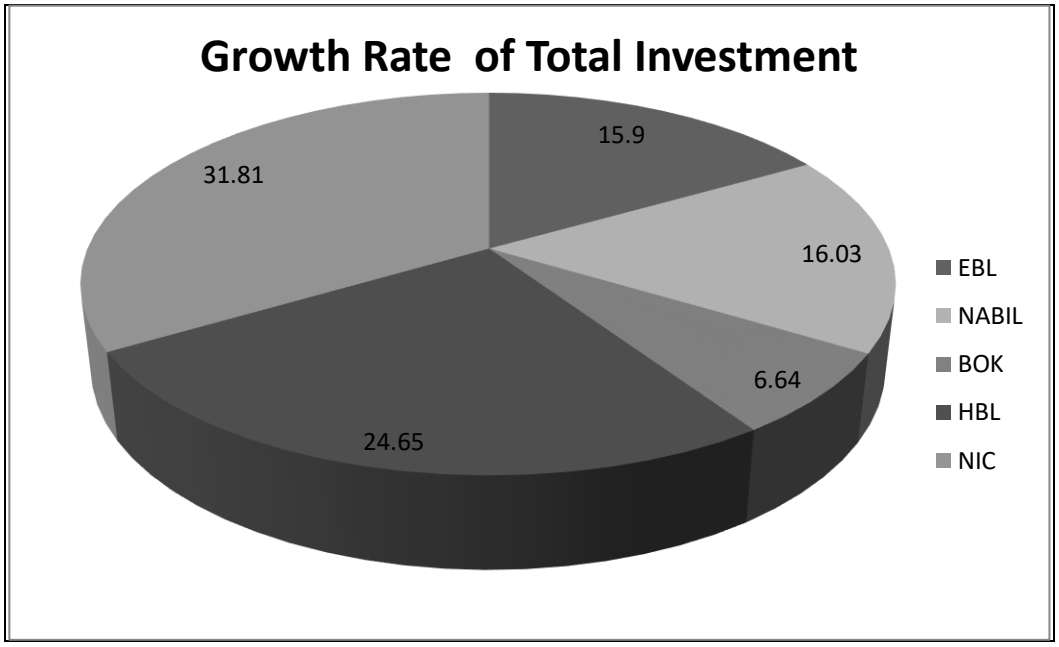
Bank	Fiscal Year					Growth Rate (%)
	2006/07	2007/08	2008/09	2009/10	2010/11	
EBL	2128.90	4200.52	4984.31	5059.56	6210.12	15.90%
NABIL	4267.23	6178.53	8945.31	9939.77	7735.95	16.03%
BOK	2598.25	3378.13	2992.43	3204.07	3204.07	6.64%
HBL	3777.66	3541.19	5297.69	6835.95	9121.92	24.65%
NIC	2355.70	3835.95	4477.40	7741.65	7111.05	31.81%

(Source: Appendix No. 82)

The comparative table 4.21 shows that the growth ratio of EBL total investment is lower than BOK and higher than NABIL i.e. 18.45> 14.24 > 6.64%. The total investment of EBL has average position in comparison to the NABIL and BOK.

Figure 4.6

Growth Ratio of Total Investment



d) Growth ratio of total net profit

Growth ratios of total net profit of sample banks are calculated to find out the trend of Growth of total net profit and to detect better position of banks. The growth ratios are derived from the interpolation of the factor, which is calculated by dividing final net profit with initial net profit.

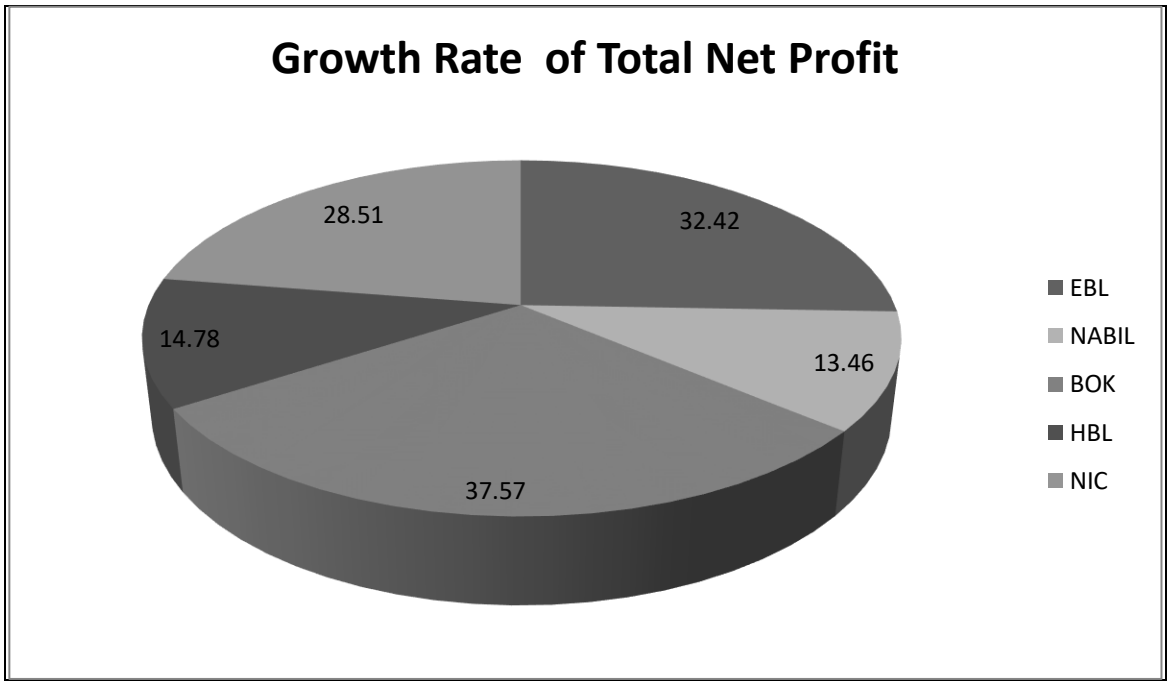
Table 4.22
Growth ratio of total net profit

Bank	Fiscal Year					Growth
	2006/07	2007/08	2008/09	2009/10	2010/11	Rate (%)
EBL	170.80	237.38	297.99	451.22	525.31	32.42%
NABIL	518.64	635.30	673.96	746.47	859.56	13.46%
BOK	139.52	202.44	262.39	361.50	499.80	37.57%
HBL	421.80	561.92	646.49	851.22	732.29	14.78%
NIC	227.48	343.57	456.01	527.15	611.69	28.51%

(Source: Appendix No. 85)

Figure 4.7

Growth Ratio of Total Net Profit



The comparative table 4.22 shows that the growth ratio of BOK total net profit is higher than two banks (NABIL, EBL, HBL and NIC). Net profit of NABIL and HBL is poor in comparison with EBL and NIC, BOK has able to maintain the growth ratio in better position. So it clear that BOK has high growth rate in comparison to other bank. From the above analysis of all tables, it can be concluded that BOK performance regarding the collection of deposit, granting loan and advances on total investment and net

profit is comparatively better.

4.2 Statistical Tools

4.2.1 Trend Analysis

i) Trend Analysis of Total Deposit

Under this topic an efforts has been made to calculate the trend values of deposits of EBL, NABIL and BOK for five years from mid July 2000/01 to 2007/08 and forecast for next five years from the mid July 2007/08 to 2010/11.

Table 4.23

Trend Value of Total Deposit of EBL, NABIL, BOK, HBL &NIC

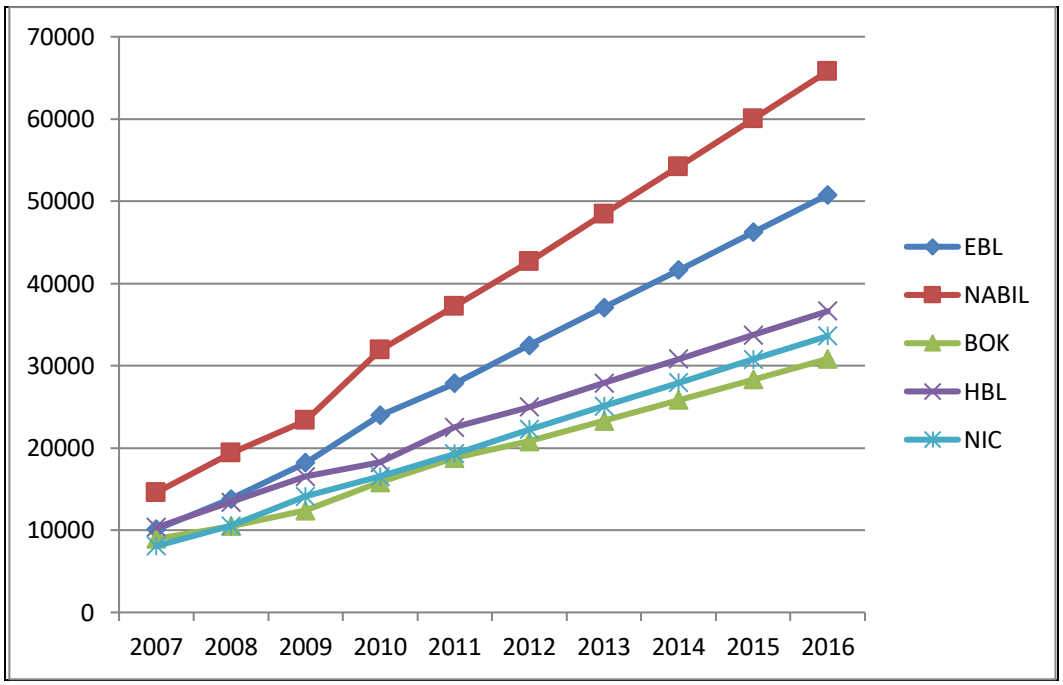
Fiscal Year	Trend Analysis				
	EBL	NABIL	BOK	HBL	NIC
2007	10097.69	14586.66	8942.75	10327.12	8063.90
2008	13802.44	19347.40	10485.65	13427.15	10512.42
2009	18186.25	23342.29	12388.93	16512.13	14119.03
2010	23976.29	31915.04	15833.75	18223.14	16527.67
2011	27867.12	37232.12	18798.13	22518.19	19273.11
2012	32499.77	42642.27	20807.50	24954.99	22229.33
2013	37071.04	48428.13	23313.39	27872.80	25072.69
2014	41642.31	54213.98	25819.27	30790.61	27916.06
2015	46213.58	59999.84	28325.16	33708.42	30759.43
2016	50784.86	65785.69	30831.04	36626.24	33602.80

(Source: Appendix No. 27, 28, 29, 30, 31)

The table 4.23 shows the trend value of total deposit from 2007 to 2017 of five banks. The total deposits of EBL, NABIL, BOK, HBL and NIC have in the increasing trend. If all other things remain the same the total deposits of the NABIL will be highest deposit among the three banks, under the study period..The total deposit of NABIL will be 65785.69 million in the mid July 2016. The total deposit of EBL will be 50784.86. By analyzing the above trend value, it is found that the total deposit position collection of NABIL is better in comparison to BOK, HBL and NIC. The deposit position NABIL, EBL BOK, HBL and NIC are increasing in the same proportion.

Figure 4.8

Trend Value of Total Deposit of EBL, NABIL, BOK, HBL and NIC



ii) Trend Analysis of Loan and Advances

Here the trend values of loan and advances of EBL, NABIL, BOK, HBL and NIC have been calculated for five years from mid July 2007/08 to 2011/12. The forecast for next five years up to 2016 have been done.

Table 4.24

Trend Values of Loan and Advances of EBL, NABIL and BOK, HBL & NIC

Fiscal Year	Trend Analysis				
2007	5884.12	8189.99	5646.69	5146.96	5664.13
2008	7618.67	10586.17	5912.58	7092.21	6729.19
2009	9801.31	12922.50	7259.08	12971.13	9271.31
2010	13364.08	15545.78	9399.33	9364.80	8748.88
2011	18339.09	21365.05	12462.64	5795.46	10222.12
2012	20198.06	23114.82	13271.66	9144.99	11467.83
2013	23263.59	26245.79	14983.52	9501.95	12581.39
2014	26329.13	29376.76	16695.39	9858.91	13694.96
2015	29394.66	32507.74	18407.25	10215.87	14808.53
2016	32460.20	35638.71	20119.12	10572.83	15922.10

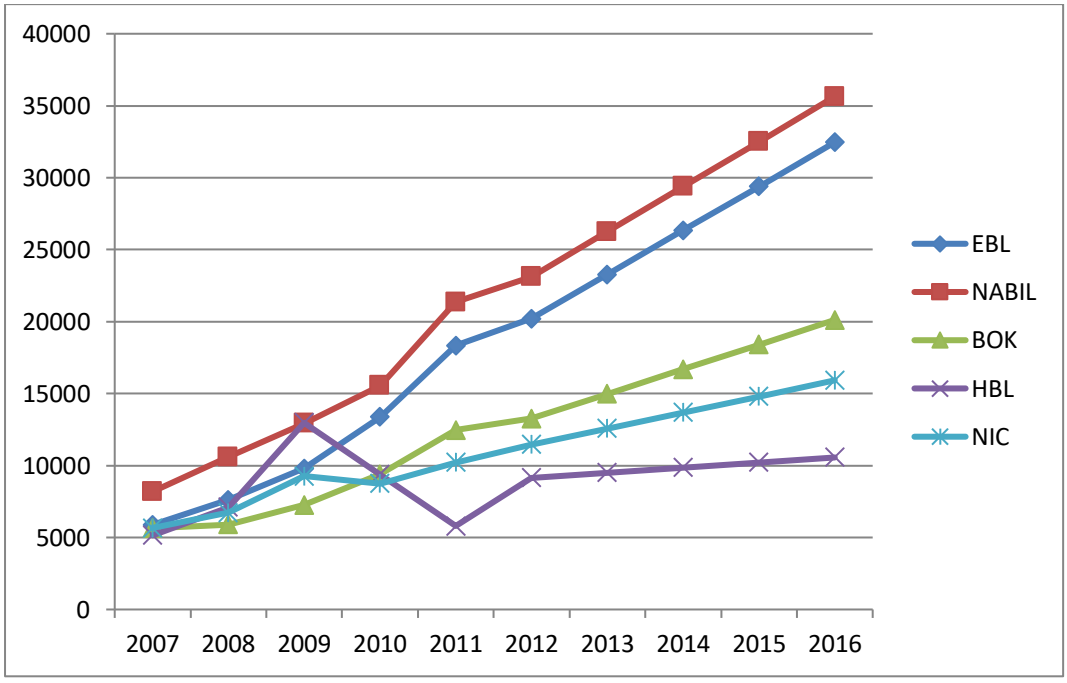
(Source: Appendix No. 32, 33, 34, 35, 36)

The table 4.24 reveals that the trend value of loan and advances of the five banks have been in increasing trend. If other things remain same, total loan and advances of NABIL will be 35638.71 million by 2016. Similarly the total loan and advances of EBL will be 32460.20 million. Total loan and advances of NABIL will be 35638.71, which is the highest among the study period.

From the above analysis it is found the loan and advances position of NIC is comparatively lower than NABIL and is better in comparison to HBL i.e. 35638.71 > 10572.83< 10572.83 million respectively. EBL and BOK may use the skill for the other option of secured loans that is quite appreciable. NABIL is tilted towards the secured loan because of less risk due to the sufficient collateral of its clients.

Figure 4.9

Trend Values of Loan and Advances of EBL, NABIL, BOK, HBL & NIC



iii) Trend Analysis of Total Investment

In this topic, an effort has been made to calculate the trend

values of total investment from the mid July 2006/07 to 2010/11 have been calculated and forecasted from July 2010 to 2016. The table 4.25 shows the trend values of total investment from mid July 2006/07 to 2015/16 of the EBL, NABIL BOK, HBL and NIC. Total investments of EBL, NABIL, BOK, HBL and NIC have the increasing trend value. The total investment of BOK will be 4223.32 million in the mid July 2016, which lowest in comparison with EBL,NABIL, HBL and NIC i.e. 4223.32 million < 10402.43 million < 10831.72 million < 14495.83 million<15503.18 million.. The total investment trend of NIC is satisfactory among the five banks. From the above analysis it can be concluded that BOK has not maintained well investment but in case of NIC and HBL it is predicted to be good total investment trend up to the 2015/16 years.

Table 4.25

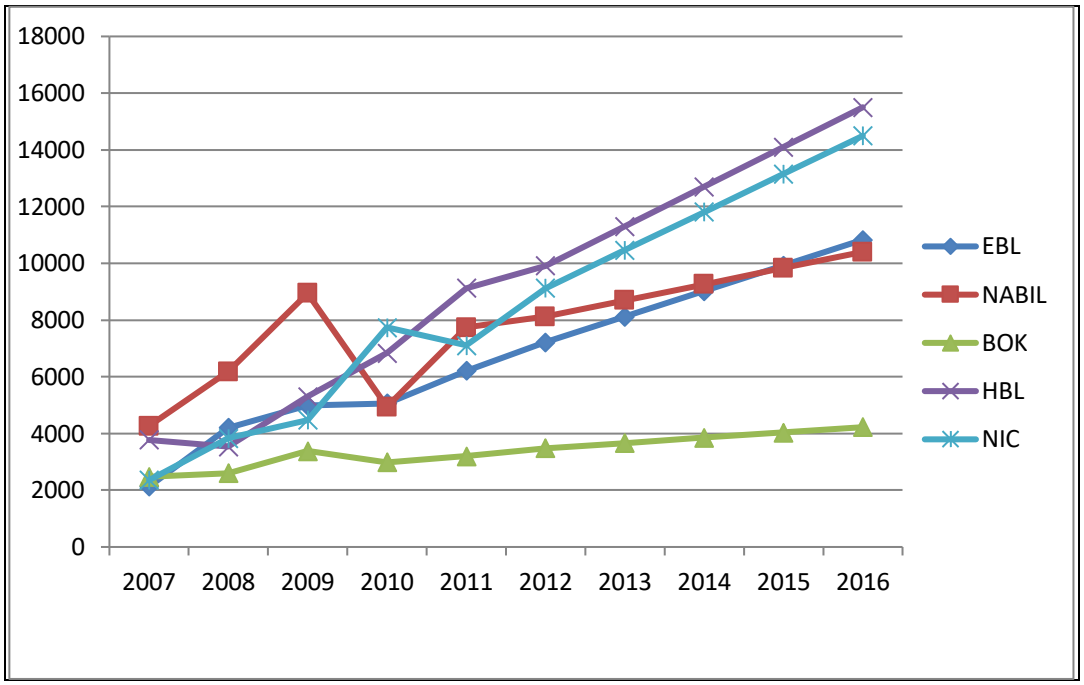
Trend Values of Total Investment of EBL, NABIL, BOK, HBL & NIC

Fiscal Year	Trend Analysis				
	EBL	NABIL	BOK	HBL	NIC
2007	2128.90	4267.23	2477.40	3777.66	2355.70
2008	4200.52	6178.53	2598.25	3541.19	3835.95
2009	4984.31	8945.31	3378.13	5297.69	4477.40
2010	5059.56	4939.77	2992.43	6835.95	7741.65
2011	6210.12	7735.95	3204.07	9121.92	7111.05
2012	7223.13	8122.96	3484.31	9909.87	9129.27
2013	8125.27	8692.83	3669.06	11308.19	10470.91
2014	9027.42	9262.70	3853.82	12706.52	11812.55
2015	9929.57	9832.57	4038.57	14104.85	13154.19
2016	10831.72	10402.43	4223.32	15503.18	14495.83

(Source: Appendix No. 37, 38, 39, 40, 41)

Figure 4.10

Trend Value of Investment of EBL, NABIL, BOK, HBL and NIC



iv) Trend Analysis of Net Profit

Under this topic, an effort had been made to analyze net profit of EBL, NABIL, BOK, HBL and NIC from the mid July 2006/07 to 2010/11 and forecast from the mid July 2011/12 to 2015/16. The table 4.26 shows the trend values of net profit for ten years from mid July 2006/07 to 2015/16 of EBL, NABIL BOK, HBL and NIC.

Table 4.26

Trend Value Net Profit of EBL, NABIL, BOK, HBL & NIC

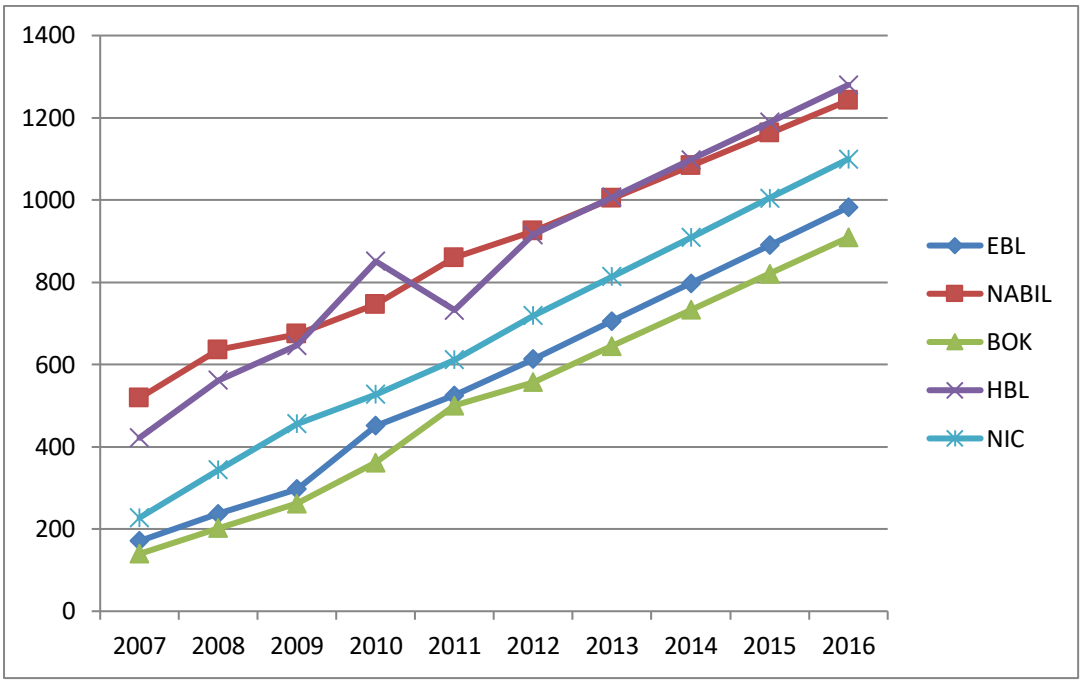
Fiscal Year	Trend Analysis				
	EBL	NABIL	BOK	HBL	NIC
2007	170.80	518.64	139.52	421.80	227.48
2008	237.38	635.30	202.44	561.92	343.57
2009	297.38	673.96	262.39	646.49	456.01
2010	451.22	746.47	361.50	851.22	527.15
2011	525.21	859.56	499.80	732.29	611.69
2012	613.20	924.69	557.02	915.83	718.78
2013	705.46	1003.99	644.98	1006.86	813.98
2014	797.73	1083.29	732.94	1097.88	909.18
2015	889.99	1162.59	820.90	1188.91	1004.38
2016	982.26	1241.89	908.86	1279.94	1099.58

(Source: Appendix No. 42, 43, 44, 45, 46)

The above table 4.26 shows the net profit all banks have the increasing trend value. The net profit of EBL will be 982.26 million in the mid July 2016. Similarly net profit of NABIL will be 1241.89 million, Net profit of BOK will be 908.86 million, Net Profit of HBL will be 1279.94 which is the highest amount among the five banks and net profit of NIC will be 1099.58 which will be better than EBL and NIC. Net profit of BOK will be 908.86 million, which is lowest value among five banks during the study period.

Figure 4.11

Trend Value of Net Profit of EBL, NABIL, BOK, HBL and NIC



4.2.2 Coefficient of Correlation Analysis

In this heading Karl Pearson coefficient of correlation (Direct Method) is used to find out the relationship between deposit and loan and advances. Deposit and total investment and outside assets and net profit and so on.

i) Coefficient of Correlation between outside Asset and Net Profit

It measures the degree of relationship between two variables. Here outside assets (x) are independent variables and net profit is dependent variable (y). The objective of computing coefficient of correlation between outside asset and net profit is to find out whether net profit is significantly correlated with respect to total assets or not. The table 4.27 shows the value of 'r', P.E, 6 P.E. between outside asset and net profit of EBL, NABIL BOK, HBL and NIC..

Table 4.27

Coefficient of Correlation between outside Asset and Net Profit

Banks	Evaluation Criterions		
	R	P.E	6P.E
EBL	0.98	0.27	1.48
NABIL	0.98	0.24	1.45
BOK	0.99	0.23	1.41
HBL	0.75	0.42	2.52
NIC	0.95	0.27	1.62

(Source: Appendix No. 47, 48, 49, 50, 51)

The table 4.27 shows the value of r, P.E, 6 P.E. between outside Asset and Net Profit of EBL with comparison to NABIL, BOK, HBL and NIC for the study period 2006/07 to 2010/11. From this table, it has been found that the coefficient of correlation between total outside assets i.e. independent variable and net profit dependent variable of EBL is 0.98. It shows the highly correlated the variables. Similarly considering the value of r is greater than the value of P.E, which reveals EBL is capable to earn net profit by mobilizing in total outside assets. Likewise, the coefficient of correlation between total outside assets and net profit in the case of NABIL, BOK, HBL and NIC are 0.98, 0.99, 0.75 and 0.95.

On the basis of comparison between the value of 'r' and 6 P.E. there is no significant correlation between two variables because the value of 'r' is not greater than 6 P.E. The above analysis clears that; the value of 'r' in case of EBL, NABIL, BOK, HBL and NIC is not significant correlation between mobilizations of funds return because the value of 'r' is far less than 6P.E. So both banks have no significant correlation between mobilization of funds and returns.

Table 4.28

Coefficient of Correlation between total deposit and loan and advances

Banks	Evaluation Criteria		
	r	**P.E**	**6 P.E**
EBL	0.98	0.24	1.45
NABIL	0.97	0.24	1.48
BOK	0.98	0.24	1.44
HBL	0.16	0.02	3.98
NIC	0.95	0.27	1.61

(Source: Appendix No 7, 8, 9, 10, 11)

The table 4.29 shows the value of r, P.E, 6 P.E. between deposit and loan and advances of EBL with comparison to NABIL, BOK, HBL and NIC for the study period 2006/07 to 2010/11. From this table, it has been found that the coefficient of correlation between Deposit i.e. independent variable loan and advances dependent variable of EBL is 0.98. It shows the highly correlated the variables. Similarly considering the value of r is greater than the value of P.E. which reveals EBL is capable to deposit. Likewise, the coefficient of correlation between deposit and loan and advances in the case of NABIL, BOK HBL and NIC are 0.97, 0.98, 0.16 and 0.95.

On the basis of comparison between the value of 'r' and 6 P.E. there is no significant correlation between two variables because the value of 'r' i.e. 0.98 and 0.98 is lesser than that of the value 6 P.E. i.e.1.45 and 0.045246. The above analysis clears that; the value of 'r' in case of EBL is significant correlation between mobilizations of funds return. But in the case of NABIL, BOK, HBL and NIC the value of 'r' is far less than 6P.E. so both banks have no significant correlation between mobilization of funds and returns.

iv) Coefficient of Correlation between Deposit and Net Profit

The coefficient of correlation between deposit and net profit measures the degree of relationship between these two variables.

Here deposit (X) is independent variable and net profit (Y) is dependent variable. The objectives of computing between these two variables are to justify whether net profit is significantly correlated with deposits or not.

The following table 4.30 shows the value of 'r', P.E., 6 P.E. between deposit and net profit of EBL, NABIL, BOK, HBL and NIC during the stuffy period.

Table 4.29
Coefficient of Correlation between Deposit and Net Profit

Banks	Evaluation Criteria		
	r	P.E	6 P.E
EBL	0.99	0.23	1.39
NABIL	0.97	0.24	1.47
BOK	0.99	0.23	1.39
HBL	0.82	0.36	2.21
NIC	0.99	0.23	1.38

(Source: Appendix No. 52, 53, 54, 55, 56)

From this table 4.30, it has been found that the coefficient of correlation between total deposits and net profit of EBL is 0.99, which indicated the highly correlated between these variables. Similarly, the value of 6 P.E.is higher than the value of r i.e. 1.39 > 0.99058, which states that there is no any existence a significant relationship between deposits and net profit. The coefficient of correlation between deposits and net profit in case of NABIL 0.97 which indicated a positive relationship between deposit and net profit. The value of 'r' is not greater than that of the value of 6P.E. This states that there is no any significant relationship between these variables. Similarly the coefficient of correlation between these variables in case of BOK is 0.99, which indicated positive relation. Similarly the coefficient of correlation between these variables in case of HBL is 0.82 which indicated positive correlation. Similarly the coefficient of correlation between these variables in case of NIC is 0.99, which indicated highly positive correlation. The above analysis clear that, the value of r in case of all sample banks is significant

relationship between deposit and net profit. The value of (r_2) in case of NABIL and HBL shows lower percentages of dependency than EBL and NIC and higher percentage of dependency. The increase in net profit in case of NABIL is due to effective mobilization of deposits and other factor have a less or role to play in increase in net profit. NABIL and HBL have not been more successful as EBL and NIC in mobilization of its deposits.

v) Coefficient of Correlation between Deposit and Interest Earned

The coefficient of correlation between deposits and interest earned measure the relationship between these two variables. Deposits are independent variable (X) and an interest earned is dependent variable (Y). The objectives of calculating r between two variables are to justify whether deposit is significantly used to earn interest or not. The table 4.31 shows the value of 'r', P.E. and 6P.E of EBL, NABIL, BOK, HBL and NIC during the study period.

Table 4.30
Coefficient of Correlation between Deposit and Interest Earned

Banks	Evaluation Criteria		
	r	P.E	6P.E
EBL	0.73	0.43	2.62
NABIL	0.99	0.23	1.42
BOK	0.99	0.23	1.40
HBL	0.92	0.29	1.74
NIC	0.79	0.38	2.34

(Source: Appendix No. 57, 58, 59, 60, 61)

The coefficient of correlation 'r' between deposit and interest earned of EBL is 0.73, and NABIL and BOK have 0.99 and 0.99 and HBL and NIC have 0.92 and 0.79 which indicates the correlated between these variables. When deposits increase the interest earned subsequently increased but when it fall the interest earned

also fell. Similarly considering the value of 'r' and comparing with 6P.E. it has been found that the value of r is not greater than the value of 6P.E. This shows that it has no any significant relationship between deposit and interest earned. The coefficient of correlation 'r' between two variables in case of NABIL, BOK, HBL and NIC are 0.99, 0.99, 0.92 and 0.79 which indicates that 99%, 99%, 92% and 79% of the variation of dependent variable has been explained by independent variables. The value of 'r' in case of all sample banks has lower than that of 6P.E. This states that there is no any significant relationship between deposit and interest earned. After above analysis it can be concluded that the relationship between deposit and interest earned in case of EBL is highly significant with showing higher dependency. It has effectively mobilization of deposits which has had a major role to play in its earning; where as other factors are responsible in the earnings of NABIL.

vi) Coefficient of Correlation between Loan and Advances and Interest Paid

It measures the relationships between these variables. Here, loan and advances is independent variables (X) and interest paid in dependent variable (Y). The purpose of calculating 'r' between these variables is to established whether increase in loan and advances has play any role in decreasing in interest expenses. The table 4.31 shows the values of 'r', P.E and 6 P.E. of EBL, NABIL, BOK, HBL and NIC during the study period.

Table 4.31
Coefficient of Correlation between Loan and Advances and Interest Paid

Banks	Evaluation Criteria		
	r	P.E	6 P.E
EBL	0.98	0.24	1.45
NABIL	0.96	0.26	1.56
BOK	0.95	0.26	1.59
HBL	-0.07	0.67	4.03
NIC	0.92	0.29	1.75

(Source: Appendix No. 62, 63, 64, 65, 66)

The coefficient of correlation between loan and advances and interest paid in the case of EBL is 0.98528. It shows the highly correlation between two variables. The value of r is lesser than value of 6 P.E.in cases of all sample banks which states that there is no any significant relationship between loan and advances and interest paid. Similarly the coefficient of correlation between loan and advances and interest paid in the case of NABIL and BOK are 0.26 and 0.26. Similarly coefficient of correlation between HBL and NIC is 0.67 and 0.29. They show the positive relationship between these variables. Again considering, the value of r and comparing with 6 P.E.in both cases it is lesser than 6 P.E. which reveals that the value is not significant relationship between these variables.

In conclusion, it can be clear that the relationship between loan and advances and interest in case of EBL is highly significant than other sample banks. It is successful to utilize the loan and advances. In case of NABIL, BOK, HBL and NIC have no relationship could be established between the loan and advances and interest paid.

vii) Coefficient of Correlation between Total Working Fund and Net Profit

The coefficient of correlation between the total working fund and net profit measures the degree of relationship between them. Here, total working fund is taken as independent variable (X) and net profit is taken as dependent variable(Y). The main purpose of calculating 'r' is to justify where total working fund is significantly used to generate earnings or in other words whether these variables are significantly correlated or not. The table 4.32 shows the value of 'r', P.E, 6 P.E. between these two variables of EBL, NABIL, BOK, HBL and NIC.

Table 4.32

Coefficient of Correlation between Total Working Fund and Net Profit

Banks	Evaluation Criteria		
	r	P.E	6 P.E
EBL	0.98	0.23	1.42
NABIL	0.98	0.25	1.47
BOK	0.99	0.24	1.41
HBL	0.85	0.35	2.08
NIC	0.97	0.25	1.52

(Source: Appendix No. 67, 68, 69, 70, 71)

The coefficient of correlation 'r' between total working fund and net profit in case of EBL is 0.9849 which indicates highly correlation between these variables. Similarly considering the value of 'r' 0.9849 and comparing it with 6P.E.1.42, the value of 'r' is lower than the value of 6 P.E, so it is no significant relation between these variables. Similarly the value of 'r' between these variables in case of BOK is 0.99896, which shows the very positive relationship. In case of NABIL its value is 0.98157 that means it has significant relation between these variable. The value of 6 P.E.is higher than 'r' i.e 0.98157<1.47 in case of NABIL. So there is not significant relation. But, the value of 'r' is lesser than 6 P.E.in cases of BOK, HBL and NIC, so there is no any significant relationship between these variables. After analysis the conclusion can be drawn that there is no any significant relationship between these variable, which indicated that total working fund is not significantly used to generate earnings. In other words these variables are not significant correlated.

4.2.3 Test of Hypothesis

i) Test of Hypothesis on Loans and Advances to Total Deposits Ratio.

To test the ratios of loans and advances to total deposits of EBL, NABIL, BOK, HBL and NIC are taken under statistical tools T-test has been done.

Table 4.33

Loans and Advances to Total Deposits Ratios between EBL, NABIL, BOK, HBL & NIC

	EBL			NABIL			BOK			HBL			NIC		
FY	x1	X1	$x1^2$	x2	X2	$x2^2$	x3	X3	$x3^2$	x4	X4	$x4^2$	x5	X5	$x5^2$
06/07	58.3	0.5	25.0	56.2	1.69	2.85	63.1	2.38	5.7	49.8	-1.83	3.2	70.2	9.06	82.08
07/08	55.2	-2.6	6.7	54.7	0.26	0.07	56.4	-4.37	19.1	52.8	1.15	1.3	64.0	2.83	8.0
08/09	53.9	-3.9	15.2	55.4	0.90	0.8	58.6	-2.17	4.7	78.6	26.89	723.1	65.7	4.49	20.2
09/10	55.7	-2.0	4.0	48.7	-5.75	33.1	59.4	-1.40	2.0	51.4	-0.28	0.07	52.9	-8.25	68.06
010/11	65.8	8.0	64.0	57.4	2.92	8.52	66.3	5.54	30.6	25.7	-25.93	672.4	53.0	-8.14	66.25
Total	288.9		114.9	272.3		45.30	303.8		62	258.4		1400.01	305.89		244.60

(Source: Appendix No. 6)

We have, Calculation of Mean,

$$\overline{x} = \sum \frac{\Sigma x}{n}$$

For EBL,

$$\frac{288.91}{5} = 57.78$$

For NABIL,

$$\frac{372.32}{5} = 54.46$$

For BOK,

$$\frac{303.78}{5} = 60.75$$

For HBL,

$$\frac{258.35}{5} = 51.67$$

For HBL,

$$\frac{305.89}{5} = 61.18$$

a. Test of Significance of Difference between EBL and NABIL

To test the significant relationship between EBL and NABIL under statistical Tools, Test has been done.

We have,

$$t = \frac{x_1 - x_2}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_1 + \sum x^2{}_2)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(144.90 + 45.30)$$

$$= 23.77$$

Now, Test Statistic under H0 is,

$$t = \frac{57.78 - 54.46}{\sqrt{23.77}(\frac{1}{5} + \frac{1}{5})}$$

$$t = 1.076$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) =1.076

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e.1.076 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of loans and advances to total deposit of EBL and NABIL.

b. Test of Significance of Difference between NABIL and BOK

To test the significant relationship between NABIL and BOK under statistical Tools, Test has been done.

We have,

$$t = \frac{x_2 - x_3}{\sqrt{sp^2(\frac{1}{n_1} + \frac{1}{n_2})}}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_2 + \sum x^2{}_3)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(45.30 + 62.00)$$

$$= 13.41$$

Now, Test Statistic under H0 is,

$$t = \frac{54.46 - 60.75}{\sqrt{13.41(\frac{1}{5} + \frac{1}{5})}}$$

$$t = -2.71$$

With degree of frequency = n_1+n_2-2=5+5-2=8

The calculated value of (t) =-2.71

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e.-2.71 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of loans and advances to total deposit of NABIL and BOK.

c. Test of Significance of Difference between HBL and NIC

To test the significant relationship between HBL and NIC under statistical Tools, Test has been done.

We have,

$$t = \frac{x_4 - x_5}{\sqrt{sp^2(\frac{1}{n_1} + \frac{1}{n_2})}}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_4 + \sum x^2{}_5)$$

$$sp^2 = \frac{1}{5+5-2}(1400.01 + 244.6)$$

$$= 205.57$$

Now, Test Statistic under H0 is,

$$t = \frac{51.67 - 61.18}{\sqrt{205.67}(\frac{1}{5} + \frac{1}{5})}$$

$$t = -1.033$$

With degree of frequency = n_1+n_2-2=5+5-2=8

The calculated value of (t) =-1.033

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e.-1.033 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of loans and advances to total deposit of HBL and NIC.

ii) Test of Hypothesis on Total Investment to Total Deposits Ratio

To test the ratios of loans and advances to total deposits of EBL, NABIL, BOK, HBL and NIC are taken under statistical tools T-test has been done.

Table 4.34

Total Investment to Total Deposits Ratios between EBL, NABIL, BOK, HBL & NIC

	EBL			NABIL			BOK			HBL			NIC		
FY	x1	X1	$x1^2$	x2	X2	$x2^2$	x3	X3	$x3^2$	x4	X4	$x4^2$	x5	X5	$x5^2$
2006/07	21.1	-3.4	11.4	29.3	2.10	4.4	27.7	4.56	20.8	36.6	1.97	3.9	29.2	-7.02	49.28
2007/08	30.4	6.0	35.6	31.9	4.78	22.8	24.8	1.64	2.7	26.4	-8.24	67.9	36.5	0.26	0.068
2008/09	27.4	3.0	8.7	38.3	11.17	125	27.3	4.13	17.1	32.1	-2.53	6.4	31.7	-4.52	20.43
2009/10	21.1	-3.4	11.3	15.5	-11.67	136	18.9	-4.24	18.0	37.5	2.9	8.4	46.8	10.61	112.6
2010/11	22.3	-2.2	4.8	20.8	-6.37	40.6	17.0	-6.10	37.2	40.5	5.9	34.8	36.9	0.67	0.449
Total	122.3		71.8	135.8		329	115.7		95.7	173.1		121.4	181.15		182.8

(Source: Appendix No. 12)

We have, Calculation of Mean,

$$\overline{x} = \sum \frac{\Sigma x}{n}$$

For EBL,

$$\frac{122.30}{5} = 24.46$$

For NABIL,

$$\frac{135.8}{5} = 27.15$$

For BOK,

$$\frac{115.70}{5} = 23.14$$

For HBL,

$$\frac{173.10}{5} = 34.61$$

For HBL,

$$\frac{181.15}{5} = 36.23$$

a. Test of Significance of Difference between EBL and NABIL

To test the significant relationship between EBL and NABIL under statistical Tools, Test has been done.

We have,

$$t = \frac{x_1 - x_2}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_1 + \sum x^2{}_2)$$

$$sp^2 = \frac{1}{5+5-2}(71.80 + 329)$$

$$= 50.10$$

Now, Test Statistic under H0 is,

$$t = \frac{24.46 - 27.15}{\sqrt{50.10}(\frac{1}{5} + \frac{1}{5})}$$

$$t = -0.6009$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) =-0.6009

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e.-0.6009 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Total Investment to total deposit of EBL and NABIL.

b. Test of Significance of Difference between NABIL and BOK

To test the significant relationship between NABIL and BOK under statistical Tools, Test has been done.

We have,

$$t = \frac{x_2 - x_3}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_2 + \sum x^2{}_3)$$

$$sp^2 = \frac{1}{5+5-2}(329 + 95.70)$$

$= 53.08$

Now, Test Statistic under H0 is,

$$t = \frac{27.15 - 23.14}{\sqrt{53.08}(\frac{1}{5} + \frac{1}{5})}$$

$$t = 0.8644$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) =0.8644

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. 0.8644 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Total investment to total deposit of NABIL and BOK.

c. Test of Significance of Difference between HBL and NIC

To test the significant relationship between HBL and NIC under statistical Tools, Test has been done.

We have,

$$t = \frac{x_4 - x_5}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_4 + \sum x^2{}_5)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(121.40 + 182.80)$$

$$= 38.25$$

Now, Test Statistic under H0 is,

$$t = \frac{34.61 - 36.23}{\sqrt{38.25}(\frac{1}{5} + \frac{1}{5})}$$

$$t = -0.414$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) =-0.414

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. -0.414 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Total Investment to total deposit of HBL and NIC.

iii) Test of Hypothesis on Government Securities to Total Current Assets Ratio

To test the ratios of Government Securities to total current Assets of EBL, NABIL, BOK, HBL and NIC are taken under statistical tools T-test has been done.

Table 4.35

Government Securities to Total Current Assets Ratios between EBL, NABIL, BOK, HBL & NIC

	EBL			NABIL			BOK			HBL			NIC		
FY	x1	X1	$x1^2$	x2	X2	$x2^2$	x3	X3	$x3^2$	x4	X4	$x4^2$	x5	X5	$x5^2$
2006/07	20.3	-0.5	0.3	24.2	6.59	43.4	25.5	5.60	31.3	22.7	2.97	8.8	30.1	11.32	128.2
2007/08	21.8	1.0	1.0	17.4	-0.22	0.05	24.1	4.20	17.6	23.3	3.55	12.6	17.96	-0.78	0.605
2008/09	20.4	-0.4	0.2	12.8	-4.87	23.7	21.7	1.81	3.3	22.1	2.41	5.8	21.1	2.35	5.532
2009/10	22.0	1.2	1.5	18.1	0.44	0.19	16.5	-3.39	11.5	19.3	-0.44	0.2	9.7	-9.04	81.69
2010/11	19.5	-1.3	1.7	15.7	-1.93	3.73	11.7	-8.21	67.4	11.2	-8.48	71.9	14.9	-3.86	14.88
Total	104.0		4.6	88.2		71.1	99.4		131.2	98.5		99.3	93.69		230.9

(Source: Appendix No. 4)

We have, Calculation of Mean,

$$\bar{x} = \sum \frac{\Sigma x}{n}$$

For EBL,

$$\frac{104.04}{5} = 20.81$$

For NABIL,

$\frac{88.20}{5}$ =17.60

For BOK,

$\frac{99.40}{5}$ =19.90

For HBL,

$\frac{98.50}{5}$ =19.70

For HBL,

$\frac{93.70}{5}$ =18.74

a. Test of Significance of Difference between EBL and NABIL

To test the significant relationship between EBL and NABIL under statistical Tools, Test has been done.

We have,

$$t = \frac{x_1 - x_2}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_1 + \sum x^2{}_2)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(4.60 + 71.10)$$

$$= 9.46$$

Now, Test Statistic under H0 is,

$$t = \frac{20.81 - 17.6}{\sqrt{9.46}(\frac{1}{5} + \frac{1}{5})}$$

$$t = 1.6502$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) =1.6502

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. 1.6502 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Government Securities to total Current Assets of EBL and NABIL.

b. Test of Significance of Difference between NABIL and BOK

To test the significant relationship between NABIL and BOK under statistical Tools, Test has been done.

We have,

$$t = \frac{x_2 - x_3}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_2 + \sum x^2{}_3)$$

$$sp^2 = \frac{1}{5+5-2}(71.10 + 131.20)$$

$$= 25.28$$

Now, Test Statistic under H0 is,

$$t = \frac{17.60 - 19.90}{\sqrt{25.28}(\frac{1}{5} + \frac{1}{5})}$$

$$t = -0.723$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) = -0.723

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. -0.723 is less than the

tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Government Securities to total current Assets of NABIL and BOK.

c. Test of Significance of Difference between HBL and NIC

To test the significant relationship between HBL and NIC under statistical Tools, Test has been done.

We have,

$$t = \frac{x_4 - x_5}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_4 + \sum x^2{}_5)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(99.30 + 230.90)$$

$$= 41.27$$

Now, Test Statistic under H0 is,

$$t = \frac{19.70 - 18.74}{\sqrt{41.27}(\frac{1}{5} + \frac{1}{5})}$$

$$t = 0.2362$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) = 0.2362

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. 0.2362 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Government Securities to total current Assets of HBL and NIC.

iv) Test of Hypothesis on Loan and Advances to Total Current Assets Ratio

To test the ratios of Loan and Advances to total current Assets

of EBL, NABIL, BOK, HBL and NIC are taken under statistical tools T-test has been done.

Table 4.36

Loans and Advances to Total Current Assets Ratios between EBL, NABIL, BOK, HBL & NIC

	EBL			NABIL			BOK			HBL			NIC		
FY	x1	X1	$x1^2$	x2	X2	$x2^2$	x3	X3	$x3^2$	x4	X4	$x4^2$	x5	X5	$x5^2$
2006/07	56.8	-7.4	54.7	54.7	-12.00	144	60.7	-3.63	13.1	54.8	5.05	25.5	60.5	12.92	167
2007/08	67.4	3.1	9.8	76.4	9.69	93.9	66.3	2.02	4.1	58.4	8.69	75.4	50.85	3.29	10.83
2008/09	60.2	-4.0	16.2	71.7	5.01	25.1	59.2	-5.09	25.9	70.4	20.68	427.7	50.9	3.35	11.2
2009/10	62.6	-1.7	2.7	58.5	-8.25	68	66.5	2.24	5.0	42.3	-7.42	55.0	36.9	-10.67	113.8
2010/11	74.2	9.9	98.9	72.2	5.55	30.8	68.7	4.46	19.9	22.7	-26.99	728.7	38.7	-8.89	79.05
Total	321.2		182.4	333.5		361.7	321.4		68.0	248.5		1312.3	237.8		381.8

(Source: Appendix No. 5)

We have, Calculation of Mean,

$$\bar{x} = \sum \frac{\Sigma x}{n}$$

For EBL,

$$\frac{321.20}{5} = 64.24$$

For NABIL,

$$\frac{333.50}{5} = 66.70$$

For BOK,

$$\frac{321}{5} = 63.40$$

For HBL,

$$\frac{249}{5} = 49.70$$

For HBL,

$\frac{93.70}{5}$ =47.56

a. Test of Significance of Difference between EBL and NABIL

To test the significant relationship between EBL and NABIL under statistical Tools, Test has been done.

We have,

$$t = \frac{x_1 - x_2}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_1 + \sum x^2{}_2)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(182.40 + 361.70)$$

$$= 68.01$$

Now, Test Statistic under H0 is,

$$t = \frac{64.24 - 66.70}{\sqrt{68.01}(\frac{1}{5} + \frac{1}{5})}$$

$$t = -0.4716$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) = -0.4716

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. -0.4716 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Loan and Advances to total Current Assets of EBL and NABIL.

b. Test of Significance of Difference between NABIL and BOK

To test the significant relationship between NABIL and BOK under statistical Tools, Test has been done.

We have,

$$t = \frac{x_2 - x_3}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_2 + \sum x^2{}_3)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(361.70 + 68.10)$$

$$= 53.73$$

Now, Test Statistic under H0 is,

$$t = \frac{66.70 - 64.30}{\sqrt{53.73}(\frac{1}{5} + \frac{1}{5})}$$

$$t = 0.5176$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) = 0.5176

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. 0.5176 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Loan and Advances to total current Assets of NABIL and BOK.

c. Test of Significance of Difference between HBL and NIC

To test the significant relationship between HBL and NIC under statistical Tools, Test has been done.

We have,

$$t = \frac{x_4 - x_5}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_4 + \sum x^2{}_5)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(1312.30 + 381.80)$$

$$= 211.76$$

Now, Test Statistic under H0 is,

$$t = \frac{49.70 - 47.56}{\sqrt{211.76}(\frac{1}{5} + \frac{1}{5})}$$

$$t = 0.2390$$

With degree of frequency = n_1+n_2-2=5+5-2=8

The calculated value of (t) = 0.2390

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. 0.2390 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of Loan and Advances to total current Assets of HBL and NIC.

v) Test of Hypothesis on Return on Loan and Advances Ratio

To test the ratios of Return on Loan and Advances of EBL, NABIL, BOK, HBL and NIC are taken under statistical tools T-test has been done.

Table 4.37

Return on Loan and Advances of EBL, NABIL, BOK, HBL & NIC

	EBL			NABIL			BOK			HBL			NIC		
FY	x1	X1	$x1^2$	x2	X2	$x2^2$	x3	X3	$x3^2$	x4	X4	$x4^2$	x5	X5	$x5^2$
2006/07	2.9	-0.2	0.02	6.3	1.06	1.12	2.5	-1.00	1.0	8.2	-0.37	0.1	4.0	-1.19	1.425
2007/08	3.1	0.1	0.003	6.0	0.73	0.53	3.4	-0.05	0.002	7.9	-0.64	0.4	5.11	-0.10	0.011
2008/09	3.0	0.0	0.001	5.2	-0.06	0.004	3.6	0.14	0.02	5.0	-3.58	12.8	4.9	-0.29	0.085
2009/10	3.4	0.3	0.10	4.8	-0.47	0.22	3.8	0.37	0.1	9.1	0.52	0.3	6.0	0.82	0.665
2010/11	2.9	-0.2	0.04	4.0	-1.25	1.57	4.0	0.54	0.3	12.6	4.07	16.6	6.0	0.77	0.599
Total	15.3		0.2	26.4		3.4	17.4		1.5	42.8		30.2	26.0		2.8

(Source: Appendix No. 22)

We have, Calculation of Mean,

$$\bar{x} = \sum \frac{\Sigma x}{n}$$

For EBL,

$$\frac{15.30}{5} = 3.06$$

For NABIL,

$$\frac{26.40}{5} = 5.275$$

For BOK,

$$\frac{17.40}{5} = 3.47$$

For HBL,

$$\frac{42.80}{5} = 8.57$$

For HBL,

$$\frac{26.05}{5} = 5.21$$

a. Test of Significance of Difference between EBL and NABIL

To test the significant relationship between EBL and NABIL under statistical Tools, Test has been done.

We have,

$$t = \frac{x_1 - x_2}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_1 + \sum x^2{}_2)$$

$$sp^2 = \frac{1}{5+5-2}(0.20 + 3.40)$$

$$= 0.45$$

Now, Test Statistic under H0 is,

$$t = \frac{3.06 - 5.275}{\sqrt{0.45}(\frac{1}{5} + \frac{1}{5})}$$

$$t = -5.2208$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) = -5.2208

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. -5.2208 is less than the tabulated value 1.860; the null hypothesis (h0) is accepted. It means that there is no any significant difference the mean ratios of return on Loan and Advances of EBL and NABIL.

b. Test of Significance of Difference between NABIL and BOK

To test the significant relationship between NABIL and BOK under statistical Tools, Test has been done.

We have,

$$t = \frac{x_2 - x_3}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_2 + \sum x^2{}_3)$$

$$sp^2 = \frac{1}{5+5-2}(3.40 + 1.50)$$

$= 0.6125$

Now, Test Statistic under H0 is,

$$t = \frac{5.27 - 3.47}{\sqrt{0.6125}(\frac{1}{5} + \frac{1}{5})}$$

$$t = 3.6365$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) = 3.6365

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. 3.6365 is higher than the tabulated value 1.860; the null hypothesis (h0) is rejected. It means that there is significant difference the mean ratios of Return on Loan and Advances of NABIL and BOK.

c. Test of Significance of Difference between HBL and NIC

To test the significant relationship between HBL and NIC under statistical Tools, Test has been done.

We have,

$$t = \frac{x_4 - x_5}{\sqrt{sp^2}(\frac{1}{n_1} + \frac{1}{n_2})}$$

Where,

$$sp^2 = \frac{1}{n^1 + n^2 - 2}(\sum x^2{}_4 + \sum x^2{}_5)$$

$$sp^2 = \frac{1}{5 + 5 - 2}(30.20 + 2.80)$$

$$= 4.125$$

Now, Test Statistic under H0 is,

$$t = \frac{8.57 - 5.21}{\sqrt{4.125(\frac{1}{5} + \frac{1}{5})}}$$

$$t = 2.6157$$

With degree of frequency = $n_1+n_2-2=5+5-2=8$

The calculated value of (t) = 2.6157

The calculated value of t at ∞ =0.05 of 5% level of significance for one tailed test and for 8 degree of freedom is 1.860 i.e. t0.05 (8) =1.860.

Since, the calculated value of t i.e. 2.6157 is higher than the tabulated value 1.860; the null hypothesis (h0) is rejected. It means that there is no any significant difference the mean ratios of Return on Loan and Advances of HBL and NIC.

4.2.4 Regression Analysis

Regression of Working Fund Capital and Net Profit

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and so make estimate of one variable on the basis of the other variable. Regression is the line which gives the best estimate of one variable for any given value of the other variable. The regression line of Y on X estimate the most probable values of Y for given values of X.

X is independent variable

Y in dependent variable

The regression equation of Y on X expressed as Y = a + bx

Where, a and b are parameters of the line.

To find out the exact relationship between different variable simple regressions analysis has been done and results of the analysis

have been table. The table shows the regression equation of net profit and net working fund in EBL, NABIL, BOK, HBL and NIC. According to the table regression equation of net profit on net working fund Y = 356.34 + 0.011100X in NABIL is positive. The regression coefficient is positive i.e. 0.011100 which indicates the positive relationship exists between net profit and net working fund. In other word, one million increase in net working funds leads to average about 0.011100 million increase in net profit. The value of constant (a) is relatively low. The value of (a) indicates that if net working fund is 0 then the value of net profit is 365.34 million. So from analysis it shows that the net profit will be decrease and networking fund also decreases.

Table 4.38
Calculation of Regression Equation between Net Profits on Total Working Fund

Banks	Banks Regression	equation Value (a)	Regression coefficient (b)
EBL	Y = -30.4360+ 0.01664X	a = -30.4360	b =0.01664
NABIL	Y = 356.34 + 0.011100X	a = 356.34	b = 0.01100
BOK	Y = -139.55 + 0.028014X	a = –229.074	b =0.04089
HBL	Y = 320.2188+ 0.01806X	a = 320.2188	b =0.01806
NIC	Y = 28.41 + 0.013110X	a = 28.4144	b =0.01311

(Source: Appendix No. 52, 53, 54)

On the other hand, regression coefficient of (b) is positive in case of NABIL, BOK, HBL and NIC which indicates that one million increase in net working fund lead to an average about Rs. 0.01664, Rs. 0.04089, Rs. 0.01860 and Rs. 0.01311 increases in net profit.

According to the above table regression equation of net profit on net working fund regression coefficient is positive which reveals the positive relationship between net and working fund. The test of t statistics helps us to conclude that in all three cases the results are not statistically significant at 5% level of significance since the value of t is smaller than tabulated value.

Table 4.39

Calculation of Regression Equation between Net Profits on Total Deposit

Banks	Banks Regression	equation Value (a) constant	Regression coefficient (b)
EBL	Y = -45.084+ 0.0203X	a = -45.084	b =0.0203
NABIL	Y = 345.66 + 0.0134X	a = 345.66	b = 0.0134
BOK	Y = -173.79 + 0.0351X	a = -173.79	b =0.0351
HBL	Y = -89.093+ 0.0322X	a = -89.093	b =0.0322
NIC	Y = -25.129+ 0.0332X	a = -25.129	b =0.0332

(Source: Appendix No. 55, 56, 57)

The above table is the collection of major output of simple regression analysis of net profit on total deposit. The regression equation of net profit (Y) dependent variable on total deposit (X) independent variable Y = -45.084+ 0.0203X in EBL is negative i.e. 0.0203 which indicates the positive relationship exists between net profit and total deposit or it can be said that one million increase in total deposit leads to average 0.0203 million increase in net profit. The value of constant (a) is relatively low. Similarly in case of NABIL the regression coefficient is positive or in other words one million increases in total deposit leads to average about 0.0134 million

increase in net profit. The value of constant (a) indicates that the net profit can be increase and total deposit also increase. The regression coefficient of (b) is positive in case of NABIL i.e. 0.0134 which indicates that one million increase in total deposit leads to an average about 0.0134 increases in net profit. On the other hand, regression coefficient of (b) in case of HBL and NIC is 0.0322 and 0.0332 which indicates one million increase in total deposit leads to average 0.0322 million and 0.0332 million increase in Net Profit. The regression coefficient is positive which reveals the positive relationship between net profit and total deposit. From the test of "t" statistics it can be concluded that in all five cases the results are not statistically significant at 5% level of significance since the value of t is smaller than tabulated value.

4.3 Major Findings of the Study

- The current ratio of EBL shows the fluctuating trend during the study period. The ratio ranges from lowest 0.94 in 2006/07 to highest 2.38 in 2007/08 an average ratio of 1.43. The mean ratio of EBL is higher than NABIL, BOK, HBL and NIC. In general, the current ratio analysis of banks over the five years period indicates that it has been able to meet its short-term obligations and has satisfactory liquidity position.
- The cash and bank balances to total deposit ratio of EBL has fluctuating trend. The main ratio of this bank is higher than NABIL, BOK, HBL and NIC which indicates that its liquidity position is better to serve its customers deposits withdrawal demands. The C.V. between the ratios is found to be 38%, which shows that the ratios of EBL are consistent and more variable.
- The mean ratio of cash and bank balance to current assets of

EBL is higher than NABIL, BOK, HBL and NIC. It states that liquidity position of EBL is better in this regard. The C.V between them is 39 %. On the basis of C.V the ratios are seemed to be variable. EBL is better position in maintaining its cash and bank balance to meet its daily requirement to make the payments on customers deposit withdrawal in comparison with NABIL, BOK, HBL and NIC.

- The mean ratio of investment on government securities to current asset of EBL is higher in compared to NABIL and BOK, which states that its investment on government securities is slightly good than that of NABIL, BOK, HBL and NIC. In the year 2007/08 the bank has invested 29.15 % of its fund in the government securities which maximum percentages during the study period. On the basis of C.V the ratio of EBL are more volatile and in consistent.
- The Loan and Advances to total current assets ratio EBL has fluctuating trend. The mean ratio of NIC is lower and NABIL is higher in comparison to other sample banks. The ratio of NABIL is variable in comparison to other banks, which indicates that its liquidity positions fewer consistencies.
- The loans and advances to total deposit ratio of all banks have in fluctuating trend. The mean ratio of EBL and BOK is higher than NABIL, HBL and NIC. The mean ratio EBL and BOK is 72.44 % and 71.24 % with 5 % and 9 % C.V which shows that the ratios are satisfactory consistent over the study period.
- Investment to total deposit of all sample banks has in fluctuating trend during the study period. The mean ratio of total investment to total deposit of HBL is higher in comparison to NABIL, BOK, EBL and NIC. The highest ratio is 30.43% and lowest is 21.08% with mean ratio 24.46% and C.V of 19%. Its overall figure suggests that the banks have not mobilized significant

amount of fund on the government securities.

- The loans and advances to total working fund of ratio EBL is slightly lower than BOK and higher then NABIL. Its C.V is 7% which is lowest than NABIL and equal to BOK. The study shows that banks show the ratios are consistent over the study period. Loan and advances is the most risk and most productive asset of the bank. From the study shows two third of the asset taken optimum risk towards the mobilization of its fund to risky assets.
- In case of investment on government securities to total working fund mean ratio, HBL is higher than that of other compared banks. The mean of the ratio is 19.91% with C.V of 33% between them indicates that its ratio is variable and consistent over the study period.
- Total off balance sheet operation to loan and advances ratios of all sample banks has fluctuating trend. The mean of the ratio of EBL is found to be 28.97% with C.V 18%. It has lowest C.V. than that of others compared a bank which indicates that the ratio is consistent during the study period. The analysis of the ratios shows that OBS operation of the bank is in decreasing and fluctuating trend. It may be due to competition in the banking sector or bank is not getting enough attention towards non-funded business.
- The loan loss ratio of EBL has decreasing trend. The mean of the ratio of it is found to be 0.70% with C.V of 34%, which is similar to NIC and lowest than that of the other compared banks and higher then HBL, It shows that the bank manages its loan and advances and makes effort for timely recovered of loan. . The decreasing trend of loan loss provision indicates that the quality of loans becoming degrading year by year.
- The mean ratio of return on loans and advances ratio of HBL is higher than other sample banks. The mean of the ratio is found

to be 8.56% with C.V of 50%, which indicates that the ratios are more variable. The average ratio of 8.56% suggests that the earning capacity of the bank's loan and advances is satisfactory then other sample banks.

- Return on total working fund ratios are in fluctuating trend during the study period. Its ratio ranges from 1.39% to 1.66%. The mean ratio of HBL is higher than other sample bank which is 3.88% and C.V is 19%. This indicates that the ratios are less variable and consistent than EBL and similar to HBL.
- Credit risk ratios of the banks are fluctuating trend. The mean of the ratios of EBL is found to be 63.78% which are lower than BOK and higher than NABIL, HBL and NIC. Similarly its C.V is 10% which is less in compared with other banks. It indicates that its credit policy is consistent than other banks.
- Liquidity risk ratio of the banks is fluctuating trend. The mean liquidity risk ratio of EBL is highest which is 11.25% of all and C.V of BOK is13% which lowest in comparison with sample banks. So the ratio of EBL is less variable than Sample Banks.
- The mean capital risk ratio of BOK is higher than other sample banks. The ratio of BOK is less variable, which indicates that the capital risk ratio is consistent.
- The analysis of the growth ratio of total deposits total loan and advances, total Investments and net profit is in increasing trend. It shows positive result during the course of action. Total deposit growth rate of EBL is highest i.e. 28.89% than other sample banks. This means the performance of EBL to collect deposit in comparison to other banks is better year by year.
- Similarly, loan and advances of the banks are also increasing trend.The growth rate of EBL is higher than that of NABIL, BOK, HBL and NIC. It has maintained growth rate of 32.86%, where

as NABIL, BOK, HBL and NIC has 27.09% and 21.88%, 3.01% and 21.51% respectively. So the performance of NABIL to grant loan and advances in comparison to other bank is year by year and EBL also maintained the average performance to grant loan and advances in study period. But the growth rate of HBL is only 3.01%.

- Similarly growth rate of Total Investment is higher in NIC i.e. 31.81% and BOK is lower i.e. 6.64%. It shows that NIC has successful in investing than the other bank.
- The total net profit of studies banks are also in increasing trends during the study periods. The growth ratio of BOK net profit is highest of all. It has the rate of 37.57% whereas EBL, NABIL, HBL and NIC have 32.42% and 13.46 %, 14.78% and 28.51% respectively. It means the performance of BOK to earn profit is better year by year.
- The trend analyses of total deposit of EBL, NABIL, BOK, HBL and NIC have increasing trend. From the trend analysis it is forecasted that the total deposit of EBL in 2015/16 will be Rs 50784.86 million. Similarly the total deposit of NABIL, BOK, HBL and NIC will be 65785.69 million, 30831.04 million, 36626.24 million and 33602.80 million in the third mid July of 2016 respectively. The deposit collection of NABIL and EBL is better than that of BOK, HBL and NIC.
- From the trend analysis of total loan and advances it has been seen that the total loan advances of all the five banks have increasing trend. The total loan and advance of NABIL will be 35638.71 million in the mid July 2016, which is highest amount.
- Total investments of EBL, NABIL, BOK, HBL and NIC have in increasing trend. The total investment of the EBL by the year 2016 is projected to be 32460.20 million. Similarly the total deposit of NABIL, BOK, HBL and NIC will be 35638.71million,

20119.12million, 10572.83million and 15922.10million in the third mid July of 2016 respectively.

- The net profits of EBL, NABIL, BOK, HBL and NIC have in increasing trend. The net profit of HBL by the year 2016 is projected to be 1279.94 million, which is the highest value under the study period. Similarly the total net profit of EBL, NABIL, BOK and NIC will be 982.26 and 1241.89, 908.86, 1099.58 million respectively.
- The correlation coefficient 'r' between total outside assets and net profit of the BOK is 0.99 and probable error multiplied by six is found to be 1.41, Since r < 6P.E the relation is no significant relation. Loan and advances is the main earning assets of the bank, but here the increase or decreases of loan and advances is significant to the net profit of NABIL EBL, HBL and NIC.
- The coefficient of correlation between deposits and interest earned of the NABIL and BOK is 0.99 and probable error multiplied by six is found to be 1.42 and 1.40. Since 'r' < 6P.E it is inverse and no significant relationship between these variables. The value of 'r' in case of EBL, NABIL, HBL and NIC also lower than the value 6P.E so the relation is not significant.
- The coefficient of correlation between loan and advances and interest paid of the EBL is 0.98. It shows the positive relationship between two variables. Its probable error is found to be lesser than value of 'r' so it indicates that it is successful to utilize the loan and advances in comparison with sample banks.
- The coefficient of correlation 'r' between total working fund and net profit of the BOK is 0.99 which is highest among other banks. Its probable error multiplied by six is found to be 1.41. Since 'r' < 6P.E. and 'r' is positive. There is positive correlation between total working fund and net profit during the study

period.

- The calculated value of t -0.4716 is less than that if the tabulated value 1.860, so there is no any significant differences between mean ratios of loan and advances to total deposit of EBL and NABIL. Aso there is no significant difference between mean ratio of loan and advances to total deposit of NABIL and BOK and HBL and NIC, which indicates that it isn't to mobilize the total deposit on loan and advances for profit generating purpose.
- There is significant difference between mean ratios of total investment to total deposit ratio of EBL, NABIL, BOK, HBL and NIC. So these banks must mobilize its deposit funds by investing in different securities issued by government and other financial sectors.
- There no significant difference between mean ratio of investment of government securities of investment of government securities to current assets ratio of EBL, NABIL, BOK, HBL and NIC.
- The calculated value of "t" is lesser than that of tabulated value of EBL and BOK, EBL, NABIL, HBL and NIC. This indicates there are significant differences between mean ratio of loan and advances to current assets of BOK, EBL, NABIL, HBL and NIC. It must invest its collected funds as and bank balance in order to make high profit by mobilizing its funds by keeping some amount as liquidity.
- There is no significant relationship between mean ratio of return on loan and advances of EBL and NABIL, BOK, HBL and NIC. They have failed to employ its resources in the form of loan and advances.
- There is no significant difference between mean ratios of total interest earned total outside assets of EBL, NABIL, BOK, HBL

and NIC.

- The regression of Net profit on net working fund is negative in the case of EBL and BOK and positive in the case of rest NABIL, HBL and NIC bank. It indicates one million increases in net working fund leads to average 0.01664 and 0.028014 decreases in net profit of EBL and BOK. Likewise in case of NABIL, HBL and NIC one million increases in net working capital leads to average 0.01110, 0.01806 and 0.01311 increases. Test of "t" statistic helps us to conclude that three regression coefficient is statistically significant i.e. regression equation of net profit on net working fund of NABIL, HBL and NIC.
- Simple regression of net profit on total deposit is negative in the case of EBL, BOK, HBL and NIC and positive in the case of NABIL. It reveals that one million increase on total deposit leads to average of 0. 0.0134 increase on net profit in the case of NABIL. Similarly in case of EBL, BOK, HBL and NIC it indicated one million increases in total deposit leads to average of 0.0203, 0.0351, 0.0322 and 0.0332 decreases.

CHAPTER- FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Financial position analysis detects the drawback of any financial institutions. Financial performance and suggests the remedial measures. In order to study the financial position on sample banks discovers not only deposit position but also the lending status. This study has been divided into five chapter i.e. introduction, review of literature, research methodology, data presentation and analysis and summery and conclusion.

- In the first chapter, the introduction, meaning and importance of banks in economic development have been discussed.
- In second chapter, different types of view and writers' opinion have been discussed.
- In the third chapter, various research methodology and tools are used.
- In fourth chapter, for the purpose of the study of financial soundness of EBL, NABIL, BOK, HBL and NIC, various method and statistical tools are used and analyzed the data using various formulas of ratio, mean and bar diagram, different pie chart.
- In fifth chapter, presents the summary of whole report writing and also present the summary and at least some recommendation to manager of banks, students and all related person directly or indirectly.

The main objective of this study is to evaluate the financial soundness adopted by EBL, NABIL, BOK, HBL and NIC. The study is totally based on secondary sources of data and required data have been collected by using various published and unpublished sources.

There are 32 commercial banks have been operating in Nepal which are considered to be the population of the study and out of them five commercial banks i.e. EBL, NABIL, BOK, HBL and NIC has been taken as a sample of the study and the collected data have been analyzed by using various financial tools and statistical tools like ratio analysis, correlation coefficient, regression equation etc. Regarding the profit planning policies of commercial banks there are basically five basic principles of the bank follow while providing the loans i.e. liquidity, profitability security and suitability diversification. Various process while making investment decision are applied in the study i.e. set investment process, security analysis, portfolio construction, revision, performance evaluation .

The data obtained from annual reports of the concerned banks, likewise the financial statements of six years (from 2006/07 to 2010/11) were selected for the purpose of evaluation.

5.2 conclusions

The liquidity position of EBL is comparatively better than that of NABIL, BOK, HBL and NIC. Although bank needs to maintain sufficient cash for day to day smooth operation but high cash and bank balance decreases the profitability. EBL and BOK maintain higher cash and bank balance to current assets than NABIL, HBL, NIC which indicates there is high margin and bank has more liquid assets in terms of cash and bank balance. High cash and bank balance means low investment and vice versa. Loan and advance to current assets ratio of EBL and NABIL is higher than that of BOK, HBL and NIC which indicates that EBL and NABIL has efficiently utilized its current assets in the forms of loan & advances than BOK, HBL and NIC. Similarly, NABIL and HBL has collected its total deposit form fixed deposit more than that of EBL, BOK and NIC bank. This implies that NABIL and HBL have been using good

strategy to collect fixed deposit and invest for a certain time period. The cash reserve ratios of the banks are above than 8%; the standard of NRB. Optimum cash reserve is to be maintained by the banks because it represents the greater ability to meet their all type of prompt demand of cash payment.

NABIL, BOK and HBL have invested highest sectors like government securities than NIC but lesser portion than that of EBL. NIC had mobilized lots of its funds in order to gain the high profit. From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of NABIL, BOK HBL and NIC. The loans and advances to total deposit ratio, loan and advances to total working fund ratio of EBL and BOK is higher than HBL, NABIL and NIC. Form the findings of turnover ratio; it can be concluded that EBL and BOK both of the banks have been able to use their fund successfully over the study period. While comparing the banks it is found that EBL and BOK bank is more successful in this connection than NABIL, HBL and NIC. The loan and advances to total deposits, loan and advances to fixed deposits are lower in HBL than other sample banks. It means that bank is not utilizing there fund properly.

In terms of total investment to total deposit ratio NIC has invested its funds properly. So that it has maintained higher ratio of 36.23%.

But overall analysis of profitability ratios, EBL is average profitable in comparison to other compared bank i.e. NABIL, BOK, HBL and NIC. To make the profit NIC is taking highest risk by providing the higher portion of its deposit as a loan. So that loan loss provision of NIC is also higher than other sample banks. The return on loan and advances ratio and return on assets of HBL is highest of all. The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory. The return on assets of the bank is good in average; it indicates the good earning capacity of the bank assets and good utilization of its assets. The total interest paid to working fund

ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost. The degree of credit risk is average on HBL. The credit risk ratio of EBL and BOK is higher than NABIL, HBL and NIC. However the lowest C.V. of credit ratio and average C. V. of liquidity risk ratio and capital ratio over the study period provides for the assurance of consistency of the degree of risk. EBL, NABIL and HBL has showing its good performance by increasing the total deposit, loan and advances and investment in profitable sectors interested earnings by providing loan to clients. The growth ratio of Total deposit and loan and advances of EBL is higher than NABIL, HBL, BOK and NIC. But the growth rate of total investment is higher in NIC .Similarly EBL and BOK have high growth rate in Net Profit than HBL, NABIL and NIC.

5.3 Recommendations

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

- The banks should focus their attention on proper utilization of resources to earn high profit.
- The bank should focus on stock maximization not profit maximization.
- In commercial banks the liquidity position plays a major role in operational factor, such as saving for investment situations, central banks requirements, the leading policies management capacity etc. But the liquidity position of the bank is lower than the standard provided by Nepal Rastra Bank. Lower current ratio is harmful to improve its liquidity position. Current ratio of all sample banks is not satisfactory. It is below its standard rate 2:1. So the banks are suggested to improve current assets.

The ratio of cash and bank balance to total deposit and current assets of EBL and BOK is higher than that of NABIL, HBL and NIC. It means EBL has higher cash and bank balance which decrease profit of bank, so it is recommended to invest in productive sector such granting loan to earn interest.

- Banks should increase its capacity for getting more deposit.
- Profit is essential for the survival and growth of banks. As per the findings, profits of both of the sampled banks are not at satisfactory level. Therefore, they are suggested to generate higher profit for the survival and growth of the firm.
- The banks should introduce more attractive schemes to attract customer and reduce the interest rate for granting the loan.
- The banks should provide timely update management information system.
- Proper training must be provided for staff for well operation of business. Staffs are the asses of the banks. They should be cooperative, educated and they must how to operate banking.
- The bank should not focus on corporate banking business. The retail banking business like housing loan, vehicle loan and educational loan must be provide properly so that there will be good impact on credit dissemination with a positive contribution of this sector to the investment.
- The bank should focus on deprived sector loan as prescribed in NRB directive.
- Bank may be reducing their operating costs to achieve the operational efficiency. Since by decreasing costs, profit of any bank can grow considerably and

unnecessary costs are being incurred and should eliminate them.

- In commercial banks the liquidity position affects external and internal factors such as saving for investment situations, central banks requirements, the leading policies management capacity etc. In this study it should try to lower the current liabilities to improve its liquidity position. Current ratio of all sample banks is not satisfactory. It is below its standard rate 2:1. So the banks are suggested to improve current assets.
- From the study it is found that NIC has not invested funds in government securities than that of other banks. NIC liquidity position shows that it has kept relatively funds as cash and bank balance which doesn't earn any return. This ultimately affects profitability of bank. So NABIL is recommended to invest its fund in government securities and risk free securities instead of keeping them idle. "Something is better than nothing".
- Investors of any firm are always fascinating towards the EPS and DPS of the firm. Here it is observed that the EPS and DPS of Himalayan bank are quite low. Therefore the bank should think to improve these financial indicators so that it could convey the right message in the market.

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