

CHAPTER -I

INTRODUCTION

1.1 Background of Study

Finance is the life blood of the economic development of any country. Every kinds of organization such as profit making or non- profit making organization need finance to achieve its objectives and goal. Financial ratio analysis is a technique of analyzing the financial statement i.e. income statement, balance sheet, trial-balance and cash flow statements etc. of any organization by which we can identify the financial strength and weaknesses of the concern organization by establishing proper relationship between the items of the financial statements. Balance sheet shows the financial position of the concerned organization at a particular date in terms of assets structure and liability and capital structure. At the same time, income statement shows the profitability of the concern organization during the specified period (Gyawali, et al. 2064).

Financial infrastructure of an economy consists of financial intermediation, financial institutions and financial markets. Financial institutions in the economy play a role of catalyst in the process of economic growth of the country.

The bank means of institution which deals with money a bank performs several financial, monetary and economic activities which are essential for economic development of any country. "A banker is a person, firm or company, having a place of business where creditors are opened by the deposit or collection of money subject to be paid or remitted upon draft, cheque or order or where money is advanced or loud stocks, bonds and bills of exchange and promising notes are received for discount and sales" (Khadka and Singh, 2065).

Nepal has short history of banking sector as compared to other developed country in the world. Bank is the lifeline of a nation and its people. In regard of commercial

banks they are internal parts of the economy in all countries. Outside the commercial banking realm, there are several financial institution that affects financial operation in a country. The place of commercial banks in financial system is more significant to play increasingly dynamic and vital role in the economy of the least developed like ours, which provides economic and financial intermediation in the economy (NRB, 2009).

Speaking of priority to the establishment of Nepal Bank limited, there was no organized financial institution in Nepal. During the Primeministership of Ranodip Singh around 1877 AD a number of economic and financial reforms were introduced. The establishment of the Teejarath Adda was the outcome of that reform. Adda may be regarded as the father of modern banking institution and for quite a long time intended a good service to government servant as well as to the general public. However, the installation of Kausi Tosha Khana as a banking agency during the regime of king Prithivi Nayaran Shah could also claim to be regarded as the first step towards initiating banking development in Nepal. The inception of Nepal Bank Limited in 1937 was a landmark in the field of banking and financial sector in Nepal. It was established under special banking act 1936 having elementary function of commercial bank a semi-government organization. The central bank named as Nepal Rastra Bank which was established in 26th April 1955 with the objective of supervising, protection and direction. The function of commercial banking activities by the government named as Rastriya Banijya Bank was established in 1966. Later on large number of commercial banks have been come into operation till date (Chaudhary, 2066).

Government involvement in business, trade and transit was indispensable and the end of the 18th century through few sole trading were also in existence during that pursued Adam Smith through his popular Wealth of National advocated minimum government intervention in business in 1776 AD through his first treatise on economic development. He suggested government to develop adequate infrastructure to promote

the business rather actively participate in it. Major economic in the world followed Smith till they approached great depression in 1929 AD. The year 1929-30 proved Smith theory's of invisible hand's to be unsuccessful and left the growing economic of the world at crossroads. To overcome the sudden and unexpected disaster in the economy, Keynes's theory of multiplier came which redefined the role of government and suggested it to invest a lot in business to mitigate the problems of unemployment and scarcity of effective demand in the market. Thus adoption of Keynesian theory once again moved the world economy towards mixed economy. The USSR started to use the concept of planned economic development from the same time (Chaudhary, 2066).

During the 1970's, the economic development came to be redefined in terms of reducing the rate of poverty and unemployment. In order to boost up the economy of any country both public and private firm must play vital role. Concept of public enterprise was emerged in the USA during the regime of Roosevelt through his view dealt although other countries are also followed this concept that public enterprise couldn't run smoothly while arriving in 70's decade (Chaudhary, 2066).

Their productivity decline and ultimately they resulted in heavy loss. The oil price hike of 1973 forced even developed countries to flash back their economic structure. This wave of privatization slowly speeded up all over the world. Ending year 1980's and beginning of 90's are characterized by the political change. Germany unified USSR split up and changed its socialist pattern of economy. Centralized economy of China slightly directed towards liberalization in 1990's led to global economy (Chaudhary, 2066).

Developed countries have opened their market not only scarce raw material from developing countries but also finished good with economic quality. Economic development in Nepal is really started only after Rana Regime. In the late period of Rana Regime some positive attempts were made as a result dog perished for in

existent in 1935AD, Biratnagar Jute Mill in 1936AD and Raghupati Jute Mill in 1946AD. Before the break of Second World War a twenty-year plan was announced and national planning committee was set up in 1949AD (Chaudhary, 2066).

Thus the present study focused on the comparative financial performance analysis of NIBL and HBL. For this purpose an evaluation of position of the Bank with respect to liquidity, leverage, capital adequacy, turnover and profitability and the relationship between various variable are made. This study assumes the hypothesis that the performance of sampled banks does not differ significantly (NIBL and HBL, 2066/67).

1.1.1 Commercial Banking and Activities

Origin of the Banks

Development history of the financial institutions in Nepal is not very long. The history of banking in Nepal begins with the establishment of Nepal Bank Limited in 1994 B.S. as the first commercial in Nepal. After that Nepal Rastra Bank, the central bank of Nepal was established in 2013 B.S. That was fully owned by the government. After that so many commercial banks were established gradually. The development of financial institutions was accelerated, when the Nepal government adopted liberal economic policy in 1980's A.D. After that so many private banks are coming into operation.

How did the use of word Bancus become popular? The origin of Bank is traced to Latin word Bancus which means a bench. European money lender and money changers used to transit their business at bench at benches or tables. They followed the practice of receiving gold and other metals as deposit and issuing receipts. The bench or table used by the trader in money was the symbol of the business of banking or dealing in money. The success of failure in trading was associated with his bench when a banker railed his bench used to be destroyed by the people (Khadka and Singh, 2066/67).

Origin and Growth of Banks in Nepal

The growth of banking in Nepal is not so long in comparison with other developing or developed country. The institutional development in banking system of Nepal is far behind Nepal had to wait for long time to come to the present banking position. The stepwise development of banking in Nepal can be narrated as follows: (NRB, 2009):

Nepal Bank Ltd.

Nepal Bank Ltd (1994, 30th Kartik) and was established under the Nepal bank act 1994BS. Its initial authorized capital was 10 million rupees and issued capital was 25 lakh and paid up capital was 8 lakh 42 thousand.

Nepal Rastra Bank

The Nepal Rastra Bank act 2012 Nepal Rastra Bank was established in 2013 BS, Baishakh 14th but this act has been replaced and the Nepal Rastra Bank act 2058.

Rastriya Banijya Bank

Rastriya Banijya Bank was another important Bank established in Nepal. The bank was established in the government sector in 2002BS. After connection the commercial bank act 2031 both the Banijya Bank act 2020 and the Rastriya Banijya Bank act 2021 were replaced.

Agriculture Development Bank

Under the Agriculture Development Bank act 2024 the Agriculture Development Bank (ADB) was established on 2024 7th Magh. Prior to the establishment of ADB cooperative Bank was established to meet requirement of found in the agriculture sector. But later on this cooperative Bank was converted into Agriculture Development Bank.

The Modern Phase of Banking Development

The process of the Development of Banking system in Nepal was not satisfied up to 2040. Not a single Bank was opened during this period except expanding the branches of the banks, which were established in the earlier period. Nepal was observing the event that taking places in the world also.

Nepal was deeply studying and searching what sorts of programs, policies, law and regulation should be brought into the practice. The country can't change it status by using only its own capital in the country without importing the new technology from foreign country. Accordingly, law, and policy have been enacted by the state to encourage the foreign investment on banking sector. As a result of it the Development of the Banking system started in Nepal. The competition began to grow the banks began to offer their valuable service to the people through new technology. This was the great significant event.

After the restoration of democracy in Nepal, there is tremendous development in banking sector. Different types of banking activities are being operated. It has played positive role in economic activities. Till now apart from commercial banks have five rural development banks are in operation in Nepal. They are as follows.

Eastern Rural Development Bank Ltd.

Far Western Rural Development Bank Ltd.

Western Rural Development Bank Ltd.

Mid Western Rural Development Bank Ltd.

Middle Rural Development Bank Ltd.

The main objectives of these Bank is to uplift the living standard of the people by without security group basis to operate an income generating business these bank established according to the Rural Banks system by the government of Bangladesh with the objectives of providing loan to the poor people who are derived from the institutional loan facilities due to the lack of reasonable security and guarantee. The

Rural Development Banks have their own fundamental concept every man has own characteristics and skill. The Rural development Banks have a concept, it can bring the poor mass of people in the level of respectable living standard providing the opportunity to the rented people and oppressed to increase the income and create the productive poverty.

Before the introduction of Nepal Development bank Act 2052 the Nepal Industrial Development corporation and Agricultural Development Bank were established but after this Act various Development Banks Have been opened in the different place of Nepal. They are performing their function according their objectives. These Banks have given benefits to their owners and they are also helping, the people and the nation in the process of economic development directly of indirectly. It is clear that the establishment of the different mentioned Banks is also the development of banking field in Nepal

Role of Commercial Banks in Economic Development

It has already been stated that commercial banks are the most effective means for mobilizing the country's resources efficiently and effectively to accelerate the development of the national economy. The commercial banks therefore are called the engine of economic growth in the modern age of liberalization and privatization and they play as such as important role for capital formation as the heart plays in the circulation of blood in the human body.

The main objectives of commercial bank are to mobilize idle resources for productive use after collection them form scattered resources. The essence of commercial banking is the financial inter mediation between the ultimate savers and borrowers. In other words, main functions of bank is to act as an intermediary between the surplus and deficit units in the economy. A bank as any other firm is in business to make profit for its shareholders it draws its profit mainly from the different of interest on deposits and lending. Commercial banks have become in hearts of financial system as

they hold the deposits of millions of people, government and business units, and make fund available through their lending and investing activities of individual business firms and government. So, the commercial banks are the most important institutions for capita formation.

Economic development of country as “the low income underdeveloped countries are not only ones that have recently awakened to the possibility of growth and low attach unprecedented important to promoting it. The highest income most highly developed countries in the world are also giving unprecedented attention to these objectives” (Paul, 2000).

“Economic development is a process whereby an economy’s real income increases over a long period of time.

In the history of Nepal the important of bank has been accepted many years also. In the beginning 1994 B.S Nepal Bank limited was established in 2013 Nepal Rastra Bank in 2021 B.S commercial Bank act was ruled out in 2031 B.S and new Act 2031 was ruled which helped to open the private commercial banks. The importance of banks in economic life is greater Nepal, is a small and poor country it has sufficient natural resources. To use those resources, capital is most important the commercial bank should grant long term loan in the industrial sector. By providing loan in industry the productive capacity of industry can be increased. It thus reduces import of foreign goods and increases exports. Again due to development of industry, goods can be available in cheap price. Similarly the loan advanced to the agricultural sector can enhance the agriculture production thus it helps to increase the level of income of the majority of the Nepalese people. Therefore, Nepal needs commercials banks to accumulate the saving and to invest them. Banks provides facilities to their costumers by other services also, such as, remittance of fund, purchase and sale of bills, supplying of timely credit and other market information. Some of the important roles of the commercials bank are mentioned below.

1. Commercial bank is important of the country for the further development of the country so for this commercial banks are established to provide loan by taking the different kinds of collaterals
2. To facilitate the citizen of the country and outside the country for sending and receiving the money form different places easily and reliably.
3. To collect the unutilized funds from the different parts of the country and to mobilize this capital.
4. For the comfort of the traveler banks also provide the travelers cheque facilities etc.
5. For the promotion of businessman bank provides letter of credit facilities.

These services help to run the business and other economic activities rapidly as well as smoothly. Thus, these services of commercial banks also affect the development process of a country (Khadka and Singh, 2066/67).

Brief profiles of these two banks are given below:

Nepal Investment Bank

Nepal Investment Bank Ltd (NIBL), previously Nepal Indosuez Bank Ltd. Was established in 2042-10-22 B.S. as a joint venture between Nepalese and French partner. The French partner (hold capital of NIBL) was credit Agricole Indosuez and subsidiary of one of the largest bank group in the world banking in the world.

With the decision of credit Agricole Indosuez to divest, a group of companies comprising bankers, professional's industrialists and businesspersons, has acquired on Baishakh 2059 B.S. shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been change in to Nepal Investment Bank Ltd. in 29thJestha, 2059 B.S. Main Purpose of the bank is providing Loan and advance to

agriculture, industries and commerce and to provide modern Banking services to the people.

Share Subscription and capital structure:

Subscription	% Holding
Organized Institutions	50%
Rastriya Banijya Bank	15%
Rastriya Beema Sansthan	15%
General Public	20%

Authorized Capital: Rs 4,00,00,00,000

Issued capital: Rs. 2,40,90,97,700

Paid up capital: Rs. 2,40,90,97,700

(Source: Annual report of end of Ashad 2067).

Himalayan Bank Limited:

It came into existence in 2049 fourth joint venture Bank in Nepal. It was established under commercial act 2031 in the view to encourage efficient banking service. HBL is joint venture Bank with Habib Bank of Pakistan. It is first commercial Bank with maximum share held by Nepalese private sector. Beside commercial activities, the Bank also offers Industrial and merchant banking. The promoter and their shareholder pattern are as follows.

Subscription	% holding
Nepali Promoter	51%
Habib Bank of Pakistan	20%
Karmachari Sanchya Kosh	14%
General Public	15%

Authorized capital Rs 3,00,00,00,000/-

Issued capital Rs 2,00,00,00,000/-

Paid capital Rs 2,00,00,00,000/-

(Source: Annual report of end of Ashad 2067).

1.2 Statement of the Problem

In response to the liberal economic policy adapted by the Nepal government, so many private owned commercial banks, development banks, finance companies, co-operatives and insurance companies has been established. But most of the financial institutions like commercial banks are concerned at urban area of the country. These types of establishment cannot contribute to the socio-economic development of the country where 90% of the population lives in rural area and about 80% population depends upon agriculture. So, it is necessary that, these commercial banks should extend their operation to the rural area of the country. But these banks ignored the aspect of Nepal Rastra Bank. Which is compulsory investment of 12% of the total investment in the rural area; these banks are inclined to pay fines rather than investing their resources in the less profitable sectors. This problem remains to be solved, if they follow NRB's introduction then the small investors in the rural area will be benefit able from the service of such bank. Besides these problem, resources are not properly utilized due to some reasons i.e. not able to perform the activities for which they have been established. In modern days, especially in Nepal, Banks are being considered not as dealers of money transaction but also dealers of investment in the country. Banks are the active players of money market and capital market as well.

In fact, economic liberalization and privatization policy adopted by the government has open up the opportunity and threat as to the banking sectors. As a result, we see a rapid growth in the numbers of commercial banks in the country and of course, the rapid increment in numbers of commercial banks in small kingdom like Nepal has created tough and bottle neck competition among bankers. This study will try to seek the answers of the following statements relating to commercial banks of Nepal.

1. How these banks have been managing their position relating to the liquidity?
2. How these banks are being able to utilize the fund?
3. What are the operational results to their profitability?
4. What is the relationship between total deposit and total investment over the year?
5. To what extent the operating profit is related to interest earned?
6. To what extent these banks have been successful in minimizing the non-performing assets?

1.3 Objectives of the Study

The Primary objectives of this study is to make comparative analysis of the financial performance of two joint venture banks namely Nepal Investment Bank Ltd. and Himalayan Bank Nepal Limited and to recommended suggestion for the improvement of state of affairs. Some of other objectives are:

- i) To analyses the strength and weakness of the selected commercial Banks.
- ii) To evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks.
- iii) To examine the financial performance of the selected commercial Banks.

1.4 Significance of the Study

Analysis of financial performance of any company is very important. Actually, on the basis of the financial analysis we can say that the concerned company is strong or not. The financials published by the banks gives the meaningful picture to the public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear-cut position and performance of the banks. This study is mainly compare the financial performance of NIBL and HBL which compare the position of selected bank under the study, which encourage to improve the different position and performance of the selected banks. From data

presentation and analysis researcher finds different and weakness of the selective banks which is recommended to the banks for their further improvement.

Banking Institutions definitely contribute and play an important role for domestic resource mobilization, economic development and maintains economic confidence of various segments and extends credit to people.

This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution, and public knowledge. The study is the first in its quality in comparing these to joint venture commercial banks so it adds new idea an findings related to these bank and add the substantial knowledge literature, shareholders who invested their money in the firm, shares are most concerned about the firms earnings, they restore more confidence in those firms that so steady growth in earnings .The creditors are interested in the firms ability to meets their claims over a very short period of time. There analysis will therefore confine to the evaluation of the firms liquidity position

This study helps and justify for finding out the financial performance of concerned selected commercial banks and Government of Nepal to make plans and policies.

This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.5 Limitation of the Study

Every works have its own restriction and limitation due to the lack of time resources and knowledge. Despite the enough efforts of researcher, this thesis is not free from limitation. The study is presented just for the partial fulfillment of M.B.S. (Master's of Business Studied) degree. The researcher has come across many problems while presenting the thesis. Following are the major limitations of this thesis.

- a. Only financial aspects are analyzed. Other performances of the organization are fully neglected, while providing suggestion.
- b. This thesis is based on secondary data collected from concerned banks. Thus, the results of the analysis depend on the information provided by them.
- c. This thesis covers two commercial banks only Nepal Investment Bank Ltd. and Himalayan Bank Ltd. only.
- d. The thesis is limited to analyze five years period i.e. from FY (2062/2063 - 2066/2067) B.S.
- e. The source of data i.e. published annual report and internet web site is assumed to be correct.

1.6 Organization of the Study

The thesis has been categorized into five chapters:

Chapter 1: Introduction

The introduction chapter briefly explains about the meaning and historical background of commercial bank in Nepal and also the joint venture banks. It describes the introduction of research study, which explains the focus of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Chapter 2: Review of Literature

In this second chapter consists of review of books, thesis, journal and dissertations. .

Chapter 3: Research Methodology

The third chapter briefly explains about the research methodology that has been used to evaluate the financial performance of the banks under consideration. This chapter consists of research design, sample and population, source of data and financial tools

and techniques to measure the financial performance Nepal Investment Bank and Himalayan Bank.

Chapter 4: Presentation and Analysis of Data

In this fourth chapter, the data required for the study has been presented analyzed and interpreted by using various tools and techniques of financial management, accounts and statistics to present the result relating to the study in a very lucid manner.

Chapter 5: Summary, Conclusion and Recommendation

The fifth chapter is the final chapter of the study, which consists of the summary of the four earlier chapters. This chapter tries to fetch out a conclusion of the study and attempts to offer various suggestion and recommendations for the improvement of the future performances of the three banks under review.

At the end of the chapters bibliography and appendices have been incorporated.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature comprises upon the existing literature and research related to the present study with a view to find out what had already been studied. According to Wolf & Pant “The purpose of the reviewing the literature is to develop some expertise in One’s area, to see what new contribution can be made and to review some idea for Developing research design” (Pant and Wolf; 1996:31-44). This portion has been divided into two parts:

- a. Conceptual Framework
- b. Review of Related Studies

2.1 Conceptual Frame Work/Theoretical Review

The modern financial evaluation has greatly affected the role and importance of financial performance. Nowadays, finance is best characterized as ever changing with new ideas and techniques. Only efficient manager of the company can achieve the set up goals. If a bank does not maintain adequate equity capital, it makes the bank more risky. If a bank has inadequate equity capital, it must be used more debt that has high fixed cost. So any firm must have adequate equity capital in their capital structure.

The main objectives of the banks are to collect deposits as much as possible from the customers and to mobilize into the most profitable sector. If a bank fails to utilize it’s collected resources than it can not generate revenue. Resource mobilization management of bank includes resource collection, investment portfolio, loans and advances, working capital, fixed assets management etc. It measures the extent to which bank is successful to utilize its resources. To measure the bank performance in many aspects, we should analyze its financial indicator with the help of financial statements.

Financial statement analysis involves a comparison of analysis firm's performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify the current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strength and correct its weakness (*Westorn, Besley & Brigham, 1996*).

Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm's financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm's profitability overtime (*Vanhorn & Watchowicz, 1997*).

Similarly, Hampton has stated that It is the process of determining the significant operating and financial statements. The goal of such analysis is to determining the efficiency and performance of the firm's management, as reflected in the financial records and reports (*Hampton, 1998*).

In financial analysis, certain guideline or criteria are included:

- a. Historical evidence of performance as a base of financial performance analysis.
- b. Economic consideration such as trend and averages of price level, business profit interest rates, dividend policy, security price movements.

Financial statement gives insight knowledge on the firm's financial position at a point of time and on its operations over some past companies regarding what they have performed financially. Financial report is reporting about what the company has done in terms of assets, liability, income and expenses. On the other hand financial statement also highlights other aspects of company such as liquidity, activity, capital structure and market.

Financial decisions are very sensitive and important and cannot be taken blindly or in a vacuum. Financial decisions must be based on proper financial analysis by using, financial tools-such as financial ratios are used to measure the financial performance of the company. "Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems (*Pradhan, 2000*).

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

(i) Liquidity Ratio

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

(ii) Leverage Ratio

The short-term creditors, like bankers and suppliers of raw materials, are more concern with the firm's debt-paying ability. On the other hand, long-term creditors, like debenture holders, financial institutions etc., are more concerned with the firm's long-term financial strength. In fact, a firm should have a strong short as well as long-term financial position. To judge the long-term financial position of the firm, financial

leverage, or capital structure ratios are calculated. These ratios indicate mix of debt and owners' equity in financing the firm's assets. The process of magnifying the shareholders' return through the use of debt is called financial leverage or financial gearing or trading on equity.

(iii) Activity Ratio

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

(iv) Profitability Ratio

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

(v) Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments.

Financial statement published by the listed company in the stock exchange are collected and analyzed by Nepal Stock Exchange for the calculation of the financial performance of the concerned company. In fact, financial statement comprises of:

Balance sheet: It is very important means of analysis of financial performance of any company. It companies assets, liabilities and shareholder's equity.

Statement of profit and loss account: It also very important means of financial performance of any company. It comprises of income and expensed over the period of time.

Statement of Retained Earning: This statement explains about the Company's position of earnings to be paid as dividend and the portion of profit to be retained for future uses. It also explains how profit, dividend and other transaction affect the retained earnings and share-holders' equity.

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

-) To get the entire information that can be used at the time of decision making.
-) To judge overall performance and management effectiveness.
-) To identify the deficiencies and weaknesses.
-) To take corrective action in time to check such deficiencies and improve the performance.
-) To evaluate the possible implications of alternative course of actions.
-) To get in dept information of possibilities of brining changes worthwhile (Pandey, 2058).

Short-term financing is defined as debt scheduled for repayment within one year. A large number of short-term credits are available and the financial manager must know the advantages and disadvantages of each. The main types of short-term financing are:

A. Trade Credit

Trade credit is a customary part of doing business in most industries. It is convenient and informal. Whether trade credit costs more or less than other forms of financing is a moot question because in such cases the buyer has no option but to buy the goods from the creditors. The trade credit is not applicable to the commercial banks.

B. Loans from Commercial Banks

Loan from the commercial banks is very important source of financing. Commercial banks take into consideration of following factors while providing loan to its customer.

-) Forms of loan
-) Size of Customers
-) Maturity
-) Security
-) Compensation Balance
-) Repayment of Bank loan

C. Commercial Paper

In recent years, the issuance of commercial paper has become an increasingly important source of short term financing for many types of corporations, including utilities, finance companies, insurance companies, and bank holding companies and manufacturing companies. Commercial paper consists of unsecured promissory notes issued by the firms to finance short-term credit lines.

In conclusion, the author has quoted that trade credit is the largest single category of short-term financing. It is especially important for smaller firm. Bank credit occupies a pivotal position in the short-tem money market. Banks provide the marginal credit that allows the firms to expand more rapidly that in possible through retained earnings and trade credits. Commercial paper is physically similar to a bank loan. It is sold in broad and impersonal market. The highest rated firms are the main users of the commercial paper. Working capital management encompasses all aspects of administration of current assets and current liabilities. Short-term financial management is widely used in place of working capital management and it covers all decisions of an organization involving cash flows in short term (Weston and Copeland, 1991).

The author has focused on the current assets and short-term financing. According to the author, Liquidity and liquid assets like cash and cashable assets are more important for the company to discharge the current liabilities. The objectives of the chapter can be explained as follows:

-) Discuss the term liquidity and its role.
-) Explain the various aspects of cash management and collections.
-) Explain the various aspects of investment in marketable securities.
-) Also to focus on the aspect of portfolio Management.

The, term liquid assets refer to money and assets that are readily convertible into cash. Cash is said to be more liquid asset in comparison to other assets because other assets have varying degree of liquidity depending on the way of conversion into cash. For the other assets, liquidity has two dimensions (i) the time necessary to convert the assets into money (ii) the degree of certainty, associated with conversion ratio. Since, assessment of financial performance also depends on the degree of liquidity of the company, so the company under consideration should be enough liquid to discharge it current liability in time. Other aspects of liability involve cash management and

collections. Cash management refers to managing monies of the firm in order to maximize cash availability and interest income on any idle funds. The financial manager has to tackle the cash management and collection of fund seriously. Cash management and collection comprises various aspects like.

-) Transferring funds.
-) Concentration Banking.
-) Lockbox System.
-) Control of disbursements.
-) Mobilizing funds and slowing disbursement.
-) Payroll and dividend disbursements.
-) Zero Balance Account.
-) Electronic funds Transfers.

The author has also highlighted on investment in marketable securities to properly maintain the liquidity in the firm. According to author a good financial manager should always try to invest the portion of a excess liquid assets. The yields on these sorts of marketable securities may vary due to default risk, coupon rate and other factors involved. The financial manager should consider following aspects while taking decision regarding the investment in marketable securities:

-) Default risk.
-) Marketability.
-) Maturity Period.
-) Coupon Rate.
-) Taxability.

Types of marketable Security

-) Treasure Security.
-) Repurchase Agreement -Agency Security.

-) Banker's Acceptance.
-) Commercial Paper.
-) Negotiable Certificates of Deposits.
-) Euro Donors.
-) Short-Term Municipal Bonds.

Regarding the portfolio management, the author has emphasized that the financial manager should the investment portfolio in accordance with the need of fund. The term 'portfolio' means collection of investments in different securities. In portfolio analysis, financial manager should analyze future risk and return of securities. The objective of portfolio management is to help developing a portfolio that has the maximum return at chosen level of risk efficient portfolio provides the highest possible return for any specified rate of return. In portfolio analysis, the financial manage should estimate the expected return and the risk of holding securities in a portfolio. In portfolio management, expected return and portfolio risk calculated as follows.

Portfolio Returns

The portfolio returns is calculated by using following formula

$$r_p = W_1 r_1 + \dots + W_n r_n$$

Where,

- r_p Expected portfolio return
- r_1 Expected return for stock 1
- r_2 Expected return for stock 2
- W_1 Weight for stock 1
- W_2 Weight for stock 2

Portfolio Risk

Portfolio risk is measured by the variance or standard deviation of the return of the portfolio. The variance of returns from a portfolio made up of two assets is defined by following equation:

$$\sigma_p^2 = w_1^2 \sigma_1^2 + w_2^2 \sigma_2^2 + 2w_1w_2\text{cov}(r_1, r_2)$$

Where,

σ_p^2 = variance of the portfolio's rates of return

w_1 = weight for asset 1

σ_1^2 = variance for assets 1

w_2 = weight for asset 2

σ_2^2 = variance for asset 2

$\text{Cov}(r_1, r_2)$ = Covariance of returns between asset 1 and asset 2

Instead of Variance, standard deviation (σ_p) can be used to measure the risk of the portfolio. Standard deviation is equally valid as the variance but is easier to interpret. The following equation is used for the calculation of standard deviation of a two asset portfolio.

In conclusion, for the cash management the company should attempt to accelerate cash collections and handle disbursement so that maximum liquidity is maintained in the company. On the other hand, the financial manager should try to use the excess cash in a number of securities. The financial manager should select the best possible portfolio considering the cash flow pattern and other things of the company (Van Horne 2000).

Financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account. Financial

analysis can be undertaken by management of the firm or by parties outside the firm, viz owners, creditors, investors, and other

In this book, the author has pointed out of the following objectives in 2nd chapter "Statement of Financial Information".

- a. Discuss the nature, content, form and utility of two financial statements, viz. Balance sheet and profit and loss account.
- b. Show relationship between Balance sheet and profit and loss statements.
- c. Distinguish between accounting profit and economic profit.

Any firm communicates financial information to the users through financial statements and reports. Thus, financial statements contain summarized information of the firm's financial affairs. These statements are the means to present the firm's financial situations to the users. Preparation of these statements is the responsibility of top management. As the investors, and financial analysis to examine the firm's performance in order to make investment decision use this statement, they should be prepared very carefully and contain as much information as possible. There are two basic financial statements prepared for the analysis of financial performance of any Company, (i) Balance sheet or statement of final position and profit and loss account or Income statement.

Balance Sheet:

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

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

-) It gives concise summary of the firm's resource obligations.
-) It is a measure of the firm's liquidity.
-) It is a measure of the firm's solvency (Pandey, 2001).

Profit and Loss Account

Balance sheet plays very significant role for the banker and other creditors because it indicates the firm's financial Solvency and liquidity, where as profit and loss account reflect the earning capacity and potentiality of the firm. The profit and loss account is a scoreboard of the firm's performance during a period. Since the profit and loss account reflects the results of operations for a period, it is a flow statement. In contrast, balance sheet is a stock or status statement as it shows assets, liability and owners' equity at a point of time.

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

- a. It gives a concise summary of the firm's revenue and expenses during a period.
- b. It measures the firm's profitability.
- c. It communicates information regarding the results of the firm's activities to owners and other.

In conclusion, financial information is required for a financial planning, analysis and decision-making. The user of financial information includes owner's managers, employees, customers, suppliers and society.

The financial statements like Balance Sheet and P/L account are the basic instruments for the analysis of financial performance.

The author has explained about the financial structure of firm. According to the author, the term financial structure is wider than the capital structure. It refers to the structure of total finance of the company. It consists of both short-term financing and long-term financing. The objectives of this chapter can be explained as follows:

-) Discuss and explain the term financial structure
-) Explain about various financial leverages.
-) Also explain about financial leverage and risk associated.
-) Explain the various factors affecting financial structure.

The financial decision of the firm is one of the important decisions for the achievement of the maximization of the shareholder' wealth. For this, a financial manager should select a sound financial mix (financial structure), which help to achieve the objective of the firm. The term financial structure refers to the proportion of each type of capital, such as debt, preferred stock, and common equity issued by the firm.

The financial leverage is concerned with the relationship between the firm's earnings before interest taxes and the earning available for common stock holder. Financial leverage measures financial risk, and financial performance of the firm. It shows how much debt the firm employees in its capital structure.

Financial Leverage and Degree of Financial Leverage can be measured by using following equations:

$$FL \times \frac{EBIT}{EBT}$$

Here,

FL= Financial leverage

EBIT =Earning before interest and tax

EBT = Earning before tax

The effect of financial leverage is such that an increase in the firm's EBIT results in a more than proportional increase in the fir's earning per share. Where as a decrease in the firm's EBIT results in a more than proportional decrease in EPS.

Measuring the Degree of Financial Leverage (DFL)

The degree of the financial leverage (DFL) is the numerical measure of the firm's financial leverage. The following equation is used to, calculate DFL.

$$DFL = \frac{\% \text{ change in EPS}}{\% \text{ change in EBIT}} \Psi 1$$

Here,

DFL = Degree of financial leverage

EPS = Earning per share

EBIT = Earning before interest and tax

The degree of financial leverage is defined as the percentage change in EPS due to a given percentage change in EBIT.

In this chapter, the author has pointed out following factors that affects the financial structure of the company. Following are the main factors that affect the financial structure:

- a. Growth rate of sales
- b. Sales stability
- c. Assets structure
- d. Management attitude.
- e. Lender attitude
- f. Competitive structure

A company's financial-structure is affected by above factors. Therefore, in choosing an appropriate capital structure, the financial manager should consider above mentioned factors.

2.2 Review of Related Studies

2.2.1 Review of Journals and Articles

Poudel (2000), has published an article on "*Financial Statement Analysis: An Approach to Evaluate Bank's Performance*" explained that the balance sheet, profit and loss account and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss account. The bank's balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets accounts form a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans/advances and investments and paid on deposits are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges. The users of the financial statements of a bank need relevant, reliable and comparable information, which assist them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of the bank's financial statement has been expressly laid down in the concerned act. Commercial Bank Act 2031 B.S. requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

Pendelton (2004), has published an article on "*Nepal's Financial Reform: A Tardy Pace of Deliberate Race.*" He is trying to explore the need and relevancy of financial reform program in Nepal. In this article he suggest that 'HMG/N' has way to go for complete financial reform, restore financial soundness to deserving public much work is left to do; however, the government had set to 'Road Map' to complete this phase

and continues to improve the reform process, a process vision to sustain the economy for generations to come. It is important that the citizens of Nepal, particularly the media services, support this effort as well.

Mundul (2007), has published an article on “*Corporate Financial Sector: Restructuring.*” He mentioned that corporate and financial sector restructuring are two aspects of the same problem. The amount of debt and company can sustain – and on which lenders can expect reliable debt service - is determined by the unit’s cashflow. Indeed, a company cannot sustain interest payments in excess of its cashflow (i.e. interest coverage < 1:1), let alone make any repayments on the principal. Hence, substantially higher ratios of interest coverage are most desirable. He concluded that the corporate debtors and financial institution creditors will naturally seek to minimize their losses from corporate restructuring. The government has a role to play in balancing a variety of conflict interest.

Upadhaya (2007), has published an article on “*Five years financial projection of Nepal Telecom.*” He highlighted Nepal Telecom have to investor modern technology in time and optimum utilization of the technology so as to guide for the high return on investment. Only investing on modern technology may not be sufficient to get the required return on investment its optimum utilization is must otherwise the investment in new technology cannot give the return. Investment in modern new technology may turn riskier for the company. He had analyze past five year financial data of NTC and tried to project the financial future of the company. He found that the operating profit of NTC is slightly increasing this is due to decreasing of operating expenses. Study shows that NTC is successful to manage cost efficient. Return on assets is about 26 percent this means company is able earn 26 percent profit in terms of total assets. He projects the future five years financial performance of NTC by using regression analysis, judgmental approach. According to his projection growth rate on return will remain around 4.69 percent.

2.2.2 Review of Thesis

Prior to this study, the several researchers have found various studies regarding financial performance of commercial and joint venture banks. In this study, only relevant subject matters are reviewed which are as follows:-

Poudel (2000) has conducted a study on “*A comparative financial performance analysis of joint venture bank in Nepal (A case study of Nepal Bangladesh Bank Ltd. and Nepal Arab Bank limited).*” The main objective was to analyze and evaluate the financial strength of selected commercial banks. The objectives are as follows:

- i) To identifying liquidity position of NB and NABIL and compare the result each other.
- ii) To evaluate and compare of profitability between NB and NABIL.
- iii) To compare capital structure and leverage between NB and NABIL.
- iv) To observe and compare return of the period between NB and NABIL.

Major findings of the study are as follows:

-) From the study, it has found that the liquidity position of NB bank is better than that of NABIL.
-) Though the liquidity position is lower, NABIL is able to meet its current obligation. Both joint venture banks are extremely leveraged indicating outsiders claim exceed for more than that of the owner and bank assets.
-) Comparatively capital structure of NB bank is more risky than that of NABIL. Earning performance and prospects of NB is better than that of NABIL.
-) Both Joint Venture Bank to increase their equity capital by issue of share expanding general reserve and retaining more earning.

Deoja (2001) has conducted a research on “*A Comparative Study of the Financial Performance between Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd.,*” analyzed different ratio of NSBIBL and NBBL for the period of five years till fiscal

year 2000. His main objective was to analyze the financial performance between Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited. The specific objectives are as follows:

- i) To analyses the strength and weakness of the selected commercial Banks.
- ii) To evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks.
- iii) To examine the financial performance of the selected commercial Banks.

Major findings of the study are as follows:

-) Here, in some cases the liquidity position of NBBL is higher where as in some cases the ratio of NSBIBL is higher. It concludes that liquidity position of these two banks is sound.
-) NBBL has better utilization of resource in income generating activity than NSBIBL. They are on decreasing trends while interest earned to total assets and return or net worth ratio of NBBL is better than NSBIBL.
-) From the point of profitability position of NBBL is better than NSBIBL and both banks are highly leveraged.”

Oli (2002) has conducted a research study on “*A Comparative Study of Financial Performance of HBL, NSBIBL and NBBL.*” His main objective was to analyze the financial performance between HBL, NSBIBL and NBBL with the help of various financial and statistical analysis. The specific objectives are as follows:

- i. To evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks.
- ii. To examine the financial performance.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) Liquidity position of two JVBs i.e. NSBIBL and NBBL are always above than non standard and HBL is always below than normal standard.
-) Total debt with respect to shareholders fund and total assets are slightly higher for HBL than NSBIBL and NBBL.
-) The researcher has found from the analysis that NBBL has been successfully utilized their total deposits in terms of extending loan and advances for profit generating purpose on compared to NSBIBL and HBL.
-) NSBIBL is also better than HBL. It has concluded that net profit to total assets ratio in case of HBL is found better performance by utilizing overall resources but the generated profit is found lower for the overall resources in three JVBs.”

Joshi (2003) has conducted a study on “*A Study on Financial Performance of Commercial Banks.*” His main objective was to evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks. concludes that “Liquidity position of commercial banks is sound. The specific objectives were as follows:

- i. To examine the financial performance.
- ii. To evaluate the liquidity, leverage, activity, profitability and credit ratio of two commercial Banks.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) Their debt to equity ratio is high which doubts on solvency.
-) Debt to equity ratio of local commercial banks is higher than other joint venture banks.
-) Assets utilization for earning purpose is 2/3 of the total assets.
-) The main source of income for these banks is interest from loan and advance of overall profitability position, is better than others.”

Luitel (2003) has conducted a study on “*A Study on Financial Performance Analysis of Nepal Bank Limited.*” His main objective was to analyse the strength and weakness of these two commercial Banks.

The specific objectives are as follows:

- i. To examine the overall financial ratio of the selected commercial bank.
- ii. To examine the financial performance.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) The liquidity position of the bank is also not satisfactory during both periods. It is even worse during the second period as various current ratios have fluctuated during these periods and it shows lack of specific policy of holding various types of current assets. Thus, it can be said that the financial position of the NBL is worse during the second period due to its inefficiency in risk management.
-) Since NBL has not maintained a balanced ratio among its deposit liabilities during the second period with the first period, the bank seems to be unable to utilize its high cost resources in high yielding investment portfolio.
-) During both the periods there are negative operating profit for two years however, the company enjoyed the net profit due to the non-operational activities from first period of both years.
-) There is a demarcation between operational and non-operational activities of the bank and performance and result of the first period shows that the bank is more inclined towards non-operating activities. Yet, the overall financial position of the bank is unsatisfactory during both periods.

Joshi (2004) has conducted study on “*Financial Analysis of Nepalese Commercial Banks.*” His main objective of finding the comparative financial strengths and weakness of various commercial banks.

The specific objectives are as follows:

- i. To analyze the return rate and expected return to the shareholders
- ii. To evaluate systematic and unsystematic risk of the banks and providing recommendation on the basis if research findings.

From the study, major findings of the study are as follows:

-) It is calculated that lending condition of banks are in decreasing trend.
-) Banks in strong condition are holding good customers and discouraging low rated and less amount loan. Instead of that, they are initiated towards remittance, bank guarantees and other commission generating activities, while other banks are showing aggressive and are spontaneously increasing loan loss provision.
-) Deposits in the banks are also decreasing while some banks are holding enough funds. Its recommended for SCBNL was utilizing the maximum of the outsider’s funds towards the credit sector because return on credit sector is higher than on investment sector.
-) Loan loss provision of SCBNL is comparatively higher. It is recommended to control while sanctioning loan outflows. So, the bank should improve its credit management.

Maharjan (2006) has conducted a study on “*A Study on Financial Performance of NABIL Bank Limited.*” Liquidity position of the bank is good enough to meet the short-term obligations. His main objective was to evaluate the overall financial performance of Nabil Bank Limited. The specific objectives are as follows:

- i. To examine the strength and weaknesses through ratio analysis.
- ii. To examine the financial performance of Nabil Bank Limited.

- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) The study shows that the bank is mobilizing its loan and advances adequately. The bank has better mobilization of its saving deposits in loans and advances adequately.
-) The bank has better mobilization of its saving deposits in loan and advances for income generating purpose but it has not nicely mobilized its fixed deposits in loans and advances to generate the income. It has not invested more amount in loan and advances as well as less in government securities efficiently for generating profit. Interest earned by the bank is inadequate in comparison to the assets. So it has drawn attention of the bank towards the sense of significant EBIT.
-) Since the net profit of the bank in comparison to the total deposit is relatively low, it focused on earning operational profit wither by increasing their operational efficiency, or by decreasing their operational expenses as far as possible. The bank is also has not formulate and implement some sound and effective financial and non financial strategies to meet required level of profitability as well as the social responsibility.

Rajbhandari (2009), has conducted a study on “*A Comparative Study on Financial Performance of Nabil Bank Limited and Standard Chartered Bank Nepal Limited.*” The main objective of the study was to analyze, examine and interpret the financial position of SCBNL and NABIL with the help of ratio analysis and other financial tools.

The specific objectives are as follows:

- i. To examine the strength and weaknesses through ratio analysis.
- ii. To examine the financial performance of Nabil Bank Limited.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) In the study she had chosen only two commercial banks as sample i.e. SCBNL and NABIL.
-) The main findings in her study were that the liquidity positions of these banks were not satisfactory.
-) The current ratio should be in the normal standard of 2:1 but both banks are below the normal standard 2:1, which indicates the both banks i.e. NABIL bank and SCBNL were not adopting constant policy regarding liquidity ratio.
-) The cash and bank balance to total deposit ratio, cash and bank balance to current assets and cash and bank balance to saving deposit ratio of SCBNL is higher than that of NABIL bank as per mean ratio.
-) It signified SCBNL is more successful in utilizing its amounts of total deposits, current assets and saving deposits in cash and bank balance.
-) Cash and bank balance to saving deposit ratio, fixed deposit to total deposit ratio and performing assets to total assets ratio of NABIL bank is higher than that of SCBNL as per mean ratio.
-) The leverage or capital structure ratio reveals that the capital structure of NABIL bank was more leverage than that of SCBNL. This implies that NABIL bank is utilizing more outside funds for the benefit of its shareholder than SCBNL.
-) The total assets to net worth ratio of NABIL bank are lesser than that of SCBNL as per mean ratio. This shows investment of owner's equity in total assets is minimum than SCBNL. Analysis of activity ratio signifies that both the banks are successful in utilizing or managing the resources or assets satisfactorily.
-) Comparatively, loans and advances to total deposits ratio and loans and advances to saving deposits ratio of NABIL bank is more efficiently utilizing the outside funds in extending credit for profit generation.

Sharma (2010) conducted a study on *A financial performance of capital structure of Everest Bank Limited.*"The main objective of the study was to the analyze and

evaluate the financial performance of capital structure of Everest Bank Limited. The specific objectives are as follows:

- i) To examine the existing financial position regarding the capital structure.
- ii) To analyze the composition of Everest bank limited of the mixture of debt and equity capital.
- iii) To examine the different profitability ratios of Everest Bank Ltd.

Major findings of the study are as follows:

-) From the analysis the position of investment, income, deposits are increasing trend of Everest Bank Ltd.
-) The relationship between net profit and capital employed is shown in the capital employed ratio analysis. The ratio has a fluctuating trend. The average ratio is 4.61%. Under net operating approach it is daid that the total valuation of the firm is unaffected by the capital structure.
-) The rate of equity capitalization of EBL is in decreasing trend. The cost of equity is continuously decreasing, decrease th equity capitalization rate implies good sign foe increase in shareholders equity. The average cost of equity is 4.72% and the whole changes rates for all the fiscal year is negative.
-) The liabilities and capital for all fiscal year are continuously increasing, it shows that overall situation of bank is growing up the change rates is however, fluctuating liabilities are increasing more than the share capital. And also found debt capacity of EBL is more fluctuating but it shows the changing rate are all positive in all fiscal year and the market value, PE ratio is very good all indicators shows financial activity of Everest Bank Limited are very good.

Pandey (2010), has conducted a study on “*An Analysis of Key Financial Ratio of Commercial Banks in Nepal: A Special Reference with Himalayan Bank Limited and Everest Bank Limited.*” The main objective of his study was to find out exact financial ratio of these two commercial banks over the periods of time. He had taken Everest Bank Limited and Himalayan Bank Limited as sample. Mainly he had

conducted this research based on secondary data available in both banks' annual reports and manuals. He had presented data using both financial and statistical tools in his study.

The specific objectives are as follows:

- i. To examine the overall financial ratio of the selected commercial bank.
- ii. To examine the financial performance.
- iii. To recommend the appropriate suggestion to concerned authority.

Major findings of the study are as follows:

-) Current ratio of both of the banks showed consistent trend. Both the banks could not maintain the conventional standard of 2:1.
-) EBL has higher average ratio which implies that EBL is more capable to meet short term obligation in comparison to HBL.
-) Normally, the ratio remained consistent in HBL but the ratio of EBL is fluctuated more which is reflected by higher standard deviation.
-) Both the selected banks were successful to mobilize their fund as loan and advance with respect to total assets. However, EBL has higher mean ratio than HBL over the study period which implies that EBL can be taken as better investor than HBL as concerned to consistency, both the sample banks able to maintain consistency.
-) According to the analysis of assets management ratio, both the banks were successful in on-balance sheet utilization. Out of these two banks, EBL is found to be best in mobilizing the assets to the profitable sector.
-) By analyzing the valuation ratio of selected bank, market value of EBL was higher position than HBL. Total deposits and loan and advances of both the bank were almost positively perfect correlated. Correlation coefficient between total deposit and total investment of both the banks were more than 0.5 with positive sign, which means investment will increase proportionally with the increment in total deposit.

-) The trend analysis of EBL was better than that of HBL in all the cases. The growth rate of total deposit, total loan and advance, total investment and total net profit of EBL is higher than that of HBL.

2.3 Research Gap

Large numbers of research are available bearing the same topic, "A comparative analysis of financial performance of commercial Banks". I will draw insights from them. However, the researcher will sustain gap by covering the relevant data and information from the year 2005/06 to 2009/10. Moreover, the researcher has selected two commercial banks of Nepal as sample banks i.e. Nepal Investment Bank Ltd and Himalayan Bank Ltd. That itself demonstrates the gap of this research from the previous one because the researcher has not found any research done in these banks in collective form. Under this topics many researcher have been done but none of the researcher undertaken regarding the case study of financial performance between the Nepal Investment Bank Ltd and Himalayan Bank Ltd. These banks are leading commercial banks as compared to other commercial banks by which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore it is the major concern of stakeholders to know the financial situation of the bank.

Nepal Investment Bank Ltd and Himalayan Bank Ltd. are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial bank.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

The main objective of this study to examine the major components of portfolio of the balance sheet of bank as well as to evaluate financial performance of the bank to achieve that objective the study require an appropriate research methodology therefore this chapter highlights about the methodology adopted in the process of present study.

An appropriate choice of research methodology is a difficult task which is most necessary to support the study in realistic term with sound empirical analysis (Sharma, 2064), so that, the study uses the following research methodology like research design, population and sample, data collection procedure, method of data analysis, method of presentation etc explanations of the above points are given which seems appropriate to understand methodology in detail.

3.2 Research Design

The research design followed is basically the comparative evaluation of financial performance between Himalayan Bank Limited and Nepal Investment Bank Limited. Analytical as well as descriptive approaches are used to evaluate the financial performance of the bank. Analysis is basically on the basis of secondary data.

3.3 Sources of Data

This study mainly based on secondary data. Secondary data are collected from their respective annual report especially from profit and loss account, balance sheet and other publications made by the banks. Also some data has been gathered from Nepal Stock Exchange's Website. Similarly, articles, journals related to the financial

performance study, previous research report etc., have also taken into account while collecting information.

3.4 Populations and Sample

At present there are 31 commercial banks operating in Nepal under the guidance of Nepal Rastra Bank. For the purpose of convenience only, two commercial banks viz. Nepal Investment Bank Ltd and Himalayan Bank Ltd. have been taken as sample of this study and rest of the commercial banks are considered as population. Five years data are taken to conduct the study from FY i.e. 2005/06 to 2009/2010. Following commercial banks have been selected for the study. They are :

1. Himalayan Bank Limited
2. Nepal Investment Bank Limited

3.5 Data Collecting Procedure

Besides the above stated sources of data, a detailed review of literature have been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Central Library of Tribhuvan University and Library of Nepal Rastra Bank. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then, results to be concluded and interpretations are to be made.

3.6 Method of Data Analysis

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial with the statistical tools.

3.6.1 Financial Tools

In this study, the following financial tools have been used to measure the strength and weakness of the sample banks.

3.6.1.1 Ratio

Financial analysis is the process of identifying the financial strength and weakness of firm establishing relationship between times of balance sheet and profit and loss account (*Van Horne, 1979*). Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating results and growth (*Poudel, 2053; 67*).

3.6.1.1.1 Liquidity Ratio

Liquidity ratios are used to judge a firm's ability to meet short-term obligation. It is the comparison between the short-term obligations and short-term resources available to meet these obligations. The liquidity ratio measures the ability of a firm to meet its short-term obligation. In order to ensure short-term solvency, the JVBs must maintain adequate liquidity. Liquidity ratio should neither be inadequate nor high. If the liquidity ratio of the bank is not enough, it will result in bad credit ratings, less creditors, confidence, eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it wills unnecessary tied up in current assets. Thus the banks should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency. The following ratios are used to find out the short-term solvency of the banks.

a. Current Ratio

The current ratio indicates bank's liquidity and short-term debt paying ability. It shows the relationship between current assets and current liabilities. It is calculated dividing the current assets by current liabilities. Thus;

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

Current assets are those assets, which can be converted into cash with in short period of time normally, not exceeding one-year. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other

interest receivable, debtors, bills purchased and discounted and miscellaneous are the examples of current assets. Similarly, current liabilities are those obligation which are payable with a short period. Sometimes it is called working capital ratio. Deposit and other short-term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous are the examples of current liabilities.

Generally, the current assets of the company should be twice than current obligation to be technically solvent. For many types of business, 2:1 is considered to be an adequate ratio. If the current ratio of the firm less than 2:1, the solvency position of the firm is not good. A relatively high value of the current ratio is liquid and has the ability to pay its bill and vice-versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstance incase of seasonal business ratio and the nature of business.

b) Cash and Bank Balance to Current Deposits Ratio

This ratio is used to measure the bank's ability to meet the current obligation to its current depositors. It ratio examines the commercial bank liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the banks to make the quick payment of its customer deposits. This ratio is computed by dividing cash and bank balance by current assets. It is calculated by the following formula:

$$\text{Cash and Bank Balance to Current Deposits Ratio} \times \frac{\text{Cash and Bank Balance}}{\text{Current Deposits}} | 100$$

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice-versa. Both higher and lower ratios are not desirable. The reason is that if a finance company maintains higher ratio of cash, it has to pay interest on deposits and some earning may be lost. In contrast, if bank maintains low ratio of cash, it may fail to make the payment for presented cheques by its customer. So, sufficient and appropriate cash reserve should be maintained properly.

c) **Cash and Bank Balance to Total Deposits**

This ratio shows ability of bank's fund to cover their current margin call and saving deposits. It is calculated in order to see the position of cash and bank balance to make the payment of deposits when demanded. This ratio is calculated by the following formula:

$$\text{Cash and Bank Balance to Total Deposits} \times \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Here, cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, saving deposits, fixed deposits, money at call and short deposit and other deposits. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied-up and opportunity cost will be higher.

3.6.1.1.2 Leverage Ratio

Leverage ratios are concerned with the long-term solvency of the bank and show the proportion of debt and equity in financing. Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm's long-term financial strength. The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity and strength and weaknesses of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. The following ratios are used for analyzing long-term financial health debt servicing capacity and strengths and weakness of JVBs.

a) Debt-Equity Ratio

Debt-equity ratio examines the relative claims of creditors and owners against the banks' assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is computed by using the following formula:

$$\text{Debt-Equity Ratio} \times \frac{\text{Total Debts}}{\text{Net Worth}} \times 100$$

Here, equity funds comprise shareholders capital, general reserve, general loan loss provisions, inappropriate profit and loss balance etc. This ratio helps to ascertain the measure stake in commercial bank between lenders and owner. If debt portion is too high, there is danger-tempting irresponsibility in the part of the owners.

b) Debt-Assets Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. This ratio is calculated by using the following formula:

$$\text{Debt-Assets Ratio} \times \frac{\text{Total Debts}}{\text{Total Assets}} \times 100$$

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payable debentures are the examples of debt. A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice-versa. This ratio implies a commercial bank success in exploiting debt to be more profitable.

c) Net Worth to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required

percentage of total assets at shareholders fund i.e. capital fund. This ratio is derived by dividing shareholders fund by total assets. This can be stated as,

$$\text{Net Worth to Total Assets Ratio} \times \frac{\text{Net Worth}}{\text{Total Asset}} \times 100$$

Generally, this ratio measures the relative claims of owners of the commercial banks over the bank's assets. A high ratio indicates that out of total assets, shareholders have more controlled owner command and vice-versa.

3.6.1.1.3 Activity Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency with the bank manages and utilizes funds. The following ratios are calculated under the activity ratio.

a) Loan and Advance to Total Deposits Ratio

This ratio is used to see extent to which the banks are successful to mobilize the outsider's funds. It is calculated to measure the percentage of total deposit invested in loan, advance and overdraft. It is the proportion of efficiency i.e. loan the advance among the total deposit of the commercial banks. This ratio is calculated by using the following formula:

$$\text{Loan and Advance to Total Deposits Ratio} \times \frac{\text{Loan and Advances}}{\text{Total Deposits}} \times 100$$

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the sign of efficient commercial bank and better mobilization of collected deposits and vice-versa.

b) Loan and Advances to total working fund ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on working fund ratio for the purpose of income generation. This ratio

is computed by dividing loan and advance by total working fund. This is stated as,

$$\text{Loan and Advances to total working fund ratio} = \frac{\text{Loan and Advance}}{\text{Total working fund}} \times 100$$

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

c) Total Investment to Total Deposits Ratio:

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the following formula:

$$\text{Total Investment to Total Deposits Ratio} = \frac{\text{Total Investment}}{\text{Total Deposits}} \times 100$$

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

3.6.1.1.4 Profitability Ratio

Profitability ratio indicates the degree of success in achieving desired profit. This ratio measures how effectively the company manages its fund to earn profit. This ratio is regarded as the most essential element for the commercial bank growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarding as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company be able to acquire funds from investors for expansion and to contribute towards the goals of

the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio, better the financial performance of the commercial bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a. Net Profit to Total Assets Ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks in utilizing its overall resources. This is found by using the following formula :

$$\text{Net Profit to Total Assets Ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

The numerator indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicator that high profit margin and high turnover of total assets and vice-versa.

b. Total Interest Expenses to Total Interest Income Ratio

This ratio measures the percentage of total interest expenses against total interest income. It is calculated by the following formula :

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Interest Income}} \times 100$$

The numerator consists of total interest expenses on total deposit, loan and advance, borrowing and other deposits. A high ratio indicates high interest expensed on total interest income.

c. Net Profit to total deposits (Return on Total Deposits)

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of profit. It is calculated by using the following formula.

$$\text{Net Profit to total deposits} = \frac{\text{Net Profit}}{\text{Total Deposits}} \times 100$$

Here, net profit means profit after interest and taxes and total deposit means that total amount deposited in various accounts i.e. current, saving, fixed, call and short deposits and other. Generally, higher ratio indicates better utilization of total deposits and vice-versa.

d. Staff Expenses to Total Income Ratio

This ratio measures the percentage of staff expenses against total income of the banks. It is calculated by using the following formula:

$$\text{Staff Expenses to Total Income Ratio} = \frac{\text{Staff Expenses}}{\text{Total Income}} \times 100$$

The nominator consists of staff expensed on total income and other deposits. A high ratio indicates high staff expensed on total income.

e. Return on Net Worth Ratio

This ratio shows the capacity of the banks to utilize its owner's fund. It helps to judge whether the company has earned satisfactory return for its shareholders or not. Higher ratio represents the sound management and efficient mobilization of owner's equity. It is calculated by the following formula :

$$\text{Return on Net Worth Ratio} = \frac{\text{Net Profit}}{\text{Net Worth}} \times 100$$

Here, net worth focuses not only the paid up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

f. Interest Earned to Total Asset Ratio

This ratio is used to measure the percentage of interest earned in relation to total assets of the banks. It signifies the mobilization of the banks assets in interest generating purpose. Higher ratio signifies better efficiency in utilizing the resources in interest generating sectors. It is calculated by using following formula :

$$\text{Interest Earned to Total Asset Ratio} = \frac{\text{Total Interest Income}}{\text{Total Assets}} \times 100$$

The numerator comprises total interest income from loans, advances, cash credit and overdrafts, government securities, inter commercial bank and other investment. A high ratio is an indicator of high earning power, and better performance of the JVBs on its total working fund and vice-versa.

g. Return on Investment Ratio

This ratio measures the percentage of return on total investment. It is calculated by using following formula :

$$\text{Return on Investment Ratio} = \frac{\text{Net Profit}}{\text{Total Investment}} \times 100$$

The numerator consists of investment of government securities, investment on debenture and bond, share in subsidiary companies and other investment. A high ratio indicates commercial bank efficiency is more beneficial on its investment.

3.6.1.1.5 Credit Ratio

Credit ratios are calculated in order to measure the credit position of the banks. It shows what portion of collected deposits are used to make credit and remain cash and bank balances to make immediate payments. The following ratios are used under the credit ratio :

a. Investment on Govt. Securities to Total Working Fund Ratio

This ratio shows that commercial bank investment on government securities in comparison to the total working fund. It is very significant to know the capacity of commercial bank to mobilize their working fund of different types of government securities to maximize the income. All the deposits of the commercial bank should not invest in loan and advances and other credit from security and liquidity point of view. Therefore, up to some extent, commercial banks seem to be invested to utilize their deposits by purchasing government securities. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

Investment on Govt. Securities to Total Working Fund Ratio

$$= \frac{\textit{Investment on Government Securities}}{\textit{Total Working Fund}} | 100$$

This ratio shows that out of total working fund, how much percentage of it has been occupied by the investment on government securities.

b. Total Investment to Total Deposits Ratio

This ratio shows the proportion of total deposits mobilization in the different investing areas. It is calculated by using the following formula :

$$\text{Total Investment to Total Deposits Ratio} = \frac{\textit{Total Investment}}{\textit{Total Deposits}} | 100$$

This ratio shows that out of total deposits, how much percentage of it has been occupied by the investing in different areas.

3.6.2 Statistical Tools

The statistical tools selected for the comparative study of two banks (Nepal Investment Bank and Himalayan Bank Ltd.) are as follows.

3.6.2.1 Arithmetic Mean

Average is the typical values around which other items of distribution congregate. Arithmetic mean of a given set of observation is their sum divided by the number of observation (Gupta, S.C. 1995:331).

$$\text{Mathematically, } \bar{X} = \frac{x_1 + x_2 + \dots + x_n}{n}$$

Where,

\bar{X} = Arithmetic Mean

$x_1 + x_2 + \dots + x_n$ = Values of Variable

x = Sum of the values of variables

n = Number of observation.

3.6.2.2 The Coefficient of Variation

For comparing the variability of two distributions, we compute the coefficient of variation. A distribution with smaller C.V. is said to be more homogenous or uniform or less variable than other and the series with greater C.V. is said to be more heterogeneous or more variable than others. The coefficient of variation is a relative measure which is useful in comparing the amount of variation in data group with different means :

Mathematically,

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

$$\text{S.D.} = \sqrt{\frac{1}{n} \sum fX^2 - \bar{X}^2}$$

Where,

S.D. = Standard Deviation

\bar{X} = Mean

C.V. = Coefficient of variation

3.6.1.3 Coefficient of Correlation

The Coefficient of correlation is an important measure to describe how well one variable is explained by another. It measures the degree of relationship between the two casually related variables. Karl person's coefficient of correlation between two variables X and Y is usually devoted by 'r' which is the numerical measure of linear association between the variables.

Where,

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

n = No. of observation of X and Y.

$\sum x$ = Sum of the observations in series X.

$\sum y$ = Sum of the observations in Series Y.

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

$\sum y^2$ = Sum of square observations in series Y.

$\sum xy$ = Sum of product of the observations in series X and Y.

3.6.2.4 Probable Error

The probable error of the coefficient of correlation helps in interpreting the value and measuring the reliability of the coefficient of correlation. Probable error of correlation coefficient usually denoted by P.E. (r) is an old measure of testing the reliability of an observed value of correlation coefficient in so far as it depends upon the conditions of random sampling. It is worked out as:

$$P.E. = 0.6745 \frac{\sum r^2}{\sqrt{n}}$$

Where,

r= Correlation Coefficient

n= No. of pairs of observation

$r > PE (r) \times 6$ (correlation coefficient more than six times of probable error ...r is significant)

$r < PE (r)$ (Correlation coefficient less than six times of probable error ... r is insignificant)

3.6.2.5 Coefficient of Determination

The coefficient of determination is the primary way we can measure the extent, or strength of the association that exists between two variables X and Y, It is worked out by squaring the coefficient of correlation.

Where,

$$R = r^2$$

r = Coefficient of correlation

R = Coefficient of determination

3.6.2.6 Trend analysis

Trend analysis enables to compare two or more companies over different period of time and draw important conclusion about them. It helps in business forecasting and planning future operation.

3.6.2.7 Least Square Linear Trend

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

Mathematically,

The straight line trend is given by the following formula:

$$Y = a + bx$$

Where,

- Y = Value of dependent variable
- a = Y intercept
- b = Slope of the trend line
- x = Values of independent variable

3.6.3 Earning Per Share (EPS)

Earning per share calculations made over years indicates whether or not the company's earning power on per share basis has change over that period. EPS shows the profitability of the company of a per share basis. It is calculated by the following formula:

$$\text{Earning Per Share (EPS)} = \frac{\text{Net Profit after tax}}{\text{No. of commonshares}}$$

3.6.4 Dividend Pay out Ratio (D/P Ratio)

This ratio reflects at what percentage of net profit is distributed term of dividend and what percentage is retained in the bank. It is calculated by the following formula:

$$\text{Dividend Pay out Ratio (D/P Ratio)} = \frac{\text{Divident perShare}}{\text{EarningPerShare}} | 100$$

3.6.5 Price Earning Ratio (P/E ratio)

This ratio shows the price currently paid by the market for each rupee of currently reported earning per share. It is calculated by the following formula:

$$\text{Price Earning Ratio (P/E ratio)} = \frac{\text{Market Value perShare}}{\text{Earning per Share}} | 100$$

3.6.6 Market Value Per Share to Book Value Per Share

This ratio shows the ratio of market value per share to the book value per share. The market value per share is divided by the book value per share. This ratio shows the

price being paid by outsider for each rupee reported in balance sheet. It is calculated by the following formula:

$$\text{Market Value Per Share to Book Value Per Share} = \frac{\text{Market Value pershare}}{\text{Book value per share}} \times 100$$

3.6.7 Income and Expenditure analysis

Besides the various ratios, income and expenditure analysis be made for evaluation financial performance of the banks. The profit and loss accounts of the banks are used for this analysis.

3.7 Analytical Procedure

For the purpose of the study, financial statements of the selected JVBs are analyzed by using financial tool along with the statistical tool.

Financial tools have been used to measure strength and weakness of the two selected joint venture bank. Then, the selected banks have been compared and analysis according to the various ratios findings.

Statistical tools have been used to analysis the study for finding which bank have more homogenous or uniform than the other, according to the co-efficient of variation. Likewise, Karl person co-efficient of correlation should be used to measure the degree of relation between the two related variable. Probable error also should be used to analysis the reliability of the coefficient of correlation.

At last, trend analysis should be done according to the past and present financial statement of three selected banks.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

This section we are going to analyze and interpret the various financial variable in order to evaluate the financial performance to the selected banks for the study. Data collected from secondary sources are presented and analyzed by using financial and statistical tools. The available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. To evaluate the financial performance of selected joint venture banks, ratio analysis, correlation analysis and trend analysis are used in this study.

4.1 Financial tools

In this study, financial tools have been grouped into liquidity ratio, profitability ratio, activity ratio and leverage ratio etc.

4.1.1 Liquidity Ratio

Liquidity ratio is a pre-requisite for every survival of a firm. The short-term creditors of the firm are interested in the short-term solvency or liquidity of a firm but liquidity implies, from the view point of utilization of the fund of the firm that funds are idle or they earn very little. A proper balance between the two contradictory requirements i.e. liquidity ratios measures the ability of a firm to meet its short term obligation and reflect the short term financial strength or solvency of a firm.

A. Current Ratio

Current assets include cash and those assets, which can be converted into cash within a year. These include cash and bank balance, investment in government securities, loans and advances, money at call and short notice, bills for collection, interest receivables. All obligation maturing within year are included in current liabilities.

These consist of current, saving and short term deposit, fixed deposit maturing in that year, borrowing, accrued expenses, bills for collection, dividend payable, customers acceptances etc.

Table 4.1
Analysis of Current Ratio

(In times)

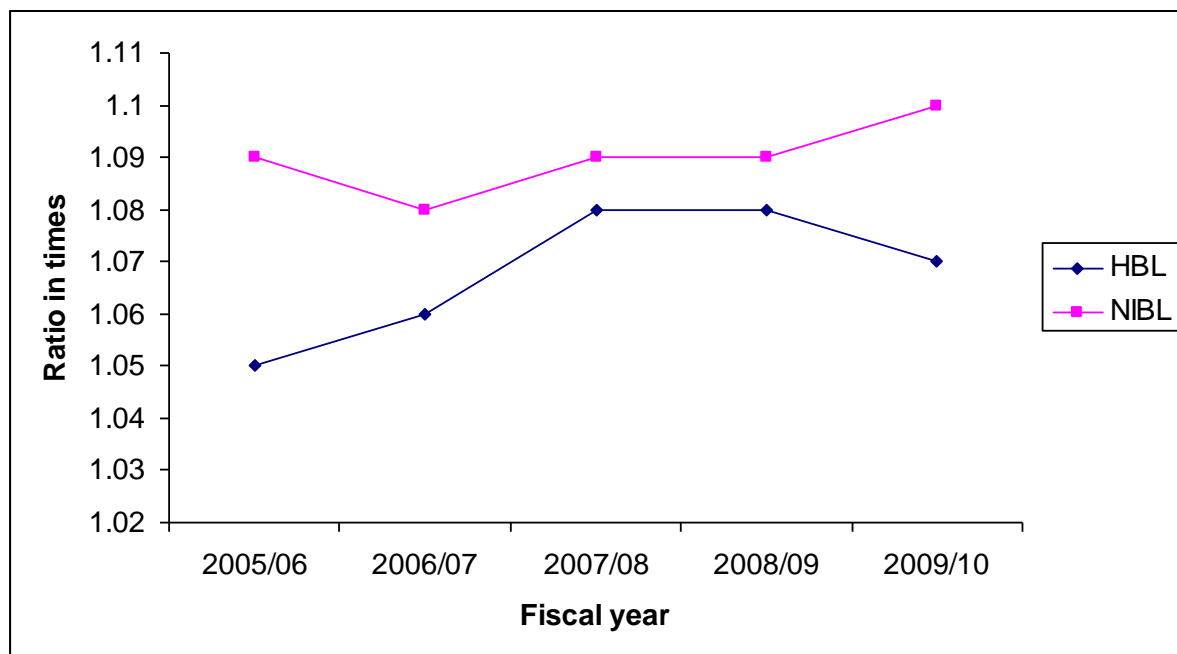
Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	1.05	1.06	1.08	1.08	1.07	1.068	0.0117	1.10
NIBL	1.09	1.08	1.09	1.09	1.10	1.088	0.0112	1.03

(Source: See Annex 1)

Table 4.1 shows current ratio has been calculated dividing current assets by current liabilities. The above table shows that the current ratio of all the banks is below the normal standard of 2:1. On an average basis, current ratio is NIBL is 1.088, which is the highest ratio than HBL which has only 1.068. However, considering the average ratio, NIBL Bank is found slightly better liquid than other.

From S.D & C.V. point of view, HBL has the highest S.D & C.V. of 0.0117 and 1.10% respectively and NIBL has lowest 0.012&1.03%. It implies that HBL has high fluctuation (less homogeneity) with respect to current assets to current liabilities. Similarly, NIBL has low fluctuation (more homogeneity) with respect to current assets to current liabilities. Current ratio can be presented in following trend-line.

Figure 4.1: Figure Showing Current Ratio



B. Cash and Bank Balance to Total Deposit Ratio

This ratio indicates the ability of banks immediately funded to cover their current margin call, saving, fixed, call deposit and other deposits.

Cash and bank balance to deposit ratio reflects the ability of bank immediate fund to meet / cover their current deposits margin call and saving deposit. Higher the ratio shows higher liquidity position and ability to cover the deposits and vice versa.

Table 4.2

Cash and Bank Balance to Total Deposit Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	Σ	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	6.48	5.85	4.55	8.79	10.28	7.19	2.068	28.76
NIBL	12.34	9.97	10.9	16.96	13.61	12.76	2.44	19.12

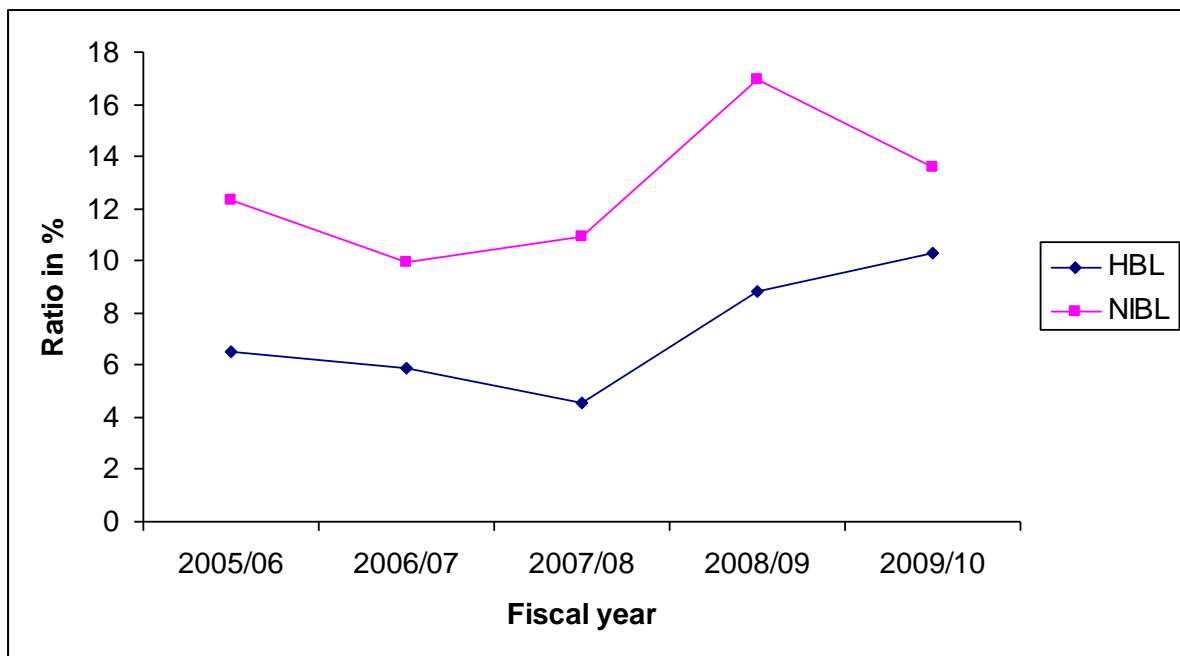
(Source: See Annex 2)

Table 4.2 shows cash & bank balance to total deposit ratio has been calculated by dividing total cash and bank balance amount by total deposit amount. The above ratio reveals that the ability of banks to cover its short-term deposits. On an average basis, NIBL is more in better position with an average 12.76% than HBL bank with 7.19.

From S.D point of view, NIBL has the highest S.D. of 2.44 point and HBL has only 2.068 point. It indicates that there is high fluctuation (Less homogeneity) in cash and bank balance to total deposit ratio of NIBL Bank and HBL with lowest S.D. of 2.068 indicates that there is low fluctuation (more homogeneity) in cash and bank balance to total deposit ratio.

From C.V. view point, HBL has highest C.V. i.e 28.76% and NIBL has the lowest C.V. is 19.12%. This implies that HBL is more inconsistent in cash and bank balance to total deposit ratio over the study period. However, NIBL with lowest C.V. i.e. 19.12% indicates that it is consistent in cash and bank balance to total deposit ratio over the entire study period. It can be presented in following figure.

Figure 4.2: Figure Showing Cash and Bank Balance to Total Deposit Ratio



C. Cash and Bank Balance to Current Asset Ratio

Cash and bank balance is the most liquid form of current assets. This ratio reflects the position of cash and bank balance to current assets of the bank.

Table 4.3
Cash and Bank Balance to Current Asset Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	6.08	5.44	4.16	8.08	9.52	6.66	1.91	28.68
NIBL	11.24	9.19	9.98	15.36	12.22	11.60	2.15	18.53

(Source: See Annex 3)

The above ratio has been derived dividing cash and bank balance by current assets. The above table shows that the selected JVB_s have held less cash and bank balance and utilized the available fund into current assets by issuing short-term loans and advances. Over the study period, on an average NIBL has highest ratio of 11.60% and HBL has 6.66%.

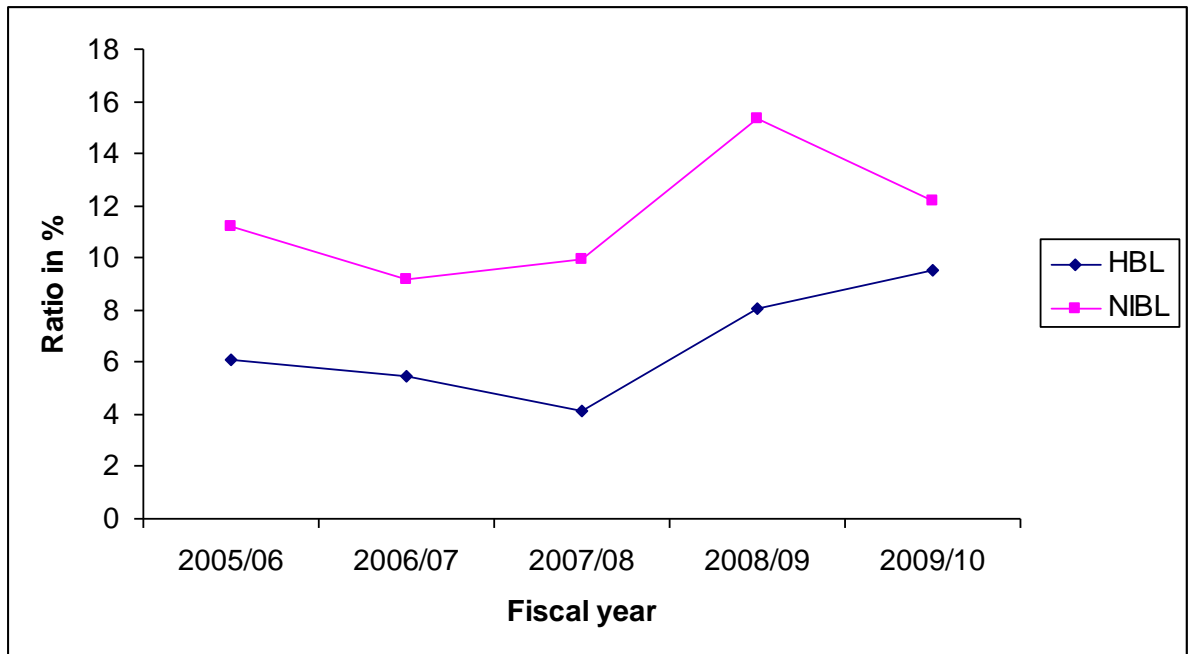
Therefore, on an average, NIBL has the highest ratio and HBL has the lowest ratio of cash and bank balance to current assets. It implies that at some time NIBL has held more cash and bank balance than other and HBL has been successful in utilizing the depositor's money in short term loans.

From S.D viewpoint, NIBL has the highest S.D i.e. 2.15 and HBL has 1.91 point. It implies that NIBL have thigh fluctuation (less homogeneity) with respect to cash and bank balance to current assets over the study period. Similarly, HBL with lowest S.D. of 1.91 has low fluctuation (more homogeneity) with respect to cash and bank balance to current assets.

From C.V. point of view, HBL has the highest C.V. of 28.68% and HBL has the lowest C.V. of 18.53%. It indicates that HBL has high degree of variability or is

inconsistent in holding cash and bank balance to current assets over the study period. NIBL has low degree of variability or is consistent in holding cash and bank balance to current assets over the study period.

Figure 4.3: Figure Showing Cash and Bank Balance to Current Asset Ratio



4.1.2 Profitability Ratio

Profit is the difference between revenues and expenses over a period of time. This ratio measures the proportion of each components of operating income to total operating income. The main components of operating income are interest earned, commission and discounts, exchange income and other income, bank receives interest from loans and advances, cash credit, overdraft, investment in government securities and bonds, money at call and short notice, debenture, inter-bank loan and others. Bank receives commission by discounting bills of exchange, remittance, foreign currency fluctuation etc. Under this, following ratios are used.

A. Net Profit to Total Assets Ratio

Net profit refers to profit after interest and taxes. Total assets comprise of those assets that appear on the assets side of the balance sheet. A higher degree of ratio shows that total assets of the banks have been utilized in profit earnings. The following table shows the ratio of net profit to total assets.

Table 4.4
Net Profit to Total Assets Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	1.55	1.47	1.76	1.91	1.20	1.58	0.244	15.44
NIBL	1.64	1.82	1.79	1.7	2.21	1.83	0.20	10.93

(Source: See Annex 4)

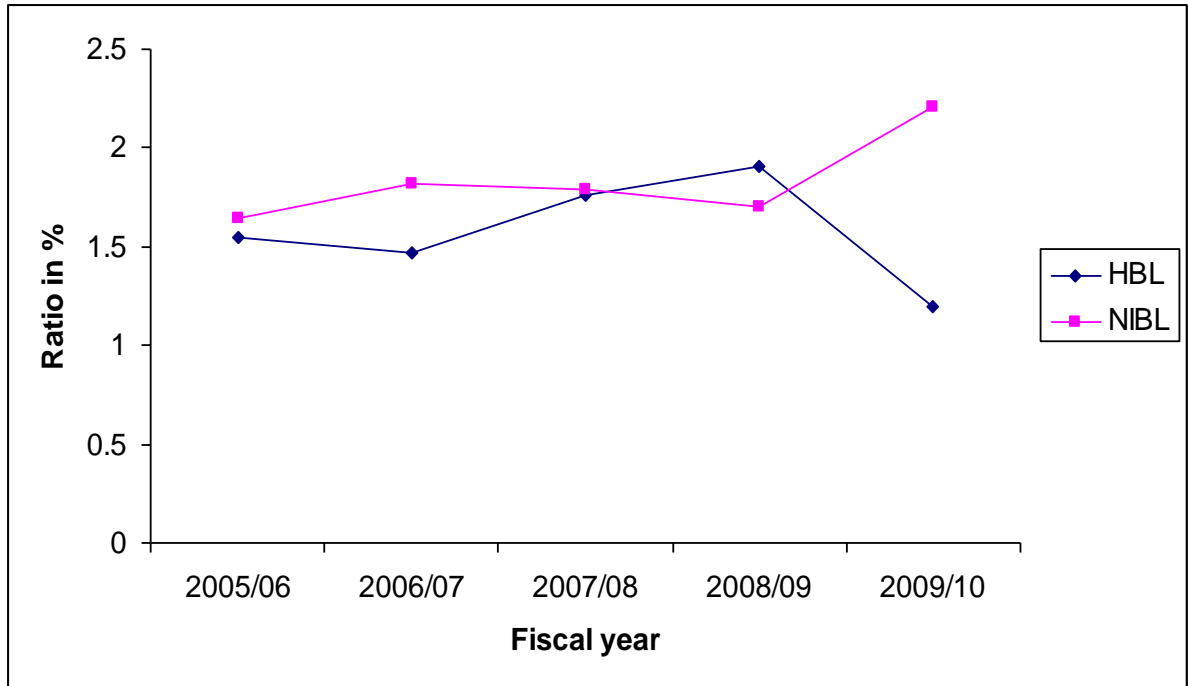
The above table shows net profit to total assets ratio has been derived by dividing net profit by total assets. This ratio shows the relationship between net profit and total assets. On an average, NIBL has the highest percentage of net profit 1.83% on total assets but HBL has only 1.58%. It indicates that NIBL bank has been successful to generate more profit than other banks by using its total assets.

From S.D. point of view, HBL has the highest S.D. of 0.244 point and NIBL has the lowest S.D. of 0.20 point. It implies that HBL has high fluctuation (less homogeneity) in generating profit than NIBL.

From C.V. point of view, HBL has the highest C.V. of 15.44% than NIBL 10.93%. It implies that HBL has higher degree of variability or is inconsistent in generating net

profit and NIBL with lowest C.V has lower degree of variability or is consistent in generating more net profit by using total assets in a systematic way.

Figure 4.4: Figure Showing Net Profit to Total Assets Ratio



B. Net Profit to Total Deposit Ratio

This ratio measures of NPAT earned by using total deposits. This ratio shows how efficiently the management has utilized its deposits in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generation. Because of the deposit made by its customer's is the major source of earning of the commercial banks. The higher ratio shows the higher degree of utilization of deposits in generating profit. This ratio is presented by following table.

Table 4.5
Net Profit to Total Deposit Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	Σ	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	1.73	1.64	2	2.17	1.35	1.78	0.29	16.30
NIBL	1.85	2.05	2.02	1.93	2.53	2.08	0.24	11.54

(Source: See Annex 5)

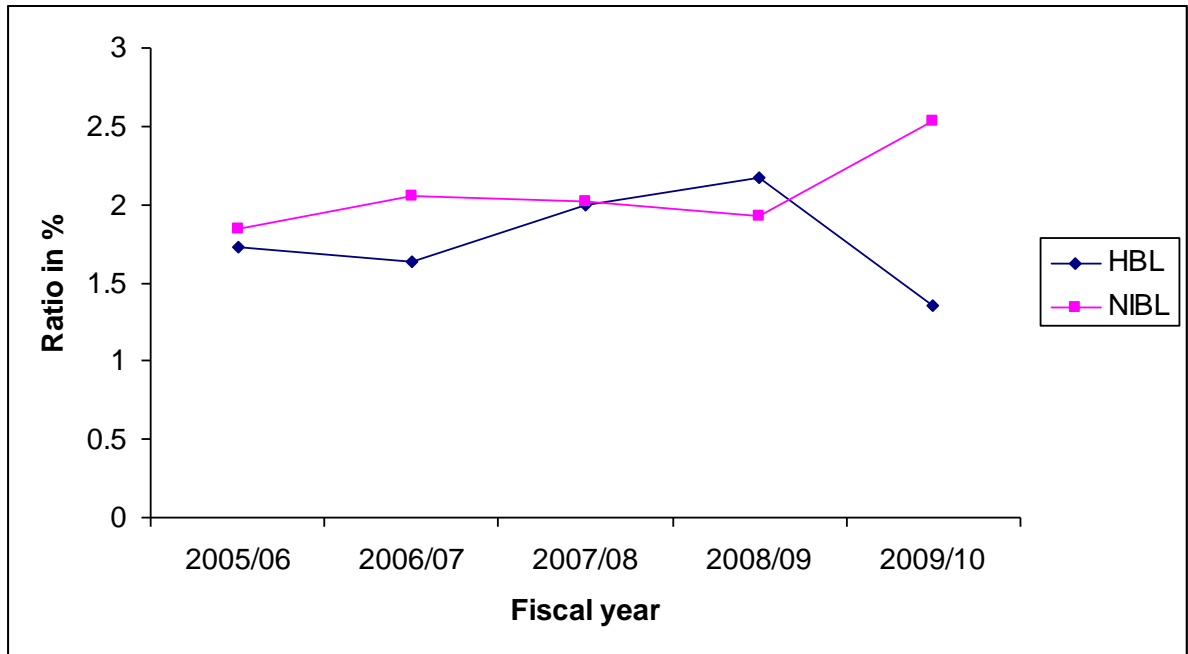
The above table shows net profit to total deposit ratio has been derived by dividing net profit by total deposit. This ratio shows the relationship of net profit and total deposits.

On an average point of view, NIBL bank has the highest ratio of 2.08% and HBL has 1.78%. Over the study period, it implies that NIBL bank has been successful in utilizing the depositor's fund more efficiently ingenerating more profit and HBL has not managed the deposit efficiently and thus it has failed to generate more profit over the study period.

From S.D. point of view, HBL has the highest S.D. of 0.29 than NIBL has 0.24 point. It implies that HBL has high fluctuation (less homogeneity) in generating profit by using deposit where as NIBL with lowest S.D. of 0.24 indicates it has low fluctuation (more homogeneity) in generating profit by managing the deposit efficiently.

From C.V. point of view, HBL has the highest C.V. of 16.30% than NIBL 11.54%. It implies that HBL has high degree of variability or is inconsistent in generating profit and NIBL has lower degree of variability or is more consistent ingenerating profit by employing the deposit efficiently. The following figure showing the net profit to total deposit ratio:

Figure 4.5: Figure Showing Net Profit to Total Deposit Ratio



C. Return on Shareholder’s Equity or Net worth Ratio

This ratio reveals how profitably the banks have utilized the owner’s funds. For the commercial banks, the objective is to earn maximum profit so as to provide reasonable return to the owners. Higher this ratio indicates sound and efficient management. It also indicates towards the favorable condition of wealth maximizations of the bank.

Table 4.6

Return on Shareholder’s Equity or Net worth Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	25.9	22.91	25.3	24.13	14.80	22.61	4.04	17.86
NIBL	24.77	26.7	25.93	23.05	27.45	25.58	1.54	6.02

(Source: See Annex 6)

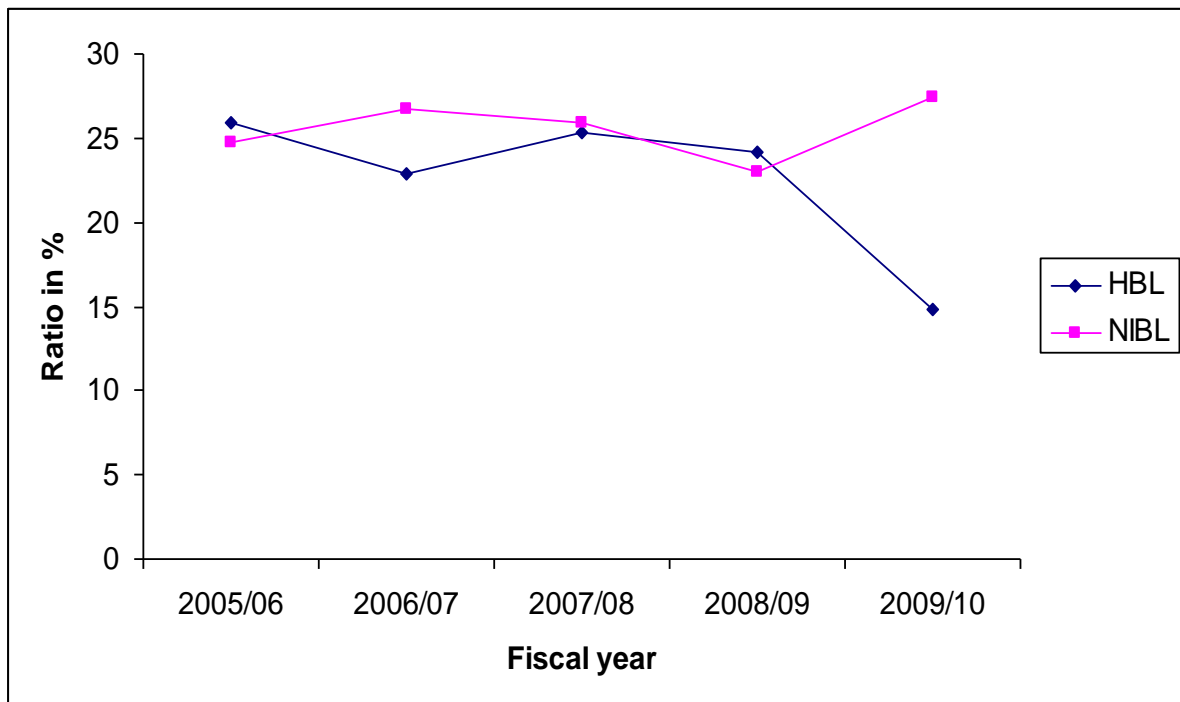
The above table shows return on shareholder’s equity or net worth ratio has been derived by dividing net profit by net worth or shareholder’s equity. Over the study

period, on an average of NIBL has the highest ratio of 25.58% and HBL has the lowest ratio of 22.61%. It indicates that NIBL was providing highest return to its shareholder than HBL bank.

From S.D. point of view, HBL has the highest S.D. 4.04 and NIBL has lowest 1.54 point.. It implies that, over the study period, HBL has high fluctuation (less homogeneity) in giving the return to shareholders where as in case of NIBL; there is low fluctuation (more homogeneity) in providing more rate of return to its shareholders over the study period.

From C.V. point of view, HBL has the highest C.V. of 17.86% than NIBL It implies that HBL has higher degree of variability or is inconsistent in providing return to their shareholders. In the same period, NIBL bank with lowest C.V. of 6.02%, has lower degree of variability or is consistent in providing return to its shareholder.

Figure 4.6: Figure Showing Return on Shareholder's Equity or Net worth Ratio



D. Net Interest Earned to Total Assets Ratio

This ratio measures how much interest has been earned in different years by mobilizing the overall assets of the bank. Interest income is main source of income of the banks. Generally, banks generate interest income through the loan and advances, investment, overdrafts, hire purchase finance and loan given to priority and deprived sector as well. A higher ratio represents the better efficiency in mobilizing its resources for the purpose of generating interest income. This ratio has been presented by following table.

Table 4.7
Net Interest Earned to Total Assets Ratio

(In percentage)

Name of Banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	3.32	3.01	3.15	3.58	3.73	3.36	0.27	8.04
NIBL	3.2	3.26	3.09	2.98	3.66	3.24	0.23	7.10

(Source: See Annex 7)

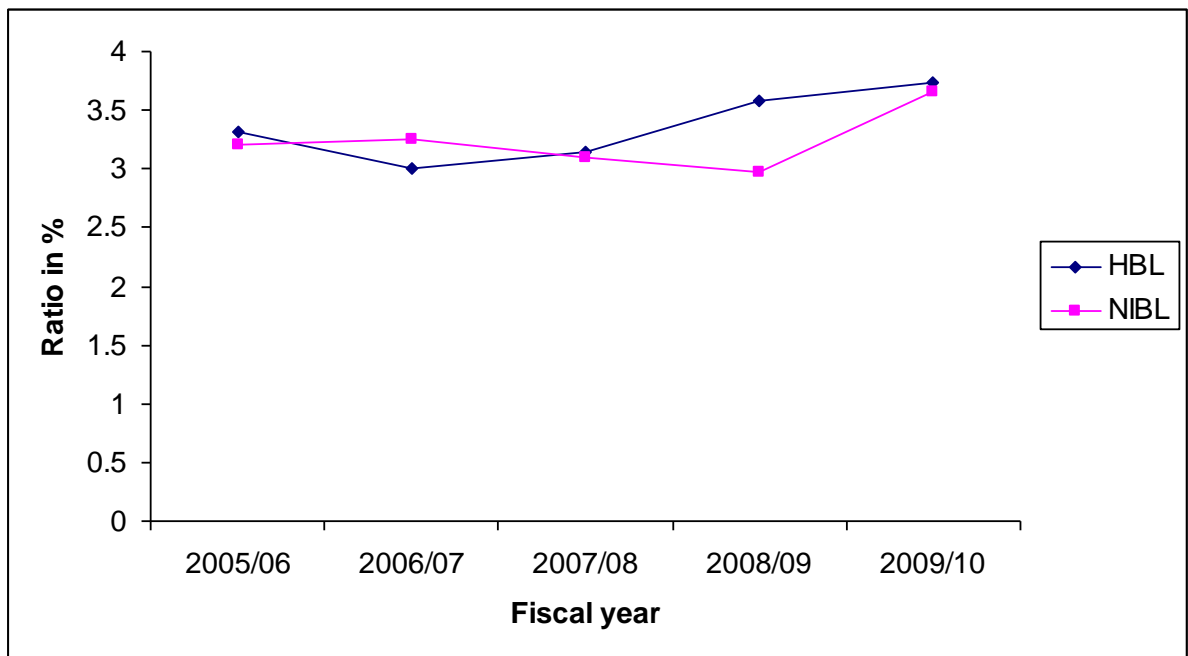
The above table shows net interest earned to total assets ratio has been derived by dividing net interest earned by total assets. On an average, from the above table, researcher found that HBL has highest ratio 3.36 percentage than NIBL has only 3.24 percentages. It implies that HBL has been managing the assets efficiently and earning more interest out of it than NIBL.

From S.D. point of view, HBL has the highest S.D. with 0.27point and NIBL has lowest S.D. with 0.23 point. It implies that there is high fluctuation (less homogeneity) in interest earning capacity of HBL bank over the study period. Whereas, NIBL with lowest S.D. of 0.23 indicates that it has low fluctuation (more

homogeneity) in interest earning capacity over the entire study period among sampled banks.

From C.V. point of view, HBL bank has the highest C.V. of 8.04% and NIBL has lowest with 7.10%. It implies that HBL bank has high degree of variability or is inconsistent in earning interest by using of its assets over the study period. Whereas, with the lowest C.V. of 7.10% NIBL is more consistent or has lower degree of variability in earning interest by the proper use of its total assets over the study period.

Figure 4.7: Figure Showing Net Interest Earned to Total Assets Ratio



4.1.3 Activity Ratio

This ratio refers how efficiently the organization is managing its resources. Thus, this ratio measures the degree of effectiveness in use of resources or funds by a firm. It is also known as turnover or efficiently ratio or assets management ratio. Turnover or conversion indicates more efficiency of a firm in managing and utilizing its assets. The common activity ratios that are determined under this are as follows.

A. Loan and advances to total deposit ratio

Commercial banks utilize the outsider's fund for profit generation purposes. Loan and advances to deposit ratio shows whether the banks are successful in utilizing the outsider funds (i.e. total deposit) for the profit generation purpose (i.e. loan and advances).

Table 4.8
Loan and Advances to Total Deposit Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	55.27	56.57	61.23	71.49	74.40	63.80	7.79	12.21
NIBL	67.5	70.59	78.36	77.61	80.48	74.91	4.98	6.65

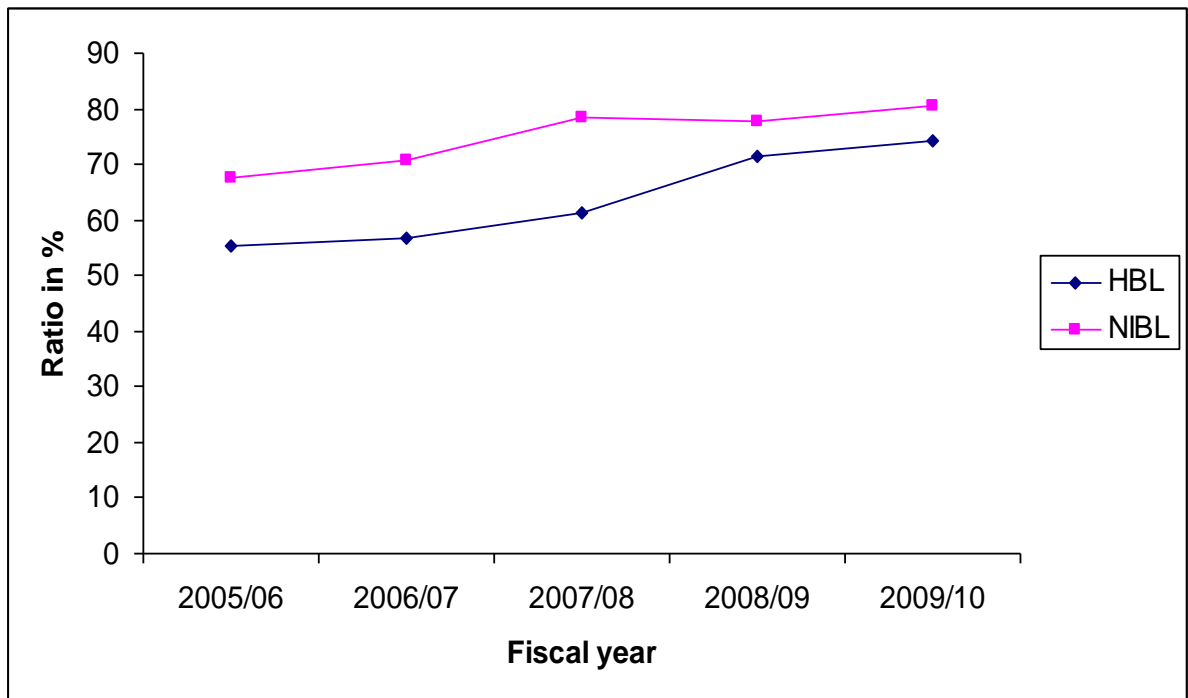
(Source: see annex 8)

The above table shows loan and advances to total deposit ratio has been derived by dividing loan and advances amounts by total deposit amount. This ratio helps to analyze whether the banks have utilized the outsider's fund properly or not. The above table shows that, over the study period on an average basis, NIBL has the highest ratio of 74.91% and HBL has the lowest ratio of 63.80%. It implies that NIBL has been successful in using the depositor's fund properly in loan and advances than HBL over the study period.

From S.D. point of view, HBL has the highest S.D of 7.79 point where as NIBL has the lowest S.D. of 4.98 point. It implies that HBL has high fluctuation (lowest homogeneity) in utilizing the depositor's fund in loan and advances where as NIBL with lowest S.D. of 4.98 point indicates in has low fluctuation (more homogeneity) in using outsider fund in loan and advances over the study period.

From C.V. point of view, HBL has the highest C.V. of 12.21% where as NIBL has the lowest C.V. of 6.65%. It implies that HBL is inconsistent or has not been able to utilize the outsider's (depositor's) fund properly in loan and advances, where as NIBL with lowest C.V. of 6.65% is consistent or has been successful in using outsider's fund properly in loan and advances.

Figure 4.8: Figure Showing Loan and Advances to Total Deposit Ratio



B. Loan and Advances to Total assets Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of commercial bank are successful in mobilizing their loan and advances on total assets ratio for the purpose of income generation. This ratio is computed by dividing loan and advances by total assets.

Table 4.9
Loan and Advances to Total Assets Ratio

(In percentage)

Name of banks	Fiscal Year					Average	Σ	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	49.7	50.71	53.9	63.05	65.50	56.57	6.49	11.47
NIBL	59.9	62.65	69.45	68.37	70.36	66.15	4.12	6.23

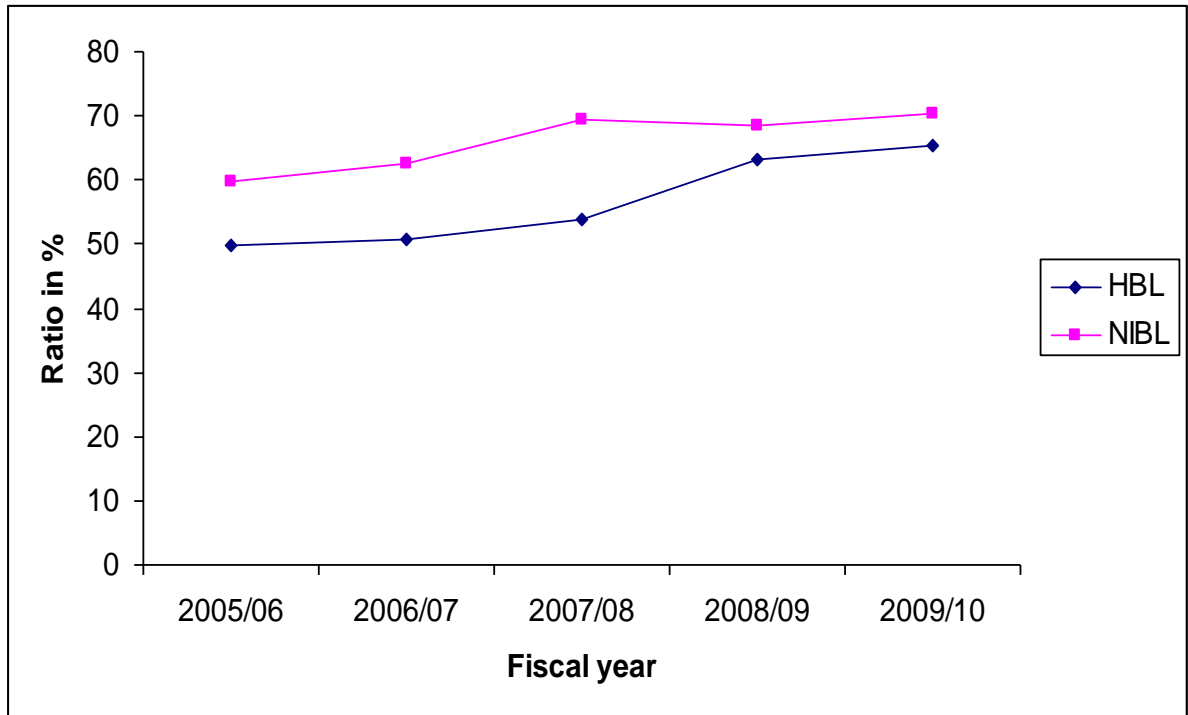
(Source: See Annex 9)

The above table shows loan and advances to total assets ratio has been derived by dividing loan and advances amount by total assets amount. This ratio helps to analyze whether the banks have utilized the total working fund properly or not. The above table shows that, over the study period on an average basis, NIBL has the highest ratio of 66.15 % where as HBL has lowest 56.57% It implies that NIBL has been successful in mobilizing loan and advance on total working fund over the study period than HBL.

From S.D point of view, HBL has highest S.D of 6.49 point. Where as NIBL has the lowest S.D. of 4.12 point. It implies that HBL bank has high fluctuation (lowest homogeneity) in utility the total working fund in loan and advances than NIBL

From C.V. point of view, HBL has the highest C.V. of 11.47% where as NIBL has the lowest C.V. of 6.23%. It implies that HBL is inconsistent or has not been able to utilize the total working fund properly in loan and advances; where as NIBL has lowest C.V. with 6.23% is consistent or has been successful to mobilizing the total working fund properly in loan and advances. Loan and advance to total assets ratio can be presented in following figure:

Figure 4.9: Figure Showing Loan and Advances to Total Assets Ratio



C. Total Investment to Total Deposits Ratio

Banks invest money in different forms. They are loans, overdraft, cash credit, discounting bills of exchange, investment in government securities, investment in share of well – established industrial concerns and money at call and short notice. In this analysis investment in government securities, shares and also investment in foreign banks is included to calculate the ratio. Total deposits include saving, current, fixed and call deposit of the respective banks. The ratio of total investment to total deposit has been presented.

Table 4.10
Total Investment to Total Deposits Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	41.1	39.55	41.89	25.12	22.45	34.02	8.43	24.79
NIBL	29.6	26.57	19.95	15.85	17.24	21.84	4.92	22.52

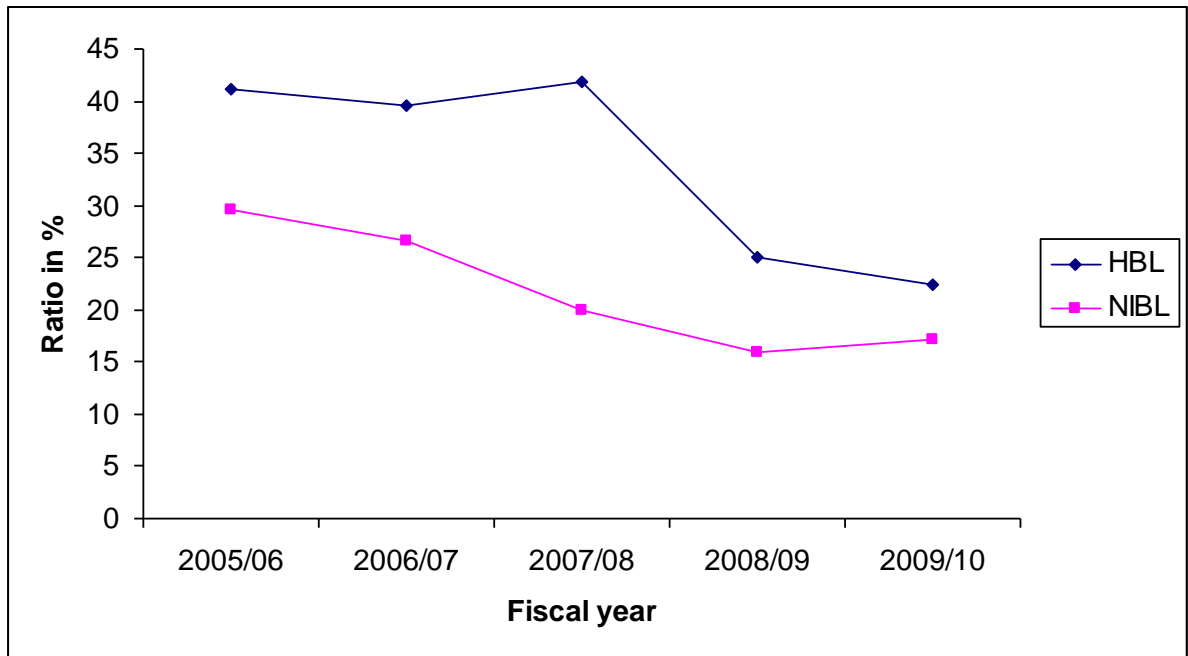
(Sources: See Annex 10)

The above table shows that on an average basis over the study period, HBL has the highest percentage of investment in non- risky project i.e. 34.02%, where as NIBL has the lowest percentage of investing in non-risky project i.e. 21.84%. It implies that HBL prefers in investing its depositors fund in non-risky project like government bonds, treasury bills, government securities, debentures of other organization etc rather than choosing the risky portfolio like loan and advances to its credit customers.

From S.D. point or view, HBL has the highest S.D. of 8.43 point where as NIBL has the lowest S.D. of 4.92 point. It implies that HBL has high fluctuation (less homogeneity) in using the depositors fund in non- risky port folio and NIBL has low fluctuation (more homogeneity) in using depositor fund in non- risky port folio.

From C.V. point of view, HBL has the highest C.V. of 24.79% where as NIBL has lowest C.V. of 22.52%. It implies that HBL is inconsistent in investing in non- risky portfolio and NIBL with lowest C.V is consistent in using its deposit in non- risky portfolio.

Figure 4.10: Figure Showing Total Investment to Total Deposits Ratio



4.1.4 Leverage Ratio

Financial leverage or capital structure ratio are calculated to judged the long – term financial position of the firm. These ratios indicate mix of funds provided by owners and lenders. Generally, there should be an appropriate mix of debt and owners equity in financing the firm’s assets. Administration of capital can smoothly by carried with the help of such ratios.

A. Total Debts (Liabilities) to Net worth Ratio

Debt–equity ratio examines the relative claims of creditors and owners against the bank’s assets. Alternatively, total debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. This ratio is presented as following table:

Table 4.11
Total Debts (Liabilities) to Net worth Ratio

(In times)

Name of banks	Fiscal year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	15.68	14.62	13.4	11.6	11.42	13.34	3.55	26.61
NIBL	14.07	13.69	13.47	12.57	11.50	13.06	0.92	7.04

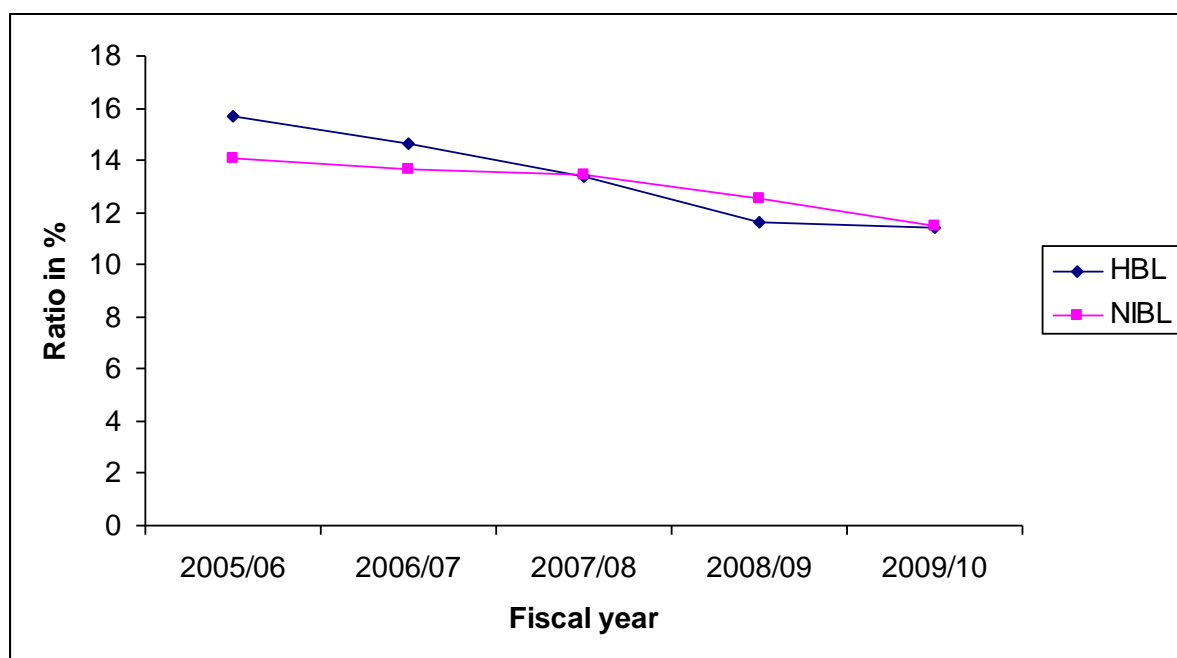
(Source: See Annex 11)

The above ratio has been derived dividing total debts by net worth. The above table shows that commercial banks have highly leveraged based on equity capital. On an average, HBL has the highest ratio of 13.34 times and NIBL has the lowest ratio of 13.06 times. It indicates that HBL has highly leveraged 13.34 times means; debt capital financing is more than 13.34 times of its shareholder's equity.

From S.D point of view, HBL has highest S.D. of 3.55 and NIBL has lowest 0.92. It implies that HBL has high fluctuation (less homogeneity) with respect to total debt to net worth. Similarly, NIBL with lowest S.D of 0.92 has low fluctuation (more homogeneity) with respect to total debt to net worth over the study period.

From C.V. point of view, HBL has the highest C.V. of 26.61% than NIBL has 7.04%. It means, HBL has high degree of variability or is inconsistent in maintaining total debt to total equity over the study period. Following figure shows the total debt to net worth ratio.

Figure 4.11: Figure Showing Total Debts (Liabilities) to Net worth Ratio



B. Total Debts to Total Assets Ratio

This ratio reflects that the portion of outsider's fund financed in the total assets. It signifies the extent of debt financing on the total assets and measure the financial securities to the outsider. The following table shows that the relationship between total debt and total assets.

Table 4.12

Total Debt (Liabilities) to Total Assets Ratio

(In Percentage)

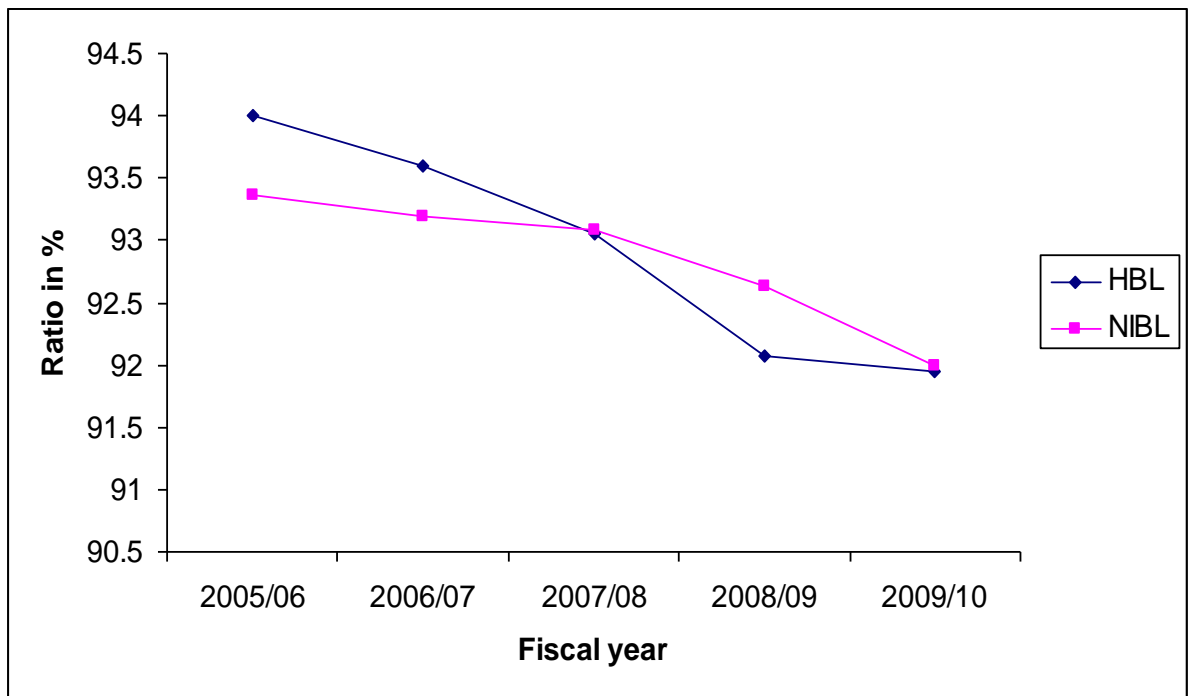
Name of banks	Fiscal Year					Average	σ	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	94	93.6	93.05	92.07	91.95	92.93	0.81	0.87
NIBL	93.36	93.19	93.09	92.63	92.00	92.85	0.49	0.53

(Source: See Annex 12)

The above table shows that on an average basis over the study period, HBL has highly debt financing 92.93% than NIBL has financing only 92.85%. It means HBL borrowed outsider's funds more than NIBL

From S.D. and C.V. point of view, HBL has highest S.D. of 0.81 point and NIBL has lowest S.D. of 0.49 point. It indicates HBL bank has high fluctuation and NIBL has low fluctuation. HBL bank has highest C.V. of 0.87% and NIBL has lowest C.V. of 0.53%. It means, HBL has high degree of variability is inconsistent to utilizing debt to assets ratio where as NIBL has consistent debt financing.

Figure 4.12: Figure Showing Total Debt (Liabilities) to Total Assets Ratio



4.1.5 Earning Per Share

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance or share value, it is profit after tax (NPAT) figure that is divided by the number of common share to calculate the value of earning per share. This figure tells what profit the common shareholder for every share hold

has earned. A company can decide whether to increase or reduce the number of share on issue. This decision will automatically after carrying per share.

Table 4.13
Earning Per Share

(In Rs.)

Name of banks	Fiscal Year					Average	∑	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	59.24	60.66	62.74	61.9	31.80	55.27	11.79	21.33
NIBL	59.35	62.57	57.87	37.42	52.55	53.95	8.88	16.46

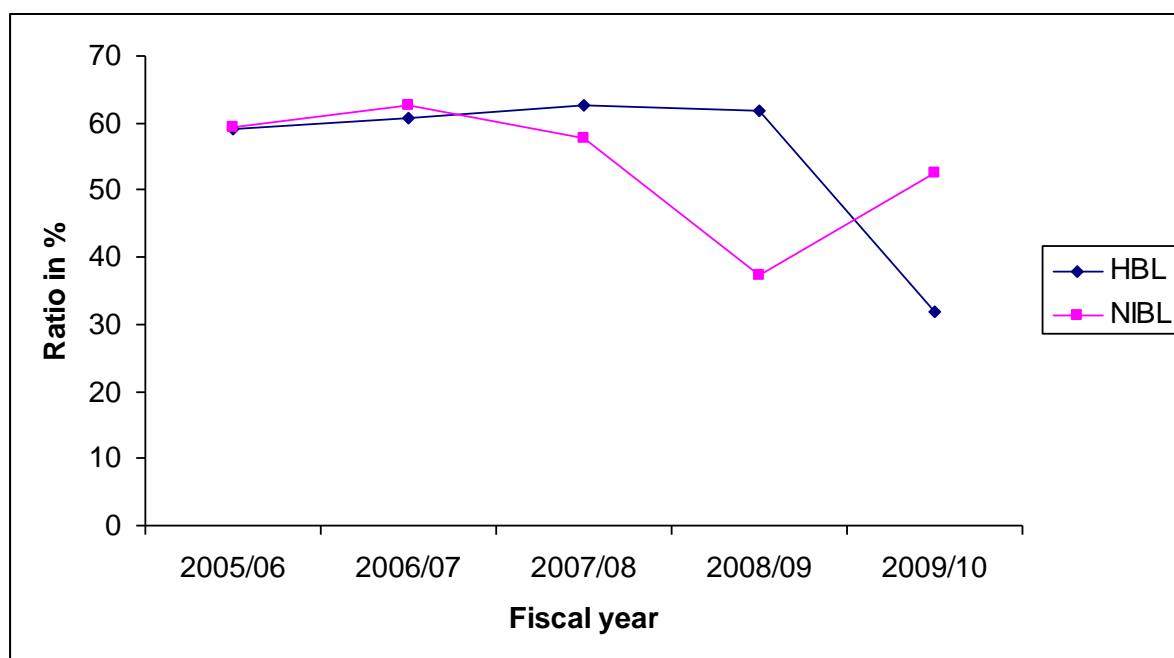
(Source: See Annex 13)

From the above table we can see that on an average, HBL has the highest amount of EPS Rs. 55.27 and NIBL has only 53.95. It means that HBL has been able to provide maximum profit to equity holder on a per share basis.

From the S.D. point of view, HBL has highest S.D. of 11.75 point and NIBL has lowest 8.88 point. It implies that HBL has high fluctuate (less homogeneity) in EPS over the study period. Where as NIBL with lowest S.D. of 8.88 point, indicates that low fluctuation (more homogeneity) in EPS over the study period.

From C.V. point of view, HBL has the highest C.V. of 21.33% and NIBL has lowest 16.46%. It implies that HBL has high degree of variability or is inconsistent in EPS amount over the study period than NIBL.

Figure 4.13: Figure Showing Earning Per Share



4.1.6 Dividend Payout Ratio

Dividend payout ratio measures what percentage/portion of the net profit after tax and preference dividend is paid out to the equity shareholders as dividend and how much it is retained in the firm for the purpose of expansion and growth in the future. This ratio has been presented by following table.

Table 4.14

Dividend Payout Ratio

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	50.64	24.73	39.85	50.98	34.21	40.08	10.00	24.95
NIBL	33.7	7.99	12.96	53.45	46.25	30.85	17.88	57.92

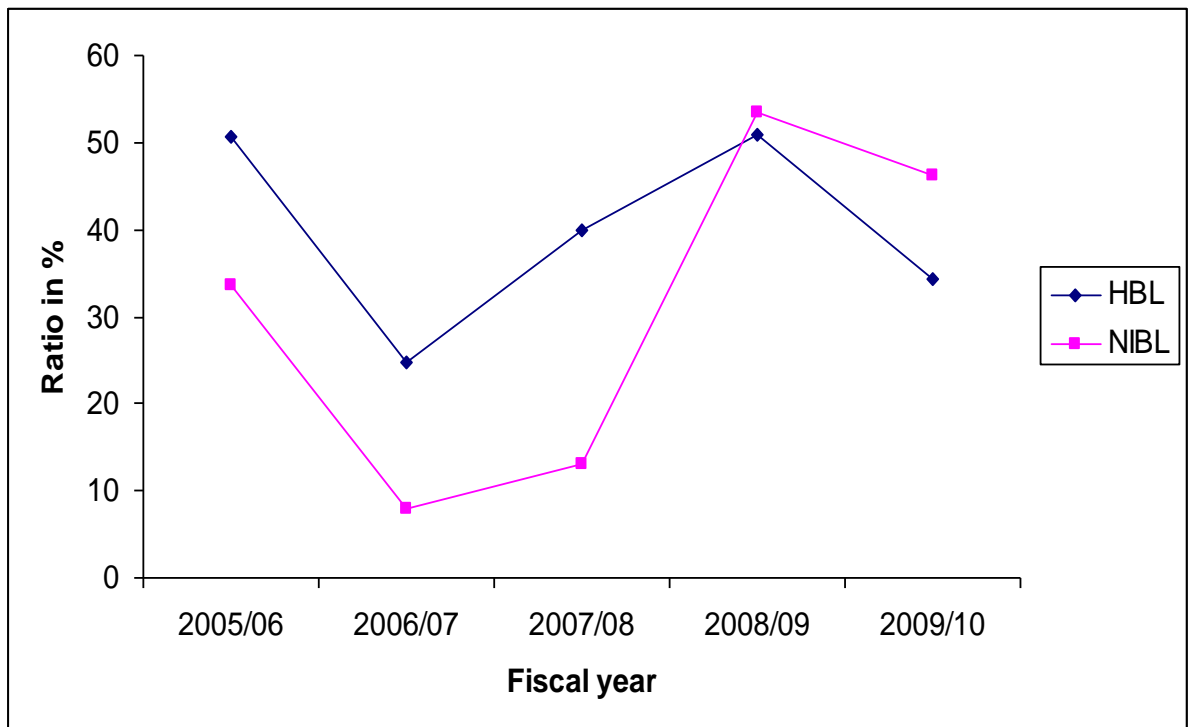
(Source: See Annex 14)

From the above table we can see that on an average basis HBL has the highest percentage of payment ratio with 40.08% and NIBL has the lowest ratio with 30.87%.

From S.D. point of view, NIBL bank has the highest S.D. of 17.88 point and HBL has the lowest S.D. of 10.00 point. It implies that NIBL has high fluctuation in providing dividend through out the study period. HBL with lowest S.D indicates low fluctuation in providing dividend to its shareholders throughout the study period.

From the C.V. point of view, NIBL has the highest C.V. of 57.92%. And HBL has the lowest C.V. of 24.95%. It indicates that NIBL bank have high degree of variability and HBL has low degree of variability is consistent in providing a regular amount as dividend.

Figure 4.14: Figure Showing Dividend Payout Ratio



4.1.8 Income Analysis

The cost have been occurred in increasing revenue are called income. This analysis shows the proportionate income under different heading. Under this analysis, net interest income, exchange gain and commission income should be taken.

A. Net Interest Income to Total Income

This ratio has been derived dividing net interest income by total income. It indicates that, how much percentage of net interest income obtained from total income.

The following table shows that the net interest income to total income of selected joint venture banks.

Table 4.15
Net Interest Income to Total Income

(In percentage)

Name of banks	Fiscal Year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	47.87	46.66	47.08	48.15	42.98	46.55	1.86	4.00
NIBL	47.01	46.57	45.5	41.56	39.70	44.07	2.91	6.60

(Source: See annex 15)

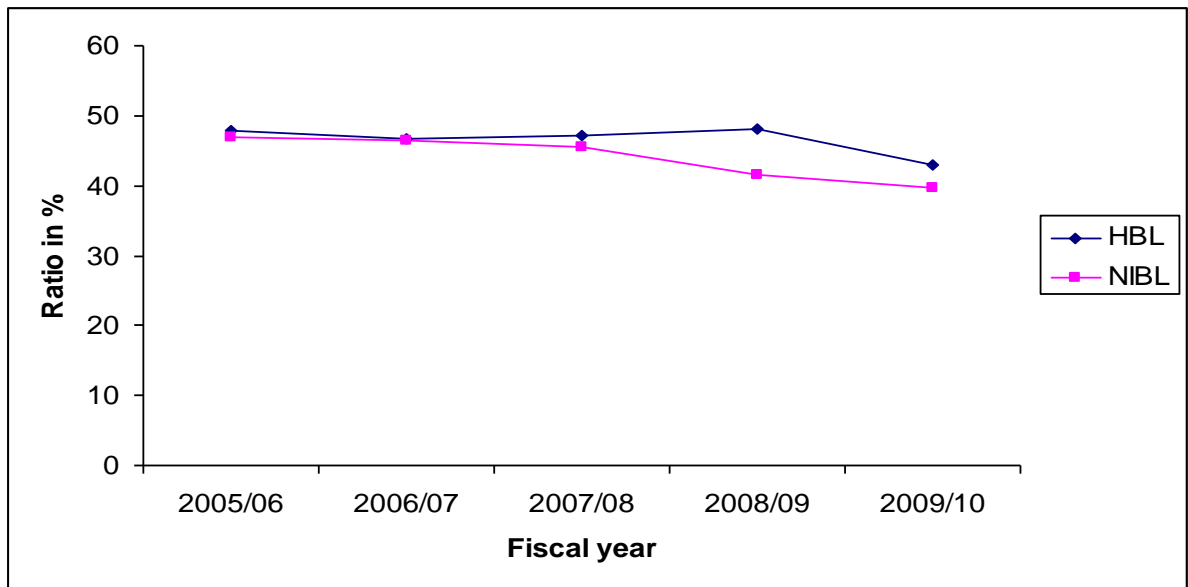
From the above table on an average basis, HBL has the highest percentage of net interest income on total income i.e. 46.55% and NIBL has lowest 44.07%. It indicates that, HBL has successful to earn net interest income over the study period.

From S.D. point of view, NIBL has the highest S.D. of 2.91 point and HBL has the lowest 1.86 point. It indicates that NIBL Bank has high fluctuation in net interest income and HBL has low fluctuation in net interest income over the study period.

From C.V. point of view, NIBL has the highest C.V. of 6.60% and HBL has the lowest C.V. of 4.00%. It implies that, NIBL Bank has high degree of variability or is

inconsistent to earn net interest income over the study period. HBL has low degree of variability or is consistent to earn net interest income than other sampled bank. Following figure shows the net interest income to total income ratio.

Figure 4.15: Figure Showing Net Interest Income to Total Income



B. Exchange Income to Total Income

Income from foreign exchange includes income through the sale and buys exchange currency and revaluation again. Exchange income to total income ratio is presented as following table.

Table 4.16
Exchange Income to Total Income

(In percentage)

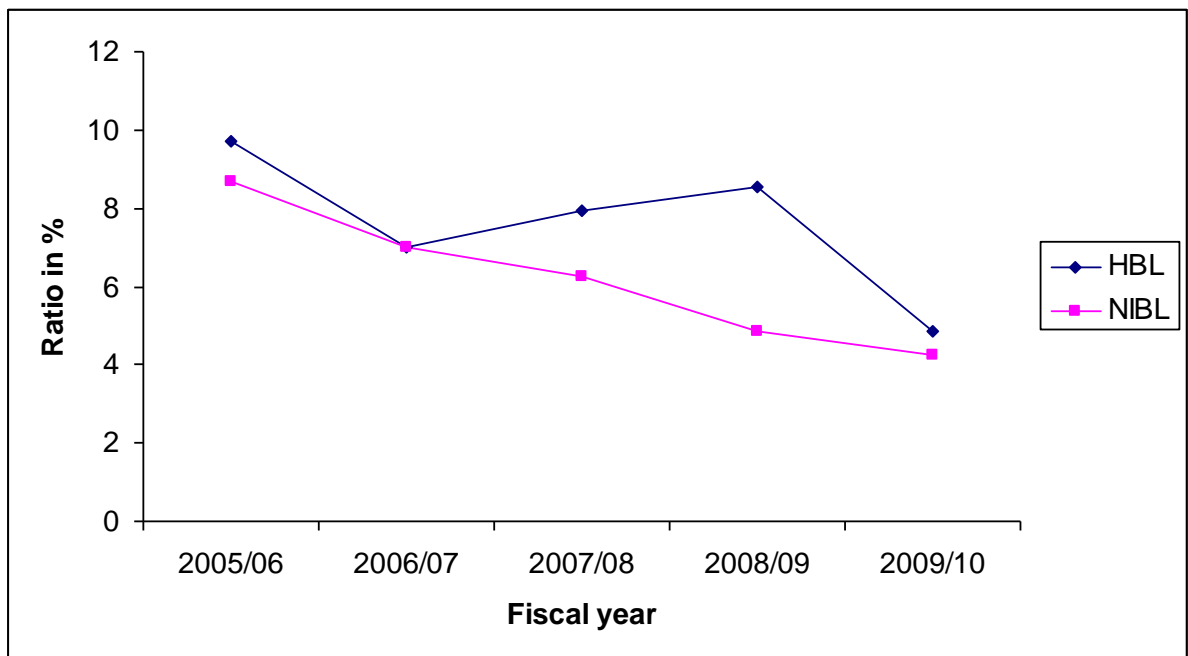
Name of banks	Fiscal year					Average	∃	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	9.7	7.02	7.95	8.55	4.86	7.62	1.63	21.39
NIBL	8.67	7.01	6.28	4.87	4.24	6.21	1.57	25.33

(Source: See Annex 16)

From the above table on an average basis, HBL has the highest ratio of 7.62% and NIBL has lowest ratio with 6.21%. It implies that HBL has highest exchange income out of total incomes than NIBL.

From the S.D. point of view, HBL has the highest S.D. of 1.63 point and NIBL has the lowest S.D. with 1.57 point. It implies that, HBL has high fluctuation (less homogeneity) in generating foreign exchange income over the study period and NIBL Bank has lowest fluctuation in generating foreign exchange income over the study period. From C.V. point of view, NIBL has highest C.V. of 25.33% and HBL has lowest C.V. of 21.39%. It indicates that, HBL is consistent in generating its exchange income out total income over the study period.

Figure 4.16: Figure Showing Exchange Income to Total Income



C. Commission and Discount Received to Total Income

Commission and discount include income received as commission and discount from letter of credit, drafts, bank transfers, and guarantee, selling share, remittance charges other charges and commission are other prominent items of commission and discount.

The following table shows that the relationship between commission and discount received to total income.

Table 4.17
Commission and Discount Received to Total Income

(In percentage)

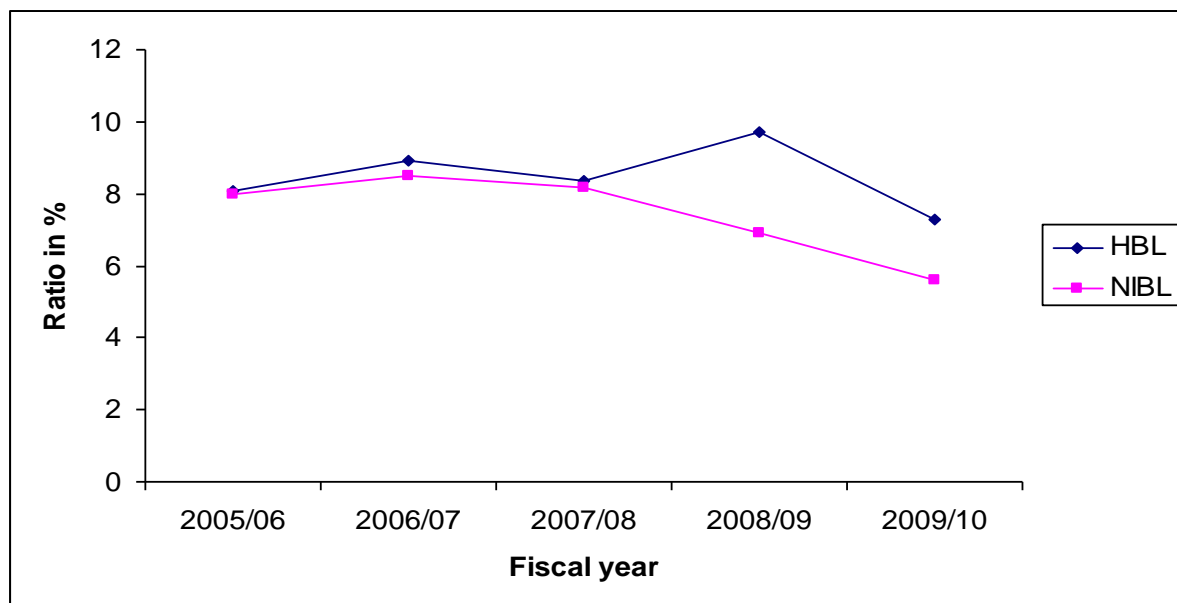
Name of banks	Fiscal year					Average	∑	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	8.1	8.94	8.38	9.73	7.28	8.49	0.82	9.66
NIBL	7.99	8.49	8.15	6.91	5.60	7.43	1.06	14.21

(Source: See Annex 17)

From the above table on an average basis, HBL has the highest ratio of 8.49% and NIBL has lowest ratio with 7.43%. It implies that HBL has highest commission and discount income out of total income over the study period than NIBL.

From the S.D. point of view, NIBL has the highest S.D. of 1.06 point and HBL has the lowest S.D. with 0.82 point. It means, NIBL has high fluctuation/ less homogeneity in receiving commission and discount income over the study period, HBL has lowest fluctuation (more homogeneity) in receiving commission and discount income over the study period. From C.V. point of view, NIBL has highest C.V. of 14.21% and HBL has lowest C.V. of 9.66%. It implies that, NIBL is not consistent to generate its commission and discount income over the study period than HBL.

Figure 4.17: Figure Showing Commission and Discount Received to Total Income



4.1.9 Expenditure Analysis

The cost have been occurred in reducing revenue are called expenses. This analysis shows the proportionate expenses under the different headings.

A. Interest Expenses

Interest expenses of all the selected banks are presented as following table:

Table 4.18
Interest Expenses

(Rs. in million)

Name of banks	Fiscal Year					Average	∑	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	648.84	767.41	823.74	934.78	1553.53	945.66	317.60	33.58
NIBL	490.95	685.53	992.16	1686.97	2553.85	1281.89	754.60	58.87

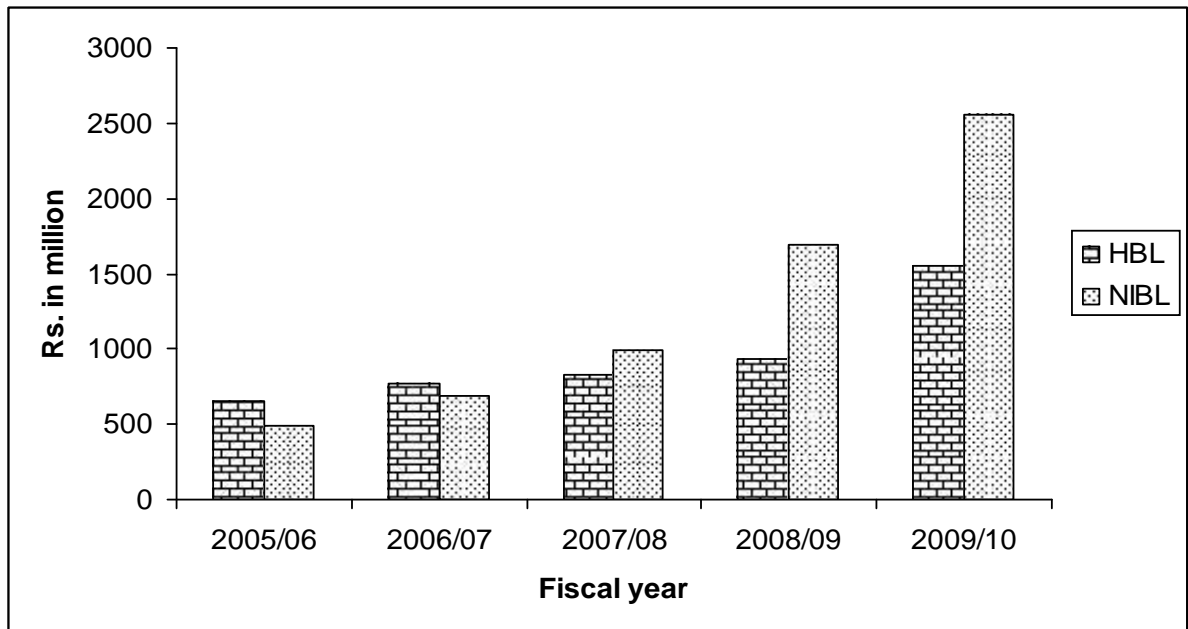
(Source: See Annex 19)

In this study, interest expenses denote the interest paid on deposits borrowing fees, loan and advances and commission.

From the above table, interest expenses are all in the fluctuating trend. On an average basis, NIBL has the highest amount of Rs. 1281.89 million. And HBL has the lowest interest expenses with Rs.945.66 million.

From the S.D. and C.V. point of view, NIBL has highest S.D. i.e. 754.60 point and C.V. i.e. 58.87%. It means, NIBL has paid or expenses higher amount of interest than other selected banks. HBL has lowest S.D. i.e. 317.60 point and C.V. i.e. 33.58% which implies that the bank has paid lower amount of interest over the study period.

Figure 4.18: Bar-Diagram Showing Interest Expenses



B. Staff Expenses

Staff expenses refer salary and allowance provided and gratuity fund, staff training expenses and other expenses related with staff.

Staff expenses are presented as following table:

Table 4.19
Staff Expenses

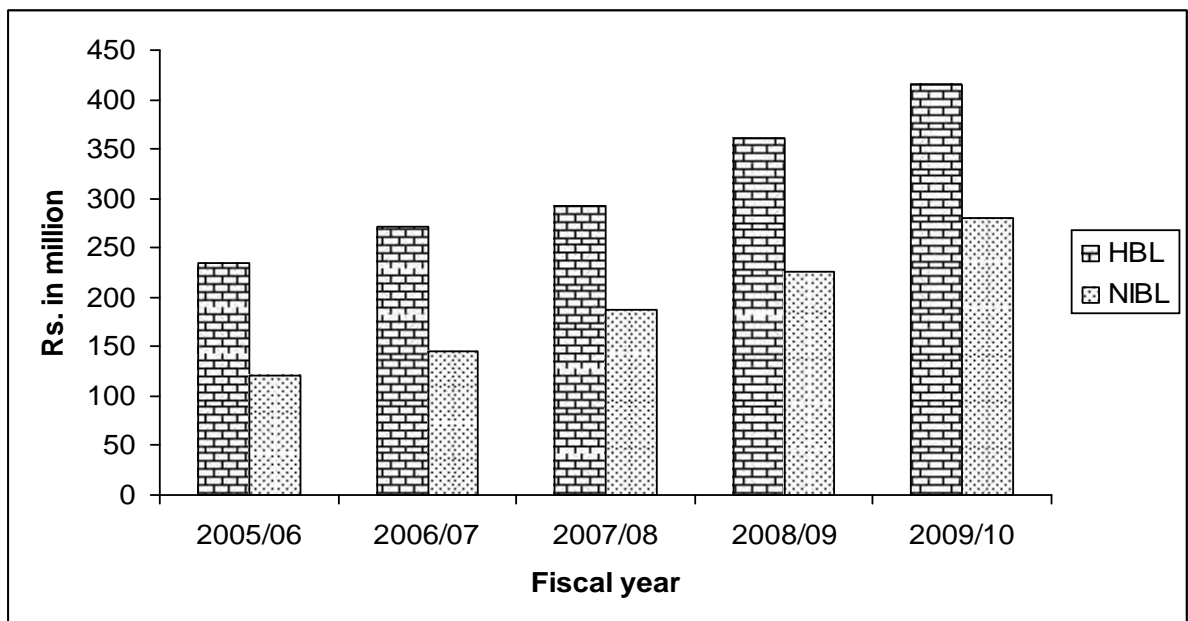
Name of banks	Fiscal Year					Average	∑	C.V.
	2005/06	2006/07	2007/08	2008/09	2009/10			
HBL	234.58	272.22	292.21	360.98	414.98	315.00	64.69	20.54
NIBL	120.66	145.37	187.15	225.72	279.85	191.75	56.82	29.63

(Source: See Annex 20)

From the above table, staff expenses are all in the fluctuating trend. On an average basis, HBL Bank has the highest amount of Rs. 315.00 million and NIBL has the lowest amount of staff expenses with Rs. 191.75 million. From S.D. point of view, HBL has the highest S.D with 64.69 point and NIBL has 56.82point. It indicates that HBL has the highest flotation and inconsistent to its. Staff expenses over the study period than NIBL.

From C.V. point of view NIBL has highest CV with 29.63% and HBL has lowest CV with 20.54%. It implies that NIBL has high fluctuation to pay staff expenses than HBL.

Figure 4.19: Bar-Diagram Showing Staff Expenses



4.2 Statistical Tools

In this study, statistical tools have been grouped into coefficient of correlation, probable error and coefficient of determination.

4.2.1 Karl Pearson's Coefficient of Correlation

It is most widely used statistical tools, which measures the significance of the relationship between two variables during the study period. Correlation coefficient is calculates to measure the relationship between Net profit and total deposit of selected joint venture banks. The value of coefficient of correlation shall always be between ± 1 . Where, $r = 1$ means perfect positive correlation between variables. Where $r = -1$, it means perfect negative correlation between variables. Where $r = 0$, there is no relationship between two variables.

The formula for computing Karl person's coefficient of correlation is as follows.

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

Here,

N= No. of pairs where x and y absorbed.

X= Value of net profit (after tax)

Y= Value of total deposits

r=Karl Pearson's Coefficient of Correlation

XY= Sum of product of variable x and y

Table 4.20
Coefficient of Correlation between Net Profit (Dependent) and Total Deposit
(Independent) of HBL Bank Ltd.

(Rs. In Million)

Fiscal Year	X	Y	X ²	Y ²	XY
2005/06	457.46	26490.85	209269.65	701765134	12118504.24
2006/07	491.82	30048.42	241886.91	902907544	14778413.92
2007/08	635.87	31842.79	404330.66	1013963275	20247874.88
2008/09	752.83	34681.35	566753.01	1202796038	26109160.72
2009/10	508.80	37611.20	258877.44	1414602365	19136578.56
Total	2846.78	160674.46	1681117.67	5236034356	92390532.32

N=5 years

$$x^2 = 1681117.67$$

$$x = 2846.78$$

$$Y^2 = 5236034356$$

$$Y = 160674.46$$

$$XY = 92390532.32$$

We have

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

$$\therefore r = 0.434$$

Above calculation of coefficient of correlation between net profit and total deposit of HBL Bank Ltd. is 0.434. This analysis indicates that there is a positive correlation between net profit and total deposit. Therefore, net profit is affected by total deposit and there is relation between net profit and total deposit.

Table 4.21
Coefficient of Correlation between Net profit (Dependent) and Total Deposit
(Independent) of NIBL.

Fiscal Year	X	Y	X ²	Y ²	XY
2005/06	350.54	18927.3	122878.29	358242685	6634775.74
2006/07	501.4	24488.86	251401.96	599704264	12278714.40
2007/08	696.73	34451.73	485432.69	1186921700	24003553.84
2008/09	900.62	46698.10	811116.38	2180712544	42057242.82
2009/10	1265.95	50094.73	1602629.403	2509481974	63417123.44
Total	3715.24	174660.72	3047198.723	6835063167	148391710.3

N=5 years

$$x^2 = 3047198.723$$

$$x = 3715.24$$

$$Y^2 = 6835063167$$

$$Y = 174660.72$$

$$XY = 148391710.3$$

We have

$$r = \frac{N\phi_{xy} Z f_{\phi_x} A f_{\phi_y} A}{\sqrt{N\phi_{x^2} Z f_{\phi_x} A N\phi_{y^2} Z f_{\phi_y} A}}$$

$$\dots r = 0.959$$

Above calculation of coefficient of correlation between net profit and total deposit of NIBL is 0.959. This analysis indicates that, there is a positive correlation between net profit and total deposit. Therefore, net profit (dependent variable) is affected by total deposit (independent variable).

4.2.2 Computation of Probable Error

If the value of 'r' is less than six times of probable error, there is no evidence of correlation i.e. value of r is not significant. Thus, if the value of 'r' is more than six times of probable error, the coefficient of correlation is practically, i.e. the value of 'r' is significant.

Formula:

$$P.E_r = 0.6745 \frac{1Zr^2}{\sqrt{N}}$$

Probable Error of HBL Bank Ltd.

Here, $r = 0.434$ $N = 5$ years

We have,

$$\begin{aligned} P.E_r &= 0.6754 \frac{1Zr^2}{\sqrt{N}} \\ &= 0.2452 \end{aligned}$$

Since, the value of 'r' is less than six times of probable error (i.e. $r < 6 \times 0.2452$). The value of 'r' is insignificant. It reveals that developing more worth in the capital structure does not seem to be benefited in term of probability of HBL Bank Ltd.

Probable Error of NIBL

Here, $r = 0.959$ $N = 5$ years

We have,

$$\begin{aligned} P.E_r &= 0.6745 \frac{1Zr^2}{\sqrt{N}} \\ &= 0.02423 \end{aligned}$$

Since, the value of 'r' is more than six times of probable error (i.e. $6 \times 0.02423 < 0.959$). The value of 'r' is significant. It implies that management should prepare a promoting planning of increasing the net worth to increase the return.

4.2.3 Correlation between Net Profit and Total Deposit

Net profit refers to profit after deducting interest and taxes: The total deposit of the bank comprises of fixed deposit, saving deposit, current deposit and margin deposit etc. In this study, correlation analysis between two variables, net profit and total

deposit are calculated to measure the closeness of relationship between them to what extent dependent variable i.e. net profit will be changed when there is a change in independent variable i.e. total deposit. The summary of various values are presented in following table.

Table 4.22
Correlation between Net Profit and Total Deposit

Evaluation criteria	HBL Bank	NIBL
Coefficient of correlation (r)	0.434	0.959
Coefficient of determination (r^2)	0.188	0.919
Probable error (P.E _r)	0.2452	0.02423
6 P.E _r	1.47	0.1454

From the above table we see that the correlation coefficient between net profit and total deposit of HBL bank and NIBL are 0.434 and 0.959 respectively which shows positive relationship between net profit and total deposit of NIBL and HBL. In order to measure the degree of change on dependent variable net profit due to the change in independent variable total deposit, value of coefficient of determination (r^2) is calculated. On the basis of coefficient of determination, it can be concluded that when there is change in total deposit it bring 18.8% change in net profit of HBL bank and 91.9% of NIBL over the study period.

Considering the probable error (P.E.), the value of 'r' ($0.959 > 0.1454$) in NIBL and HBL is greater than six times of the P.E. (6 P.E_r). Therefore, we can say that the value of 'r' is significant i.e. there is significant relationship between net profit and total deposit of NIBL. And the probable error (P.E.) the value of 'r' ($0.434 < 1.47$) is less than six times of the P.E. therefore, we can say that the value of 'r' is insignificant i.e. ($P.E. < r < 6 P.E.$) nothing can be concluded between net profit and total deposit of HBL.

4.3 Trend Analysis Least Square Method

Trend analysis is a statistical tool, which will highlight the previous trend of the financial performance and helps in forecasting the future financial results of elected joint venture banks. Trend analysis shows the trend of loan and advances of selected banks for eight years. Loan and advance shows a bank's efficiency in performance of efficient utilization of the same indicates its success and profitability.

The trend analysis on loan and advances for coming year is following.

The value of Y (Loan and advance) when financial year is 6th year (2010/11), to 10th Year (2014/15):

Calculation of Straight Line Trend Analysis of Loan and Advance of HBL Bank Ltd. (See Annex 18)

Now, Regression equation $Y = a + bX$

Loan and advances on 6th year (2010/11)

$$Y = 10440.98 + 3447.13 \times 6 \\ = 31123.76 \text{ million}$$

Loan and advances on 7th year (2011/12)

$$Y = 10440.98 + 3447.13 \times 7 \\ = 34570.89 \text{ Million}$$

Loan and advances on 8th year (2012/13)

$$Y = 10440.98 + 3447.13 \times 8 \\ = 38018.02$$

Loan and advances on 9th year 2013/14)

$$Y = 10440.98 + 3447.13 \times 9 \\ = 41465.15$$

Loan and advances on 10th year 2014/15)

$$Y = 10440.98 + 3447.13 \times 10 \\ = 44912.28$$

Calculation of Straight Line Trend Analysis of Loan and Advance of NIBL Bank Ltd. (See Annex 19)

Now, Regression equation $Y = a + bX$

Loan and advances on 6th year (2010/11)

$$Y = 4511.76 + 7404 \times 6$$

$$= 48935.76 \text{ million}$$

Loan and advances on 7th year (2011/12)

$$Y = 4511.76 + 7404 \times 7$$

$$= 56339.76 \text{ million}$$

Loan and advances on 8th year (2012/13)

$$Y = 4511.76 + 7404 \times 8$$

$$= 63743.76 \text{ million}$$

Loan and advances on 9th year (2013/14)

$$Y = 4511.76 + 7404 \times 9$$

$$= 71147.76 \text{ million}$$

Loan and advances on 10th year (2014/15)

$$Y = 4511.76 + 7404 \times 10$$

$$= 78551.76 \text{ million}$$

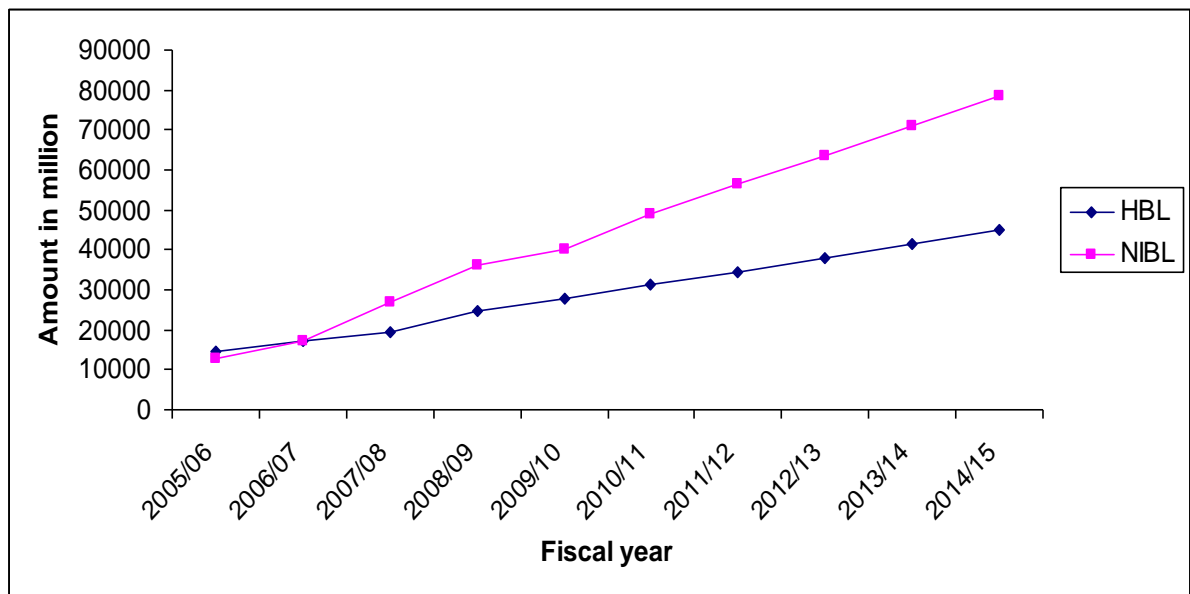
Table 4.23

Trend Analysis of Loan and Advance of HBL and NIBL

Fiscal year	HBL	NIBL
2005/06	14642.56	12776.2
2006/07	16998	17286.43
2007/08	19497.52	26996.65
2008/09	24793.16	36241.2
2009/10	27980.63	40318.31
2010/11	31123.76	48935.76
2011/12	34570.89	56339.76
2012/13	38018.02	63743.76
2013/14	41465.15	71147.76
2014/15	44912.28	78551.76

According to the above table, loan and advances of each bank have increased trend at the end of fiscal year 2010/11, to 20014/15. On the other hand, average growth rate of NIBL bank is higher (i.e. per year 7404M) than HBL bank (i.e. 3447.13M). NIBL Bank in regards to loan and advances on view of outsider must be able to attract, so that it can increase the deposit volume.

Figure 4.20: Trend analysis of loan and advance bank of HBL and NIBL



4.4 Major Findings of the Study

The major findings of the study are derived on the basis analysis of selected JVBs, which are given below.

4.4.1 Liquidity Ratio

The liquidity position of selected JVBs reveals that:

) The average current ratio of HBL bank and NIBL are 1.068 and 1.088 respectively. It shows that the current ratio of all the sample banks is below the standard ratio 2:1. It is clear that NIBL bank has slightly more liquid than HBL

bank. But it can't be concluded that both the banks are in poor condition with low current ratio.

) The average ratio of cash and bank balance to total deposit of HBL and NIBL are 7.19 and 12.76 percentage respectively. It reveals that on an average basis NIBL has more liquid to serve its depositors in time with enough cash in hand. And HBL bank is found to be holding less cash in hand than its deposits.

) The average ratio of cash and bank balance to current assets of HBL bank and NIBL are 6.66% and 11.66% respectively. It indicates that the ratio of NIBL has the highest ratio than HBL bank. It implies that both the sample banks do not have enough cash balance with respect to current assets. However, NIBL seems to be in better position than HBL bank.

4.4.2 Profitability Ratio

The profitability ratio of three JVBs reveals that:

) The average ratio of net profit to total assets of HBL and NIBL are 1.58% and 1.83% respectively. It implies that, on an average basis, NIBL bank has earned highest percentage (i.e. 1.83%) of net profit by utilizing its total assets among the sampled banks. Similarly, on an average basis, HBL has earned 1.58% of net profit against the use of total assets over the entire study period. The above ratio shows how efficiently the sample banks have utilized their available assets over the study period. In average, HBL has the lowest ratio i.e. 1.58%. It means that HBL has not mobilized its assets into profit generating projects than NIBL bank.

) The average ratio of net profit to total deposit of HBL and NIBL are 1.78% and 2.08 % respectively. It implies that, on an average basis, NIBL bank has earned the highest percentage (i.e. 2.08%) of net profit by utilizing its total deposit than other sampled bank. Like wise, HBL has earned the lowest percentage (i.e. 1.78%) of net profit by utilizing its total deposit over the entire study

period. The above ratio shows low efficiently the sample banks have utilized their available deposit into profit generating project. On the other hand, NIBL bank with highest ratio has been successful in the earning more net profit by the proper use of its available deposits than HBL.

) The average ratio of return on shareholders equity (net worth) of HBL and NIBL are 22.61% and 25.58% respectively. It implies that, on an average basis, NIBL has provided the highest percentage (i.e.25.58%) of return to its shareholder by utilizing the shareholders fund than HBL bank. The above ratio shows how much profitability the sample banks have utilized the available fund of shareholders into profit generation over the study period. And other hand HBL has the lowest ratio. It means that HBL has not mobilized the fund of shareholder effectively into profit generating project.

) The average ratio of net interest earned to total assets of HBL and NIBL are 3.36% and 3.24% respectively. It implies that, on an average basis HBL Bank has earned the highest percentage (i.e. 3.36%) of net interest by utilizing its total assets into interest generating projects. Among all the sample banks, NIBL has the lowest ratio. It means that NIBL has not mobilized its assets into interest generating projects.

4.4.3 Activity Ratio

The activity ratio of selected JVBs reveals that:

) The average ratio of loan and advances to total deposit of HBL and NIBL are 63.80% and 74.91% respectively. It implies that NIBL has used highest percentage (i.e. 74.91%) of total deposit into loan and advances than other sampled banks over the study period. Similarly, HBL has used lowest percentage (i.e. 63.80%) of total deposit into loan and advances over the study period.

) The average ratio of loan and advances to total assets of HBL and NIBL are 56.57% and 66.15% respectively. It indicates that NIBL has used highest

percentage (i.e. 66.15%) of total assets in loan and advances than HBL bank over the study period.

-) The average ratio of total investment to total deposit of HBL and NIBL are 34.02% and 21.84% respectively. It implies that on an average HBL bank has used 34.02% of total deposit into investment in other projects than regular loans. Similarly, on an average NIBL has used 21.84% of total deposit into investment. In term of investment against total deposit, HBL has used highest percentage (i.e. 34.02%) of its total deposit into non-risky ventures and is ahead of all the sample banks.

4.4.4 Leverage Ratio

The leverage ratio of sampled JVBs reveals that:

-) The average ratio of total debt to net worth of HBL and NIBL are 13.34 and 13.06 times respectively. It implies that HBL has highly leverage 13.34 times means, debt capital financing is more than 13.34 times of its shareholder equity over the study period where as NIBL bank has lowest ration (i.e. 13.06 times) of total debts of net worth.
-) The average ratio of total debt to total assets of HBL and NIBL are 92.93% and 92.85% respectively. It indicates that HBL has highest ratio (i.e. 92.93%) of total debt into total assets. over the study period, on an average basis HBL has highly debt financing means, this bank, and borrowed outsider's funds by 92.93% and NIBL has borrowed only 92.85%.

4.4.5 Earning Per Share

The average earning per share of HBL and NIBL are Rs. 55.27 and Rs. 53.95 respectively. On an average basis, HBL has the highest earning per share (i.e. Rs. 55.27) than NIBL bank. In the EPS point of view HBL is earns more profit than NIBL

4.4.6 Dividend Payout Ratio

The average dividend payout ratio of HBL and NIBL are 40.08% and 30.87% respectively. HBL has highest dividend payout ratio (40.08%) with provides maximum amount of dividend to its shareholder over the entire study period than compare the NIBL bank.

4.4.8 Income Analysis

The income analysis is selected JVBs reveal that:

-) The average net interest income to total income of HBL and NIBL are 46.55% and 44.07% respectively. Over the study period, HBL has highest and NIBL has lowest net interest income on total income. It implies that HBL has generated more interest income than NIBL bank.
-) The mean exchange income to total income of HBL and NIBL are 7.62% and 6.21% respectively. It indicates that HBL is success to generating exchange income than NIBL bank over the study period
-) The average ratio of commission and discount received to total income of HBL and NIBL are 8.49% and 7.43% respectively. It indicates that HBL has highest commission and discount income out of total income than NIBL bank over the study period.

4.4.9 Expenditure Analysis

From the analysis of expenditure of concerned banks, reveal that:

-) The average interest expenses HBL and NIBL are 945.66M and 1281.89M respectively. It shows that NIBL has been growing interest expenses than HBL.
-) The average staff expenses of HBL and NIBL are 315.00 and 191.75 Million respectively. It means that HBL bank has been paying highest amount of staff

expenses (i.e. salary, allowance and gratuity funds etc.) than other bank over the entire study period.

4.4.10 Correlation and Regression Analysis

HBL and NIBL have positive coefficient of correlation i.e. 0.434 and 0.959 respectively. It refers that these two banks net profit (dependent variable) is affected by total deposit (independent variable).

These correlations are more than six times than that of probable error. Thus, the NIBL bank has significant value of coefficient of correlation. And HBL bank has insignificant value of coefficient of correlation.

4.4.11 Trend Analysis

Loan and advances of each bank have increased trend at the end of fiscal year 2010/11 to 2014/15. On the other hand, average growth of NIBL Bank is higher than HBL bank.

CHAPTER- V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter highlights some selected actionable conclusion and recommendations on the basis of the major findings of the study derived from the analysis. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation is made for improving the presence situation to the concerned parties as well as further research.

5.1 Summary

Commerce and industry is the backbone of the country and it is the main indicator of development. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle resources from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earned to the labors and materials suppliers to such industries and traders.

Commercial banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must reasonable profitability.

Under this study, the researcher has tried to cover the various aspects of selected joint venture banks covering the period of five years from 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10. In the first introductory chapter, the study report has tried to give history and introduction of banking and its relation to the economy, brief profile of the concerned banks, general concepts of financial statement and the statement of

problem, objectives of the study and its limitation. During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted. And as per requirement, internet materials from relevant websites are also visited. These works are compiled in the second chapter titled “Review of Literature” of this report.

For this study, the researcher has gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data analyze the financial performance of selected banks (1) Financial ratios to calculate various ratios (2) Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc are followed for this research work in third chapter titled “Research Methodology”.

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial and statistical tools and findings of the study have been listed in a systematic manner. All these works are compiled in the fourth chapter titled “Data Presentation and Analysis” of the study.

Finally, the summary, conclusion and the recommendation made by the research are presented in the current chapter titled “Summary, Conclusion and recommendations.”

5.2 Conclusions

Based on the major findings of this study some conclusion has been drawn. This study reveals that the average current ratio of both banks i.e. HBL and NIBL are greater than 1 but NIBL has the highest current ratio. It means NIBL bank’s solvency position is better than HBL. The cash and bank balance of NIBL with respect to total

deposit is more liquidity than other HBL banks. It indicates that NIBL is able to make immediate payments to its depositor.

Between the two sample banks, HBL has the lowest ratio of net profit to total assets. It means HBL has not mobilized its assets into profit generating projects. NIBL bank has been successful in earning more net profit by the proper use of its available assets. Similarly, HBL has not mobilized its deposit into profit generating project and NIBL bank with the highest ratio has been successful in the earning more net profit by the proper use of its available deposit than others. In case of mobilized the funds of shareholders efficiently into profit generating projects also, HBL does not mobilized and NIBL has been successful in providing more rate of return to its shareholders by the proper use of their available funds than others. Between the two sample banks, NIBL has not mobilized its assets into interest generating projects (i.e. income from loans, advances, cash credit and overdrafts, government securities, inter commercial banks other investment). HBL bank with the highest ratio has been successful in generating more interest income by the proper use of its available assets.

In term of loan and advances against total deposits, NIBL has used more percentage of its total deposits into loan and advances than HBL bank. From all the sample banks, HBL has mobilized highest percentage of its total deposit into total investment (i.e. investment into government securities, debentures and bonds, shares in subsidiary commercial bank, companies and other investments). From leverage ratio, HBL has high debt to total assets ratio represents a greater risk to creditor and shareholders than other NIBL bank..

Earning per share of HBL has the highest than NIBL bank. Similarly, with the highest dividend payout ratio of HBL refers that the bank provides maximum amount of dividend to its shareholders than NIBL bank. From income analysis, HBL has highest net interest income to total income ratio than NIBL bank. Similarly, exchange income

to total income ratio of HBL is greater than other selected JVBs. Likewise, commission and discount income of HBL is higher than NIBL banks. From expenditure analysis, an interest expense of NIBL is highest than HBL. Similarly, HBL bank has been paying highest amount of staff expenses as salary, allowance and gratuity funds to its staff. From correlation and regression analysis, NIBL and HBL have positive coefficient of correlation between net profit and total deposit. It means net profit is depended on the nature of deposit. From trend analysis, loan and advances of each bank have increased trend but average growth of NIBL bank is higher than HBL bank.

5.3 Recommendation

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as below:

-) Based on liquidity ratio analysis it is found that selected joint venture banks so not have the standard current ratio (2:1). However, from aggressive working capital point of view it is not considered so bad. NIBL seem to have held more cash and bank balance rather than HBL bank. To maintain liquidity in perfect, all commercial banks have to follow the mid way i.e. they should invest the idle deposit in productive sector and on the other hand they have enough cash balance to meet current requirement.
-) The profitability ratio incase of HBL, it has lowest with the result of lower profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Since by decreasing costs, profit of any bank can grow considerably, they must search for loopholes in their operations where unnecessary costs are being incurred and should eliminate them.
-) Based on activity ratio analysis it is found that all the NIBL bank was emphasized in issuing loan and advances in compare to HBL. However, as we know that the increasing bottleneck competition and worsening economic

- condition has attributing this area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.
-) In case of two sample bank, debt financing has always almost exceeded 90% of the total assets over the review period, which indicates the excessively use of debt finance to total assets. Nevertheless, extensive use of debts capital with the failure in advancing good loans can jeopardize the solvency position of these banks. Therefore, it is suggested to the sample bank to assess the risk assets portfolio cautiously before accepting higher volumes of deposits.
 -) Expenses are the vital determinations to increase or decrease the profitability of the banks. Interest expenses on deposits also affect the profitability of the banks. Thus, it is recommended that banks should try to reduce the amount of high interest bearing deposits like fixed deposits, saving deposit and others. Instead they should concentrate of non-interest bearing deposit like current deposit, margin deposit etc. At the same time, bank should try to reduce the operating expenses to increase the profitability.
 -) Shareholders are the real owners of the organization. But they do not seem to be happy with the rate of return on equity provided by the banks. Thus, it is recommended that the management team should put emphasis on the maximizing the wealth of the shareholders. Low market price of share and less earning per share of commercial banks indicated the poor performance in the market. Similarly low dividend payout ratio also discourages the shareholders. Reviewing the study, HBL has EPS and dividend payout ratio than NIBL. Therefore, it is suggested to the management team of NIBL to improve their performance.

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ANNEXES

Annex-I

Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

in times

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/10
current Assets	28,254,223,330	32,288,346,430	34,804,369,650	37,723,166,340	40600869610
current liabilities	26947463290	30518541990	32310844470	34967114380	38032232290
Ratio	1.05	1.06	1.08	1.08	1.07

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/10
current Assets	20,785,598,082.0	26569591570	37625617440	51559022140	55769728020
current liabilities	19077071540	24565202550	34648115750	47342988320	50826476160
Ratio	1.09	1.08	1.09	1.09	1.10

cash and bank balance to total deposit ratio

= $\frac{\text{cash and bank balance}}{\text{Total deposit}} \times 100\%$

annex 2

HBL

in percentage

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/10
cash and bank balance	1,717,622,336.00	1,757,341,252.00	1448142890	3048526788	3866490684
Total Deposit	26490851640	30048417756	31842789356	34681345179	37611202274
Ratio	6.48	5.85	4.55	8.79	10.28

NIBL

Fiscal Year	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009
cash and bank balance	1480480845	2,336,521,396.0	2441514200	3754941560	7918003890
Total Deposit	14254573663	18927305974	24488855690	34451726191	46698100065
Ratio	10.39	12.34	9.97	10.90	16.96

Cash and bank balance to current assets ratio

= $\frac{\text{Cash and bank balance}}{\text{Current Assets}} \times 100\%$

annex 3

percentage

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
cash and bank balance	1,717,622,336.00	1,757,341,252.00	1448142890	3048526788	3866490684
current Assets	28,254,223,330.00	32,288,346,430.00	34,804,369,650.00	37,723,166,340.00	40600869610
Ratio	6.08	5.44	4.16	8.08	9.52

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
cash and bank balance	2,336,521,396.0	2441514200	3754941560	7918003890	6815889833
current Assets	20,785,598,082.0	26569591570	37625617440	51559022140	55769728020
ratio	11.24	9.19	9.98	15.36	12.22

Net profit to total assets ratio
= $\frac{\text{Net Profit}}{\text{Total Assets}} \times 100\%$

annex 4

percentage

HBL

Fiscal year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net profit	457457696	491822905	635868519	752834735	508798193
Total assets	29460389672	33519141111	36175531637	39320322069	42717124613
Ratio	1.55	1.47	1.76	1.91	1.20

NIBL

Fiscal year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net profit	350536413	501398853	696731516	900619072	1265949588
Total assets	21330137542	27590844761	38873306084	53010803126	57305413482
Ratio	1.64	1.82	1.79	1.70	2.21

Net Profit to total deposit ratio
= $\frac{\text{Net Profit}}{\text{Total deposit}} \times 100\%$

annex 5

percentage

HBL

Fiscal year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net profit	457457696	491822905	635868519	752834735	508798193
Total deposit	26490851640	30048417756	31842789356	34681345179	37611202274
Ratio	1.73	1.64	2.00	2.17	1.35

NIBL

Fiscal year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net profit	350536413	501398853	696731516	900619072	1265949588
Total deposit	18927305974	24488855690	34451726191	46698100065	50094725497
Ratio	1.85	2.05	2.02	1.93	2.53

Return of shareholder's equity
= $\frac{\text{Net Profit}}{\text{Shareholder equity}} \times 100\%$

annex 6

percentage

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net Profit	457457696	491822905	635868519	752834735	508798193
Shareholder equity	1766157616	2146499655	2512991602	3119880537	3439205130
Ratio	25.90	22.91	25.30	24.13	14.80

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net Profit	350536413	501398853	696731516	900619072	1265949588
Shareholder equity	1415439715	1878123538	2686786048	3907839708	4612576353
Ratio	24.77	26.70	25.93	23.05	27.45

Net interest earned to total assets ratio
 = $\frac{\text{Net interest earned}}{\text{Total Assets}} \times 100\%$

annex 7

HBL

percentage

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net Interest earned	977632001	1008171370	1139902634	1407420164	1595074509
Total Assets	29460389672	33519141111	36175531637	39320322069	42717124613
Ratio	3.32	3.01	3.15	3.58	3.73

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net interest earned	681795232	899457090	1202117324	1580698012	2099673841
Total Assets	21330137542	27590844761	38873306084	53010803126	57305413482
Ratio	3.20	3.26	3.09	2.98	3.66

annex 8

loan and advance to total deposit ratio
 = $\frac{\text{loan and advance}}{\text{Total deposit}} \times 100\%$

HBL

percentage

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
loan and advance	14642559555	16997997046	19497520482	24793155269	27980628760
Total Deposit	26490851640	30048417756	31842789356	34681345179	37611202274
Ratio	55.27	56.57	61.23	71.49	74.40

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
loan and advance	12776208037	17286427389	26996652258	36241206558	40318308062
Total Deposit	18927305974	24488855690	34451726191	46698100065	50094725497
Ratio	67.50	70.59	78.36	77.61	80.48

loan and advance to total assets ratio
 = $\frac{\text{loan and advance}}{\text{Total assets}} \times 100\%$

annex 9

HBL

in percentage

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
loan and advance	14642559555	16997997046	19497520482	24793155269	27980628760
Total Assets	29460389672	33519141111	36175531637	39320322069	42717124613
Ratio	49.70	50.71	53.90	63.05	65.50

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
loan and advance	12776208037	17286427389	26996652258	36241206558	40318308062
Total Assets	21330137542	27590844761	38873306084	53010803126	57305413482
Ratio	59.90	62.65	69.45	68.37	70.36

Total Investment to total deposit ratio

$$= \frac{\text{Total investment}}{\text{Total deposit}} \times 100\%$$

Total deposit

annex 10

in percentage

HBL					
Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total Investment	10889031449	11882984558	13340176785	8710690646	8444910165
Total Deposit	26490851640	30048417756	31842789356	34681345179	37611202274
Ratio	41.10	39.55	41.89	25.12	22.45

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total Investment	5602868649	6505679987	6874023625	7399811700	8635530125
Total Deposit	18927305974	24488855690	34451726191	46698100065	50094725497
Ratio	29.60	26.57	19.95	15.85	17.25

Total debt to net worth ratio

$$= \frac{\text{Total debt}}{\text{Net worth}}$$

Net worth

annex 11

In times

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total debt	27694232050	31372641460	33662540030	36200441520	39277919480
Net worth	1766157616	2146499655	2512991602	3119880537	3439205130
Ratio	15.68	14.62	13.40	11.60	11.42

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total debt	19914697830	25712721220	36186520030	49102963410	52720020390
Net Worth	1415439715	1878123538	2686786048	3907839708	4585393090
Ratio	14.07	13.69	13.47	12.57	11.50

Total debt to total assets ratio

$$= \frac{\text{Total debt}}{\text{Total assets}} \times 100\%$$

Total assets

annex 12

in percentage

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total debt	27694232050	31372641460	33662540030	36200441520	39277919480
Total Assets	29460389672	33519141111	36175531637	39320322069	42717124613
Ratio	94.00	93.60	93.05	92.07	91.95

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total debt	19914697830	25712721220	36186520030	49102963410	52720020390
Total Assets	21330137542	27590844761	38873306084	53010803126	57305413482
Ratio	93.36	93.19	93.09	92.63	92.00

Earning per share

= NPAT

No of S.H.

annex 13

In Rs

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
NPAT	457457696	491822905	635868519	752834735	508798193
No share holder	7722000	8108100	10135125	12162150	16000000
Ratio	59.24	60.66	62.74	61.90	31.80

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
NPAT	350536413	501398853	696731516	900619072	1265949588
No of shareholder	5905860	8013526	12039154	24070689	24090977
Ratio	59.35	62.57	57.87	37.42	52.55

Dividend Pay out ratio

= Dividend Paid x_100%

annex 14

NPAT

in
percentage

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Dividend paid	231660000	121621500	253378125	383785000	174076056
NPAT	457457696	491822905	635868519	752834735	508798193
Ratio	50.64	24.73	39.85	50.98	34.21

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Dividend Paid	118117200	40067630	90293655	481413780	585452098
NPAT	350536413	501398853	696731516	900619072	1265949588
Ratio	33.70	7.99	12.96	53.45	46.25

Net interest income to total income Ratio

= Net interest earned x100%

Total Income

annex 15

in
percentage

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net Interest earned	977632001	1008171370	1139902634	1407420164	1595074509
Total income	2,042,376,574	2160683039	2421239874	2922825934	3711489096
Ratio	47.87	46.66	47.08	48.15	42.98

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Net interest earned	681795232	899457090	1202117324	1580698012	2099673841
Total income	1450333956	1931560529	2641783322	3803634711	5288777102
Ratio	47.01	46.57	45.50	41.56	39.70

Exchange income to total income ratio

$$= \frac{\text{Exchange income}}{\text{Total Income}} \times 100\%$$

annex 16

Total
Income

in percentage

HBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
exchange income	198130134	151637322	192600803	249982606	180278743
Total income	2,042,376,574	2160683039	2421239874	2922825934	3711489096
Ratio	9.70	7.02	7.95	8.55	4.86

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
exchange income	125747407	135355345	165838748	185327111	224056830
Total income	1450333956	1931560529	2641783322	3803634711	5288777102
Ratio	8.67	7.01	6.28	4.87	4.24

commission and discount receive total income ratio

$$= \frac{\text{commission and discount receive}}{\text{Total income}} \times 100\%$$

Ratio

annex 17

HBL

in percentage

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
commission and discount	165447872	193224228	202888358	284302277	270258732
Total income	2,042,376,574	2160683039	2421239874	2922825934	3711489096
Ratio	8.10	8.94	8.38	9.73	7.28

NIBL

Fiscal Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
commission and discount	115942016	163899110	215292193	262791664	242886274
Total income	1450333956	1931560529	2641783322	3803634711	5288777102
Ratio	7.99	8.49	8.15	6.91	5.60

Trend analysis of HBL

annex 18

X	Y	X ²	Y ²	XY
1	14642.56	1	214404563.4	14642.56
2	16998.00	4	288932004	33996
3	19497.52	9	380153286.2	58492.56
4	24793.16	16	614700782.8	99172.64
5	27980.63	25	782915655.2	139903.15
15	103911.87	55	2281106292	346206.91

N = 5 years.

X = 15

Y = 103911.87

X² = 55

Y² = 2281106292

XY = 346206.91

$$b = \frac{\sum xy - \frac{\sum x \sum y}{N}}{\sum x^2 - \frac{(\sum x)^2}{N}}$$

$$= 3447.13$$

$$a = \frac{\sum y - b \sum x}{N}$$

$$= 10440.98$$

$$Y = a + bx$$

Trend analysis of NIBL

annex 19

X	Y	X ²	Y ²	XY
1	12776.2	1	163231286.4	12776.2
2	17286.43	4	298820662.1	34572.86
3	26996.65	9	728819111.2	80989.95
4	36241.2	16	1313424577	144964.8
5	40318.31	25	1625566121	201591.55
15	133618.79	55	4129861758	474895.36

N = 5 years.

X = 15

Y = 133618.79

X² = 55

Y² = 4129861758

XY = 474895.36

$$b = \frac{\sum xy - \frac{\sum x \sum y}{N}}{\sum x^2 - \frac{(\sum x)^2}{N}}$$

$$= \frac{7404}{55 - \frac{15^2}{5}}$$

$$a = \frac{\sum y - b \sum x}{N}$$

$$= \frac{4511.76}{5}$$

$$Y = a + bx$$

Balance Sheet of Nepal Investment Bank from end of Ashad 2063 to 2067

Capital & Liabilities					
Fiscal Year	31/3/2063	31/3/2064	31/3/2065	31/3/2066	31/3/2067
Share Capital	590586000	801352600	1203915400	2407068900	2409097700
Reserve & Funds	824853715	1076770938	1482870648	1500770808	2176295392
Deb & Bonds	550000000	80000000	1050000000	1050000000	1050000000
Borrowing				38800000	37314826
Deposit	18927305974	24488855696	34451726191	46698100065	50094725497
Bills Payable	18820120	32401462	78838643	82338018	38143836
Proposed Dividend	121626997	43650251	93468245	485453507	602274425
Income tax	9318522	295150	24082669	38298738	37195255
other liabilities	287626214	347518664	488404289	709975092	860366551
Total	21330137542	26870844761	38873306085	53010805128	57305413482
Assets					
Cash Balance	562560620	763984320	1484482719	1833462494	1525441872
Balance with NRB	1526066660	1381351556	1820008035	4411133083	3237217030
Balance with oter Bank	247894116	296178324	4704522814	1673408313	2053230931
Money at call	70000000	362970000			
Investment	5602868649	6505679987	6874023625	7399811700	8635530125
Loan and Advance	12776208037	17286427389	26996652258	36241206558	40318308062
Fixed Assets	343449635	759456336	970091759	1060752482	1136247319
Non Banking Assets		1125000	750000	375000	
Other Assets	201089825	233671849	276846874	390653496	399438143
Total	21330137542	27590844761	43127378084	53010803126	57305413482

Profit and loss A/C of Nepal Investment Bank from end of Ashad 2063 to 2067

Fiscal Year	31/3/2063	31/3/2064	31/3/2065	31/3/2066	31/3/2067
Interest Inceome	1172742193	1584987354	2194275722	3267941142	4653521338
Interest Expenses	490946961	685530264	992158398	1686973130	2553847497
Net Interest Income	681795232	899457090	1202117324	1580968012	2099673841
Commission and Discount	115942016	163899110	215292193	262791664	242886274
Other Operating Income	35902340	47318720	66376659	87574794	168312660
Exchange Income	125747407	135355345	165838748	185327111	224056830
Total Operating Income	959386995	1246030265	1649624924	2116661581	2734929605
Staff Expenses	120663710	145370601	187149985	225721490	279851360
Other Expenses	190605132	243430632	313153796	413883755	433596280
Exchange loss	-	-	-	-	
Opereating profit before provision for possibe losses	648118153	857229032	1149321143	1477056336	2021481965
Provision for possible loss	103807589	129718921	135989237	166201383	93056584
Operating profit	544310564	727510111	1013331906	1310854953	1928425381
Non opreting Income	390742	1426134	7047735	2953012	10606049
Loss provision written back	10704164	66776784	101576771	114653009	50000462
Profit from regular operation	555405470	795713029	1121956412	1428460974	1989031892
Provisiom for Staff Bonus	50491407	72337548	101996038	129880069	180821081
Income Tax Provision					
Current Year	154377650	221976628	321287519	389580266	532898521
Deffered Tax Income			1941340	15879221	9362702
Net Income	350536413	501398853	696731515	900619072	1265949588

Balance Sheet of Himalayan Bank Ltd. from end of Ashad 2063 to 2067

Capital&Liabilities					
Fiscal Year	31/3/2063	31/3/2064	31/3/2065	31/3/2066	31/3/2067
Share Capital	772200000	810810000	1013512500	1216215000	2000000000
Reserve & Funds	993975616	1335689655	1499479102	1903665537	1439205130
Deb & Bonds	360000000	360000000	860000000	500000000	500000000
Borrowing	144624897	235967811	83177973		
Deposit	26490851640	30048417756	31842789356	34681345179	37611202274
Bills Payble	73577730	91303206	102669796	113509140	216158879
Proposed Dividend	238409026	130939748	263076319	162096954	189473600
Income tax	-	11913476	19131036	10163115	
other liabilities	386750763	494099459	491695555	733327144	761084730
Total	29460389672	33519141111	36175531637	39320322069	42717124613
Assets					
Cash Balance	305428144	177242226	278183489	473759695	514223569
Balance with NRB	1096253097	1272543067	935841697	2328405821	2604790901
Balance with oter Bank	315671095	307555959	234117704	246361272	747476214
Money at call	1005280000	1710023859	518529500	1170793650	308840000
Investment	10889031449	11822984558	13340176785	8710690646	8444910165
Loan and Advance	14642559555	16997997046	19497520482	24793155269	27980628760
Fixed Assets	540824021	574060430	795309700	952196395	1061870757
Non Banking Assets	217325523	12766060	10306683	22694688	
Other Assets	643609788	643967906	565545597	622264633	1054384247
Total	29655982672	33519141111	36175531637	39320322069	42717124613

Profit and loss A/C of Himalayan Bank Ltd from end of Ashad 2063 to 2067					
Fiscal Year	31/3/2063	31/3/2064	31/3/2065	31/3/2066	31/3/2067
Interest Inceome	1626473819	1775582617	1903647472	2342198179	3148605196
Interest Expenses	648841818	767411247	823744838	934778015	1553530687
Net Interest Income	9777632001	1008171370	1139902634	1407420164	1595074509
Commission and Discount	165447872	193224228	187819983	284302277	270258732
Other Operating Income	52324749	40328872	62103241	46342872	112346425
Exchange Income	198130134	151637322	207669178	249982606	180278743
Total Operating Income	1393534756	1393361792	1597495036	1988047919	2157958409
Staff Expenses	234588969	272225308	292213138	360980641	414983894
Other Expenses	329699087	341561021	344320784	3988316566	471102966
Exchange loss		-	-	-	
Opereating profit before provision for possibe losses	829246700	77957554463	960961114	1228750712	1271871549
Provision for possible loss	684092180	90688827	6007608	68805514	692640089
Operating profit	1887070	688886636	954953506	1159945198	579231460
Non opreting Income	56531901	3493278	900477	3810145	12382440
Loss provision written back	742541151	41264152	1316882971	19484655	265542038
Profit from regular operation	2902317	1105034066	10963369954	1183239998	857155938
Provisiom for Staff Bonus	739638834	315890702	52614217	9973406	75572728
Income Tax Provision	67239895	789143364	1043722737	1173266592	831300012
Current Year	214941243	71740305	94883886	106660599	75562628
Deffered Tax Income	45745698	225580154	312970332	313771258	246070406
Net Income	145154520	491822905	635868519	752834735	508798193