

# **CHAPTER-1**

## **INTRODUCTION**

### **1.1 Background of the Study**

Banking plays a significant role in the development of nations. Financial institutions are economy Bank which has the capacity to regularize the money. The backbone of the development of every country is economy and bank plays a vital role in developing the economy of any country. Before 1848 B.S. the Goldsmiths used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of security rather than earning interest. The term bank emerged in USA in 1848 B.S. Bank is a resource mobilization institution, which accepts deposit from various sources, and invests such accumulated resources in the fields of agriculture, trade, commerce, industry, tourism etc.

It facilitates the growth of the trade and industry and other sector of the nation economy. Bank is a financial institution which plays a significant role in the development of the country. It is a resource for economic development, which maintained the self confidence of segments of and extends credit to the people. A bank is a business organization that receives and holds deposits of funds from others, makes loans or extends credit and transfers funds other makes loans or extends credits and transfer funds by written orders of depositors.

The more development financial system of the world characteristically falls in to three parts. They are the Central Bank, the Commercial banks and other financial institution. They are also known as financial intermediaries. The main objective is to study the comparative financial performance analysis of Nepal Arab Bank Ltd. and Himalayan Bank Ltd.

Nepal is a developing country, so the concept of rural banking is also arising more nowadays. Government has also made the rule to establish the bank in the rural areas. Nepal has more rural areas than urban therefore if villages can be developed then whole nation has been developed. This concept clearly shows that Nepal can be developed through the medium of bank. These banks provide credit to the farmer and rural poor in a limited interest. It helps to develop the condition of more than 80 percent people who used to live in rural areas. So bank is the backbone of the development of any country.

### **1.1.1 History of Bank in Nepal**

Nepal has no long history in banking sector. In the beginning only limited banks were running from government level. In the short period of time more and more banks have started to be established.

In the overall development of the banking system in Nepal, the “ Tejaratha Adda” may be regarded as the father of modern banking institution and for a quite a long time in tendered a good service to government servants as well as to the general public. However, the concept of modern bank, The Nepal bank limited was established in 1937 under the Nepal bank act 1936 during the Prime Minister Juddha Sumsher. Before that, the credit needs of the people for commercial and other purpose were met mostly by the unorganized market of the private- money lenders. Before an establishment of Nepal Bank Limited, modern banking facilities were felt of an urgent need of the economy. In order to fulfill the demand and need of a modern banking transaction and to remove all the inconveniences prevailing during the time, the Nepal bank Limited was introduced as a first commercial bank in the country.

In the Nepalese context, nowadays three types of bank are being operated by the performing their activities in different sectors, such as Central bank (NRB), Commercial banks and Development banks. Commercial are either

operated fully in the public sector or the joint sector or being operated under joint venture with foreign bank with private participation.

### **1.1.2 Concept of Commercial Bank**

Commercial banks are the heart of the financial system. They hold the deposit of many person, government and business units. They make funds available through there lending investing activities borrowers, individuals, business firms, government units. For doing so they assist both the flow of good and services from the producers to consumers and the financial activities to the government. Commercial banks play the most important role in modern economic origination. Their business mainly consists of receiving deposits, giving loans and financing the trade of a country. They provides short-term credit i.e. lend money for short periods. This is there special feature. In the Nepalese context, the Nepal Commercial Banks Act, 2031 B.S. defines “Commercial bank as one which exchanges money, deposits money, accepts money, grants loans and performs commercial banking function”.

Various writers on banking have defined the bank in different, since a modern bank performs number of functions. So it has become very difficulty to give a precise define of a bank.

### **1.1.3 Functions of Commercial Banks**

There are many functions of commercial banks but they can be divided into two groups. The main functions of all commercial banks are to receive deposits and to advance the loans. Banks act as intermediaries between those who have surplus money and those who need it. Commercial banks generally performs the following various functions.

1. Accepting the deposits: Banks attract the idle savings of people in the form of deposits. These deposits are known as deposits, fixed deposits and saving deposits.

2. Giving loans: After collecting money through the way of deposits, a bank invests it or lends it out. Money is lent to businesspersons and traders usually for short periods only. This is so because the bank must keep itself ready to meet the demand of the depositors, who have deposited money for short periods. Money is advanced by the banks in the form of allowing on overdrafts creating a deposit or cash credit and discounting bills.
3. Creating money: As per the directive of the central bank, commercial bank should have ability to create and dispose money. The power of the commercial banking system to create money is of great economic significance as it helps to create an elastic system that is necessary for the economic progress.
4. Payment Mechanism: Commercial banks perform this function to transfer the fund by means of cheques and credit cards facilities and efficient transactions.
5. Extension of Credit: They are extending credits to the worthy borrowers. Banks lending contributes a lot to the economy in terms of financing agricultural, commercial and industrial activities of the nation.
6. Agency Functions: The bank works as an agent of their constituents. They receive payment on their behalf. They collect rent, dividend on share etc. They pay insurance premium and make other payment as instruct by their depositors. They accept bills of exchange on behalf of their customers. They accept bills of exchange on behalf of their customers. They pass bills of landing or railways receipts to the purchase of goods. When they pay for them this amount pass on the suppliers of goods.

Besides mention above in case of joint venture banks, they issue credit card and arrangement for VISA international cards. Some of them

have priority to lend educated and employment youth for small projects. The banks publish some important journals and booklets regarding Nepalese Economy.

The name and the year of establishment of the commercial banks operating in Nepal have been listed below:

<b><u>Name of the Bank</u></b>	<b><u>Year of establishment(A.D)</u></b>
1. Nepal Bank Limited	1937
2. Rastriya Banijaya Bank	1965
3. Nabil Bank Limited	1984
4. Nepal Investment Bank Limited	1985
5. Standard Chartered Bank limited	1986
6. Himalayan Bank Limited	1993
7. Nepal SBI Bank limited	1993
8. Nepal Bangladesh Bank Limited	1994
9. Everest Bank Limited	1994
10. Bank of Katmandu limited	1995
11. Nepal credit and commerce Bank limited	1996
12. Nepal Industrial and commercial Bank limited	1998
13. Lumbini Bank Limited	1998
14. Machhapuchhre Bank Limited	1999
15. Kumari Bank Limited	2001
16. Laxmi Bank Limited	2002
17. Siddartha Bank Limited	2003
18. Agriculture Development Bank Limited	1965
19. Global Bank Limited	2007
20. Citizen Bank Limited	2007
21. Prime Bank Limited	2007

22. Bank of Asia Limited	2007
23. Sunrise Bank limited	2007
24. NMB Bank Limited	2008
25. Development Credit Bank Limited	2008
26. Kist Merchant Bank Limited	2009
27. Janta Bank Limited	2010
28. Mega Commercial Bank Ltd	2010
29. Commerce and Trust bank Ltd	2010
30. Civil Bank Limited	2010
31. Century Bank Limited	2010

#### **1.1.4 Introduction of HBL and NABIL**

The establishment of the joint venture bank has given a new horizon to the financial sector of Nepal. The study courses on the financial performance of two joint venture banks namely Himalayan Bank Limited (HBL) and Nepal Arab Bank International Limited (NABIL).

NABIL Bank, previously known, as Nepal Arab Bank limited, is Nepal's first private Commercial bank and major joint venture Bank Commenced operation on July 12,1984 A.D. Under the technical service arrangement approved by Nepal Rastra Bank. Joint Venture operation in Nepal was Started By Nabil Bank After Nepal encouraged Foreign Investment and joint venture operation with Nepalese Investors or in certain Circumstances as fully Owned subsidiary.Nabil Bank has Head office in Kamaladi, Kathmandu. It has 43 branches, Including Its Head office, in Nepal.

The Mission of Nabil bank is to be the “Bank of the 1<sup>st</sup> Choice”. The slogan of Nabil Bank is “Your bank at Your Service”.

**It's Share Capital distribution is as follows:**

Authorized Capital (16,000,000 shares of Rs 100)	Rs 1,600,000,000
Issued Capital (6,892,160 shares of Rs 100)	Rs 689,216,000
Paid up Capital (6,892,160 shares of Rs 100)	Rs 689,216,000

**Share Subscription and Capital Structure of NABIL**

<b>Subscription</b>	<b>% Holding</b>
Promoter Share Holder	50
Dubai bank Ltd	20
Rastriya Beema Sansthan	15
The General Public	15
<b>Total</b>	<b>100</b>

Today Nabil Stands in a Position to claim That it is the “Bank of 1<sup>st</sup> choice” to all its stake holders .In the span of 26 Years, it has already distributed Rs 2.86 billion cash dividend and the wealth of the stake holders of the bank grew to Rs 24.8 billion as at mid December 2009.Spectacular return on assets and return on equity even during a turbulent and competitive time highlight the inherent strength of the Bank.

The Bank Provides a complete range of consumer, retail, SME and corporate banking services through its offices spread across the country.Nabil is the sole banker to a multitude of large corporate, international aid agencies, NGOs and embassies. It is the Largest Private bank in the country in Terms of branch and ATM network. All its branches are interconnected on real time basis. on the technological front, the Bank has earned reputation in providing an array of card products and internet/Tele Banking Facilities besides ATMs and any branch Banking service.

The statement “your bank at your service” refers that the bank holds on firmly is a resemblance that the Banks stakeholders are at the core of everything it does. As the culture embraced by the entire Nabil team, a set of values, referred to “C.R.I.S.P” which means customer oriented, result oriented, innovative synergistic and Professional. The bank providing Customer Friendly services through its branch network. All the Branches of the bank are connected through any branch banking system which enables customers for operational transaction from any branches. With aim to help Nepalese citizens working abroad the bank has entered into arrangement with banks and finance companies of different countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabia, Malaysia, Singapore U.K and many more.

HBL Bank was established in 1993 in joint Venture with Habib Bank ltd of Pakistan. Despite the cut-through competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary Banking activities loans and deposits. It is the first commercial Bank of Nepal with maximum shareholding by the Nepalese Private Sector. Besides the commercial activities, the bank also offers industrial and merchant banking.

Himalayan Bank at present has total of thirty three branch scattered all over the Nepal. The bank is also operating a counter in the premise of the royal palace. The bank has a very aggressive plan of establishing more branches in different parts of kingdom in near future. The Bank is also operating a counter in the premise of royal palace. The Bank has a very aggressive plan of establishing more branches in different parts of the Kingdom in near future.

**It's Share Capital Distribution as follows**

Authorized Capital (20,000,000 Shares @Rs 100)	RS 2000,000,000
Issued Capital (10,135,125shares @ Rs 100)	Rs 1,013,512,500
Paid up Capital (10,135,125shares @ Rs 100)	Rs 1,013,512,500



### Share Subscription and Capital Structure of HBL

<b>Subscription</b>	<b>% Holding</b>
Promoter Share Holder	51
Habib Bank Ltd,Pakistan	20
Financial Institution (Employees Provident Fund)	14
Nepalese Public Share Holder	15
<b>Total</b>	<b>100</b>

Himalayan Bank's policy is to extend Quality and Personalized service to its customers as promptly as possible. All customers are treated with almost courtesy as valued clients. The Bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adaptation of new technology.

Himalayan bank is committed to be a "BANKING WITH A DIFFERENCE)

#### 1.2 Focus of the Study

This study helps comparative analysis of financial performance between HBL and NABIL. Financial performance covers analysis and other portfolios of both JVs. Financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial characteristics of a firm form accounting data and financial statements. Financial ratio analysis is a widely used tool of financial analysis and its performance. The goal of such analysis is to determine the efficiency and the performance of the firm's management as reflected in the financial records and reports. Besides financial analysis emphasizing profitability the study has focus

on financial position analysis, income and expenditure analysis, correlation analysis and trend analysis of HBL and NABIL. Financial ratio identifies the financial strength and weaknesses of both JVBs with the help of basis financial statement namely balance and P/L accounts. It measures the bank's liquidity, leverage, activity and profitability in rational way.

### **1.3 Statement of the Problem**

Bank is a monetary institution which helps to strengthen the economy of the country. Nepal government allows such new types of commercial banks as joint venture banks to operate in country for national development. They have capacity to make such as dividend policy, considering the wealth maximization of shareholders and growth of the company through their advance management techniques, technology and proper market schemes. But they are suffering from many barriers such as legal obstacles, national constraints and erratic government intervention. Some major problems are identified which are as follows:

1. What are the liquidity, profitability and market position of HBL and NABIL bank?
2. What are the strengths and weaknesses of HBL and NABIL?
3. How much does depositors, investors and shareholders satisfy with efficiency of the bank?
4. What kind of trend exists in liquidity, profitability and other ratios?

### **1.4 Objectives of the study**

The aim of the study is basically to discuss, examine and evaluate the financial operation and position of the concerned financial institutions as the bank.

The main objectives of the study are:

1. To analyze the liquidity position, activity position, profitability position of HBL and NABIL.

2. To study the comparative financial strength and weakness of two joint venture banks and their viability.
3. To calculate the trend of financial performance of banks.
4. To recommend the corrective measure for betterment of smooth financial performance of these banks.

### **1.5 Need and Importance of study**

Economic development and financial development go side by side and the need of financial institutions availing varieties of banking services to fulfill commerce, trade, industry and agriculture needs of their country is of crucial important in Nepal.

In banking world, Nepal is still in its infant stage although the numbers of financial institution have been increasing. Many commercial banks, finance and insurance companies have opened up within a few years. The competition in the financial sector in banking industry is ever increasing. However, there have been few commercial banks certain to banking need of the country. The success and failure of such financial institutions would be responsible for disparity of the economy.

This study has much significance. They can be presented into four headings.

1. Significance to the shareholders: The study has helpful to the shareholders regarding the financial performance of their banks. The comparison has helped them to identify the productivity of their funds in each of thus two banks.
2. Significance to the management: The study has helpful to analysis to aware the shareholders regarding the financial performance of their banks. The comparison to competitors.

3. Significance to the outsiders: The customer financing agencies, stock exchanges and stockbrokers are interested in the performance of banks. The financial agencies can choose the banks where their fund is more secured, customers can identify to which bank they should go and stockbrokers and stock exchanges can find out the relative worth of the stock of each bank.
4. Significance to the policy makers: Government and central bank to formulate the commercial bank policy.

### **1.6 Limitation of the study**

The study is very much challenging. A number of limitations may face during the study period. Some of the limitations of the study have been confined below:

1. The study is fully dependent on the secondary data published from the concerned bank. The provided data has been accepted as the real situation of the banks.
2. Due to time and resources constraint data may not get as much needed by the researcher.
3. The external factor which may affect the consequence of the study has been neglected.
4. The data provided by the banks may be biased even researcher do not want so.
5. This study has only been limited on these two banks which may not really lead the result of all commercial banks.
6. The study is only for the partial fulfillment of the degree of the Master's in Business Studies Program (MBS).

## **1.7 Structure of the Study**

The whole study will be divided in to five chapters. Every chapter are parallel important to some aspect of the study.

Chapter one	:	Introduction
Chapter two	:	Review of Literature
Chapter three	:	Research Methodology
Chapter four	:	Presentation and Analysis of Data
Chapter five	:	Summary, Conclusion and Recommendation

### Chapter 1: Introduction

This chapter covers background of the study, introduction of Nabil and Hbl statement of the problem, Focus of the study, objectives of the study Significance of the study and limitations of the study.

### Chapter 2: Review of Literature

This Chapter includes the theoretical analysis and brief review to related literature available. It includes a discussion of the conceptual framework and review of the major studies.

### Chapter 3: Research Methodology

This Chapter is concern with Research question, research design, sources of data, population and sampling, data collection procedures and data analysis procedures. In data analysis there are two Parts. One is financial analysis where different ratio analysis concern with financial performance is study. Another is statistical analysis. Where different statistical tools like trend line analysis, correlation analysis and simple regression analysis are mention.

### Chapter 4: Presentation and analysis

This chapter deals with presentation and analysis of data through definite course of research methodology. The main working of this chapter is to analyze different financial ratios related to the financial performance and fund mobilization of

banks. Also different Part of ratio analysis like liquidity ratio, profitability ratio, assets management ratio and growth ratio are analyzed. Statistical analysis and interpretations of data through the help of the trend analysis, correlation analysis between variable terms like total deposit, investment, net profit and loan and advances, study analyzed.

#### Chapter 5: Summary, conclusion and recommendation

This is the chapter that consist the summary of whole chapter and different results find in data analysis and recommendation to bank for nation development. It also provides suggestions for further improvements. Beside these, bibliography and appendices are also included. in this chapter summary of whole chapter and different results find in data analysis and recommendation to bank for nation development are included.

## **CHAPTER 2**

### **REVIEW OF THE LITERATURE**

#### **2.1 Conceptual Review**

A literature review is a body of text that aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Review of Literature means the study of relevant topics in the related field of research or reviewing related research studies and findings such that all past studies, their conclusion and deficiencies may be known and further research can be done. Literature reviews are secondary sources, and as such, don't report any new or original experiment work. In the course of research, review of the existing literature would help to check the chances of duplication in the present study. Thus the gap and the deviation between the previous research and current research can fill out. Literature review usually precedes a research proposal and result section. its ultimate goal is to bring the reader up to the date with current literature on a topic and forms the basis for another goal, such as future research that may be needed in the area. Thus, one can find what studies have been conducted and what remains to go with.

#### **Conceptual Review of the study**

##### **2.1.1 Concept of Banking**

Banking, according to investor world (2009) has been defined as engaging in the business of keeping money for saving and checking accounts or for exchange or for issuing loans and credit, etc. However from finance perspective it is defined as 'the management of money and credit banking and investments. From right of offset perspective, investor word sees banking as a legal right of a bank of seize deposited fund to cover a loan that is in default. Banking is generally a highly regulated industry, and government restrictions on financial activities by

banks have varied over time and location. The current set of global bank capital standards is called Basel II .In some countries such as Germany, banks have historically owned major stakes in industrial corporations while in other countries such as United States banks are prohibited from owing non financial companies. In Japan banks are usually the nexus of the cross shareholding entity known as the Keiretsu.In Iceland banks has very light regulation prior to collapse.

Traditionally, bank acts as a financial intermediary to channel fund from surplus units. Unlike other non-banking financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovation to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily regulate them. Analysis of banks financial statements is different from threat of other companies due to the special nature of other companies due to the special nature of assets and liabilities.

Balance Sheet, Profit and loss account and the accompanying notes are the widest aspects of financial statement of the bank. The bank's B/S includes financial claims as liabilities in the form of deposit an as assets in the form of loans. Fixed assets appear in small portion out 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 investment and paid deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission and discounts, foreign exchange income, dividend on investment, other service charge etc.

### **2.1.2 Financial Statements Analysis**

Financial statement analysis is helpful to the decision maker for finding out favorable or unfavorable situation of a business concern. Therefore, financial analysis reflects the financial position of a firm, Different types of financial statement analysis can be used on the basis of our objectives. Financial statements analysis is largely a study of relationship among the various financial factor in a



business as disclosed by the single set of statement and a study of the trend of these factors as shown in a series of statements.

It is the process of identifying the financial strength and weakness of the firm by property establishment relationship between the items of the balance sheet, which represent snapshot of the firm's financial position at a moment in time and next, income statement, that terms summary of the firm's profitability overtime.

According to Sunder Pradhan, "Financial Analysis is to analyze the achieved statements to see if the results meet the objects of the firm, to identify problem, if any, in the past or present or likely to be in the future, & to prove recommendation to solve the problems."

### **2.1.3 Objectives of financial Analysis**

Financial analysis enables us to explore various facts related to the past performance of business and predict about the potential for achieving expected results. Major objective of analysis of financial statement is to assess various factors in relation to the business firm;

- a) The present and future earning capacity or profitability of the concern bank.
- b) The operational efficiency of the concern as a whole and of its various parts or department.
- c) The short term and long term solvency of the concern.
- d) The comparative study regarding to one form with another firm
- e) The possibility of developments in the future making, future forecasts and preparing budgets.
- f) The financial stability of business concerns the real meaning and significance of financial data.
- g) The long term liquidity of its fund.

### **2.1.3 Need of Financial Analysis**

The need for the analysis of financial statement arises in order to address the following question.

1. How was the firm doing in past? Was there any problem? If so in which/what areas?
2. How it is doing at present? Is it doing better compared to the past performance, competitors and industry average?
3. What about the future? Is there any likely problem on the way in the future? What has its position be in the future?
4. What are the expected results of recommendations? Are there improvements?

### **2.1.4 Significance of the Financial Analysis**

Significance of analysis lies on the objectives of financial analysis of any firm. Different groups associated with the concern perceive the facts discovered by the analysis differently. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weakness and credit worthiness are interpreted based on objective in the hand. Such an analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, inter-financing control system and bargaining strategy for funds from external sources.

The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can enumerated as:

- ) Top management
- ) Creditors
- ) Shareholders
- ) Economists
- ) Labor Unions

**a) Top Management:**

The responsibility of the top management is to evaluate: the resources of the firm used effectively and efficiently? Is the financial condition of the firm sound enough? Based on past facts firms can anticipate their future. Hence, top management can measure the success or otherwise of a company's operations, determine the relative efficiency of various departments, process and products appraise the individual's performance and evaluate the system of internal audit.

**b) Creditors:**

The creditors can find out the financial strengths and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time. The suppliers of long-term debt focus upon the firm's long term solvency and survival. A lending bank through an analysis of these statements can decide whether the borrower retains the capacity of refunding the principle and paying in time or not.

**c) Share Holders:**

The shareholders, who have invested their money in the firm's shares, are most concerned about the firms' earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company, the shareholder's interest is to decide whether to buy, sell or hold the shares.

**d) Economists:**

To diagnose the prevailing status of business and economy, economists analyze the financial statements, the government agencies analyze them for the purpose of price regulation, rate setting and similar other purpose.

**e) Labor Unions:**

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. To motivate the laborers they expect increase in wages, fringe benefits and so on.

**2.1.5 Types of Financial Analysis**

The nature of financial analysis differs according to the purpose of the analyst. "A distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis."

**1. According to Material Used**

**a. External Analysis**

Those persons who are not concerned with the enterprises make this type of analysis. They do not have access to enterprises. Investor, credit agencies, governmental agencies and researcher make this type of analysis.

**b. Internal Analysis**

Internal Analysis is made by those persons who have to the books of accounts. They are member of the organization. Analysis of financial statement is other financial data for managerial purpose the internal type of analysis.

**2. According to Modus Operandi of Analysis**

**a. Horizontal Analysis**

When financial statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period as a whole, this is also known as dynamic analysis.

## **b. Vertical Analysis**

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

## **3. According to Objectives**

### **a. Long term Analysis**

Long-term analysis is made in order to study the long-term financial stability, solvency, liquidity, profitability and earning capacity of business firm. This type of analysis helps the long term financial planning. This is essential for continues success of a business firm with the help of this analysis the business can be known whether in the long run.

### **b. Short term Analysis**

Short term analysis is made to determine the short-term solvency, stability, liquidity and earning capacity of the business. This analysis is helpful for short term financial planning.

### **2.1.6 Process of Financial Analysis**

Problem identification and analysis of it in order to come up with appropriate recommendation with the expected results.

### **2.1.7 Limitations of Financial Analysis**

Financial performance analysis is of great significance for investor, creditors, management, economist, and other parties having interest in business. It helps managements to evaluate its efficiency in past performance and take decisions relating to the future. However, it is not free from drawbacks. Its limitations are listed below:

- a. Historical nature of financial statements
- b. No substitute for judgment

- c. Reliability of figures
- d. Result may have different interpretation
- e. Change in accounting methods
- f. Selection of appropriate tool

### **2.1.8 Financial Performance Analysis of Bank**

Traditionally, bank act as financial intermediaries to channel fund from surplus units. Unlike other non-banking financial companies, commercial banks do not produce any physical goods. They produce loans and financial innovation to facilitate trade transactions. Because of special role they play in the economy, concerned authorities heavily regulated them. Analysis of banks financial statements is different from threat of other companies due to the special nature of assets and liabilities.

Balance Sheet, Profit and loss account and the accompanying notes are the most widely aspects of financial statements of the bank. The bank's balance sheet includes financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets appear in small portion out 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 investment and paid deposit liabilities are major components of profit and loss account. The other sources of income are fee, commission and discounts, foreign exchange income, dividend on investment, other service charge etc.

The users of financial statement of a bank require relevant, reliable and comparative information to evaluate the financial performance and position and hence make economic decision regarding the bank. According to commercial bank act 1974 the audited balance sheet and profit loss account must be published in the leading national newspaper for the information of general public. Most of the users of financial statements seek to assets the bank's overall performance.

- ) The structure of B/S and P/L account
- ) Operating efficiency and internal management system
- ) Managerial decisions taken by the top management regarding interest rate, lending policies exchange rates etc.
- ) Environmental changes such as changes in Technology, government, competition, economy etc.

### **2.1.9 Technique of Analysis**

Different techniques of analysis have been used as per the study of the research. Data are taken mostly from secondary as the institute provided published book and unpublished one and similarly has taken the help of internet. For the analysis tables are established which help to compare the financial performance of two banks taken for research.

### **2.2 Review of Related Studies**

The books and internet were searched and reviewed the studies on the related subject matter. People use banks for the purpose of making payments and as a source of loan, the latter involves different uses of the resources that can be developed to adding to the real capital of nature. The book written by Sayers in his modern banking highlights in the economic importance of commercial banks and the function of creation of money by bank. According to Sayers, the special interest of economist in the activities of the deposit liabilities of the banks. There lies the communities in the bank because by there operation they can effect the monetary situation in sense of the availability of the purchasing power. When a banks make an advance by allowing customers to overdrew his accounts, the banks in effect exchanges its own promises to pay immediately against the customer promise to pay of the advance later on the economic importance of this exchange is that the bank's promise to pay immediately is absolutely effective purchasing power, which plays instrumental role in increasing the total demand of

the goods and services. Here people use banks for the purpose of making payments and as sources of loan, the latter involves different uses of the resources that can be developed to adding to the real capital of nature.

Shrestha kapur has written in his thesis “A comparative financial analysis of Nepal investment bank ltd. and Himalayan bank ltd. has found that the situation of the banks is quite different than that of general business enterprises. More ever, from the point of view of working capital policy Nibl and Hbl have followed aggressive working capital policy than that of banks. Further, net profit to total assets ratio in the case of Hbl has registered netter performance by utilizing its overall resources for earning more profit than other two banks.

Pradhan (2002), had done a research entitled “Financial performance of NEA” says that there is no effective utilization of assets in NEA. It has been seriously facing the problem of outstanding debt collection. From the overall analysis, NEA has generated very low returns. Increasing cost in each fiscal year is an important issue of NEA. It has adopted the cost control tools and techniques.

Ghimire (2003) in the thesis “Comparative analysis of Financial Performance of selected JVBs a case study of SCBNL and HBL” has familiar with comparative strength and weakness and their ability through the analysis of liquidity ratios. The major findings drawn from the study are HBL is more efficient in case of liquidity as well as it is more levered than SCBNL whereas HBL as is in better condition from the aspect of capital adequacy, activity and profitability ratios. The study showed positive correlation between loans and advances to total debts of both banks According to the trend analysis profit before tax of SCBNL has been increasing at higher rate than that of HBL.

Bhyshal (2004) A thesis entitled “Financial Performance Analysis of Commercial Banks in Nepal in the framework of Camel (A Comparative Study of Kumari Bank Ltd and Machhapuchhre Bank); with the findings: Higher average return on equity ratio and EPS. The recommendations from the study were Total capital adequacy ratio is adequate. It should maintain. Assets quality ratio at satisfactory level, liquidity position is low so it should increase. Amatya (2005) had done a research entitled ‘An Evaluation of Financial performance of Nepal Electricity Authority’, says that there is no effective



utilization of assets in NEA. NEA has been facing the problem of outstanding debt collection. Though is in control over some years, it has been highly receivable of NEA is recorded high. The capacity of assets in the generation is not satisfactory and the revenue earned is very low in comparison to the investments made in assets.

Koirala (2005), had done research entitled “A study of financial performance of Nepal Telecom” concluded that financial performance of NTC has satisfactory results. This shows that NTC is maintaining the good liquidity position and the financial capacity of the firm to repay current liabilities. All other ratios are seen in satisfactory position besides average collection period so NTC should make effective strategy to collect the receivables. It also lacks proper utilization of fixed industrial public Enterprises” have selected samples from industrial public enterprises of Nepal and used financial ratio and correlation analysis as he tool of analysis. He concluded that the capital investment and earnings were not correlated. Most of the public enterprises were in loss position. He suggested that the management should improve their performance efficiency.

Chand (2006) A thesis entitled “Financial Performance analysis CAMEL TEST of , NIBL, NABIL); found that the majority of population were unaware of all products and services that are affected by commercial banks. Minimum balance requirement to open saving a/c should decrease to attract many customers. And each commercial bank is needed to increase the interest on deposit.

Sangel (2007) A thesis entitled “Comparative Analysis of financial status and performance evaluation of HBL and bank”); findings were both the banks managerial and operating efficiency since the total expenses to total revenue ratio are in decreasing trend.

Dulal (2008) A thesis entitled ‘Financial performance of joint venture banks (with special reference to SCBNL and bank”); recommended EPS and DPS should increase by increasing MPS.

Subedi (2009) a thesis entitled “Financial performance analysis of commercial banks of NIBL and SBI”; major findings were Liquidity position of NIBL was better than SBI and SBI utilized the debt more than NIBL. He recommended the banks that to review their overall capital structure and investment portfolio to make better combination of capital structure.

Shrestha (2009) A thesis entitled “Financial performance analysis of Nepalese Commercial banks” found that banks are growing uncontrollably and helping to the common people also. The researcher has recommended maintaining the liquidity position of the banks for daily cash transaction.

Lama Bijaya (2009) A thesis entitled “An analysis on Financial performance of Nepal Electricity Authority” found that the leakage of NEA reducing its profitability.

Shrestha R.L. (2064), “Capital Adequacy of Bank in the Nepalese context”; Kathmandu Nepal bank patrika.

Shrestha (2004) has done research entitled “Study on profit planning and control of public Utility Sector, A comparative Study of Nepal Electricity Authority and Nepal Telecommunication Corporation.” has tried to find out some major problems of NEA and NTC.

Mr. Shrestha has conducted the study covering the time period of five years. Some major findings pointed by Mr. Shrestha are as follows:

- ) NEA and NTC both have no in depth analysis of the company’s strength and weakness. Electricity leakage, theft and wastage is major problem of NEA were as high demand and low supply is problem of NTC.
- ) Huge amount of cash and bank balance of NTC indicates some deficiency of organization to utilize its liquid assets. Expenses are not identified as fixed and variable in NEA and NTC. Leverage ratio indicates NEA is taking high risk while NTC is efficient in utilization of working capital, fixed assets and capital employed in generation of sales in comparison of NEA. NTC has higher profitability ratio than NEA.

Poudel (2006), has done a research entitled on “A comparative Ratio Analysis of Nepal Electricity Authority (NEA), Nepal Water Supply Corporation (NWSC) and Nepal Telecommunication (NTC)”, some major finding concluded by Mr. Poudel are as follows:

1. NEA is using large amount of external source in its capital structure due to which interest expenses is high. Capital structure of seems somehow better than the capital structure of NEA but it does not have ideal debt equity relation. The capital structure of NTC seems satisfactory and it is seen that NTC emphasized internal funding.
2. NEA and KUKL are not able to meet their internal expenses through operating profit. Due to high interest expenses net profit of this organization also affected adversely.
3. NEA and NTC have satisfactory inventory turnover but KUKL has poor proper stock management is lacking in KUKL.

Mr. Mahendra man Dangol(2010) in his thesis entitled “A comparative Analysis of Investment Portfolio Management of BOK and NABIL bank limited “focus has been made to different investment portfolio of the concern bank. IT seems that Bok has successfully utilized its deposit money but Nabil has gradually decreased its deposit money in total investment. But also Nabil bank is in better situation than Bok because of higher and uniform values. Whereas Bok has a satisfactory value which indicates that there is consistent increase in Rota through out Review Period.

### **2.3 Research Gap**

Although various studies have been conducted and many articles are published on the financial performance of commercial banks. Some of above stated studies only concerned with the profitability aspects, some other studies are focused on uses and sources of funds and income and expanses trends. Some study has done only in the dividend policy of joining venture banks. However, this study has been carried out to cover all aspects. Our study has set the primary objectives as to evaluate the capital adequacy ratio, analysis of different types of the risk associated and non-performance assets, earning capacity and operational efficiency of HBL and NABIL taking the figures 2006 to 2010. Therefore, this study has been chosen to support and supplement the existing literature. The objective of this study is different in some aspect from others. Since the present study concerns with the comparative financial study of HBL and NABIL, this study is specific, in-depth and a comprehensive.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **4.1 Research Design**

The research design follows basically the comparative evaluation of financial performance of related bank. Analytical as well as descriptive approaches have been used to evaluate the financial performance of the related banks. Analysis basically on the basis of secondary data through personal interviews has been taking to support and confirm with key person.

#### **4.2 Nature and Source of Data**

This study has main base on secondary data. Secondary data has collect from their respective annual report especially from profit and loss account, balance sheet and other publication make by bank. Various information has been taken from Nepal stock Exchange Ltd.

#### **4.3 Population and sample**

There are 31 commercial banks operating in Nepal. Most of the commercial banks are establishing and expanding its wings to the far places and to the remote areas too. Similarly some few joint ventures are still running. Here due to different constraints at only two joint venture banks (i.e. HBL and NABIL) are taken as sample to represent the whole commercial banks operated in Nepal. Five years data has been taken to conduct the study from 2006-2010.

#### **3.4 Data Gathering Procedure**

All secondary data and information have been collected from the head office of the both banks and if necessary primary data has also been collected.

Secondary data has been collected from their website and other information has been taken from different financial statement of bank, books and journals.

### **3.5 Data Analysis Technique**

Collected data from primary and secondary sources has been presented in appropriate forms of table, charts and figures.

### **3.6 Data Analysis Tools**

For the purpose of analysis, financial statements of concerned institutions the profit and loss account and balance sheet of the bank has been analyzed. The statistical tools have also been used as per the necessity of the study. The following financial as well as statistical tools have been used.

#### **3.6.1 Financial Tools**

In this research study various financial tools has been employed for the analysis. There are more than 200 ratios existing today, but in this study some selected ratios has been used. A ratio is defined as “The indicated quotient of two mathematical expressions” and as “the relationship between two or more things”.

##### **3.6.1.1 Ratio Analysis**

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis.

Ratio analysis is powerful tools of financial analysis, which helps in identifying financial strength and weakness of business concerns. It is an important way to state meaningful relationships between components of financial statements. The primary purpose of ratio is to point out area for further investigation. Ratio analysis has been major tools used in the interpretation and evaluation of financial statements since late 1800. Among the large number of

financial ratio existing they have been categorized into three broad grouping such as performance measures, operating efficiency measures and financial policy measure for the sequential study starting with over all results and then analyzing their determinants. They have further been divided into different group in different categorized.

### **i) Financial Policy Measures**

To diagnose the comparative financial strengths and weakness of any organization, researcher must focus their study upon the financial policy decision adopted by the organization. Therefore, the measures have been applied to measure the comparative performance of the sampled banks with management. For the study two major types of financial policy ratios have been considered. They are:

) Liquidity Ratios

) Leverage Ratios

### **a) Liquidity Ratios**

Liquidity ratios measure the ability of the firm to meet its current obligations. In fact, analysis of liquidity needs the preparation of cash budgets and cash and fund but liquidity ratio, by establishing a relationship between cash and other current assets to current obligation, provide a guide measure of liquidity. Liquidity ratios give insight into the present cash solvency of the firm and its ability to remain solvent in the event of adversities. It is the comparison between the short-term obligation and the short firm resources. In case of bank, liquidity management is widely used to analyze liquidity position of banks. To analyze the ability of banks, the following selected ratios are calculated.

**i) Current Ratio**

The current ratio is the ratio of total current assets to total current liabilities. It is calculated by dividing current assets by current liabilities, which is presented as follows:

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

Current assets represent those assets which can be converted into cash and bank balance within an accounting period such as cash and cash balance, investment in treasury bills, money at call or placement, loan and advance, purchase and discount etc.

**ii) Cash and Bank Balance to Total Deposit**

The cash reserve requirement in most of the developed and developing countries has been used extensively as a means to control commercial banks credit. Especially in those countries, where capital market is not well developed, cash reserve requirement can be used not only to control the commercial bank credit but also to influence the investment portfolio of the commercial banks.

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

**iii) Cash and Bank Balance to current Assets**

Since cash and bank balance is the most liquid asset, a financial analyst may examine the ratio of cash and balance to current assets. This ratio shows the

percents of readily available fund with in the banks. It is calculated by dividing cash and bank balance by current assets, which is as follows:

$$\frac{\text{Cash and bank balance to}}{\text{Current assets}} = \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

#### **iv) Investment on Government Securities to Current Assets**

This ratio is calculated in order to find out the percentage of current assets invested in government securities i.e. Treasury bill. It can be calculated by dividing investment on government securities to current assets as follows:

$$\frac{\text{Investment on Government Securities to Current assets}}{\text{Current assets}} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

#### **v) Loan and Advances to Current Asset**

Loan and advances refer to bill purchase and discounted local and foreign currencies, loan, advances and overdrafts. Banks loan and advance is the main assets used for income generating purpose in commercial banks. This ratio is calculated to find out the percentage of current asset, invested in loan and advances by following formulae:

$$\text{Loan and advances to Current assets} = \frac{\text{Loan and Advances}}{\text{Current Assets}}$$

#### **vi) Fixed Deposit to Total Deposits**

Fixed Deposit is the high interest charge bearing deposit and can be withdrawn only after the expire of the period for which these deposits have been made. This ratio is calculated in order to find out the proportion of total deposit in fixed deposit. It is calculated by dividing the amount of fixed deposits by the amount of total deposits, which is given below:



$$\text{Fixed deposit to Total Deposit} = \frac{\text{Fixed Deposit}}{\text{Total Deposit}}$$

### **Vii) Saving Deposit to Total Deposit**

Saving deposits stand midway between current and fixed accounts. These deposits are not as freely withdrawals as current accounts. This ratio is calculated in order to find out the proportion of total deposit which is interest bearing and short-term. It can be calculated by dividing the amount of saving deposits by the amount of total deposits.

$$\text{Saving Deposit to Total Deposit} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

### **b) Leverage Ratio**

The use of financial is refers by financial leverage. These ratios are also called solvency ratios or capital structure ratio. To judge the long-term financial position of the firm, these ratios help to measure the financial contribution of owners and creditor comparatively. These ratios indicate the situation of the capital structure, which is calculated to measure the company's ability of using debt for the benefit of shareholders.

#### **i) Total Debt Ratio**

This ratio exhibits the relationship between creditors funds and owners capital. This ratio shows the proportion of outsiders fund used in financing total assets. It also provides security to outsider to pay their regular interest, dividend and principal with in prescribed time. Generally creditor prefers the components to use low debts and owner's the contrary prefer high debt ratio indicates higher financial risk as well as increasing claims of outsiders in total assets and lower

ratio indicates lower financial risk as well as decreasing claims of outsiders over the total asset of the firm. Generally 1:2 ratios are considered good but however no hard and fast rule is prescribed.

This ratio is calculated by dividing the total debt of the bank by their total asset,

$$\text{Total debt ratio} = \frac{\text{Total Debt}}{\text{total Assets}}$$

## ii) Leverage Factor

Leverage factor referred to the ratio of total assets to share holder's equity. It can be calculated by dividing the shareholder's equity by total asset which is given below:

$$\text{Leverage factor} = \frac{\text{Total Assets}}{\text{Shareholders Equity}}$$

## iii) Capital Adequacy Ratio

Capital adequacy ratio measured by the capital (paid up capital and free reserve) to the total asset explains the strength of the capital base of commercial banks. Nepal Rastra Bank prescribes how much capital is required by a commercial bank to meet the capital adequacy.

Here capital refers to paid up capital general reserves and undivided profit. So capital adequacy in Nepal is calculated by dividing the amount of capital fund by the amount of total deposit.

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

**a. Operating Efficiency Measure**

One of the vital factors for the superior performance of any organization is their operating efficiency. That's why the measures have been examined to diagnose how well the management doing to maintain checks on the important factor that contributes to success. Under this measure, two major categories of financial ratios are performed as follows:

**1) Activity Ratios**

**i) Loan and Advances to Total Deposit Ratio**

This ratio measures the extent to which the banks are successful to utilize the profit generating purpose on the loans and advance. Generally, high ratio reflects higher efficiency to the utilization of outsider's fund and vice-versa. It can be calculated by dividing the amount of loans and advances the amount of total deposits,

$$\text{Loans and advances to total deposits} = \frac{\text{Loan and Advances}}{\text{Total Deposit}}$$

Here, Loan an advance refers to total of loan advances and overdraft and total deposits refer to total of all kinds of deposits.

**ii) Loan and Advances to Fixed Deposit Ratio**

This ratio measures how many times the amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are high interest bearing obligation whereas loans and advances are the major sources of investment to generate income advances by fixed deposits that are given below:

$$\text{Loan and advances to fixed Deposit ratio} = \frac{\text{Loan and Advances}}{\text{fixed Deposit}}$$

**iii) Loan and Advances to Saving Deposit Ratio**

This ratio measures how many times the second high interest bearing deposit is utilized for income generating purpose. This ratio can be calculated by

dividing the amount of loans and advances by the amount of Saving Deposits. The ratio is calculated as follows:

$$\text{Loan and advances to saving deposit ratio} = \frac{\text{Loan and Advances}}{\text{Saving Deposit}}$$

#### **iv) Investment to Total Deposits Ratio**

This ratio is derived by dividing investment by the amount of total deposit in the bank.

$$\text{Investment to Total Deposit ratio} = \frac{\text{Investment}}{\text{Total Deposit}}$$

### **2) Cost Effectiveness Measure**

For the efficient operations of a firm management should focus their critical eyes upon the two main areas. One of them is concerned with the well management of investment and another one is to control cost effectively. The ratio is most important since this ratio measure how individual elements of cost are controlled. Some major ratio regarding commercial banking sector under this ratio can be examines follows:

- Personnel Expenses to Total Income Ratio
- Office Expenses to Total Income Ratio

#### **i) Personnel Expenses to Total Income Ratio**

This ratio is measured as total personnel expenses divided by total income. It is of interest to determine company policies n another important aspect of managing a company's personnel relationships.

**ii) Office Operating Expenses to Total Operating Income Ratio**

This ratio simply derived by dividing total office operating expenses by total operating income.

**b) Performance Measures**

Performance measures reflect strategic, operating and financing decisions. Under this, three major groups are analyzed as mentioned previously.

**3) Profitability Ratios**

Profit is the differences between total revenues and total expenses over a period of time. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the banks in term of profits. The profitability ratios in the study are calculated to measure the operating efficiency and performance of two banks comparatively. Some major profitability identifying ratios used in this study are below:

**i) Interest Earned to Total Assets Ratio**

Interest earning is the major source of a commercial bank. This ratio is calculated to find out percentage of the interest earned in comparison to total assets. In order to calculate this ratio interest earned amount is divided by total assets of the banks.

$$\text{Interest Earned to Total Assets Ratio} = \frac{\text{Interest Earned}}{\text{Total Assets}}$$

**ii) Net Profit to Total Deposit Ratio**

The collected deposits are mobilized in investment and loans to get profit. This ratio indicated the percentage of profit earned by using the total deposit. This ratio is the mirror for a bank overall financial performance as well as its success in profit generating, the reason being that the deposits made by its customer's is the major source of earning of the joint venture banks as the earning is made buy

the efficiency and defective utilization of these deposits. It is calculated by dividing the amount of net profit by the amount of total deposits which is presented below:

$$\text{Net profit to total deposit} = \frac{\text{Net Profit}}{\text{Total deposit}}$$

### iii) **Net Profit to Total Assets Ratio**

This ratio is a useful measurement of the profitability of all financial resources invested in the banks assets. This ratio provides the foundation necessary for company to derive a good return on equity. Higher Return on Assets ratio indicates higher efficiency in the utilization of total assets and vice-versa. The return on assets or profit to assets ratio is calculated by dividing the amount of net profit by the amount of total assets.

$$\text{Net profit to total Assets} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

### iv) **Return on Net worth**

Net worth or shareholders equity refers to the owner claim on assets of the bank. It can be found by deducing total liabilities form total assets. This ratio measures the profit earned by the commercial banks by utilizing owner's equity and there by generating return to satisfy the owners. This ratio indicates how well the banks used the resources of the owners.

$$\text{Return on Net worth} = \frac{\text{Net Profit after tax}}{\text{Total Assets}}$$

### V) **Return on Risk Assets**

Risk assets refer to those assets, which are invested in loans, advances, and bill, purchased and discounted. This ratio is calculated to find out percentage of

net profit after taxes in comparison to risk assets. This ratio is calculated by dividing the amount of profit by the amount of risk assets which is presented below:

$$\text{Return on Risk Assets} = \frac{\text{Net Profit after interest and tax}}{\text{Risk Assets}}$$

## **i. Valuation Measures**

Valuation ratios are the most comprehensive measures of performance for the firm is that they reflect the combined influence of return and risk ratio. Naturally, the decision that management makes in the day to day operation of the business inevitably affect the value of the firm and its worth to its owners, the common shareholders. Besides the ratios mentioned above evaluate the company from an operational perspective, this ratio evaluated the company largely in terms of market values. Out of these the most importance ones are as follows:

### **i) Price Earning Ratio**

This ratio of a company is simply obtained by dividing the market price per share by earning per share. This ratio is used by the security analysis to value the firm's performance as accepted by investors. It indicates investor's judgment for expectation about the firm's performance. This ratio reflects investor's expectations about the growth in the firm's earnings.

$$\text{Price Earning Ratio} = \frac{\text{Market value per share}}{\text{Earning per share}}$$

### **ii) Market to Book Ratio**

For the calculation of M/B ratio, BVPS is derived by dividing shareholdings, equity by the number of share outstanding. The greater the expected growth and value place on such, the higher this ratio. M/B ratio for the established companies range from as little as 0.5 to as high as 8.01.

$$\text{Market to Book Ratio} = \frac{\text{Market value per share}}{\text{Bookvalue per share}}$$

### iii) Dividend Yield Ratio

This ratio is the dividend per share divided by market value per share. This ratio evaluates the shareholder, return in relation to the market value of the share. So relationship of annual dividend to share price denotes the ratio of dividend yield. That is as follows:

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend per share}}{\text{Market value per share}}$$

## 2. Income and Expenditure Analysis

This analysis depicts the major sources of income and expenses of any organization. The analysis guides the analyst to conclude the areas to be focused for investment and the possibilities for effective control over expense. It covers the analysis of

- i) Income analysis
- ii) Expenses analysis

### 3.6.1.2 Income Analysis

Commercial banks generate income from the investment made in various sectors and services provided by them. The banks, being service oriented organization, do not produce physical goods. They produce loan and advances and innovations and sell the same. In the course of carrying out their functions, they receive income from various sources which have been split up into the following major four headings:



- ) Interest Income
- ) Commission and Discount
- ) Exchange Income
- ) Other Income

**a) Interest Income**

Interest is the main and major sources of income for the commercial banks. They receive interest from various heads of investment title i.e. loan and advance, overdraft, investment on government securities, investment on debenture, money and short cell and inter bank loans. This ratio of bank reflects the operational efficiency. So, higher the ratio indicates higher the efficiency and vice-versa.

**b) Commission and Discount**

Commission and discount include income received as commission. Commercial banks render various types of service to their customers. They provide remittance, guarantees, transfer, standing instructions, letter of credit, purchase and discount of bill of exchange facilities along with other agency and merchant banking function for making such facilities available, they receive certain commission, which also holds a significant portion of the total income.

**c) Foreign Exchange Income**

One of the major functions of commercial banks is transaction of foreign currency. Both of the sampled banks are authorized by Nepal Rastra Bank to deal with foreign currency. Income under this heading encompasses not only gain from sale of foreign currency, but gain from revaluation of our currency i.e. foreign exchange fructuous income also.

**d) Other Income**

Income not included in any of the above headings is the components of this heading. Other income comprises various titles of incomes viz, revaluation gain, and net income from sale of investment an assets, non-banking assets, fixed assets written back and other.

**3.6.1.3 Expenditure Analysis**

Expenses are the cost incurred in course of operation of various activities. The bank need to pay interest in deposit, borrowing and inter branch transaction. They should pay salaries and other facilities for actual work performance i.e. team of personal. Certain portion of their income is spent for the day to day operation. Besides all these expenses they should provision for bonus, loan loss and tax out of their total income. For the study purpose, four major categories of expenses have been analyzed.

- ) Interest Expenses
- ) Staff Expenses
- ) Office Operation Expenses
- ) Bonus Facility

**a) Interest Expenses**

Expenses analysis depicts that interest payment for both banks occupy the major proportion of operating expenses. Interest expenses are composed with interest paid on various types deposits, loans and borrowing and inter branch transaction. Since transfer of the money from surplus spending units to the deficit spending units is the significant function of the commercial banks, interest generally occupies more than half of total operation expenses.

### **b) Staff Expenses**

Organization itself does nothing but their success or failure is mainly based upon their employees. Efficient and well-motivated staffs are the ornaments of any organization. For all these, organization needs to make some expenses in return to the service provided by them. In this way, staff expenses include all the expenses made upon their employees such as: salary and allowance, training, uniform and liveries, contribution to provident fund, incentives, fringe benefits etc.

### **c) Office Operating Expenses**

In the context of Nepalese CBS, office expenses occupy second major portion in the composition of total expenses. These include those expenses incurred for the routine operation of the CBS, such as: house rent, lighting, water, power, building repair and maintenance, insurance, postage, telex, telephone, advertisement stationery and pointing remittance fee and expense, traveling expenses, bank commission, board meeting fee and expenses, audit feed and expenses, depreciation, amortization expenses etc.

### **d) Bonus Facility**

Out of the operating profit of the bank, they need to make some further provisions like provision for staff bonus, loan losses and income tax. In this way, they distribute certain sum of their profit to their staff as a bonus on reward for their well performance. It plays vital role for motivating their employees in there work and to attract potential outsiders.

## **ii. Statistical Tools**

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

## 1. Arithmetic Mean

According to Professor Bowley Statistical constant which enable us to comprehend in a single effort the significant of the whole. Out of the different measures and averages, arithmetic mean is the most popular one. Arithmetic mean of assets of observation is their sum divided by the number of observation: e.g. the arithmetic mean  $\bar{x}$  of N observation  $x_1, x_2, x_3, \dots, x_n$  is given by:

$$\bar{x} = 1/N (x_1 + x_2 + \dots + x_n)$$

It can be simply presented by:

$$\bar{x} = \Sigma x / N$$

## 2. Coefficient of Variation (C.V)

According to the Karl Pearson who suggested the measure, C.V. is the percentage variation in the mean, Standard deviation being considered as the total variation in the mean.

Simply, it is 100 times the co-efficient of dispersion based on standard deviation and is calculated as:

$$C.V. = 100 \times \frac{\sigma}{\bar{x}} \quad \text{Where, } \sigma = \text{Standard Deviation}$$

$$= \sqrt{\frac{\Sigma x^2}{N} - (\Sigma x / N)^2}$$

By the calculation of C.V. we can take comparison of the variability of series dates of two sampled banks. The series having greater C.V. is said to be more variable than the other and the series having lesser C.V. is said to be more consistent for homogenous than the other.

## 3. Correlation Analysis

Correlation analysis is equally important. Correlation analysis is the statistical tool generally used to describe the degree to which one variable is related to another. There are several methods under correlation but in this

research, Karl Pearson's coefficient of correlation has been used. It is simply denoted by " $r_{xy}$ " or " $r$ " has been calculated in this study for two purposes, first to check the calculation if the obtained value of " $r$ " is beyond the limit of -1 to +1 it implies that there is some mistake in the calculations. Second, to know the degree direction of the relationship between two variables, if the value of  $r$  is +1, there is perfect positive correlation, if the value of  $r$  is -1, there is perfect negative correlation and if the value of  $r$  is "0", there is perfect co-variation between the variables. In practice, Perfect correlation cannot be found.

Formula for Correlation is:

$$r_{xy} = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

$N$  = no. of observations in series  $x$  and  $y$

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

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

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

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

$\sum XY$  = Sum of product of observations in series  $X$  and  $Y$

Here,

$r = 1$  implies; Positive and perfect correlation between the variables.

$r = -1$  implies; negative and perfect correlation between the variables.

$r = 0$  implies; no linear relationship between the variables.

#### 4. Regression Analysis

Statistical tool used for this study is the trend analysis. Mostly trend is used for forecasting in practice. Amongst the various methods to determine trend, the

least square is one of the best method used in the analysis. In most cases, we try to fit a straight line to the given data. The straight-line trend is represented by the equation.

$$Y = a + bx$$

Where, 'a' is the Y intercept or the computed trend figure of the Y variable when x= 0, 'b' represent the slope of the trend or the amount of change in y variable that is associated with change of one unit in x variable. The x variable in trend analysis represents time.

In order to determine the values of the constants 'a' and 'b' the following two normal equations are to be solved.

$$Y = Na + b X \text{ -----(i)}$$

$$XY = a X + b X^2 \text{ -----(ii)}$$

Where, N is the number of years.

## **CHAPTER 4**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter of thesis presents the data, facts, figures relating to different aspects of HBL and NABIL. These available data are tabulated analyzed and interpreted so that financial forecast of banks can be done easily. Hence, the financial ratios have been taken for this. However, there are many ratios but due to some shortcoming and constraints, only selected ratios have been taken for analyzing the strength and weakness of the sample joint venture banks. In brief, the chapter includes analysis and interpretation of the following.

#### **4.1 Ratio Analysis**

Ratio analysis has been adopted to evaluate the performance, operation efficiency and financial health of the sampled banks. In order to analysis and interpret the tabulated data the following measures have been used.

##### **4.1.1 Financial Policy Measure**

Financial policy measures relate to strategic decisions as well as investment management. By the financial policy we can measure capital ratio and liquidity ratio. In capital structure ratio we should calculate of Total debt ratio, leverage ratio, coverage ratio etc. in the liquidity ratio we should calculate so many ratios. Some ratios are given below.

##### **4.1.1.1 Liquidity Ratio**

Liquidity of a firm refers to the sound solvency position of a firm to meet its obligations, liquidity ratios measures the ability to meet its short-term obligations. Various ratios come under this category.

**i) Current Ratio**

It is the ratio of total current assets of total current liabilities calculated by dividing the company's current asset by current liabilities.

**Table 1**

**Current ratio in times**

**(Rs. in Millions)**

Bank	HBL			NABIL		
Years	CA	CL	Ratio (Times)	CA	CL	Ratio (Times)
2006	27549	26302	1.047	23506	22147	1.061
2007	28898	27694	1.043	21822	20312	1.074
2008	22537	22292	1.011	20808	19632	1.06
2009	20006	19814	1.010	18342	17208	1.066
2010	24517	23493	1.044	20379	19542	1.043
Mean	1.031			1.061		
S.D.	0.032			0.010		
C.V.	3.13%			0.97%		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-1)**

Table 1 show that the current ratio of both banks. They both seem as below the standard rate. The HBL bank, over the study period has ranged between 1.01 to 1.047 and mean value is 1.031. The NABIL the ranged of ratio are 1.06 to 1.074 and mean value is 1.061. HBL bank S.D. and C.V. is better than NABIL.

Current ratio of both the bank is below the required standard but we cannot conclude the liquidity position of the both banks to be poor. As this ratio shows the quantity and not the quality of assets and second reason is that it does not distinguish between the types of current assets. However, lower assets ratio



implies that both the sample banks current assets are either declining in value or being utilized in some other profit generating investment. Both banks should cut off the investment of such assets from the viewpoint of working capital policy and utilization of current fund both the sample banks are following the aggressive working capital policy ad better utilization of current fund.

**i. Cash and Bank Balance to Total Deposit**

The following table shows the comparative cash and bank balance to total deposit ratio of HBL and NABIL.

**Table 2**

**Cash and bank balance to total deposit (Rs in Million)**

Bank	HBL			NABIL		
Years	Cash and Bank Balance	Total Deposit	Ratio %	Cash and Bank Balance	Total Deposit	Ratio %
2006	2014	24813	8.11	1111	19361	5.74
2007	1717.34	26489	6.48	1276	23019	5.54
2008	1979.2	21392	9.25	1512	18755	8.06
2009	1264.67	19040	6.64	825	15833	5.21
2010	2001.18	22010	9.1	2023	21159	9.56
	Mean	7.92		6.822		
	S.D	1.17		1.69		
	C.V.	14.78		24.77		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-2)**

Table 2 shows that the ratio of HBL bank over the study period has ranged between 6.48 to 9.25 and mean 7.92. The NABIL bank 5.21 to 9.56 and mean is 6.822. HBL bank has more consistency in its current ratio with C.V. of 14.78% than NABIL bank with C.V. of 24.77%. A higher ratio of HBL bank indicates the

greater ability to meet their all types deposits. But high ratio of cash and bank balance to total deposits may be unsuitable and harmful because it affects their profitability position. Too low ratio is unfavorable as capital will be tied up and opportunity cost will be higher.

**ii. Cash and Bank Balance to Current Assets.**

**Table 3**

**Cash and bank balance to current assets (Rs in Million)**

Bank	HBL			NABIL		
Years	Cash and Bank Balance	CA	Ratio %	Cash and Bank Balance	CA	Ratio %
2006	2014	27549	7.31	1111	23506	4.73
2007	1717.34	28898	5.94	1276	21822	5.85
2008	1979.2	22537	8.78	1512	20808	7.27
2009	1264.67	20006	6.32	825	18342	4.5
2010	2001.18	24517	8.16	2023	20379	9.93
	Mean	7.304		6.453		
	S.D.	1.15		1.99		
	C.V.	15.75		30.84		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-3)**

The table 3 shows that the cash and bank balance to current ratio of HBL bank has ranged between 5.94 to 8.78 and 7.304. The ranged of NABIL bank has 4.5 to 9.93 and mean is 6.453. Cash and bank balance to current ratio of HBL bank is higher than NABIL bank.

It means the liquidity position of HBL is better than NABIL bank but it is holding idle cash whereas NABIL is utilizing cash in profit generating fields. However, holding less cash and bank balance can have negative impact on the

goodwill and reputation of the bank to fulfill the demand of the profit holder so. Hence, NABIL should maintain required and sufficient cash and bank balance so that there is no shortage of highly liquid assets.

**iv) Investment on Government Securities to Current Assets**

This ratio is calculated in order to find out the percentage of current assets invested in government securities i.e. Treasury bill. It can be calculated by dividing investment on government securities to current assets.

**Table 4**

**Investment on Government Securities to current assets (Rs in Million)**

Bank	HBL			NABIL		
Years	Investment on Government securities	CA	Ratio %	Investment on Government securities	CA	Ratio %
2006	5469	27549	19.85	7203	23506	30.64
2007	5144	28898	17.80	8644	21822	39.61
2008	3999	22537	17.74	6723	20808	32.31
2009	2588	20006	12.9	5784	18342	31.54
2010	3432	24517	13.99	7948	20379	39.0
	Mean		16.47			34.62
	S.D.		2.59			3.87
	C.V.		15.73			11.17

**(Sources: Annual Report of Concerned Bank, Refer Appendix-4)**

The table 4 shows that the ratio of NABIL bank has ranged between 30.64% to 39.61% and mean is 34.62%. The ratio of HBL Bank has ranged

between the 12.93% to 19.85% and mean is 16.47. The mean value of NABIL is higher than HBL.

Similarly, NABIL has more consistency than HBL bank with C.V of 11.17% and 15.73% respectively which show that NABIL is more efficient in using government securities. Lower the investment on government securities higher risk and higher the risk higher the income and vice versa.

**v. Loan and advance to current Assets Ratio**

Loan and advances refer to bill purchase and discounted local and foreign currencies, loan, advances and overdrafts. Bank loan and advance is the main assets used for income generating purpose in commercial banks. This ratio is calculated to find out the percentage of current asset, invested in loan and advances.

**Table 5**

**Loan and advance to Current Assets Ratio (Rs in Million)**

Bank	HBL			NABIL		
Years	Loan and Advance	CA	Ratio%	Loan and Advance	CA	Ratio%
2006	12425	27549	45.10	8143	23506	34.64
2007	14625	28898	50.61	8935	21822	40.95
2008	11097	22537	49.24	5695	20808	27.37
2009	8914	20006	44.55	5364	18342	29.24
2010	11952	24517	48.75	6410	20379	31.4
Mean	47.65			32.73		
S.D.	2.38			4.77		
C.V.	4.99			14.57		

(Sources: Annual Report of Concerned Bank, Refer Appendix-5)

The table 5 shows that the loan and advance to current assets ratio of HBL bank is 44.55% and 50.61% with increasing trend and mean value is 47.65%. The ratio of NABIL bank is 27.37% and 40.95% with increasing trend with the mean value is 32.73%.

This table shows that NABIL is not so efficient in utilizing its current assets in terms of loan and advance than HBL bank. So NABIL should increase the utilization of its current assets by providing loan and advances.

**vi. Fixed Deposit to Total Deposit Ratio.**

**Table 6**

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

Bank	HBL			NABIL		
Years	Fixed Deposit	Total Deposit	Ratio %	Fixed Deposit	Total Deposit	Ratio %
2006	6107	24813	24.61	1416	19361	7.31
2007	6350	26489	23.97	2136	23019	9.28
2008	3205	21392	14.98	1948	18755	10.39
2009	5480	19040	28.78	2264	15833	14.30
2010	4710	22010	21.40	1428	21159	6.75
Mean	22.75			9.61		
S.D.	5.55			2.69		
C.V.	20			28		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-6)**

Table 6 shows that the ratio of NABIL bank has ranged between 6.75 to 14.30% and with the mean value 9.61%. The ratio of HBL bank has ranged between 14.98% to 28.78% and means value is 22.75%.

In the above figure it shows that the CV of NABIL is higher than HBL bank.

From this result, it is clear that, in HBL bank fixed deposit has occupied greater portion of total portion deposit in contrast to NABIL. Bank can experience high profit by investing the fund in long term loans since the fund available from fixed deposit is higher.

**vii. Saving Deposit to Total Deposit Ratio**

**Table 7**

**Saving Deposit to Total Deposit Ratio (Rs in Million)**

Bank	HBL			NABIL		
	Saving Deposit	Total Deposit	Ratio %	Saving Deposit	Total Deposit	Ratio %
2006	12852	24813	51.79	13030	19361	67.3
2007	14582	26489	55.05	14597	23019	63.41
2008	10870	21392	50.81	10633	18755	56.6
2009	9163	19040	48.13	9440	15833	59.62
2010	11760	22010	53.43	12772	21159	60.36
Mean	51.84			61.48		
S.D.	2.35			3.61		
C.V.	4.53			5.87		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-7)**

Table 7 shows that this ratio of NABIL bank has fluctuating over the study period. The ratios of NABIL bank have ranged between 56.6% to 67.3% and mean value is 61.48.

Similarly the ratio of HBL bank over the study period was ranged between 48.13% to 55.05% and mean value is 51.48%. The mean ratio of HBL is lower

than that of NABIL bank. The NABIL is more efficient in utilization of its total deposits.

#### 4.1.1.2 Leverage Ratio

The use of finance is refers by financial leverage. These ratios are also called solvency ratios of the firm, these ratios help to measure the financial contribution of owners and creditor comparatively. These ratios indicate the situation of the capital structure, which is calculated to measure the company's ability of using debt for the benefit of shareholders.

##### i. Total Debt Ratio

This ratio exhibits the relationship between creditor's funds and owner capital.. This ratio is calculated by dividing the total debt of the bank by their total asset, which is presented below:

**Table 8**

#### Total Debt Ratio

(Rs in Million)

Bank	HBL			NABIL		
Years	Total Debt	Total Assets	Ratio%	Total Debt	Total Assets	Ratio%
2006	26303	27844	94.47	20200	21781	92.74
2007	27694	29460	94.00	24023	25776	93.19
2008	22292	23355	95.45	19631	21000	93.48
2009	19809	20672	95.82	17207	18443	93.3
2010	23493	24817	94.66	22146	23642	93.68
Mean		94.88			93.28	
S.D.		0.66			0.31	
C.V.		0.70			0.33	

(Sources: Annual Report of Concerned Bank, Refer Appendix-8)

Table 8 shows that debt financing ratio of both bank is very high. The ratio of NABIL bank is 92.74% to 93.68% and average is 93.28%. The ratio of HBL bank is 94% to 95.82% and average is 94.88%. The mean ratio is very near of both banks. NABIL bank has more consistency with C.V. of 0.33 % than HBL with C.V. of 0.70%. The total debt includes short term, long term loan as well as various types of deposits; the ratio may not reflect the actual portion of debt in total assets of the firm. Higher flow of deposit influences this ratio. However both bank are suggested to minimize actual debt financing over total assets of the firm and rather increase owner's equity to finance in assets of the firm.

## ii. Leverage Factor

Leverage factor referred to the ratio of total assets to share holder's equity. It can be calculated by dividing the shareholders equity by total assets.

**Table 9**

### Leverage Factor

(Rs in Million)

Bank	HBL			NABIL		
	Years	Total Assets	Net worth	Ratio (Times)	Total Assets	Net worth
2006	27844	1324	21.03	21781	1496	14.56
2007	29460	858	34.34	25776	1236	20.85
2008	23355	1063	21.97	21000	1369	15.34
2009	20672	1766	11.71	18443	1736	10.62
2010	24817	1542	16.09	23642	1582	14.94
	Mean		21.03			15.26
	S.D.		7.6			3.27
	C.V.		36.14			21.42

(Sources: Annual Report of Concerned Bank, Refer Appendix-9)



Table 9 shows that the ratio of NABIL bank has ranged between 10.62% to 20.85% with the mean value 15.26%. The ratio of HBL bank has ranged between 11.71% to 34.34% with the mean value 21.03%.

The analysis shows that the capital structure of both banks is highly levered since the average ratios for both the banks are less than 25%. HBL bank has higher ratios than NABIL. The higher C.V. of HBL bank indicates the greater deviation in the ratios than of NABIL.

### iii. Capital Adequacy Ratio

Capital adequacy ratio measured by the capital to the assets explains the strength of the capital base of banks.

**Table 10**

#### Capital Adequacy Ratio

(Rs in Million)

Bank	HBL			NABIL		
Years	Capital Fund	Total Deposit	Ratio %	Capital Fund	Total Deposit	Ratio %
2006	1542	24813	6.21	1582	19361	8.17
2007	1766	26489	6.67	1736	23019	7.5
2008	1063	21392	4.97	1369	18755	7.3
2009	858	19040	4.5	1236	15833	7.8
2010	1324	22010	6.02	1496	21159	7.07
	Mean	5.67		7.58		
	S.D.	0.81		0.385		
	C.V.	14.27		5.08		

(Sources: Annual Report of Concerned Bank, Refer Appendix-10)

Table 10 shows that the capital adequacy ratio of NABIL bank has ranged between 7.07% to 8.17% and mean value is 7.58%.

The ratio of HBL is ranged 4.51% to 6.67% with the mean value 5.67%. The ratio of NABIL allows high than HBL. NABIL has more consistency in this ratio with C.V of 5.08 than of HBL with C.V of 14.27%.

#### 4.1.2 Operating Efficiency Measures

Under this measure, two major categories of financial ratios are performed as follows:

##### 4.1.2.1 Activity Ratio

Nowadays these relations are also known as Assets and investment management. Activity or turnover ratios employed to evaluate the efficiency with which the firm manages and utilizes its assets. Various activity ratios are used to predict the effectiveness of asset utilization. Some selected ratios for this research can be illustrated as follows:

##### i. Loan and Advance to Total Deposits

**Table 11**

#### Loan and Advance to Total Deposits

(Rs in Million)

Bank	HBL			NABIL		
Years	Loan and Advance	Total Deposit	Ratio %	Loan and Advance	Total Deposit	Ratio %
2006	12425	24813	50.07	8143	19361	42.06
2007	14642	26489	55.28	8935	23019	38.82
2008	11097	21392	51.87	5695	18755	30.37
2009	8914	19040	51.84	5364	15833	33.88
2010	11952	22010	54.30	6410	21159	30.29
Mean	52.61			35.08		
S.D.	1.9			4.67		
C.V.	3.61			13.31		

(Sources: Annual Report of Concerned Bank, Refer Appendix-11)

Table 11 shows that this ratio of the both banks is fluctuating merely over the study period. The range of NABIL bank is 30.29% to 42.06% and mean value 35.08 %. In the study period the mean ratio of NABIL is lower than HBL bank (52.61%). HBL bank has more consistency with C.V. of 3.61% than NABIL with 13.31%

Table 11 shows that HBL bank is successfully utilizing its resource in profit generating field than NABIL. Lower ratio of NABIL represents lower deposits portion being invested in loan and advance. So it will be better for NABIL to increase the portion of loan and advance to earn more interest.

## ii. Loan and Advance to Fixed Deposit Ratio

This ratio measures how many times the amount is used in loans and advances in comparison to fixed deposits. Fixed deposits are high interest bearing obligation whereas loans and advances are the major source of investment to generate income for the commercial banks. This ratio is calculated by dividing the amount of loans and advances by fixed deposits.

**Table 12**

### Loan and Advance to Fixed Deposit Ratio

(Rs in Million)

Bank	HBL			NABIL		
	Loan and Advance	Fixed Deposit	Ratio %	Loan and Advance	Fixed Deposit	Ratio %
2006	12425	6107	2.03	8143	1416	5.75
2007	14642	6350	2.31	8935	2136	4.18
2008	11097	3205	3.46	5695	1948	2.92
2009	8914	5480	1.79	5364	2265	2.37
2010	11952	4710	2.54	6410	1428	4.49
Mean		2.43			3.94	
S.D.		0.57			1.19	
C.V.		23.49			30.31	

(Sources: Annual Report of Concerned Bank, Refer Appendix-12)

Table 12 shows that this ratio of the both banks is fluctuating merely over the study period. In case of HBL bank this ratio has ranged between 1.79 to 3.46 and means value is 2.43. The ratio of NABIL has ranged 2.37 to 5.75 and mean value is 3.94 Thus this table clearly indicates that loans and advance to fixed deposits ratio are being efficiently and properly utilized by NABIL than HBL bank.

### iii. Loan and Advance to Saving Deposit

This ratio measures how many times the second high interest bearing deposits is utilized for income generating purpose. This ratio can be calculated by dividing the amount of loans and advances by the amount of saving deposits.

**Table 13**

#### **Loan and Advance to Saving Deposit**

**(Rs in Million)**

Bank	HBL			NABIL		
Years	Loan and Advance	Saving Deposit	Ratio %	Loan and Advance	Saving Deposit	Ratio %
2006	12425	12852	0.97	8143	13030	0.62
2007	14642	14582	1.004	8935	14597	0.61
2008	11097	10870	1.02	5695	10633	0.54
2009	8914	9163	1.07	5364	9440	0.57
2010	11952	11760	1.02	6410	12772	0.50
	Mean	1.016		0.57		
	S.D.	0.055		0.046		
	C.V.	5.41		8.1		

(Sources: Annual Report of Concerned Bank, Refer Appendix-13)

Table 13 indicates that the ratio of HBL has ranged between 0.97 to 1.07 and mean value 1.016. The ratio of NABIL has ranged between 0.50 to 0.62 and mean value is 0.57. In short the mean ratio of HBL bank is more than NABIL bank. The HBL bank is utilizing its saving deposits properly than NABIL bank which is cleared by its C.V. The C.V of HBL is 5.41% whereas of NABIL is 8.1%.

**iv Investment to Total Deposit Ratio**

**Table 14**

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

Bank	HBL			NABIL		
Years	Investment	Total Deposit	Ratio %	Investment	Total Deposit	Ratio %
2006	11692	24813	47.12	11360	19361	58.6
2007	10889	26489	41.11	9703	23019	42.2
2008	10175	21392	47.56	10358	18755	55.2
2009	9157	19040	48.0	9276	15833	58.6
2010	9292	22010	42.2	10216	21159	48.3
Mean	45.22			52.58		
S.D.	2.94			6.44		
C.V.	6.50			12.25		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-14)**

Table 14 reflects that this ratio of HBL bank is fluctuating in between the ranged 41.11% to 48.09% with mean value 45.22%. The ratio of NABIL has ranged 42.2% to 58.6% with mean 52.58%. The ratio of NABIL is also fluctuating trend. NABIL has successfully allocated its deposits in investment portfolio.

Remarkably, higher mean ratio of NABIL signifies that has more successfully allocated its deposits in investment portfolio. Conversely HBL bank has given less importance in this issue. In other words it shows the efficiency of

NABIL in mobilization the major resources of the bank. C.V analysis showed the higher uniformity of ratios in NABIL than of HBL.

This ratio also analyses the risk associated in both sample banks. The C.V. of NABIL has more than HBL bank. It means that HBL is lesser riskier than the NABIL bank. Lesser the C.V. will be preferable.

#### **4.1.2.2 Cost Effectiveness Measure**

For the efficient operations of a firm management should focus their critical eyes upon the two main areas. One of them is concerned with the well management of investment and another one is to control cost effectively. The ratio is most important since this ratio measure how individual elements of cost are controlled. Some major ratio regarding commercial banking sector under this ratio can be examined follows:

- ) Personnel Expenses to Total Income Ratio
- ) Office Expenses to Total Income Ratio

##### **i. Personnel Expenses to Total Income Ratio**

This ratio is measured as total personnel expenses divided by total income. It is of interest to determine company policies in another important aspect of managing a company's personnel relationships.

Both banks personnel expenses is high, it means that have affected the profitability position of the bank adversely. From the other side, it seems more satisfactory for the employees and success of the organization to attract the efficient manpower from outside and utilize their talent. It might have maintained higher ratio to build the well employees management relationship, reduce the employee's absenteeism and turnover.

**Table 15****Personnel Expenses to Total Income Ratio****(Rs in Million)**

Bank	HBL			NABIL		
Years	Personnel expenses	Total income	Ratio in times	Personnel expenses	Total income	Ratio in times
2006	178.59	1760.68	10.14	148.58	1576	9.43
2007	234	2043.02	11.45	168	1775	9.46
2008	120.15	1519.62	7.91	128.33	1503.6	8.53
2009	101.53	1389.74	7.31	126.5	1441.7	8.77
2010	123.93	1519.62	8.16	134.67	1584	8.5
	Mean	8.99		8.94		
	S.D.	1.56		0.423		
	C.V.	17.35		4.7		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-15)**

Over the study period, ratios in NABIL bank found 8.53 to 9.46 and average ratio is 8.94. The ratio of HBL bank depicted decreasing trend. The ratio of HBL bank has ranged 7.31 to 11.45 and average ratio is 8.99

NABIL bank performed its functions more efficiently with minimum expenditure. In all volume of profit and number of employees can not be avoided to draw reliable judgment from the ratio. Remarkably higher C.V. of the ratios in HBL suggests lesser uniformity in maintaining the ratio over period.

**ii. Office Operating Expenses to Total Operating Income Ratio**

This ratio simply derived by dividing total office operating expenses by total operating income.

**Table 16****Office Operating Expenses to Total Operating Income Ratio (Rs in Million)**

Bank	HBL			NABIL		
Years	Office Operating expenses	Total income	Ratio%	Office Operating expenses	Total income	Ratio %
2006	277	1760.68	15.73	256.64	1576	16.28
2007	329	2043.02	16.10	221	1775	12.45
2008	177.13	1454.31	12.18	311	1503.60	20.68
2009	155.78	1389.74	11.21	196.94	1441.72	13.66
2010	112	1519.62	7.37	179.69	1584	11.34
	Mean	12.52		14.88		
	S.D.	3.2		3.33		
	C.V.	25.56		22.4		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-16)**

The ratio depicts ratio of office operating expenses regarding total operating income that affects the further cost decisions of the firm. High ratio is indicator of higher level of operating expenses. So, ratio is favorable to bank as it reflects the operational efficiency.

Table 16 shows that the ratio of NABIL reaches to 20.68 from 11.34. In the second period it is low and again rises gradually. The ratio of HBL bank has in decreasing trend and reaches to 7.37 from 16.10. Lower mean ratio of HBL bank suggests that the bank be in much better condition regarding to operational efficiency than NABIL bank. Once again, C.V analysis showed the more consistency in ratios of NABIL as compared to HBL bank.



### 4.1.3 Performance Measures

The measures have been applied to evaluate the performance of the selected bank regarding their strategies, operating and financing decisions. Under these following ratio have been tested.

#### 4.1.3.1 Profitability Ratios

Profit is the difference between total revenues and total expenses over a period. Profit is the ultimate output of a commercial bank and it will have no future if it fails to make sufficient profits. Some major profitability identifying ratios used in this study are given below:

##### i. Interest Earned to total Assets Ratio

Interest earning is the major source of a commercial bank. In order to calculate this ratio interest earned amount is divided by the total assets of the banks.

**Table 17**

#### Interest Earned to Total Assets Ratio

(Rs in Million)

Bank	HBL			NABIL		
	Interest Earned	Total Assets	Ratio	Interest Earned	Total Assets	Ratio
2006	1446	27844	5.19	1058	21781	4.86
2007	1626	29460	5.52	1189	25776	4.61
2008	1201	23355	5.14	1001	21000	4.77
2009	1149	20672	5.56	1013	18443	5.49
2010	1246	24817	5.02	1042	23642	4.41
	Mean		5.28			4.83
	S.D.		0.22			0.366
	C.V.		4.16			7.6

(Sources: Annual Report of Concerned Bank, Refer Appendix-17)

Table 17 shows that interest earned to total assets ratio of HBL bank has ranged between 5.02% to 5.56% and 5.28% is average mean. The ratio of NABIL bank has ranged between 4.41% to 5.49% and mean value 4.83%.

The C.V. of HBL is 4.16% and NABIL is 7.6%. It means that the HBL bank has more value than NABIL bank and HBL bank managed the assets more effectively to earn the interest. The ratio of interest earned to total assets remained more variable in NABIL as it has greater C.V than HBL bank.

## ii. Net Profit to Total Deposit Ratio

This ratio is the mirror for banks overall financial performance as well as its success in profit generating, the reason being that the deposits made by its customer's is the major source of earning of the joint ventures banks as the earning is made by the efficiency and effective utilization of these deposits.

**Table 18**

### Net Profit to Total Deposit Ratio

(Rs in Million)

Bank	HBL			NABIL		
Years	Net Profit	Total Deposit	Ratio	Net Profit	Total Deposit	Ratio
2006	263	24813	1.06	537	19361	2.77
2007	235	26489	.89	479	23019	2.08
2008	212	21392	.99	507	18755	2.70
2009	457	19040	2.40	659	15833	4.16
2010	308	22010	1.40	539	21159	2.55
Mean		1.34		2.85		
S.D.		0.56		0.69		
C.V.		41.33		24.4		

(Sources: Annual Report of Concerned Bank, Refer Appendix-18)

Table 18 shows that the ratio of HBL bank has ranged between .89% to 2.40% and mean value 1.34%. The ratio of NABIL bank has ranged between 2.08% to 4.16%.

The highest ratio of HBL bank is 2.40% and lowest ratio is .89%. The highest ratio of NABIL is 4.16 and lowest ratio is 2.08%. The mean ratio of NABIL is higher than that of HBL. NABIL has more consistency than HBL bank with C.V. of 24.4% and 41.33% respectively.

### iii. Net Profit to Total Asset Ratio

This ratio provides the foundation necessary for company to derive a good return on equity. Higher return on Assets ratio indicates higher efficiency in the utilization of total assets and vice-versa.

**Table 19**

#### Net Profit to Total Asset Ratio

(Rs in Million)

Bank	HBL			NABIL		
Years	Net Profit	Total Assets	Ratio	Net Profit	Total Assets	Ratio
2006	263	27844	.94	537	21781	2.47
2007	235	29460	.80	479	25776	1.86
2008	212	23355	0.91	507	21000	2.41
2009	457	20672	2.21	659	18443	3.57
2010	308	24817	1.24	539	23642	2.28
	Mean	1.220		2.52		
	S.D.	0.519		0.567		
	C.V.	42.53		22.5		

(Sources: Annual Report of Concerned Bank, Refer Appendix-19)

Table 19 shows that the ratio of HBL has ranged between 0.91% to 2.21% and mean value 1.220%. The ratio of NABIL has ranged between 3.45% to 12.77% and mean value 2.52%.

The mean ratio of NABIL is higher than the HBL bank and NABIL is more consistency than HBL bank with C.V. of 22.5% and 42.53% respectively. But however, this of the both bank is not that satisfactory level the reason for which may not the optimum utilization of deposits and lower interest rate on loans extended.

#### iv. Return on Net Worth

Net worth or shareholders equity refers to the owners claim on the assets of the bank. It can be found by deducting total liabilities from total assets. It measures the profit earned by the commercial banks by utilizing owner's equity.

**Table 20**

#### **Return on Net Worth Ratio**

**(Rs in Million)**

Bank	HBL			NABIL		
Years	Net Profit	Net Worth	Ratio	Net Profit	Net Worth	Ratio
2006	263	1324	19.86	537	1496	35.9
2007	235	858	27.39	479	1236	38.75
2008	212	1063	19.94	507	1369	37.03
2009	457	1766	25.88	659	1736	37.96
2010	308	1542	19.97	539	1582	34.07
Mean		22.61			36.74	
S.D.		3.31			1.64	
C.V.		14.64			4.5	

**(Sources: Annual Report of Concerned Bank, Refer Appendix-20)**

Table 20 shows that the ratio of HBL bank has ranged between 19.86% to 27.39% and mean value 22.61%.

The ratio of NABIL bank has been ranged between 34.07% to 38.75% and mean value 36.74%. The ratio of NABIL is higher than HBL bank. NABIL has more consistency in this ratio i.e. C.V. of is 4.5% and C.V. of HBL bank is 14.64%.

**v. Returns on Risk Assets**

**Table 21**

**Return on Risk Ratio**

**(Rs in Million)**

Bank	HBL			NABIL		
Years	Net Profit	Risk Assets	Ratio	Net Profit	Risk Assets	Ratio
2006	263	12425	2.12	537	8143	6.59
2007	235	14625	1.61	479	8935	5.36
2008	212	11097	1.91	507	5695	8.9
2009	457	8914	5.13	659	5364	12.29
2010	308	11952	2.58	539	6410	8.41
	Mean	2.668		8.31		
	S.D.	1.27		2.36		
	C.V.	47.61		28.4		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-21)**

This ratio shows that return on risk assets of the HBL bank varies from maximum 5.13% and minimum of 1.61% and the mean value is 2.67%. In the

study of five years net profit and risk assets of NABIL has 5.36% to 12.29% and mean value 8.31%.

It reveals that NABIL has better utilized its risk assets like; loan, advances and overdrafts, bills purchased and discounted, of the profit realizing and HBL bank is poor condition regarding this profitability ratio. Again this ratio of NABIL has more consistency with C.V. 28.4% than HBL bank with 47.61% which clearly shows that NABIL's performance is better than HBL bank.

#### **4.1.3.2 Valuation Measure**

Valuation ratios are the most comprehensive measures of performance for the firm in that they reflect the combined influence of influence of return and risk ratio. Naturally, the decisions that management makes in the day to day operations of the business inevitably affect the value of the firm and its worth to its owners, the common shareholders. Besides the ratios mentioned above evaluate the company largely in terms of market values. Out of these the most important ones are as follows:

- ) Price Earning Ratio
- ) Market to Book Ratio
- ) Dividend Yield

##### **i. Price Earning Ratio**

This ratio is used by the security analysis to value the firm's performance as accepted by investors. It indicates investor's judgment for expectation about the firm's performance. This ratio reflects investor's expectations about the growth in the firm's earnings.

**Table 22****Price Earning Ratio****(Rs in Million)**

Bank	HBL			NABIL		
Years	MVPS	EPS	Ratio	MVPS	EPS	Ratio
2006	920	47.91	19.2	2345	143.55	16.34
2007	1100	59.2	18.58	3775	175.84	21.47
2008	836	49.45	16.91	1640	149.36	10.98
2009	1000	60.26	16.59	1575	141.13	11.16
2010	840	49.05	17.13	1745	143.55	12.16
Mean		17.68			14.42	
S.D.		1.019			4.02	
C.V.		5.76			27.91	

**(Sources: Annual Report of Concerned Bank, Refer Appendix-22)**

Table 22 shows that the ratio of HBL bank has ranged between 16.59 to 19.2%. The ratio of NABIL is 10.98 to 21.47. The mean of ratio of HBL bank is higher than NABIL. HBL bank is more consistence than NABIL with C.V. 5.76 and 27.91 respectively.

**ii. Markets to Book Ratio**

For the calculation of M/B ratio, BVPS is derived by dividing shareholders, equity by the number of share outstanding. M/B ratio for the established companies ranged from as little as 0.5 to as high as 8.01.

**Table 23****Market to Book Ratio****(Rs in Million)**

Bank	HBL			NABIL		
Years	MVPS	BVPS	Ratio in times	MVPS	BVPS	Ratio in times
2006	920	239.59	3.84	2345	442	5.31
2007	1100	228.72	4.81	3775	468	8.07
2008	836	247.81	3.37	1640	403	4.07
2009	1000	220.03	4.54	1575	363	4.33
2010	840	246.93	3.4	1745	406	4.36
Mean			3.99			5.22
S.D.			0.6			1.48
C.V.			14.77			28.4

**(Sources: Annual Report of Concerned Bank, Refer Appendix-23)**

Table 23 shows that the ratio of HBL bank has ranged between the highest of 4.81 and lowest of 3.37 and average value is 3.99.

The rate of NABIL has 4.07 and 8.07 and mean value is 5.22. The mean value is higher of NABIL than HBL bank. The NABIL shows that the management is very stronger and expectation of higher growth in the market. Lesser value of NABIL clarifies that the indicators varied less over the period.

### **Dividend Yield Ratios**

This ratio is the dividend per share by market value per share. This ratio evaluates the shareholder, return in relation to the market value of the share. So relationship of annual dividend to share price denotes the ratio of dividend yield.



**Table 24****Dividend Yield Ratio in times****(Rs. in Million)**

Bank	HBL			NABIL		
Years	DPS	MVPS	Ratio	DPS	MVPS	Ratio
2006	32	920	3.48	120	2345	5.12
2007	35	1100	3.18	140	3775	3.71
2008	25	836	2.99	120	1640	7.32
2009	35	1000	3.5	100	1575	6.35
2010	20	840	2.38	110	1745	6.30
Mean		3.11		5.76		
S.D.		0.41		1.24		
C.V.		13.26		21.5		

**(Sources: Annual Report of Concerned Bank, Refer Appendix-24)**

Table 24 shows that this ratio of HBL has ranged between 2.38% to 3.5% with fluctuating trend.

Similarly, this ratio of NABIL has ranged between 3.71% to 7.32% also fluctuation trend. The mean ratio of NABIL has higher than HBL bank. Similarly, HBL bank is more consistency than NABIL bank with C.V. of 13.26% and 21.5% respectively.

#### **4.2 Income and Expenditure Analysis**

This analysis depicts the major sources of income and expenses of any organization. The analysis guides the analyst to conclude the areas to be focused for investment and the possibilities for effective control over expenses. Income analysis is given in following table.

#### 4.2.1 Income Analysis of HBL and NABIL

Different tables have been prepared for the income analysis of two proposed banks. Table 25 shows the income analysis of HBL and Table 26 shows the income analysis of NABIL.

**Table 25**

**Income analysis of HBL**

**(Rs in Million)**

Bank	HBL bank							
Year	Other income	Ratio	Foreign Exchange Income	Ratio	Commission and Discount	Ratio	Interest Income	Ratio
2006	44	.53	137	1.66	103	1.25	1446	17.56
2007	110	1.34	198	2.41	101	1.23	1626	19.75
2008	41	.50	110	1.34	132	1.60	1201	14.59
2009	35	.43	104	1.26	165	2	1149	13.96
2010	37	.45	112	1.36	123	1.49	1246	15.13
Mean		.65		1.61		1.52		16.20
S.D.		.35		.42		0.28		2.16
C.V.		53.96		26.16		18.47		13.33

**(Sources: Annual Report of Concerned Bank, Refer Appendix-25)**

**Table 26****Income Analysis of NABIL****(Rs in Million)**

Bank	NABIL							
Year	Other income	Ratio	Foreign Exchange Income	Ratio	Commission and Discount	Ratio	Interest income	Ratio
2006	65	.82	267	3.39	185	2.35	1059	13.44
2007	80	1.02	283	3.59	22	.28	1190	15.10
2008	54	.69	232	2.94	215	2.73	1001	12.7
2009	41	.52	228	2.89	163	2.07	1013	12.85
2010	69	.88	273	3.46	198	2.51	1042	13.22
Mean		.78		3.26		1.99		13.46
S.D.		0.17		0.29		.88		.86
C.V.		21.3		8.75		44.3		6.38

**(Sources: Annual Report of Concerned Bank, Refer Appendix-26)**

Interest income of HBL bank is in 13.36% to 19.75 % and mean value is 16.20%. The ratio of NABIL has 12.70% to 15.10% and the mean ratio is 13.46%. The mean ratio of HBL is higher than NABIL. The C.V. of HBL is less consistency than NABIL bank.

Commission and discount of HBL bank has ranged 1.23 to 20 % and mean value is 1.52 %. The ratio of NABIL has .28% to 2.73% and mean value is 1.99 %. The ratio of NABIL is higher than that of HBL bank. The C.V. of HBL has consistency than NABIL bank.

Foreign exchange income of HBL bank has ranged 1.26% to 2.41% and mean ratio is 1.61%. NABIL has ranged 2.89% to 3.59% and mean

ratio is 3.26%. The mean ratio NABIL is higher than HBL bank. The C.V. of NABIL is more consistency than HBL bank with C.V of 8.75% and 26.16%.

#### 4.2.2 Expenses Analysis

Table 27 shows the expenses analysis of HBL bank.

**Table 27**

**Expenses analysis of HBL Bank**

**(Rs in Million)**

Bank	HBL bank							
Years	Office Operative Expenses	Ratio	Bonus Facility	Ratio	Staff Expenses	Ratio	Interest Expenses	Ratio
2006	277	3.52	58	.74	179	2.27	561	7.12
2007	330	4.19	67	.85	235	2.98	649	8.24
2008	177	2.25	40	.51	120	1.52	554	7.03
2009	155	1.97	39	.49	101	1.28	578	7.33
2010	112	1.42	47	.60	153	1.94	492	6.24
Mean		2.67		.64		2		7.19
S.D.		1.025		.13		.59		.64
C.V.		38.43		20.4		29.5		8.9

**(Sources: Annual Report of Concerned Bank, Refer Appendix-27)**

Table 27 shows the expenses in interest of 7.19 and staff expenses was seen of 20, the ratio of bonus facility was found of mean .64 whereas the ratio of office operating expenses was found of 2.67 % mean.

Table 28 shows the expenses analysis of NABIL bank.

**Table 28**

**Expenses analysis of NABIL Bank**

**(Rs in Million)**

Bank	NABIL bank							
Years	Office Operative Expenses	Ratio	Bonus Facility	Ratio	Staff Expens es	Ratio	Interest Expenses	Ratio
2006	257	3.26	88	1.12	149	1.89	254	3.22
2007	221	2.80	94	1.19	68	.86	303	3.85
2008	311	3.95	76	.96	128	1.62	255	3.24
2009	196	2.49	72	.91	127	1.61	300	3.81
2010	179	2.27	86	1.09	243	3.08	275	3.49
Mean		2.95		1.06		1.81		3.52
S.D.		.59		.10		.72		.27
C.V.		19.97		9.47		39.6		7.53

**(Sources: Annual Report of Concerned Bank, Refer Appendix-28)**

Table 27 and 28 shows that HBL bank is paying comparatively more interest than NABIL i.e. of 7.19% and 3.22 % and Nabil has more consistency than HBL bank, which indicates that, is not using more outsiders' fund. Staff expenses of NABIL bank is less than HBL bank i.e. of 1.81 % and 2 % and HBL bank is more consistency than NABIL with C.V. 29.5% and 39.6 % respectively.

Office operating during the study period is following an increasing trend of HBL bank and fluctuating trend of NABIL bank. The ratio of HBL bank has ranged 1.42% to 4.19 % and mean 2.67 %. The ratio of NABIL has 2.27 to 3.95 % and means 2.95%. The Operative expenses of NABIL is more than HBL bank. HBL bank is less consistency than NABIL bank with C.V. of 38.43% and 19.97% respectively.

The mean percentage of bonus distributed by NABIL is higher than HBL bank (i.e. 1.06% and .64 %) respectively and it has more consistency than HBL bank with C.V of 9.47% and 20.41%. Higher bonus payment reduces the degree of dividend payment to the shareholders because both are distributed from profit. So this controversial issue and relationship between bonus and dividend is conflicting.

Comparatively, HBL bank has higher interest expenses and staff expenses, whereas NABIL has higher office operating expenses and bonus expenses. Both the banks can achieve better performance either by increasing operating income or by decreasing operating expenses.

### **4.3 Statistical Tools**

#### **i. Correlation Analysis**

The analysis has been made to measure the degree of linear relationship between two various banks. The Karl person's correlation Coefficient( $r$ ) between two random variable  $x$  and  $y$  obtained by using the formula as given:

Coefficient of Correlation between Net Profit after Tax and Share Holder's Equity of HBL,

$$r = 0.877 \quad (\text{Appendix=29})$$

Calculation of the coefficient of correlation between returns and shareholders equity HBL is 0.877. This analysis indicates there is a positive correlation between net profit and shareholders equity.

Coefficient of Correlation between Net Profit after Tax and Shareholder's Equity of NABIL

$$r = 0.923 \quad (\text{Appendix=30})$$

Calculation of the coefficient of correlation between net profit and shareholder equity of NABIL is 0.923. This analysis indicates there is a positive correlation between net profit and shareholders equity.

## ii. Probable Error of Correlation Coefficient

If the value of  $r$  is less than  $PE_r$  then there is no evidence of correlation i.e. value of  $r$  is not more at all the significant. Thus, if the values of “ $r$ ” are more than 6 times the probable error, the coefficient of correlation is practically certain i.e. the value of  $r$  is significant.

Probable error of HBL by calculation of correlation

$$P.E = .6745(1-r^2) / n$$

$$P.E_r = 0.069$$

Since the Value of  $r$  is more than 6 times of probable error (i.e.  $6 \times 0.069 < 0.877$ ). The value of  $r$  is significant. It reveals that management can preparation promotions planning of increasing the net worth to increase the return.

Probable error of NABIL by calculation of correlation

$$P.E = .6745(1-r^2) / n$$

$$PE_r = 0.045$$

Since the Value of r is more than 6 times of probable error ( $6 \times 0.045 < 0.923$ ). The value of r is significant. It reveals that the management can preparation promotions planning of increasing the net worth to increase the return.

### iii. Regression Analysis

Regression analysis based on least square method, is very useful since it predicts the future values of dependent variable on the basis of past tendencies of the variable. It is based on the assumption that past tendencies continues in the future.

The line of regression of y on x that gives future trend of y for a given value of x is:

$$Y = a + bx$$

Normal equation are

$$Y = Na + b X \text{ -----(i)}$$

$$XY = a \sum X + b \sum X^2 \text{ -----(ii)}$$

Where, N is the number of years

### Least Square Trend of Net Profit (HBL)

By the calculation of the equation of least square linear trend of net profit we found the value the value of a and b is given below:

$$Y = Na + b X$$

$$\text{If } X=0$$

$$a = \frac{Y}{n}$$

$$a = 295 \quad (\text{average net profit})$$

$$XY = a \sum X + b \sum X^2$$

$$b = \frac{\sum XY - a \sum X}{\sum X^2}$$



(Appendix=31)

$$b = 31.2 \text{ (growth rate yearly)}$$

The solution depicts that a and b of net profit in HBL bank appeared Rs. 295 and 31.2 millions respectively. Through out the period of study, the net profit showed increasing trend. On an average, net profit increased by Rs. 31.2 millions per year in the past period.

Therefore, the trend equation of the profit is

$$Y = a + bx$$

$$Y = 295 + 31.2X$$

On the basis of above trend equation, forecasted net profit for coming five years is as follows: (In millions)

Year(x)	X= x-2008	Y=295+31.2X
2011	3	388.6
2012	4	419.8
2013	5	451
2014	6	482.2
2015	7	513.4

### Least Square Trend of Net Profit (NABIL)

By the calculation of the equation of least square linear trend of net profit we found the value the value of a and b is given below:

$$Y = Na + b X$$

$$\text{If } X=0$$

$$a = Y/n$$

$$a = 544.2 \text{ (average net profit)}$$

$$XY = a X + b X^2$$

$$b = XY / X^2$$

$$b = 18.4 \text{ (growth rate yearly)}$$

(Appendix=32)

The solution depicts that a and b of net profit in NABIL bank appeared Rs. 544.2 and 18.4 millions respectively. Through out the period of study, the net profit showed increasing trend. On an average, net profit increased by Rs. 18.4 millions per year in the past period.

Therefore, the trend equation of the profit is

$$Y = a + bx$$

$$Y=544.2+18.4X$$

On the basis of above trend equation, forecasted net profit for coming five years is as follows. (In millions)

<b>Year(x)</b>	<b>X= x-2008</b>	<b>Y=544.2+18.4X</b>
2011	3	599.4
2012	4	617.8
2013	5	636.2
2014	6	654.6
2015	7	673

#### **4.4 Major Findings of the study**

The major Findings of the study are presented below:

1. Profitability ratio indicates the degree of success in achieving desired profit by the companies. According to the study both the banks under study have been able to earn positive profit but not to the satisfactory level. Among the various profitability ratios, net profit to total deposit ratio, Net profit to Total Asset Ratio, Return on Net Worth Ratio, Net operating profit to Total Assets Ratio and Return on Risk assets of NABIL are greater on an average than these of HBL bank. This picture shows that NABIL is more successful in generating profit than HBL bank that NABIL is more successful in generating profit than HBL bank with inconsistency on return on Total

assets Ratio with lower average. It concludes that NABIL has efficiently operated its long-term fund, deposit to generate more profit.

2. Analysis of activity ratio reveals that both the banks have been able to utilize or manage the resources or assets satisfactorily. Comparatively, loan and advance to total deposit ratio, loan and advances to saving deposit ratio of HBL bank is higher than that of NABIL. This implies that HBL bank is more efficiently utilizing type outsider fund funds in extending credit for profit generation. Loan and advance to fixed deposits ratio and investment to total deposit ratio of NABIL is higher than that of HBL bank and shows that NABIL is also efficiently utilizing its assets on profit generation activities.
3. Most of the capital structure ratios show that the capital structure of both banks is highly leveraged. Total debt ratio of both the banks is more than 90%. Total Assets to net worth ratio of both banks are highly levered since the average ratios for both the banks are less than 25%. HBL bank seems ahead of NABIL in raising the capital through debt as per the higher mean ratio.
4. Market to book ratio, dividend yield and office operating expenses to total operating income ratio of NABIL on mean is greater except price earning ratio and personnel expenses to total income ratio of HBL bank.
5. Operating income analysis shows that NABIL on average has lower income in interest income but higher in other income, commission and discount and foreign exchange income than HBL during the study period.

6. Operating expenses analysis shows that NABIL on mean however has lower expenses in interest expenses and staff expenses but higher in office operating expenses and provision for bonus than that of HBL bank with more consistency in interest expenses, office operating expenses and bonus expenses during the study period.

The study shows that capital structure is highly leveraged efficiency in utilizing the resources in regarding satisfactory. However, the analysis on the basis of activity ratios and profitability ratios shows that both of these sample banks have been unable to earn satisfactory profits. Comparatively, HBL bank has good and higher liquidity position so as NABIL bank has higher leverage position. So it is better in term of these measures.

## **CHAPTER 5**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary and Conclusion**

The development of economy of any country is possible is due to only the development of commerce and industry. No doubt, banking promotes the development of commerce to its extreme, as banking itself is the part of commerce. Though the economic growth was as snail speed in the earlier year, it has caught its full selling with the restoration democracy in the country. At present, though political instability still exists, all the ruling parties have paid their attention to achieve full liberalized economy coupled with liberalized political scenario.

Bank, insurance companies and other companies are directly playing parts in the country to establish their banking with fully or partly repatriation facilities. Banks help to mobilize the small saving collectively to the huge capital investment. Though banking is considered as the platform of money market and capital markets, commercial banks basically help to promote the money market. Because of qualitative managerial skills, at most customers' satisfaction, objective to use advanced technology, joint venture bank have been able to attain their objectives within short span of time.

There are many commercial banks have been competing with each other in their business. When the government adopted liberal policy as a result many commercial banks especially joint venture banks increased rapidly i.e. Himalayan bank Limited, NABIL etc. These banks are mainly concentrated themselves on financing foreign trade. Commerce and industry and other sectors, banking helps to mobilize the small saving collectively to the huge capital investment through the banking is considered as the platform of money market and capital market, by

providing qualitative managerial skills. Customer's satisfaction objective, so using of advanced technology. Hence, the research has analyzed data by using financial as well as statistical tools, which has been described already in previous chapter. The present study is a conclusion- oriented study of the financial performance of the joint venture banks HBL bank and NABIL.

In this study the objective, functions, policies and strategies of joint venture banks have been emphasized and analysis of their financial performance is made. Here the main finding of the study is the financial performance of these two samples to joint venture banks has been presented. The financial data, statement of five consecutive years i.e. 2006 to 2010 has been examined for the purpose of the study. The study is mainly based on the secondary data, which have been processed first and analyzed comparatively. From this analysis of financial performance of both the banks the following findings are made.

## **Financial Tools**

### **1. Liquidity position**

The study reveals that the current ratio of HBL is 1.031 and NABIL is 1.062 in average. It reveals that the current ratio of both banks is always below than normal standard 2:1. It is the indication of unsatisfactory liquidity positions. Comparatively NABIL is found a little better position than HBL bank on an average.

It can be concluded that short term solvency position of both the banks are found below than normal standard through the study period.

Liquidity position in terms of cash and bank balance position with respect to total deposit ratio of HBL is found higher i.e. 7.92 and NABIL is 6.8 on an average, which depicts that HBL has sufficient cash and bank balance to cover its total deposits in comparison to NABIL.

In the case of cash and bank balance to current assets ratio of HBL is found higher than that of NABIL on average. It indicates that NABIL has not sufficient

cash and bank balance with respect to total current assets of the bank in comparison to HBL bank. It is concluded HBL is seem relatively better than that of NABIL although both the banks liquidity position is not satisfactory.

## **2. Utilization of Assets**

The study reveals from the analysis of utilization ratio of these two banks in terms of loans and advances to total deposit ratio. The ratio of HBL i.e. 52.61 is found higher as compared with NABIL i.e. 35.08

It is concluded that the researcher has found from the analysis of these HBL has better efficiency than NABIL. HBL has been successfully utilized their total deposits in the form of extending loan and advance for profit generating purpose on compared to NABIL on an average.

In conclusion both banks have banks have been efficient in utilizing most part of their total assets in profit generating purpose but comparing both banks, HBL has better performance than NABIL for utilizing assets.

## **3. Profitability position**

In the case of interest earned ratio of HBL bank is 5.27 which are greater than NABIL of 4.83. It concluded that the interest earning ratio is good than NABIL. In the case of net profit to total assets (return as totals assets) ratio of NABIL is found 2.52 which is higher than HBL on an average.

It can be concluded that return on total assets ratio in case of NABIL is found to better performance by utilizing overall resources but the generated profit is found lower for the overall resources in both the joint venture banks. Net profit to total deposit ratio of NABIL is found higher is 2.52 and lower is 1.22.

The conclusion is that both the banks have been able to generate profit from deposits. But the rate profitability is not satisfied from lower rate of return.

#### **4. Capital Structure Positions**

Total debt to total assets ratio of both the banks is found more than 90% which indicated that more than 90% of the assets are financed by the outsider's funds. The average ratio of HBL is found higher than that of NABIL. It is concluded that proportions of debt financing in relatively to total assets is more HBL than NABIL which implies that HBL has riskier debt financing position as compared with NABIL. When the rate of return is less than interest payable this ratio is unfavorable to the bank.

In terms of return on capital employed of NABIL has higher ratio i.e. 36.74 than HBL bank 22.61 in an average. It is concluded that NABIL has better position than HBL bank. NABIL has utilized in efficient its capital fund.

#### **5. Invisibility Position**

Earning per share in case of HBL bank has ranged between 47.91 to 60.26 and NABIL has ranged between 141.13 to 175.84. NABIL is always higher than HBL bank on the average also.

It shows better signal form investor point of view in NABIL. In the case of dividend per share, NABIL is higher than HBL, which shows better signal form investors. Higher dividend attracts the investors toward the bank which ultimately helps to enhance the market value of shares. It can be concluded that NABIL seems much better in terms of offering dividend to its shareholders as compared with HBL.

Another research of dividend pay out ratio NABIL has more than HBL. From the view of shareholders NABIL has reflected a better scenario although it has also retained higher portions of earning on an average.



## **6. Income and Expenses Analysis**

Interest income is main sources of both banks. The average interest income of HBL 16.20 is higher than NABIL 13.46.

In comparatively HBL has higher percentage than that of NABIL. Considering average percentage, HBL is founded more earning form commission and discount. It is concluded that it is higher percentage earning in HBL as compared to NABIL. It means HBL is founded more earning form commission and discount.

It is concluded that it is higher percentage earning in HBL as compared to NABIL. It means HBL has extended better service to its customer than that of NABIL. In the case of foreign exchange earning both banks have fluctuating trend throughout the study period. NABIL has succeeded to return more from foreign exchange.

### **5.1.2 Finding for Karl Pearson's Correlation Coefficient and probable Error**

When calculating Karl Pearson's Correlation Coefficient between return and shareholders equity both banks have found positively correlated with each other. It proved the return on shareholder's equity of HBL increase the ratio of NABIL is also in increase the ratio of NABIL is also increased and Vice Versa.

## **5.2 Recommendations**

According to various analyses the following guidelines are highlighted to put forward the further improvement of both the banks.

1. Since the current ratio of both the banks are not satisfactory. It is below the standard level of 2:1 both the banks are not satisfactory. It is below the standard level of 2:1 both the banks are suggested to improve current ratio.
2. The two banks have improved increasing investment by total deposit ratio. They may not accept deposit when this is an idle fund.
3. Profitability ratios in both the banks such as return on investment, returns on total assets are not satisfactory. If resources held idle, banks have to

beard more cost and result would be lower profit margin. It recommended utilizing its resources more profitable sector.

4. Higher debt capital is unfavorable to bank. Both the bank is highly leveraged on shareholder's equity. When interest payable is higher than the rate of returns, the profit would decline. So both banks are suggested to use low debt capital.
5. Operating income level does not seem to be satisfactory for both the banks. Thus both the banks should increase their operational efficiency by mobilizing their resource maximum in profit generating field.
6. Both the banks are suggested to reduce the operating expenses to maximize a part of profit.
7. Both the banks are suggested to involve in social responsibility by investing a part of profit.
8. Most of the joint venture banks are established in the urban areas ignoring the social responsibilities. These banks are required to extend there banking facility even in the rural areas providing special loans to the deprived and priority sectors.
9. The economic liberalization policy adopted by HMG has created an environment of strict competition even in the banking sector. In this context, both the banks are suggested to formulate and implement some sound and effective financial and non-financial strategies to meet required level of profitability as well as the social responsibility.
10. It is found that the modern banking technologies followed by NRB of Nepal are mostly beneficial to the high level depositors.
11. Joint Venture banks deal with big industries, corporate house, and multinational companies, large NGOs and INGOs. They neglect the small depositors. JVs should encourage the small depositors for promoting small investors.

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Appendix -1								
Current Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	CA	CL	Ratio(X)	X <sup>2</sup>	CA	CL	Ratio(X)	X <sup>2</sup>
2006	27549	26302	1.047	1.097	23506	22147	1.061	1.126
2007	28898	27694	1.043	1.089	21822	20312	1.074	1.154
2008	22537	22292	1.011	1.022	20808	19632	1.060	1.123
2009	20006	19814	1.010	1.019	18342	17208	1.066	1.136
2010	24517	23493	1.044	1.089	20379	19542	1.043	1.087
<b>X</b>			<b>5.155</b>				<b>5.304</b>	
<b>Mean</b>			1.031				1.061	
<b>X<sup>2</sup></b>				5.32				5.628
<b>S.D</b>			0.032				0.0103	
<b>C.V</b>			3.13%				0.97%	

Appendix -2								
Cash and bank balance to total deposit Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Cash and Bank				Cash and Bank			
Years	Balance	Total Deposit	Ratio(X)	X <sup>2</sup>	Balance	Total Deposit	Ratio(X)	X <sup>2</sup>
2006	2014	24813	8.117	65.881	1111	19361	5.738	32.929
2007	1717.34	26489	6.483	42.032	1276	23019	5.543	30.728
2008	1979.2	21392	9.252	85.601	1512	18755	8.062	64.993
2009	1264.67	19040	6.642	44.118	825	15833	5.211	27.151
2010	2001.18	22010		82.667	2023	21159	9.561	91.412
<b>X</b>			<b>39.586</b>				<b>34.115</b>	
<b>Mean</b>			7.917				6.823	
<b>X<sup>2</sup></b>				320.3				247.21
<b>S.D</b>			1.17				1.69	
<b>C.V</b>			14.78%				24.77%	

Appendix -3								
<u>Cash and bank balance to Current Assets Ratio</u>								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Cash and Bank	Current			Cash and Bank	Current		
Years	Balance	Assets	Ratio(X)	X <sup>2</sup>	Balance	Assets	Ratio(X)	X <sup>2</sup>
2006	2014	27549	7.311	53.445	1111	23506	4.726	22.339
2007	1717.34	28898	5.943	35.316	1276	21822	5.847	34.191
2008	1979.2	22537	8.782	77.124	1512	20808	7.266	52.801
2009	1264.67	20006	6.321	39.961	825	18342	4.498	20.231
2010	2001.18	24517	8.162	66.625	2023	20379	9.927	98.543
<b>X</b>			<b>36.519</b>				<b>32.265</b>	
<b>Mean</b>			7.304				6.453	
<b>X<sup>2</sup></b>				272.47				228.11
<b>S.D</b>			1.15				1.99	
<b>C.V</b>			15.75%				30.84%	

Appendix -4								
<u>Investment on Government securities to current Assets Ratio</u>								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Investment on	Current			Investment on	Current		
Years	Gvt.securities	Assets	Ratio(X)	X <sup>2</sup>	Gvt.securities	Assets	Ratio(X)	X <sup>2</sup>
2006	5469	27549	19.852	394.1	7203	23506	30.643	939.01
2007	5144	28898	17.801	316.86	8644	21822	39.611	1569.06
2008	3999	22537	17.744	314.86	6723	20808	32.31	1043.92
2009	2588	20006	12.936	167.34	5784	18342	31.534	994.4
2010	3432	24517	13.998	195.96	7948	20379	39.001	1521.07
<b>X</b>			<b>82.331</b>				<b>173.099</b>	
<b>Mean</b>			16.466				34.62	
<b>X<sup>2</sup></b>				1,389				6067.46
<b>S.D</b>			2.59				3.867	
<b>C.V</b>			15.73%				11.17%	

Appendix -5								
Loan and advance to Current Assets Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	Loan and Advance	Current Assets	Ratio(X)	X <sup>2</sup>	Loan and Advance	Current Assets	Ratio(X)	X <sup>2</sup>
2006	12425	27549	45.101	2,034	8143	23506	34.642	1200.08
2007	14625	28898	50.609	2,561	8935	21822	40.945	1676.49
2008	11097	22537	49.239	2,424	5695	20808	27.369	749.08
2009	8914	20006	44.557	1,985	5364	18342	29.244	855.23
2010	11952	24517	48.75	2,377	6410	20379	31.454	989.35
<b>X</b>			<b>238.256</b>				<b>163.655</b>	
<b>Mean</b>			47.651				32.731	
<b>X<sup>2</sup></b>				11,382				5470.23
<b>S.D</b>			2.38				4.77	
<b>C.V</b>			4.99%				14.57%	

Appendix -6								
Fixed Deposit to Total Deposit Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	Fixed Deposit	Total Deposit	Ratio(X)	X <sup>2</sup>	Fixed Deposit	Total Deposit	Ratio(X)	X <sup>2</sup>
2006	6107	24813	24.612	606	1416	19361	7.314	53.49
2007	6350	26489	23.972	575	2136	23019	9.279	86.11
2008	3205	21392	14.982	224	1948	18755	10.387	107.88
2009	5480	19040	28.782	828	2264	15833	14.299	204.47
2010	4710	22010	21.399	458	1428	21159	6.749	45.55
<b>X</b>			<b>113.747</b>				<b>48.028</b>	
<b>Mean</b>			22.749				9.606	
<b>X<sup>2</sup></b>				2,691				497.49
<b>S.D</b>			4.55				2.69	
<b>C.V</b>			20.00%				28.00%	

Appendix -7								
Saving Deposit to Total Deposit Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Saving	Total			Saving	Total		
Years	Deposit	Deposit	Ratio(X)	X <sup>2</sup>	Deposit	Deposit	Ratio(X)	X <sup>2</sup>
2006	12852	24813	51.795	2,683	13030	19361	67.3	4529.32
2007	14582	26489	55.049	3,030	14597	23019	63.413	4021.19
2008	10870	21392	50.813	2,582	10633	18755	56.694	3214.23
2009	9163	19040	48.125	2,316	9440	15833	59.622	3554.82
2010	11760	22010	53.43	2,855	12772	21159	60.362	3643.57
<b>X</b>			<b>259.213</b>				<b>307.392</b>	
<b>Mean</b>			51.843				61.478	
<b>X<sup>2</sup></b>				13,466				18963.1
<b>S.D</b>			2.35				3.61	
<b>C.V</b>			4.53%				5.87%	

Appendix -8								
Total Debt Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Total	Total			Total	Total		
Years	Debt	assets	Ratio(X)	X <sup>2</sup>	Debt	Assets	Ratio(X)	X <sup>2</sup>
2006	26303	27844	94.466	8,924	20200	21781	92.741	8600.96
2007	27694	29460	94.005	8,837	24023	25776	93.199	8686.07
2008	22292	23355	95.449	9,110	19631	21000	93.481	8738.69
2009	19809	20672	95.825	9,182	17207	18443	93.298	8704.57
2010	23493	24817	94.665	8,961	22146	23642	93.672	8774.5
<b>X</b>			<b>474.41</b>				<b>466.392</b>	
<b>Mean</b>			94.882				93.278	
<b>X<sup>2</sup></b>				45,015				43504.8
<b>S.D</b>			0.66				0.31	
<b>C.V</b>			0.70%				0.33%	



Appendix -9								
Leverage Factor								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Total	Net			Total	Net		
Years	assets	Worth	Ratio(X)	X <sup>2</sup>	Assets	Worth	Ratio(X)	X <sup>2</sup>
2006	27844	1324	21.03	442	21781	1496	14.56	211.98
2007	29460	858	34.34	1,179	25776	1236	20.85	434.9
2008	23355	1063	21.97	483	21000	1369	15.34	235.31
2009	20672	1766	11.71	137	18443	1736	10.62	112.87
2010	24817	1542	16.09	259	23642	1582	14.94	223.33
<b>X</b>			<b>105.136</b>				<b>76.32</b>	
<b>Mean</b>			21.027				15.26	
<b>X<sup>2</sup></b>				2,500				1218
<b>S.D</b>			7.6				3.27	
<b>C.V</b>			36.14%				21.42%	

Appendix -10								
Capital Adequacy Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Capital	Total			Capital	Total		
Years	Fund	Deposit	Ratio(X)	X <sup>2</sup>	Fund	Deposit	Ratio(X)	X <sup>2</sup>
2006	1542	24813	6.21	39	1582	19361	8.17	66.77
2007	1766	26489	6.67	44	1736	23019	7.54	56.88
2008	1063	21392	4.97	25	1369	18755	7.3	53.28
2009	858	19040	4.51	20	1236	15833	7.81	60.94
2010	1324	22010	6.02	36	1496	21159	7.07	49.99
<b>X</b>			<b>28.372</b>				<b>37.89</b>	
<b>Mean</b>			5.674				7.58	
<b>X<sup>2</sup></b>				164				288
<b>S.D</b>			0.81				0.385	
<b>C.V</b>			14.27%				5.08%	

Appendix -11								
Loan and Advance to Total Deposit								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	Loan and Advance	Total Deposit	Ratio(X)	X <sup>2</sup>	Loan and Advance	Total Deposit	Ratio(X)	X <sup>2</sup>
2006	12425	24813	50.07	2,507	8143	19361	42.06	1768.94
2007	14642	26489	55.28	3,055	8935	23019	38.82	1506.66
2008	11097	21392	51.87	2,691	5695	18755	30.37	922.05
2009	9814	19040	51.54	2,657	5364	15833	33.88	1147.76
2010	11952	22010	54.3	2,949	6410	21159	30.29	917.75
<b>X</b>			<b>263.072</b>				<b>175.41</b>	
<b>Mean</b>			52.614				35.08	
<b>X<sup>2</sup></b>				13,859				6263
<b>S.D</b>			1.9				4.67	
<b>C.V</b>			3.61%				13.31%	

Appendix -12								
Loan and Advance to Fixed Deposit								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	Loan and Advance	Fixed Deposit	Ratio(X)	X <sup>2</sup>	Loan and Advance	Fixed Deposit	Ratio(X)	X <sup>2</sup>
2006	12425	6107	2.03	4	8143	1416	5.75	33.07
2007	14642	6350	2.31	5	8935	2136	4.18	17.5
2008	11097	3205	3.46	12	5695	1948	2.92	8.55
2009	9814	5480	1.79	3	5364	2265	2.37	5.61
2010	11952	4710	2.54	6	6410	1428	4.49	20.15
<b>X</b>			<b>12.131</b>				<b>19.71</b>	
<b>Mean</b>			2.426				3.94	
<b>X<sup>2</sup></b>				31				85
<b>S.D</b>			0.57				1.195	
<b>C.V</b>			23.49%				30.31%	

Appendix -13								
Loan and Advance to Saving Deposit								
Years	HBL (Rs in Million)				NABIL (Rs in Million)			
	Loan and Advance	Saving Deposit	Ratio(X)	X <sup>2</sup>	Loan and Advance	Saving Deposit	Ratio(X)	X <sup>2</sup>
2006	12425	12852	0.97	0.93	8143	13030	0.62	0.39
2007	14642	14582	1	1.01	8935	14597	0.61	0.37
2008	11097	10870	1.02	1.04	5695	10633	0.54	0.29
2009	9814	9163	1.07	1.15	5364	9440	0.57	0.32
2010	11952	11760	1.02	1.03	6410	12772	0.5	0.25
<b>X</b>			<b>5.079</b>				<b>2.84</b>	
<b>Mean</b>			1.016				0.57	
<b>X<sup>2</sup></b>				5.17				1.63
<b>S.D</b>			0.055				0.046	
<b>C.V</b>			5.41%				8.10%	

Appendix -14								
Investment to Total Deposit Ratio								
Years	HBL (Rs in Million)				NABIL (Rs in Million)			
	Investment	Total Deposit	Ratio(X)	X <sup>2</sup>	Investment	Total Deposit	Ratio(X)	X <sup>2</sup>
2006	11692	24813	47.12	2,220	11360	19361	58.67	3442.72
2007	10889	26489	41.11	1,690	9703	23019	42.15	1776.8
2008	10175	21392	47.56	2,262	10358	18755	55.23	3050.13
2009	9157	19040	48.09	2,313	9276	15833	58.59	3432.38
2010	9292	22010	42.22	1,782	10216	21159	48.28	2331.16
<b>X</b>			<b>226.103</b>				<b>262.92</b>	
<b>Mean</b>			45.221				52.58	
<b>X<sup>2</sup></b>				10,268				14033.18
<b>S.D</b>			2.94				6.44	
<b>C.V</b>			6.50%				12.20%	

Appendix -15								
Personnel Expenses to Total Income Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Personnel	Total			Personnel	Total		
Years	Expenses	Income	Ratio(X)	X <sup>2</sup>	Expenses	Income	Ratio(X)	X <sup>2</sup>
2006	178.59	1760.68	10.14	103	148.58	1576	9.43	88.88
2007	234	2043.02	11.45	131	168	1775	9.46	89.58
2008	120.15	1519.62	7.91	63	128.33	1503.6	8.53	72.84
2009	101.53	1389.74	7.31	53	126.5	1441.7	8.77	76.99
2010	123.93	1519.62	8.16	67	134.67	1584	8.5	72.28
<b>X</b>			<b>44.964</b>				<b>44.7</b>	
<b>Mean</b>			8.993				8.94	
<b>X<sup>2</sup></b>				416				400.58
<b>S.D</b>			1.56				0.423	
<b>C.V</b>			17.35%				4.70%	

Appendix -16								
Office Operating Expenses to Total Operating Income Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Office Oper.	Total			Office Oper.	Total		
Years	Expenses	Income	Ratio(X)	X <sup>2</sup>	Expenses	Income	Ratio(X)	X <sup>2</sup>
2006	277	1760.68	15.73	248	256.64	1576	16.28	265.18
2007	329	2043.02	16.1	259	221	1775	12.45	155.02
2008	177.13	1454.31	12.18	148	311	1503.6	20.68	427.82
2009	155.78	1389.74	11.21	126	196.94	1441.7	13.66	186.6
2010	112	1519.62	7.37	54	179.69	1584	11.34	128.69
<b>X</b>			<b>62.595</b>				<b>74.42</b>	
<b>Mean</b>			12.519				14.88	
<b>X<sup>2</sup></b>				835				1163.3
<b>S.D</b>			3.2				3.33	
<b>C.V</b>			25.56%				22.40%	

Appendix -17								
<u>Interest Earned to Total Assets Ratio</u>								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	Interest Earned	Total Assets	Ratio(X)	X <sup>2</sup>	Interest Earned	Total Assets	Ratio(X)	X <sup>2</sup>
2006	1446	27844	5.19	27	1058	21781	4.86	23.59
2007	1626	29460	5.52	30	1189	25776	4.61	21.28
2008	1201	23355	5.14	26	1001	21000	4.77	22.72
2009	1149	20672	5.56	31	1013	18443	5.49	30.17
2010	1246	24817	5.02	25	1042	23642	4.41	19.43
<b>X</b>			<b>26.434</b>				<b>24.14</b>	
<b>Mean</b>			5.287				4.83	
<b>X<sup>2</sup></b>				140				117.19
<b>S.D</b>			0.22				0.366	
<b>C.V</b>			4.16%				7.60%	

Appendix -18								
<u>Net Profit to Total Deposit Ratio</u>								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	Net Profit	Total Deposit	Ratio(X)	X <sup>2</sup>	Net Profit	Total Deposit	Ratio(X)	X <sup>2</sup>
2006	263	24813	1.06	1.12	537	19361	2.77	7.69
2007	235	26489	0.89	0.79	479	23019	2.08	4.33
2008	212	21392	0.99	0.98	507	18755	2.7	7.31
2009	457	19040	2.4	5.76	659	15833	4.16	17.32
2010	308	22010	1.4	1.96	539	21159	2.55	6.49
<b>X</b>			<b>6.738</b>				<b>14.27</b>	
<b>Mean</b>			1.348				2.85	
<b>X<sup>2</sup></b>				10.61				43.14
<b>S.D</b>			0.557				0.697	
<b>C.V</b>			41.33%				24.40%	

Appendix -19								
Net Profit to Total Deposit Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Net	Total			Net	Total		
Years	Profit	Assets	Ratio(X)	X <sup>2</sup>	Profit	Assets	Ratio(X)	X <sup>2</sup>
2006	263	27844	0.94	0.89	537	21781	2.47	6.08
2007	235	29460	0.8	0.64	479	25776	1.86	3.45
2008	212	23355	0.91	0.82	507	21000	2.41	5.83
2009	457	20672	2.21	4.89	659	18443	3.57	12.77
2010	308	24817	1.24	1.54	539	23642	2.28	5.2
<b>X</b>			<b>6.102</b>				<b>12.59</b>	
<b>Mean</b>			1.22				2.52	
<b>X<sup>2</sup></b>				8.78				33.33
<b>S.D</b>			0.519				0.567	
<b>C.V</b>			42.53%				22.50%	

Appendix -20								
Return to Net Worth Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Net	Net			Net	Net		
Years	Profit	Worth	Ratio(X)	X <sup>2</sup>	Profit	Worth	Ratio(X)	X <sup>2</sup>
2006	263	1324	19.86	394.58	537	1496	35.9	1288.5
2007	235	858	27.39	750.17	479	1236	38.75	1501.88
2008	212	1063	19.94	397.75	507	1369	37.03	1371.54
2009	457	1766	25.88	669.65	659	1736	37.96	1441.02
2010	308	1542	19.97	398.96	539	1582	34.07	1160.82
<b>X</b>			<b>113.049</b>				<b>183.72</b>	
<b>Mean</b>			22.61				36.74	
<b>X<sup>2</sup></b>				2,611				6763.76
<b>S.D</b>			3.31				1.64	
<b>C.V</b>			14.64%				4.50%	

Appendix -21								
Return on Risk Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	Net	Risk			Net	Risk		
Years	Profit	Assets	Ratio(X)	X <sup>2</sup>	Profit	Assets	Ratio(X)	X <sup>2</sup>
2006	263	12425	2.12	4.48	537	8143	6.59	43.49
2007	235	14625	1.61	2.58	479	8935	5.36	28.74
2008	212	11097	1.91	3.65	507	5695	8.9	79.26
2009	457	8914	5.13	26.28	659	5364	12.29	150.94
2010	308	11952	2.58	6.64	539	6410	8.41	70.71
<b>X</b>			<b>13.338</b>				<b>41.55</b>	
<b>Mean</b>			2.668				8.31	
<b>X<sup>2</sup></b>				44				373.13
<b>S.D</b>			1.27				2.36	
<b>C.V</b>			47.61%				28.40%	

Appendix -22								
Price Earning Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
	MVPS	EPS	Ratio(X)	X <sup>2</sup>	MVPS	EPS	Ratio(X)	X <sup>2</sup>
2006	920	47.91	19.2	368.74	2345	143.55	16.34	266.86
2007	1100	59.2	18.58	345.26	3775	175.84	21.47	460.89
2008	836	49.45	16.91	285.81	1640	149.36	10.98	120.56
2009	1000	60.26	16.59	275.39	1575	141.13	11.16	124.54
2010	840	49.05	17.13	293.28	1745	143.55	12.16	147.77
<b>X</b>			<b>88.41</b>				<b>72.1</b>	
<b>Mean</b>			17.682				14.42	
<b>X<sup>2</sup></b>				1,568				1120.63
<b>S.D</b>			1.019				4.02	
<b>C.V</b>			5.76%				27.90%	

Appendix -23								
Market to Book Ratio								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	MVPS	BVPS	Ratio(X)	X <sup>2</sup>	MVPS	BVPS	Ratio(X)	X <sup>2</sup>
2006	920	239.59	3.84	14.74	2345	442	5.31	28.15
2007	1100	228.72	4.81	23.13	3775	468	8.07	65.06
2008	836	247.81	3.37	11.38	1640	403	4.07	16.56
2009	1000	220.03	4.54	20.66	1575	363	4.34	18.83
2010	840	246.93	3.4	11.57	1745	406	4.3	18.47
<b>X</b>			<b>19.969</b>				<b>26.08</b>	
<b>Mean</b>			3.994				5.22	
<b>X<sup>2</sup></b>				81				147.07
<b>S.D</b>			0.59				1.48	
<b>C.V</b>			14.77%				28.40%	

Appendix -24								
Dividend Yield Ratio in times								
	HBL (Rs in Million)				NABIL (Rs in Million)			
Years	DPS	MVPS	Ratio(X)	X <sup>2</sup>	DPS	MVPS	Ratio(X)	X <sup>2</sup>
2006	32	920	3.48	12.1	120	2345	5.12	26.19
2007	35	1100	3.18	10.12	140	3775	3.71	13.75
2008	25	836	2.99	8.94	120	1640	7.32	53.54
2009	35	1000	3.5	12.25	100	1575	6.35	40.31
2010	20	840	2.38	5.67	110	1745	6.3	39.74
<b>X</b>			<b>15.531</b>				<b>28.8</b>	
<b>Mean</b>			3.106				5.76	
<b>X<sup>2</sup></b>				49				173.53
<b>S.D</b>			0.412				1.24	
<b>C.V</b>			13.26%				21.50%	



**Appendix-25**  
**Income Analysis of HBL**

Yr.	Other Income	ratio (x)	$X^2$	Foreign Exchange income	ratio (x)	$X^2$	Comm. & Disc.	ratio (x)	$X^2$	Int. income	ratio (x)	$X^2$
2006	44	.53	.29	137	1.66	2.77	103	1.25	1.57	1446	17.56	308.5
2007	110	1.34	1.79	198	2.41	5.78	101	1.23	1.51	1626	19.75	390.08
2008	41	.50	.25	110	1.34	1.79	132	1.60	2.57	1201	14.59	212.82
2009	35	.43	.18	104	1.26	1.60	165	2	4.02	1149	13.96	194.79
2010	37	.45	.20	112	1.36	1.85	123	1.49	2.23	1246	15.13	229.06
<b>x</b>		3.24			8.03			7.58			80.99	
<b>Mean</b>		.65			1.61			1.52			16.20	
<b><math>X^2</math></b>			2.70			13.7			11.9			1335.25
<b>S.D</b>		.35			.42			.28			2.16	
<b>c.v</b>		53.9			26.2			18.4 7			13.33	

**Appendix-26**  
**Income Analysis of NABIL**

Yr.	Other Income	ratio (x)	X <sup>2</sup>	Foreign Exchange income	ratio (x)	X <sup>2</sup>	Comm. & Disc.	ratio (x)	X <sup>2</sup>	Int. incom e	ratio (x)	X <sup>2</sup>
2006	65	.82	.68	267	3.39	11.48	185	2.35	5.51	1059	13.44	180.60
2007	80	1.02	1.03	283	3.59	12.90	22	.28	.08	1190	15.10	228.04
2008	54	.69	.47	232	2.94	8.67	215	2.73	7.44	1001	12.70	161.36
2009	41	.52	.27	228	2.89	8.37	163	2.07	4.28	1013	12.85	165.25
2010	69	.88	.77	273	3.46	12	198	2.51	6.31	1042	13.22	174.84
<b>x</b>		3.92			16.28			9.94			67.32	
<b>Mean</b>		.78			3.26			1.99			13.46	
<b>X<sup>2</sup></b>			3.22			53.42			23.6			910.08
<b>S.D</b>		.167			.285			.88			.86	
<b>C.V</b>		21.3			8.75			44.28			6.38	

**Appendix-27**  
**Expenses Analysis of HBL**

Yr.	Office operat ing exp.	ratio (x)	$X^2$	Bonus facility	ratio (x)	$X^2$	Staff Exp.	ratio (x)	$X^2$	Int. Exp.	ratio (x)	$X^2$
2006	277	3.52	12.36	58	.74	.54	179	2.27	5.16	561	7.12	50.68
2007	330	4.19	17.54	67	.85	.72	235	2.98	8.89	649	8.24	67.83
2008	177	2.25	5.04	40	.51	.26	120	1.52	2.32	554	7.03	49.42
2009	155	1.97	3.87	39	.49	.24	101	1.28	1.64	578	7.33	53.80
2010	112	1.42	2.02	47	.60	.36	153	1.94	3.77	492	6.24	38.98
<b>x</b>		13.34			3.19			10			35.96	
<b>Mean</b>		2.67			.64			2			7.19	
<b><math>X^2</math></b>			40.8			2.12			21.8			260.71
<b>S.D</b>		1.03			.13			.59			.64	
<b>C.V</b>		38.4			20.4			29.5			8.90	

**Appendix-28**  
**Expenses Analysis of NABIL**

Yr.	Office operati ng exp.	ratio (x)	X <sup>2</sup>	Bonus facility	ratio (x)	X <sup>2</sup>	Staff Exp.	ratio (x)	X <sup>2</sup>	Int. Exp.	ratio (x)	X <sup>2</sup>
2006	257	3.26	10.64	88	1.12	1.25	149	1.89	3.58	254	3.22	10.39
2007	221	2.80	7.87	94	1.19	1.42	68	.86	.74	303	3.85	14.78
2008	311	3.95	15.58	76	.96	.93	128	1.62	2.64	255	3.24	10.47
2009	196	2.49	6.19	72	.91	.83	127	1.61	2.60	300	3.81	14.49
2010	179	2.27	5.16	86	1.09	1.19	243	3.08	9.51	275	3.49	12.18
<b>x</b>		14.8			5.28			9.07			17.60	
<b>Mean</b>		2.95			1.06			1.81			3.52	
<b>X<sup>2</sup></b>			45.5			5.63			19.1			62.32
<b>s.D</b>		.59			.10			.72			.27	
<b>c.v</b>		19.9			9.47			39.7			7.53	

**Appendix-29**

**Coefficient of correlation of HBL**

**Rs. In Millions**

Year	Net profit X	Share holder's equity Y	X <sup>2</sup>	Y <sup>2</sup>	XY
2006	263	1324	69169	1752976	348212
2007	235	858	55225	736164	201630
2008	212	1063	44944	1129969	225356
2009	457	1766	208849	3118756	807062
2010	308	1542	94864	2377764	474936
Total N=5	x=1475	Y=6553	X <sup>2</sup> =473051	Y <sup>2</sup> =9115629	XY=2057196

**Appendix-30**

**Coefficient of correlation of NABIL**

**Rs. In Millions**

Year	Net profit x	Share holder's equity y	X <sup>2</sup>	Y <sup>2</sup>	XY
2006	537	1496	288369	2238016	803352
2007	479	1236	229441	1527696	592044
2008	507	1369	257049	1874161	694083
2009	659	1736	434281	3013696	1144024
2010	539	1582	290521	2502724	852698
Total N=5	X=2721	Y=7419	X <sup>2</sup> =1499661	Y <sup>2</sup> =11156293	XY=4086201

**Appendix-31**  
**Least Square Linear Trend on Net profit**

<b>HBL</b>		<b>Rs. in Millions</b>		
Years(x)	X=x-2008	Y	XY	X <sup>2</sup>
2006	-2	263	-526	4
2007	-1	235	-235	1
2008	0	212	0	0
2009	1	457	457	1
2010	2	308	616	4
Total N=5	X=0	Y=1475	XY=312	X <sup>2</sup> =10

**Appendix-32**  
**Least Square Linear Trend on Net profit**

<b>NABIL</b>		<b>Rs. in Millions</b>		
Years(x)	X=x-2008	Y	XY	X <sup>2</sup>
2006	-2	537	-1074	4
2007	-1	479	-479	1
2008	0	507	0	0
2009	1	659	659	1
2010	2	539	1078	4
Total N=5	X=0	Y=2721	XY=184	X <sup>2</sup> =10