CHAPTER-I

INTRODUCTION

1.1 Background of the study:-

Bank is a financial institution, and the backbone of a country for the economic development. It constitutes the important segment of the financial infrastructure of any country. In broad sense, bank can be said as important financial institution, which collects and safeguards the public money, disburses the collected money for the productive purposes, transfers funds guarantees credit worthiness and exchange of money. Banks are rendering a wide range of services to people by collecting cash from savers and providing loans to the investors, and acts as an agent between the savers and investors and the main game the bank is to play with money and through it generates profit. The banking sector has now reached even to the most of the remote areas of the country and has contributed a good deal to the growth of the economy.

Banking plays a significant role for the development of national economy. It provides an effective payment credit system, which facilitates the channeling of funds from the surplus spending units to the deficit spending units in the economy. The basic task of the financial institution is to mobilize the saving to high yielding investment projects to offer attractive and secured returns to the different sectors of the economy according to the plan priorities of the of the country. This process of financial institutions give rise to money and other financial assets, which therefore have a central place in the development process of the economy.

"Banking concept existed even in the ancient period when the goldsmiths and the rich people used to issue the common people against provides of safe keeping of their valuable items on the presentation of the receipt; the depositors would get bank their gold and valuables of the paying a small amount for safe-keeping and saving". *(Samuelson, 1993:32)*

Bank came into existence mainly with the objectives of collecting idle funds, mobilizing them into productive sector and causing an overall economic development. The bankers have the responsibility of safeguarding the interest of the depositors, the shareholders and the society where they are serving basically bank performs various types of services like collections of deposit from the public, granting loans to the investors, overdraft, guarantee against payment, letter of credit, discounting bills, and selling of shares as agency functions. Banks collects money from public by attracting them with sound interest rate into their deposits and provides loans to the industry, business houses and needy people with some interest which is higher than the interest rate they provide in the deposit.

Financial Analysis is the process of identifying the financial strength and weakness of the firms by properly establishing relationship between the items of the balance sheet and the profit and loss account Quality governance is impossible without effective analysis and evaluation of financial information. The analysis of the performance is designed to make a careful study of the recent financial records of the financial companies. in order to evaluate its performance financial statements are analyzed .Performance evaluate must not be focused exclusively up to the criterion of short term profitability or any other signals standards which may causes managers to act contrary to the long range interest of the company as a whole.

The proper analysis and interpretation of financial statements is a felt necessary in our corporate banks, private enterprises, and similarly other organizations to find out what information are indicated from this balance sheet and income statement and other accounting information. On the basis of these information's it becomes easy to chalks out the problem faced by the corporations.

Banking institutions are inevitable for the resource mobilization and all round development of the country. They have resources for economic development and they maintain economic confidence of various segments and extend credit to people. (Ronald, 1983:87)

The financial analysis is used to diagnose the strength and weakness in the corporation's performance. It provides a framework for financial planning and control. As there has been numbers of Joint Ventures banks (JV's) in Nepal the present aim is to analyze the financial performance analysis of the Himalayan Bank Limited (HBL) Just to be assured whether they can put equal contribution in the economic growth of the country or not..

"The profit earned by the firm is the main financial performance indicator of business enterprises. Profit results mainly from successful business management, cost control, credit risk management and Successful efficiency of operation'. *(Robbinson, 1957:21-22)*

After the introduction of liberal economic policy adopted by NRB, of Nepal it has provided an opportunity for the banking institution to grow rapidly. As a result different joint venture bank and financial institutions were established rapidly and "now there are licensed 30 commercial banks in the country.

1.2 Origin of banking system:-

According to a French writer Revil pout, Bank notes were in practice in Babylonia around 600 B.C. This could be considered as the first ever step to the inception of banking system. It has been assumed that the practice of modern banking functions such as exchange of money, transfer of funds, note issue accepting deposits, lending money etc. already began in Rome around the late 4^{th} century. However, the banking development collapsed with the Roman civilization.

The banking business revived in the 12^{th} century as Jews conducted functions such as safe keeping of valuables, lending money at interest and similar other functions. Being lured by the good profit, Italians, too, extensively followed suit. As a result bank of Venice, the first bank in the world come into existence in 1157 A.D.

Prior to the development of modern banking system, the role of merchant, money lenders and gold smith was dominant in the society Therefore, they can consider as the three ancestors of modern banking. Gradually the function of accepting deposits and granting loans of accepting deposits and granting loans were handed over from individual to the joint stock company.

Subsequently 'bank of Barcelona' Spain was established as the first modern bank in 1401 A.D. They're after 'Bank of Amsterdam' Holland and 'Bank of Hamberg' Germany were established in 1607 A.D. and in 1619 A.D. respectively. The modern banks undertook the function of issuing notes, credit creations, accepting deposits, lending money, transfer of fund, accepting bills of exchange, promissory notes etc. later only the central bank were authorized to issue the notes.

The European Industrial revolution of the 17th century brought about drastic increase in production, thereby lending to rise in marine transportation and overseas trade. Most of the European countries rushed for seeking new colonies.

In the ground of the favorable economic environment, 'Bank of England' came into begins in 1694 A.D. The advent of bank of England gave scientific shape to Modern banking. After the formulation of the act regarding 'Bank of England' in 1833 A.D., the prominence of Joint stock bank was further enhanced. From 1844 A.D., Bank of England was allowed to function as the central bank.

Around 1850, the 'Credit Mobilizes' was established in Paris as the first venture bank. The existence of many ventures banks facilitated industrialization in Europe. In the 19th century, commercial banks were opened in almost all countries in the world. Thus, development of the modern banking system gains full momentum and various monitory problems. Now banks have been the vital part of economic and business life of each economy. The three ancestors of bank i.e. merchants, Money lenders and Gold Smith, were performing the work i.e. accepting deposits, keeps valuable things in the custody and granting loans those who needed. This was all their individual effort.

1.3 Development of banking system in Nepal:-

In Nepal, the development of banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of money lenders, landlords, rich merchants, goldsmith has acted as fence to institutional credit in presence of unorganized money market. The origin of bank in Nepal and its beginning of growth is controversial.

Like other countries Gold Smith, Merchants and Money Lenders were the ancient bankers of Nepal. However, in 1877 A.D (1933 B.S) during the tenure of the Prime Minister of Ranoddip Singh the establishment of 'Tejarath Adda', fully subscribed by the government may be regard as the first remarkable step in the institutional development of banking in Nepal. That is why it is also called the father of modern banking institution.Tejrath Adda did not collect deposits from the public but give loans to the employees and public against the bulletins.

The main purpose of setting this 'Adda' was to provide credit facilities to general public and government employees at a confessional rate of interest (i.e. at 5%) admits the dominance of local, money-lenders, merchants and landlord who were charging exorbitant rates of interest. The Tejrath Adda distributed credit facilities to the general public especially on the collateral of gold and silver. Several branches were opened in different parts of country and running smoothly for flows decades.

During the Primeministership of Chandra Sumsher the 'Tejarath Adda' extended its services by opening branches in some cities outside the valley. However, in the absence of saving mobilization 'Tejarath Adda' faced several financial problems making it impossible to cater the need of general population throughout the country. The main defects of this institution soughed as there was no other financial setup and no effort to expand the services. Above all the defects, this institution did not accept any deposits from public. After that again, for a long time, several unorganized bankers and indigenous moneylenders continued to flourish as the sole provider of the credit and services to the general public.

Nepal Bank Limited was the first financial institution of Nepal established on the 30^{th} kartik, 1994 Bikram Sambat (B.S). (1937 A.D) .Regarding banking system, in every economic planning, government has encouraged and appreciated the role and importance of banking sector. Further the government has adopted the liberal economic policy and foreign investment policy .Reviewing the steps taken by the government many commercial banks are established in Nepal with the establishment of Nepal Rastra Bank (NRB) on 14th Baishak, 2013 B.S. (1956 A.D) under the Nepal Rastra Bank Act 2012 set a mile stone in the history of Banking system of the country, supervising and directing the functions of commercial banking activities.

With a view to abolish dual monetary system, to stabilize the exchange rate, to facilitate the use of Nepalese currency throughout the kingdom and to mobilize the capital to encourage the development in industry and trade, Nepal Rastra Bank (NRB) was established under functioning as the Government's bank and has contributed to the growth of financial sector. On 7th Falgun 2016 B.S., NRB issued Nepalese currency note for the first time. Similarly the second commercial bank Rastriya Banijya Bank(RBB) was established in 10th Magh 2022 B.S and Rastriya Banijya Bank Act 2001.This Act is now revised as commercial banking Act 2031 B.S

Similarly Agriculture Development Bank (ADB) was established in B.S 2024.10.07 to provide finance for the agricultural products so that agricultural productivity could be enhancing by introducing modern agricultural techniques. Likewise, Co-Operatives came into begin in 2019 B.S. Moreover, Security Exchange Centre was established in 1976 A.D to enhance capital market activities. Securities Exchange Centre was renamed Nepal Stock Exchange (NEPSE) in 1993 A.D. In the context of increasing commercial activities in the country, the service of merely two commercial banks Nepal Bank Limited (NBL) and RBB was realized insufficient with the establishment of RBB and ADB, banking service spread to both the urban and rural areas. NRB also gave incentive to NBL to expand their branches to rural areas. This helped the common people reduce their burden of paying higher rate of interest to money lenders and absolved them from kowtowing before money lenders. It is natural expectations of customers keep on increasing. Once they got banking services they were expecting improvement and efficiency. However, excess political and bureaucratic interference and absence of modern managerial concept in these institutions was hurdle in this regard. Banking service to the satisfaction of customers was a far cry.

1.4. Function of Commercial Banks

- The credit (loan) function
- The payments (transaction) function
- The insurance (risk management) function
- The security Banking (security underwriting) function
- The merchant banking (temporary stock in investment) function
- The thrift (saving functions).
- The investment/financial planning functions
- The real state and community Development function.
- The cash management functions.

1.5 Brief Profile of Bank

a) NABIL Bank Limited

NABIL Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. NABIL was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursing it's objective, NABIL provides a full range of commercial banking services through its 19 point of representation across the kingdom and over 170 reputed corresponding banks across the global. The promoters and shares holding patterns of Nabil Bank Ltd are as follows:

National Bank Limited, Bangladesh	-	50.00%
Financial Institutions	-	20.00%
Nepalese Public	-	30.00%

Share Capital of Nabil Bank Ltd.

a. Authorized Capital

16000,000 ordinary shares @ Rs.100 per share = Rs.1600,000,000.

b. Issued capital

14491240 ordinary shares @ Rs. 100 per share = Rs. 1449124000.

c. Paid up capital

14491240 ordinary share @ Rs. 100 per share = Rs. 1449124000.

Source: Annual Report of NABIL 2009/010

b) Standard Chartered Bank Nepal Limited (SCBNL)

Standard Chartered Bank Limited was established in 1985 as a second foreign joint venture bank under the Company Act 1964 by the name of Nepal Grindlays Bank Limited. ANZ Grindlays Bank PLC is managing the bank under joint venture and technical service agreement singed between ANZ Grindlays Bank Limited had changed its name as standard Chartered Bank Limited (SCBNL). The promoters and shares holding patterns of Nabil Bank Ltd are as follows:

ANZ Grindlays Bank PLC	-	50.00%
Nepal Bank Limited	-	33.37%
Nepalese Public	-	16.66%

Share Capital of SCBNL

a. Authorized capital

10,000,000 ordinary shares @ Rs.100 per share = Rs. 1000,000,000.

b. Issued capital

5,000,000 ordinary shares @ Rs. 100 per share = Rs. 500,000,000.

c. Paid up capital

4,132,548 ordinary share @ Rs. 100 per share = Rs. 413,254,800.

Source: Annual Report of SCBNL 2009/10

C. Himalayan Bank Limited(HBL)

Himalayan Bank limited (HBL)was incorporated in 1992 by the distinguished business personalities of Nepal in partnership with Employees' Provident Fund and Habib Bank Limited, one of the largest commercial banks of Pakistan. Banks operation was commenced from 18th January 1993. It is the first commercial bank of Nepal with maximum shares holding by the Nepalese private sector. Besides commercials activities, the bank also offers industries and merchant banking. The initial Authorized capital was 240 million Rupees, Issued & Paid- up capital 120 million Rupees.

Himalayan Bank is committed to be as “BANKING WITH A DIFFERENCE. For starter, it was the first bank to launch the card services.

Nepali Promoters	-	51.00%
Habib Bank of Pakistan	-	20.00%
Karmachari Sanchaya Kosh	-	14.66%
General Public		15.34%

Share Capital of Himalayan Bank Ltd.

a. Authorized capital

10,000,000 ordinary shares @ Rs.100 per share = Rs. 1000,000,000

b. Issued capital

8,108,100 ordinary shares @ Rs. 100 per share = Rs. 810,810,000

c. Paid up capital

8,108,100 ordinary share @ Rs. 100 per share = Rs. 810,810,000

Source: Annual Report of HBL 2009/10

1.6 Statement of the Problem

The adaptation of open and free market economic and financial policies has encouraged in establishment of number of banks, financial companies, co-operatives which has emerged challenges to maintain its profitability and stability operatives of earnings because of tough competition in this financial sector. So, the competition in the banking sector is going to be higher than ever before. Banks are prone to both external and internal threats. To exist in the competitive market, banks are trying to introduce different schemes and advantage to the customer so that to hold the greater share. These banks have contributed towards introducing new technology, new banking systems, and deficient service delivery in the country. These banks have been contributing in line with the trust of economic liberalization and financial sector reform i.e. making the financial system more competitive, efficient, and profitable. In the present scenario, the worst economic and social condition of our country largely affects the banks performance in all the financial, operational, productivity and profitability sectors, which causes the large decline in the profit of all types of banks. IN this prospective, analysis of the Joint Venture bank's performance and to disseminate quality information becomes more essential.

The problem of the study lies on analyzing the strength and weakness of Everest Bank Limited. It also aimed in answering the following questions:

- How far have the Bank been able to convert the mobilized resources into investment, collected from public.
- To what extent this bank has been able to raise their profitability,
- How efficiency this bank is managing their liquidity, activity, assets, capital structure, capital adequacy, etc.
- What is the lending pattern of loan and advances and other investment?

1.7 Objectives of the Study

The main objective of the study is to evaluate the financial performance of Everest Bank Limited with the help of ratio analysis and other portfolios. Besides, the specific objectives of this research are as follows:

1. To analyze the financial indicators of the bank such as liquidity ratio, leverage ratio, capital structure ratio, profitability ratio,
2. To identify financial strength and weakness
3. To provide suggestions and recommendations for the improvement of the banks on the basis of the findings.

1.8 IMPORTANCE OF THE STUDY

Commercial banks in developing countries like Nepal have the greatest responsibility towards the economic development of the country. The main objective of the bank as a commercial organization is to maximize the surplus by the efficient use of its fund and resources. Being a commercial bank, it also has a responsibility towards the socio economic up-liftment of the country by providing specially considered loans and advances towards less privileged sectors.

The study has various significant.

- The study enlightens the shareholders about the financial performance of their respective bank. This allows them to have a comparative retrospect whether their fund was better utilized or not.
- The study also compels the management of respective banks for self assessment of what they have done in the past and guides them in their future plans and programs.
- The financial agencies, stock exchange and stock traders are also interested in the performance of the bank as well as the customers, depositors and debtors, who can objectively identify the better bank to deal with in terms of profitability, safety and liquidity.

- Policy makers at the macro level that is government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through banking institutions

1.9 LIMITATION OF THE STUDY

Every study defines some boundaries. They have to study within this framework. So there are some limitations due to lack of data time and information. They are as follows;

- This research paper is prepared especially, in fulfillment of degree course for MBS. Since the collection of data through primary sources requires on the spot visit, consuming lots of time fund and, not affordable by a student, all the relevant data and information are collected and consolidated from the published financial documents like balance sheet, profit and loss account and other related journals and websites.
- The study deals with certain financial tools such as ratio analysis and statistical tools.
- Only secondary data is used here.
- Limited resources and time at the disposal of the researcher did not allow a much more wide analysis of the subjective in question.
- The whole study will be limited to the past five years (From 2005/06 to 2009/10) period.

1.10 ORGANIZATION OF THE STUDY

This whole study has been divided into five chapters. Each is developed to some aspects of the study.

First Chapter contained introduction of the study. It is all about the background of the study, statement of problem, objective of the study, significance of the study and limitation of the study.

Second chapter deals with review of literature relating to financial performance of bank. It contained conceptual review of study and review of related studies.

Third chapter is research methodology. It contained the assumption of the study, research design; source of the data for this study, which are secondary source and the period of the study, is mentioned. The important part of this chapter is that it highlights the methodology used for this study.

Fourth Chapter deals with the presentation, analysis and interpretation of data. In this chapter, data of the study are presented and they are analyzed through the way of designed methodology in the fourth chapter.

Fifth chapter contained summary, conclusion and recommendation of study.

CHAPTER-II

REVIEW OF LITERATURE

Review of literature is the study of past research studies and relevant materials. It is an advancement of existing knowledge and in-depth study of subject matter. It starts with a search of a suitable topic and continues throughout the volumes of similar or related subjects. It is very rare to find out completely new problem. In literature review, researcher takes hints from past dissertation but he or she should take heed of replication. Literature review means reviewing research studies and other pertinent prepositions in the related area of the study so that all the past studies their conclusions and deficiencies and further research take place. It is a vital and mandatory process in research works. During the review of this research, in depth study and theoretical investigation regarding performance analysis aspects and their present application and potentialities made. Every possible effort has been made to grasp knowledge and information that is available from the concerned libraries, magazines, publications of concerned banks etc.

The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concept and methodologies has been used successfully. Further, an extensive or even exhaustive process of such review may offer vital link with the various trends and phases in the researches in one’s area of specialization, with the characteristic percepts, concepts and interpretation, with the special terminology, with the rationale for understanding one’s proposed investigation.

There is a significant importance of review of literature in any type of research work some of which can be pointed as follows:-

- To identify research problems which previous works has been conducted?
- To avoid unintentional replication of previous studies.
- To interpret the significance of researchers result in precise manner
- To determine the methodology for research work and scope for the studies.

Hence, in this chapter, the focus has been made on the review of literature relevant to the performance analysis of Himalayan Bank Limited, Nabil bank and Standard Chartered Bank. For this study, different Journals, Article, Books, Annual reports, and some research paper related with this topic has been reviewed. It needs to review related literatures in this concerned area which will help me to get clear ideas, opinions and other concepts. 'What other has said? What other has done? And what other have written?' these all and other related questions are reviewed which has provided useful inputs in this research work. Moreover, rules regarding to financial performance are reviewed and an attempt has been made to present them properly.

2.1 Conceptual Framework:-

A bank is an institution which deals with in money, receiving it on deposit from customers honoring customer's drawing against such a deposit on demand, collecting cheques for customers and lending or investing surplus deposit until they are required for repayment. In the present days, various types of banks are established for instance Industrial bank, Commercial bank, Agriculture bank, Joint ventures bank, Cooperative and Developments bank. Modern banks are more advanced than the ancient ones. This is because of the growth in population changes occurred in the industrial field and trade, the beginning the competitive age and changes in the people's ideology and due to the dependence on each other.

The banking is not static but a dynamic concept it is a product of centuries and the development which has taken places the product of a method of trial and error and experiences which were made and the results that followed relating to the acceptance of money and valuables as deposit, keeping them as such lending them whether to private industries to states or other bodies and for controlling the multifarious and multi dimensional activities which, in the beginning were only tribal and could be ignored but with the growth of time, become international in character and multi dimensional in nature calling for actions on the part of the states as the actions on the part of individuals failed and state control become eminent.

Thus one can understand the development of banking by looking at a particular period of time and one has to consider the development by taking into account the progress it has taken during centuries and by understanding the movement from one stage to the other. From the above given facts, it is clear the present banking system has come to this position passing the vicissitude from the past.

The world cannot run without banks. Once there was such as age in which could discharge their affairs without a bank. In fact the concept of a bank is the result of changes occurred in the people's thoughts, sense and the change of time. There came a change in the peoples feeling. Thereafter, the industrial, commercial and scientific revolution started. As a result of these revolutions the banking system developed and extended. In the absence of development and extension, of banks there is no possibility of economic revolution .Without making economic revolution, peoples' living standard cont go up .bank differs according to their nature's bank cannot perform all sorts of functions .so today's banks are opened differently according to their nature such as Central Bank, Commercial Bank,

Rural Development Bank, Merchant Bank, Agriculture Bank, Development Bank.Since this thesis is related to the commercial bank name Himalayan bank limited and also it is the joint venture bank.

2.1.1 Commercial Bank:-

According to Nepal Commercial Banks Act 2031 B.S. "A Commercial bank refers to such type of bank other than specified banks related to Cooperative, Agricultural, Industrial and other which deals in money exchange, accepting deposits and advancing loans etc." Commercial Banks (CB's) are those financial institutions deal in accepting deposits to persons and institutions and giving loans against securities. They provide working capital needs of trade industry and even to agricultural sectors. Moreover commercial banks also provide technical and administrative assistance to industries, trade and business enterprises. CB's poll together the saving of the community and arrange them for the productive use. They transfer monetary source from saver to users. In addition to above, the main purpose is to uplift the backward sector of economy.

CB's is that which exchanges money, accepts deposits, loans and performs banking functions". Its functions are very attractive for people. Although these banks are truly inspired with the objectives of gaining profit and are established to accelerate common peoples' economic welfare and facility to make available loan to the agriculture ,industry and commerce and to provide the banking services to the public and the state.

The American Institute of Banking has laid emphasis on the four functions of commercial bank as "Receiving and handling deposits of money (deposit function), handling payment of money (payment function), making loans and investment (loan function) and creating money by extension of credit (money function). (American Institute of Banking, USA 1972:345)

Thus commercial banks render valuable services to the community. A country with a developed banking system has a secure foundation of industrial and economic progress. It constitutes the very life blood of an advanced economic society.

2.1.2 Conceptual Review of Financial Analysis

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. The focus of the financial analysis is on key figures contained in the financial statements and the significant relationships that exist between them. It is undertaken by various interest groups of a firm and the nature of analysis differs depending on the purpose of the analyst. Management of the firm is generally interested in every aspect of the financial analysis because they have overall responsibility of maintaining efficient and effective utilization of resources and sound financial position of the firm.

Financial analysis may be of two types via vertical analysis and horizontal analysis. When financial statements like a balance sheet or a profit and loss account, of a certain period only are analyzed, the analysis is called vertical analysis. In horizontal analysis, a series of statements relating to a number of years are reviewed and analyzed. It is also known as a dynamic analysis because it measures the change of position or trend of the business over a number of years.

This study is based on horizontal analysis. There are three steps in financial analysis:

- Selection of relevant information from the total information.
- Arrangement of the selected information in a way to highlight significant relationship.
- Interpretation and drawing of inferences and conclusions.

A powerful and the most widely used tool of financial analysis is ratio analysis. Ratio analysis is the systematical use of ratio to interpret the financial statements so that the strengths and weaknesses of affirm as well as its historical performance and current financial condition can be determined. A comparative study can be made between different statistics concerning varied facets of a business unit with the help of ratio analysis.

2.1.3 OBJECTIVE OF FINANCIAL ANALYSIS

Basically there are three major objective of financial analysis.

- To select the pieces of financial information that is relevant to a particular problem.
- To fit these into a coherent picture of the problem in relation to the firms aims and financial resources.
- To suggest alternative solution to the problem.

As a matter of facts the objective of analysis depends upon the analyst as quality if the data available.

2.2 REVIEW OF RELATED STUDY

2.2.1 Review of Previous Thesis:-

There are numerous studies conducted for the partial fulfillment of Master's Degree. The objectives and major findings of previous relevant thesis are described as follows.

A study (Govinda, 2002) conducted on the "A comparative study on the financial performance of Nepal Grindlays Bank Limited (NGBL) and Himalayan Bank Limited (HBL)", is conducted with the followings objects.

- To analyze the financial strength and weakness of these two joint venture banks namely Nepal Grindlays bank limited and Himalayan Bank Limited.
- To examine the financial performance.
- To study the comparative financial position of the two joint ventures banks.

The major findings of the study are:

- Short-term solvency position of both the banks is found below than normal through the study period. In the fiscal year 1998/1999 short term solvency position is seem better in NGBL than in HBL.
- NGBL has better position in utilizing its properties of deposits as compared with HBL. Debt to total assets ratio HBL is better than NGBL.NGBL is more succeed to generate more return on its shareholders fund than that of HBL.
- Both the banks have been able to generate profit from deposits. But the rate profitability is not satisfied from lower rate of return.

- It is better from investor point of view in NGBL. Both the banks EPS is found decreasing trend after 1996/97.NGBL seems much better in term of offering dividends to its shareholders as compared with HBL.
- It is higher percentages earning in HBL as compared to NGBL. Also operating and non-operating income of NGBL has higher than HBL.
- Dividend payout ratio of NGBL has more than HBL from the view of shareholders. NGBL has reflected better scenarios although it has also retained a higher position of earnings on an average.

The prime objectives of this study are to evaluate and assess the financial performance between the two JVBs i.e. NGBL and HBL.

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

(1) To assess the financial performance of NCCB.

(2) To measure liquidity position and investment portfolio.

(3) To study the relationship between deposit, credit on financial strength and net profit.

The major findings of the study are:

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

From the over all analysis the liquidity position of the NCC in the five year period is satisfactory, collection of deposit, investment in loan and advance is also satisfactory. Due to systematic credit policy interest earned from loan and advance is good but bank is not able to invest in profitable sector other than loan and advance. Financial resource investment of the bank assets is not satisfactory and net profit of the bank is not satisfactory though there is improvement in the profit earning than year 2002 in which the profit is negative of Rs. (397.1) million the negative profit shows that the bank has just done the job of paying interest and has not mobilized the deposit.

Mr. Amatya (2005)," A study on financial Performance of Standard Charter Bank Nepal Ltd. (SCBNL)" concluded this study with the basic objectives of the examining the financial performance of SCBNL as:-

(1) To analyze liquidity, leverage, activity, profitability and ownership ratios of the bank.

(2) To study the income and expenditure statement of bank.

(3) To analyze the bankruptcy score of the bank.

Based on the analysis of data his major findings are-

The current ratio of the bank over the ten years period is 1.13 on an average. The liquidity position in terms of current ratio of SCBNL is in normal standard .The loan and advance disbursement with respect to the current assets is satisfactory. The bank is maintaining its cash reserve as per the central bank directives. The bank investment of the fund is high. Overall the liquidity position of SCBNL is good and bank is able to meet its short term obligations.

Mr. Laxmi Prasad Prasai (2000) had conducted research study on “Profit Planning in Ilam Tea Estate.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

Mr. Prasai’s main focus of the study was the current practices and effectiveness of profit planning. The time period covered by the research was five years from FY 2050/51 to FY 2054/55. The necessary data and other information were collected from secondary and primary sources of data. In his research, Mr. Prasai had pointed out various findings. The major objectives of his study were follows:

- Specific goals and financial targets aren’t defined clearly to achieve the basic objectives.
- There is lack of defined authority and responsible departments
- Inadequate profit planning due to lack of planning experts planer.
- Unnecessary centralization of power so the decision making is only from top-level.
- Inadequate forecasting system.
- Failure to maintain periodic performance and so system of reward and punishment.

Mr. Surendra Deoja (2001) had conducted research study on “A Comparative Study of the Financial Performance of Nepal SBI Bank Limited and Nepal Bangladesh Bank Limited”. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

The main objectives of his study were as follows:

1. To evaluate the trend of deposits and loans and advances of NSBI and NBBL.
2. To evaluate the liquidity, profitability, capital structure, turnover and capital adequacy positions of NSBI and NBBL.
3. To provide a package of suggestion and possible guidelines to improve the future financial performance of these two banks based on the findings of the study.

Mr. Deoja came up with the following findings and conclusions.

- Follow liberal lending policy for both banks.
- Both banks should develop a special investment promotion unit for seeking new profitable investment opportunities and identifying promising small entrepreneurs lacking any contact and approach.
- They should be liberal in granting loans to industrious NBC trainee (Trained by Small Business Promotion Project) and trained from other institutions.
- Grant midterm loans also for more deposits utilization

Ms. Abha Subedi (2001) had conducted a research study on “Profit Planning in Commercial Bank; A Case Study of Rastriya Banijya Bank.” The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

Ms. Subedi had focused her study in the investment policy of Rastriya Banijya Bank with the current practice of effectiveness of profit planning in the Bank. The time period covered by the research was five years from FY 1993/94. The necessary data and other information were collected from secondary and primary sources of data. In her research, Ms. Subedi had pointed out various findings. The major objectives of his study were follows:

- Investment pattern of RBB is mainly towards the security of land, gold and silver.
- There is no proper management planning. This is causing problem of over staffing and extra cost burden.
- No systematic application of budgeting.
- Activities of the bank are centered to urban areas only.
- No. of branches have been increasing each year.

Mr. Sagar Sharma (2002) had conducted a research on the topic "Management Accounting Practices in Listed Companies of Nepal." The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

He had focused his study to examine the practice of Management Accounting tools in the listed companies of Nepal. Mr. Sharma's research study was based on only primary sources of data. Stratified random sampling with proportionate allocation of percentage was followed to draw the sample. In his research, he had pointed out various objectives and findings, among those some remarkable objectives are as follows:

- To study and examine the present practice of management accounting tools in the listed companies in Nepal.

- To identify the areas where management accounting tools can be applied to strength the companies.
- To make recommendations to overcome the difficulties in applying management accounting tools in Nepalese companies.

Some major findings were as follows**:**

- Different types of management accounting tools, which are tough in the colleges, are not found applied by the listed companies of Nepal.
- Management Accounting is help to managers in overall managerial activities by providing information and helping in planning, controlling decision making.
- Nepalese listed companies are infant stage in practicing of management account tools such as capital budgeting, annual budgeting, cash flow, ratio analysis, zero based budgeting, activity based costing, target costing, and value engineering.
- As Nepal is proceeding toward globalization and has got the membership of WTO, companies are recommended to apply management accounting tools of fit with the global environment.

Mr. U.P. Sapkota, (2004), had studied “Fund mobilizing policy of Standard Chartered Bank Nepal Ltd.”. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

- He has found that liquidity position of SCBNL was not satisfactory.
- Loans and advances, cash and bank balance ration seemed too weak than that of NBBL and HBL.

- Investment on share and debenture and interest earning power on total working fund also seemed weak in condition than NBBL and HBL.
- The relation of investment and loans and advances with deposits seemed positive and the relation of net profit with outside assets (investment and loans and advances) seemed positive.
- At last, Sapkota concluded that in overall condition SCBNL seemed in satisfactory position in comparison to NBBL and HBL, since SCBNL used ton provide less loans and advances in comparison to its total deposits,

Sapkota has strongly recommended for following:

- A liberal lending policy so that more percentage of deposits can be invested in different profitable sectors as well as towards loans and advances as a significant factor this affects the net profit of the bank.
- Subsequently, a skilful administration is the must for these assets because negligence may become a reason for liquidity crisis and bankruptcy.

Mr., R.P. Karmacharya (2005) has expressed that "the financial soundness as well as its strength of the company depends upon the large extent on the composition of the capital structure and assets." The thesis was submitted to Shanker Dev Campus, Faculty of Managem. The major findings of the study were:

- Capital structure of the company presents its resource capacity and ability of its present worthiness.
- In the study, he has found that all the banks in his study follow the requirements of NRB Directives regarding capital adequacy.
- The capital structure of studied banks is highly leveraged.

Thus, Mr. Kamacharya has recommended as follows:

- The proportion of debt and equity capital should be decided keeping in mind that effort of tax advantages and financial distress.
- The banks are required to maintain improved capital structure by increasing equity base i.e., issuing more equity capital expanding general reserve and retaining more earnings. With this improvement, it will compromise among the conflicting factors of cost and risk.
- As mandated by NRB, for the operation in overall Nepal, a commercial bank should have capital base of Rs.500 million. Hence, the banks should raise its paid-up capital to Rs.500 million as soon as possible.

Mr. Bhoj Raj Adhikari, (2006) had conducted a research study on "Comparative Study of the Profitability of Nepal SBI Bank & Nepal Bangladesh Bank" The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

He has the following major findings:

- The mean ratio of return on equity of NB Bank is nearly too five times of SBI Bank. The variability of return on overall equity of NB Bank is very higher than that of SBI Bank. It shows the inconsistency in return on equity.
- The mean ratio of return on total assets NB Bank is less than SBI Bank. It shows the inconsistency in return on assets.
- The C.V of SBI Bank is higher than that of Nepal Bangladesh Bank.
- It can be concluded that the profitability position of NB Bank is comparatively worse than that of SBI. The bank must maintain its high profit margin for the well being in future.

Further Mr. Adhikari has recommended that:

- Both the banks should be established after proper diagnosis of the root causes of unsatisfactory liquidity. In this regard, NB Bank should be more serious than SBI Bank.
- Both banks should attract more non interest bearing amount deposit for increase profit margin. The share of fixed deposit on its total deposit is very high. So it is recommended to reduce its fixed deposit.
- Both banks must formulate the strategy to control unnecessary expenses using modern technology, computer networks and experts, and well trained personnel which also increase the operating efficiency of the bank.
- The earning per share and dividend per share attract the investors. So higher cash dividend strategy should be adapted for the better growth of shareholders worth.
- Need to invest on small entrepreneurs development programs.
- NB Bank and SBI Bank are suggested to make modern banking technologies accessible to there all kinds of depositors as far as possible.
- An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

In the like manner, somehow related thesis to profitability was presented by Mr. Shambhu Tandukar, (2007), entitled "**Dividend Policy: A Comparative Study of Joint Ventures Banks (Listed) of Nepal"**. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

From the analysis, the major findings help to conclude that among the sample banks, except one or two banks have satisfactory earning per share and has paid satisfactory dividend per share according to the earnings. Although the banks have made earning every year, some banks have not paid dividend every year. It can be said that there is no consistency in dividend payment of the sample banks except NABIL and SCBL, which pays average dividend of 48 and 104 each year. It can be found that dividend payout ratio is most stable than the dividend per share paid, as there is significant difference in dividend payout and earning per share, while there is no significance difference in the dividend payout ratio of sample banks.

On the basis of the study considering the target objective, following recommendations are given,

- It is recommended that the banks should develop proper dividend payout ratio policy and strategy and should follow the optimal, long-term dividend policy to satisfy stockholders and to create good image in market.

- Among seven banks more than half banks coefficient of variation (C.V) shows high fluctuations in DPS, DPR DY and PER. So it should be necessary to decrease the fluctuation rate to become more consistent.

- The stock or capital market should be efficient and perfect enough in order to attract the shareholders.

- The banks should forward their step to decrease the high fluctuation in their EPS and DPS. EPS has always been a major factor in determining the dividend and increase in EPS increases DPS has always been an accepted fact. It seems that DPS does not affected by EPS or the dividend amount is not declared on the basis of earnings. It is important for the banks to consider their earning rather than neglecting it while making dividend decisions.

Mr. Binod Maaju (Shrestha) (2009) had conducted a research on the topic "A Comparative Study of Financial Performance of Nepal Arab Bank Ltd. and Nepal SBI Bank Ltd." The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

He had focused his study on financial performances of NABIL AND NSBIBL.

Some major findings were as follows**:**

- There is significant correlation between the deposit and investment of NABIL where as in NSBIBL it has low degree of correlation in NSBIBL.
- There is no significant difference between two banks in relation of total deposit and loan and advances.
- There is significant correlation between the deposit and net profit in NABIL where as a negative correlation in NSBIBL.

Mr. Madhav Narayan Kachhipati, (2010) had conducted a research on the topic "Right Shares Issue and Its Impact in Nepalese Capital Market." The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

He had focused his study on rights shares issue practices in Nepalese capital market and its impact on market price of share. The investigation covers two interrelated aspects. First one, the characteristics/features of rights offering by the listed company and secondly, the share price movement associated with rights offering.

Some major findings were as follows**:**

- There is significance difference between the share price of banking group and finance company group i.e. banking group's share price is higher than that of financial group.
- Most of the finance companies don't show the significant change in the price before and after right share issue. This means that the market doesn't show the greater interest in the Finance companies.
- Right is appeared as an obligation imposed on shareholders, otherwise she/he would suffer a loss in the form of decline in price her/his holding.
- Nepalese investor's preferred the banking sector's rights hare rather than other sectors because the performance of banking sector was better than others.

Mr Santosh Pandit, (2010), came with the conclusion in his study on "The directives of NRB in maintaining capital adequacy ratio and its impact" that commercial banks of Nepal are bound by the NRB Directives and are currently bound by Unified Directives issued for all financial institutions. The thesis was submitted to Shanker Dev Campus, Faculty of Management, T.U.

The directive no. 1 has set norms on capital adequacy for commercial banks. Every commercial bank has to meet the requirement of capital adequacy as sated by the directive. The bank under study, NIC Bank is found to be successful to comply with requirement of capital adequacy norms.

Mr. Pandit recommended that NRB should consult to the various bank officials before setting or resetting standards on such capital adequacy norms. The complaints and criticisms of bank officials should be considered accordingly. Consequently, an optimal standard will be ensured which will satisfy almost everyone.

2.3.2 REVIEW OF JOURNALS & ARTICLES

In addition to financial performance, various articles were published on financial aspect, which deals in the context of Nepalese commercial and joint venture banks. The major findings of the approaches used in those important articles are reviewed briefly.

The article entitled "Commercial Bank's Comparative Performance Evaluation" written by Shrestha, he concludes that JVBs are new, operationally more efficient, having superior performance comparing with local banks. Better performance of JVBs is due their sophisticated technology, modern banking method, and skill. Their better performance is also due to the of government's branching policy in rural areas and financing policy that is imposed to Local Banks. Local banks are efficient in rural sector. Despite having number of deficiencies, local banks have to face growing constraints of socio-economic-political system on one hand spectrum and that of issues and challenges of JVBs commanding, significant banking business on other spectrum. *(*M.K. Shrestha *1990:31)*

Bajracharya in his article "Monetary Policy and Deposit Mobilization in Nepal". Concludes that the mobilization of domestic saving is one of the monetary policies in Nepal and for this purpose commercial banks are the vital active financial intermediary for generating resources in the form of deposit of the private sector and providing credit to the investors in different sectors of the economy. (Bajracharya:1991:93)

Likewise **Bista** in his article “Nepal Ma Adhunik Banking Bhyawastha” has made on attempt to highlight some of the important factors, which have contributed the efficiency, and performance of joint venture banks. He concluded that the establishment of joint venture banks a decade. The beginning of modern banking era in Nepal. The joint venture banks gave brought in many new banking techniques such as computerization, Hypothecation, consortium finance and modern fee- based activities into the economy’. (Bhagat Bista, *1992:55)*

Mahat has written an article about 'should NRB encourage establishment of more banks’ which was published in the Kathmandu Post in 22 July 2004. It gives short glimpse of the banking performance of Nepal Rastra Bank (NRB), as a central bank of Nepal, has the ultimate authority of granting approval for the establishment of a bank or financial institution. NRB has, therefore, the power of increasing or limiting the number of players in the banking and financial service industry through licensing. NRB also has a role in creating a conducive atmosphere for efficient functioning of the banking and financial institutions. Allowing the entry of sufficient number of players in the banking and financial services industry creates the environment of healthy competition and promotes efficiency in the banking system. Mr. L.D. Mahat: 22 July 2004

Mr. Mahat thinks that, establishment of new banks not only introduced advanced technology in banking industry but also offered a host of innovative products and superior services to the customers at affordable cost. Therefore, NRB should encourage more new private sector banks which will make modern banking available to a larger section of the economy. But on the other hand, he is afraid that Nepal could be over banked on the basis of the number of players in the industry but it is still under-serviced in reality. Establishment of new banks will increase the intensity of competition in the banking industry. This will force the poorly managed and poorly capitalized banks to upgrade their efficiency. Otherwise, customers will shift their business with the better capitalized and more professionally managed banks. The principle of 'survival of the fittest' will hold well under such a scenario. Therefore, there is still a room for more banks so far as it paves the way towards sound and strong banking system.

The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that different from the others, none is likely to serve only single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it is used in conjunction with the balance sheet and the statement of changes in financial position. *(ACAN, Newsletter, Dec-2001: 41)*

Thus, there are so many studies conducted regarding the performance analysis .It is not with in the scope of this study to analyze all the above issues in the Nepalese context. However this study attempts to deal with same of the major issues described above.

An Article published in 2005 concludes that, Banks are gradually starting to realize that, in today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that banks can exploit to establish a competitive edge. Since most banks offer comparable products and services, they should continually search for a competitive advantage that will attract new customers and help them retain existing ones. Banks are therefore, looking to develop innovative products and services to maintain superior customer service levels while at the same time remaining profitable. With the number of market players in the rise, the competition has been obviously growing in the banking industry. The most obvious effect of the rising competition can be seen in the interest rates offered by the banks.

The banks, which some years ago, used to charge rates in the range of 15 to 20 percent, have dramatically reduced their interest rates to 8 to 12 percent, in order to remain competitive. Banks are now gradually shifting towards IT based solutions to enhance service delivery in order to address customer concerns. More and more banks are embracing E-banking and provision of ATMs to reduce long queues in banking hall. In addition, some of the banks have launched mobile phone banking services which facilitates several account enquiry tools, including account balances, thereby, minimizing the need for customers to visit banking halls. This drive towards IT based solutions will continue to gather momentum in the future as banks will find it be very difficult to survive in the ever growing competition without some form of competitive advantage. Another trend observed in banking industry in 2004/05 is the shift towards multiple banking relationships explored by large corporate houses. In order to remain competitive, Banks are seen to be increasingly encouraging business houses to transact with them. This has lead to a creation of large volume of unutilized limits with the bank and in order to get a large piece of the pie banks are increasingly accepting risks, which they otherwise would not have taken. The unyielding competition has also leaded the banks to accept collaterals that are more risky and unsecured. The volume of loans against the hypothecation of stocks, receivables and other assets are on the rise. In the absence of statute for registration of charges (hypothecation) in the current assets, the risk of over financing is eminent and banks are exposed to a higher degree of risk. (Banking Supervision Annual Report-2005:7)

CHAPTER III

RESEARCH METHODOLOGY

Research methodology is the technique to achieve the started objectives of the study. This chapter studies how research to be conducted, how the research is made effective and what are the steps of research so that the study and goal of the related study can be easily achieve. Especially research refer sequential step’s to be followed by researcher at the time of solving problem or studying the concerned subject matter in detail that include following steps.

- Research design
- Sources and types of data
- Population and sample
- Data procedure
- Method of data analysis

3.1 RESEARCH DESIGN

A research design is the framework or plan that guides the computation and analysis of the data gathered for the study purpose. Basically, this study deals with the financial performance listed commercial bank. Hence, analytical as well as descriptive approach have been used to evaluate the financial performance of the bank and obtained stated objectives.

3.2 SOURCES AND TYPES OF DATA

To conduct this study, secondary data are taken from annual reports of related office and their websites. So the major sources and types of data include these published sources,

- Financial statement of related Bank
- Annual report of the bank
- Different previous studies
- Related bulletins, reports, periodically published by various government bodies.

3.3 POPULATION AND SAMPLE

At present, there are 30 commercial banks are operating in Nepal. They constitute the population sample. Among of them, NABIL, HIMALAYAN AND STANDARD CHARTERED are selected for the study of Financial Performance. Five years data are taken to conduct the study from 2005/06 to 2009/10.

3.4 DATA PROCEDURE

Various data obtained through different sources can’t be used directly for the analysis in their original form. So, they have been rechecked, re-evaluated, edited and tabulated to bring them into appropriate form for the analysis purpose. The researcher made the collected data trust worthier getting them form authorized sources.

Moreover, different graph charts are presented according to necessity to interpret visually. The data are tabulated according to subject matter and they are shown in table in sequential way. Similarly, the financial ratios are also used for the analysis and interpretation of the financial performance of selected sample.

3.5 METHOD OF DATA ANALYSIS

In order to ascertain actual financial position of any firm, various analytical tools can be used. It is true that suitable or appropriate tools, according to the nature of statement and data make the analysis more effective and significant for achieving these objective basically two sorts of tools can be used, financial and statistical the researcher has therefore, applied these tools extensively.

3.5.1 FINANCIAL TOOLS

As this study is related to financial performance analysis financial tools are more useful they help to identify the financial strength and weakness of the firm in spite of various financial tools available the research has primarily stressed on ration analysis assuming it the most suitable tools.

Lawrence J, (P-199), “A Ratio is simply a number expressed in terms of other number and it expressed the quantitative relation between any two Variables." Moreover, it is used as a technique to quantify the relationship between two sets of financial data taken from either profit and loss account or balance sheet. It provides information relation to strength and weaknesses of financial data in relation to others. However, the researcher has employed his utmost effort to use as many ratios as possible to reach the point of true financial position of the banks. These ratios include the following.

- Liquidity Ratios
- Activity Ratios
- Capital adequacy Ratios
- Capital Structure Ratios
- Profitability Ratios

3.5.1.1 Liquidity Ratios

Liquidity Ratio measures the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. A very high degree of liquidity is also bad, idle cash earn nothing. So, it is necessary to a firm to maintain optimum level of liquidity. A bank is subject to a minimum cash reserve requirements (CRR) imposed by central bank to ensure minimum amount of total assets to meet unexpected withdrawals. The following ratio has been applied to find out liquidity position of the banks.

- Current ratio
- Cash and bank balance to total deposit ratio.
- Investment on government securities to current assets ratio.

3.5.1.1.a Current Ratio

The current ratio is the ratio of total current assets to total current liabilities and measures the short-term solvency of a firm. It is calculated by dividing current assets by current liabilities.

$$\text{CurrentRatio } X \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

Current assets include normally those assets of a firm, which are converted into cash within one year. These assets of a firm includes cash , bank balance, investment in treasury bills, discounts, overdrafts, short-term advance loans, foreign currency loan, bills for collection, customer acceptance, outstanding expenses, divided payable, provision for taxation. Although there is no hard and fast rule for measuring this ratio, conventionally a CR ratio of 2:1 is the considered satisfactory.

3.5.1.1.b Cash and bank balance to total deposit ratio (CBBTDR)

This ratio is calculated by dividing cash bank balance by total deposits.

$$\text{CBBTDR X} \frac{\text{Cash and Bank Bakance}}{\text{Total Deposits}}$$

Total deposits consist of current deposits, saving deposit, fixed deposit money at call and short notice and other deposits. This ratio shows the proportion of total deposits held as compared to the most liquid assets. High ratio shows the strong liquidity position of the bank but very high ratio is not favorable the bank because doesn’t produce appropriate profit to bear the high interest.

3.5.1.1.c Investment on Government Securities to Current Asset Ratio

This ratio is used to find the percentage of current assets invested on government securities, treasury bills and development bonds. This ratio can be calculated dividing the amount of investment on government securities by the total amount of current assets and can be stated as follows,

$$\text{Investment of Government Securities to Current Asset Ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

3.5.1.1.d Fixed deposit to total deposit ratio (FDTDR)

This ratio determined by dividing fixed deposits by total deposits.

$$\text{FDTDR} \; X \frac{\text{FIxed Deposit}}{\text{TotalDeposits}}$$

It indicates the percentage between total deposits. High ratio shows better opportunity available to the bank to invest in sufficient profit generating long-term loans but low ratio indicates vice versa.

3.5.1.2 Activity Ratios

Activity ratios are also known as assets management ratios. These ratios look at the amount of various types of assets and attempt to determine if they are too high or too low with regard to current operating levels. Mostly, activity ratio is used to evaluate managerial efficiency and proper utilization of assets.

- Investment to total deposit ratio
- Loans and advances to total deposit ratio.
- Loan advances to total assets ratio

3.5.1.2.a Investment to total deposit ratio (ITDR)

This ratio is computed by dividing investment by total deposits. This can be stated as:

$$\text{ITDR} \; X \frac{\text{Investment}}{\text{Total Deposits}}$$

The numerator includes government's treasury bills, development bonds, company shares and other investments. This ratio presents how efficiently the resources the banks have been utilized. High ratio shows managerial efficiency regarding the utilization of deposits and vice-versa.

3.5.1.2.b Loans and Advances to Total Deposits Ratios (LATDR)

This ratio is calculated by using following formula.

$$\text{LATDR X} \frac{\text{Loans \& Advances}}{\text{Total Deposits}}$$

Loans and advances consists of loans, advances cash credit overdrafts local and foreign bills purchased and discount. It indicates the proportion of total deposits invested in loan and advances. High ratio indicates greater use of deposits in loans and advances but low ratio may be the cause of ideal cash or use of fund in less productive sector. Very high ratio shows the poor liquidity position.

3.5.1.2.c Loan advances total assets ratio (LATAR)

This ratio is obtained by dividing loans and advances by total assets.

$$\text{LATAR X} \frac{\text{Loans \& Advances}}{\text{Total Assets}}$$

Total Assets include total assets of balance sheet items.

This ratio indicates what proportion of total assets has been used in loans and advances. Higher ratio means effective of total assets in loans and advances.

3.5.1.3 Capital Adequacy Ratios

The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.So a firm should maintain an optimum level of cash. For maintaining optimum cash by the CBS NRB directs the commercial banks to increase or decrease or fix a certain percentage of capital funds out of total deposits.

- Total Net Worth to Total Assets Ratio
- Net Worth to Total Deposit Ratio

3.5.1.3.a Net Worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets.

$$\text{NWTAR X} \frac{\text{Net Worth}}{\text{Total Assets}}$$

This ratio measures the percentage of shareholder fund in relation total assets owned by banks. High ratio shows greater contribution of investors' fund and strong capital position.

3.5.1.3.b Net Worth to Total Deposit Ratio (NWTDR)

This ratio is calculated by using the following formula.

$$\text{NWTDR X} \frac{\text{Net Worth}}{\text{Total Deposit}}$$

It indicates the percentage of net worth in relations to the total deposits collected in the bank. The direction of the central bank has maintained or not by the bank, is the yardstick to measure the position.

3.5.1.4 Capital Structure Ratios

Capital structure ratio also known as leverage ratios are the measures of long-term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm. These ratios are calculated to measure the long-term financial position of the bank.

Specially, structure ratio and coverage ratio have been calculated and interpreted under capital structure ratio. The first ratio deals with the composition of debt and equity capital where as to second show the relationship between shareholders' fund and total assets of the banks. These two categories of ratio, particularly, include the following.

- Debt to Equity Ratio
- Total Debt to Total Assets Ratio &

3.5.1.4.a Debt to Equity Ratio (DER)

This ratio can be calculated in this way.

$$\text{DER X} \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

This ratio shows the relationship between debt capital and equity capital. High debt equity ratio indicates greater financing by debt holders than those of equity holders. From the creditor's view-point, high debt-equity ratio of the banks is more risky to them. It means the bank may fail to satisfy creditors.

3.5.1.4.b Total Debt to Total Assets Ratio (TDTAR)

$$\text{TDTAR X} \frac{\text{Total Debt}}{\text{Total Assets}}$$

This ratio can be denotes the relationship between total debt and total assets of the banks. The higher ratio indicates the greater portion of the outsiders' and investment in term of the bank's assets.

3.5.1.5 Profitability Ratios

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.

Under this category the researcher has calculated the following ratios to obtain the stated objectives of the study.

- Return on Total Assets Ratio
- Return On Equity Ratio
- Return on Total Deposits Ratio

3.5.1.5.a Return on Total Assets Ratio (ROTA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently is the assets of a firm able to generate more profit are measured by this ratio is calculated by dividing NPAT by Total Assets.

$$\text{ROTA X}\frac{\text{NPAT}}{\text{Total Assets}}$$

The increasing Ratio shows favorable situation for the banks. The higher ratio is also shows that the bank could manage their overall operations, but the lower ratio shows vice-versa.

3.5.1.5.b Return on Equity Ratio (ROE)

This ratio measures, how much profit is earned by utilizing funds of total equity by the firm.Total shareholders' equity consists of preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses. This ratio can be computed as Net profit after tax (NPAT) divided by average total shareholders' equity.

$$\text{ROE X}\frac{\text{NPAT}}{\text{Total Equity}}$$

3.5.1.5.c Return on Total Deposits Ratio (RTDR)

It measures the relationship between NPAT and total deposits with an ability of a firm to utilize maximum of deposits to earn much profit. This ratio is computed by dividing NPAT by Total Deposits.

$$\text{RTDR X}\frac{\text{NPAT}}{\text{Total Deposits}}$$

3.5.2 Statistical Tools

Although various statistical tools are available to analyze the obtained data, the researcher has selected the most suitable and commonly usable tools to extract trustworthy financial decision.

- Arithmetic mean
- Karl Pearson's co-efficient of correlation
- Least Square Linear Trend
- Probable error

3.5.2.a Arithmetic Mean

Arithmetic mean of a given set of observation is their sum divided by the number of observation. In general, if x1, x2, x3, ……………………,xn are the given number of observation, their arithmetic mean can be obtained by

$$\overline{X} = \frac{X1 + X2 + X3 + \ldots\ldots\ldots\ldots\ldots + Xn}{n}$$

Where, $\overline{X}$ denotes arithmetic mean

n denotes the no. of periods

and X1, X2 and Xn are the individual observations.

3.5.2.b Karl Pearson's Co-efficient of Correlation.

Karl Pearson's coefficient of Correlation is most widely used in practice to measure the degree of relationship between two variables. So, is measured by following formula using two variables or series X and Y.

$$r\,X\frac{\phi XY\ Z\phi X\phi Y}{\sqrt{n\phi X^2\ Z(\phi X)^2}\sqrt{n\phi Y^2\ Z(\phi Y)^2}}$$

Where. r= the coefficient of correlation

ϕXY = sum of product of observations in two series

ϕX = Sum of observation in X series

ϕY = Sum of observation in Y Series

ϕX^2 = Sum of square of observations in X series

ϕY^2 = Sum of square of observations in Y series

The value of this coefficient (r) can never be more than 1 or less than -1. Thus +1 and -1 are limits of the coefficient. Here, r= +1 implies that there is perfect positive correlation between the two variables. But r= -1 implies that there is perfect negative correlation between the variables. If it has a Zero Value (r = 0), it denotes no correlation between the variables. If the obtained value lies outside the limit {1, this implies that there is some mistake in calculation.

3.5.2.c Least Square Linear Trend

The straight line trend implies that irrespective of the seasonal and cyclical swings and irregular functions, the values increases of decreases by absolute amount per unit of time. The linear trend values from a series in arithmetic progression.It combines by following notations.

Y= a + bx

Where,

Y= the value of dependent variable

a= intercept of trend line

b=slope of trend line

x= value of the independent variable i.e. time

where they are put in normal equation, these equations can be developed

$$Y = Na + b \quad X$$

$$XY = a \quad X + b \quad X$$

Since X=0,

$$a \; X \frac{\phi Y}{n} \text{ and } b \; X \frac{\phi XY}{\phi X^2}$$

The constant 'a' is simply equal to the mean of y value and constant 'b' given the rate of change. This is s mathematical method, which is widely used in practice. It is applied for finding out a trend line for those series, which change periodically in absolute amount.

3.5.2.d Probable Error (PE)

With the help of probable error it is possible to determine the reliability of the values of the coefficient in so far it depends on the condition of random sampling. The probable error of the coefficient of correlation is obtained as follows.

$$PE \;\; X \; 0.6745 \quad \frac{1 - r^2}{\sqrt{N}}$$

Where, r^2 = Coefficient of Determination

N = the no. of pair of observation

1. If the value of r is less than probable error there is no evidence of correlation i.e. value of r is not at all significant.
2. If the value of r is more than six times the probable error coefficient of correlation is practically certain i.e. the value of r is significant.

CHAPTER IV

DATA ANALYSIS AND PRESENTATION

In this chapter, the data have been analyzed and interpreted using financial and statistical tools following the research methodology dealt in the third chapter. In the part of analysis, various tables have been used to present the data collected from various sources have been inserted in the required tables according to their homogenous nature. The outcomes of the analysis have been compared with conventional standard with respect to ratio analysis, directives of NRB and other factors. Further more, many suitable graphs, and diagrams have also been used to clarify the actual position and performance of the bank.

4.1 RATIO ANALYSIS

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The basic input to ratio analysis is the firm's income and expenditure statement and balance sheet for the periods to be examined. The study consists of the following ratios to analyze the financial performance of the NABIL Bank, Himalayan Bank and Standard Chartered Bank.

4.1.1 LIQUIDITY RATIOS

Liquidity Ratio measures the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. The following ratio has been applied to find out liquidity position of the banks.

- Current ratio
- Cash and bank balance to total deposit ratio.
- Investment on government securities to current assets

4.1.1.a Current Ratio

The current ratio is the ratio of total current assets to total current liabilities and measures the short-term solvency of a firm. It is calculated by dividing current assets by current liabilities.

$$\text{CurrentRatio X}\frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

Table 4.1

Current Ratio (Times)

Banks	**Year**					**Mean**
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	
NABIL	0.77	0.71	0.77	0.80	0.78	**0.76**
SCBNL	0.53	0.05	0.62	0.53	0.54	**0.45**
HBL	0.65	0.63	0.67	0.83	0.83	**0.72**

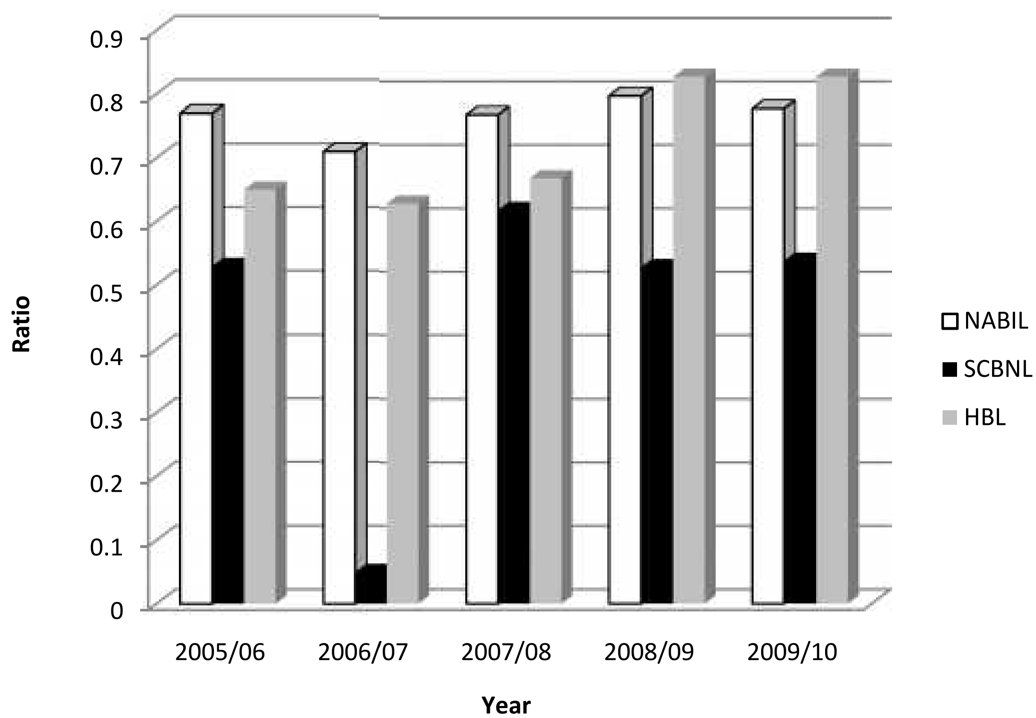
Sources: Appendix 1(i)

The above table shows that the ratios of Nabil and SCBNL are in fluctuating trend. In case of HBL in Year 2005/06 to 2006/07 it's ratio is lower but from Year 2007/08 to 2009/10 it's current ratio is in increasing trend during the study period.

In average liquidity position of Nabil is greater than other banks i.e. 0.76>0.72 > 0.45.So. In general terms, NABIL bank has been able to meet its short-term obligations. The above analysis indicates that the NABIL bank is in sound liquidity position than other two bank.

Figure:4.1

Current ratios



Among the three Commercial Banks, Himalayan Bank has highest current ratio, i.e., 0.83 in the Year 2008/09 and 2009/10. HBL bank has been able to meet its short-term obligations and is in sound liquidity position.

4.1.1.b Cash and bank balance to total deposit ratio (CBBTDR)

This ratio is calculated by dividing cash bank balance by total deposits.

$$CBBTDR\ X\frac{\text{Cash and Bank Balance}}{\text{Total Deposits}}$$

Table 4.2

Cash and Bank Balance to Total Deposit Ratio(%)

Banks	**Year**					**Mean**
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	
NABIL	2.99	5.85	7.88	8.80	2.80	**5.66**
SCBNL	14.10	15.34	14.28	14.47	10.22	**13.68**
HBL	6.48	5.84	6.17	12.16	9.77	**8.08**

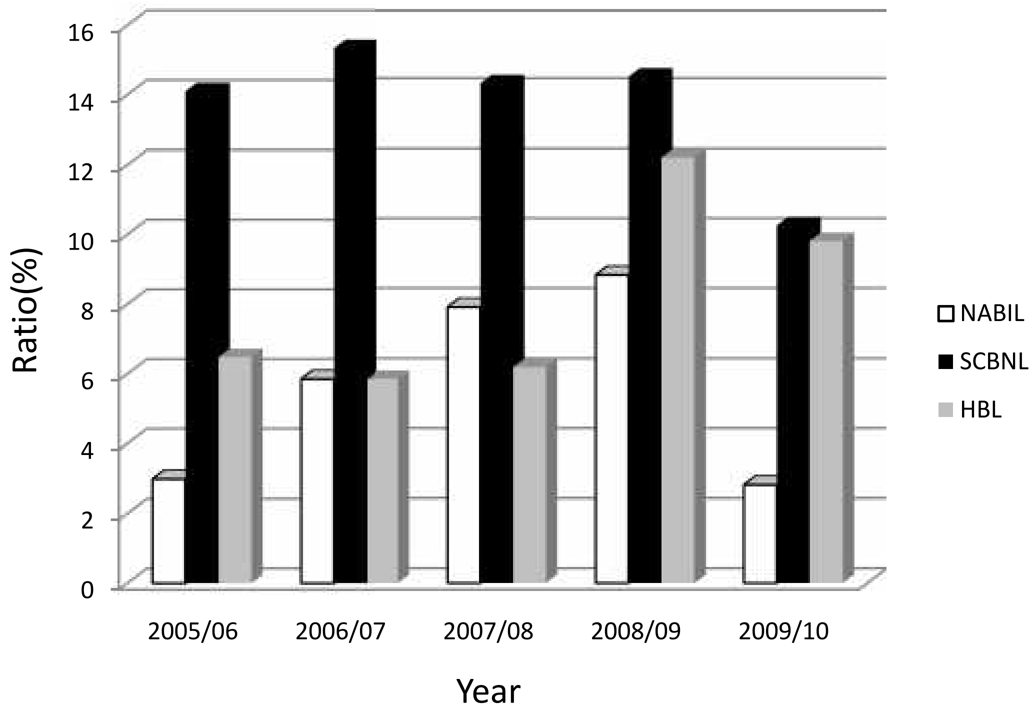
Sources: Appendix 1(ii)

The ratio of NABIL increases from year 2005/06 to 2008/09 and then decreases then after. Similarly the ratio of SCBNL and HBL fluctuate during the study period.

In average, NABIL has maintained lower cash & bank balance to total deposit ratio than HBL and SCBNL i.e.5.66<8.08<16.68.SCBNL has maintain higher cash and bank balance. So it has higher and strong liquidity position and can pay to its customer whenever demand occur. It states that cash and bank balance in liquidity position of NABIL is lower than other two banks. So it will be difficult for NABIL when there is high demand for cash because liquidity is low.

Figure:4.2

Cash and Bank balance to total deposit ratio



Among the three Commercial Banks, Standard Chartered bank has highest ratio, i.e., 15.34% in the Year 2006/07. NABIL has maintained low ratios, it shows some difficulties to meet the demand of its customers on their deposit to pay at any time but it may be earning more by investing cash to different sectors. But it should ensure to have enough liquid funds to serve its customer.

4.1.1.c Investment on Government Securities to Current Assets Ratio

This ratio is calculated by dividing Investment on government securities by current ratio.

$$= \frac{\text{Investment Govt. Securities}}{\text{Current Assets}}$$

Table 4.3

Investment on Government Securities to Current Assets Ratio(%)

Banks	Year					Mean
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	
NABIL	0.93	0.84	0.74	0.89	1.05	**0.89**
SCBNL	2.77	2.18	2.16	2.21	2.15	**2.29**
HBL	0.95	0.91	0.91	1.19	0.72	**0.94**

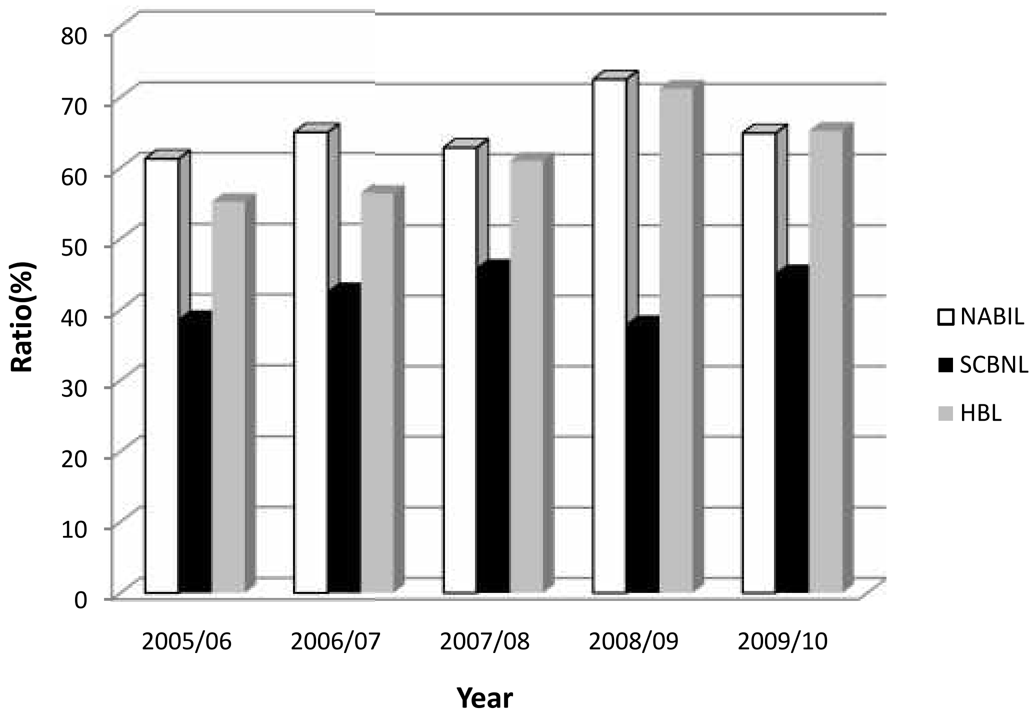
Sources: Appendix 1(iii)

The above table 4.4 shows that the ratio of NABIL is in decreasing trend from FY 2005/06 to 2007/08 and increased from FY 2008/09. In the case of SCBNL the ratio is in decreasing trend from 2005/06 to 2007/08 and HBL its ratio is in fluctuating trend.

In overall, the mean ratio of investment in govt. securities to current assets ratio of SCBNL is higher than that of HBL & NABIL. It means SCBNL had invested its higher portions of current assets on government securities, than other two banks. consistent than that of NABIL & HBL.

Figure:4.3

Investment on Government Securities to Current Assets Ratio



Among the three Commercial Banks, Standard Chartered bank has highest current ratio, i.e. 2.77 in the Year 2006/07.

It can be concluded that SCBNL has invested its more portion of current assets as government securities than that of NABIL & HBL. SCBNL liquidity portion from the point of view of investment on government securities is better than that of other two banks.

4.1.2 ACTIVITY RATIOS

Activity ratio has been used to evaluate managerial efficiency and proper utilization of assets. This includes investment to total deposit ratio, loans and advances to total deposit ratio, loans and advances to current ratio.

4.1.2.a Investment to total deposit ratio (ITDR)

This ratio is computed by dividing investment by total deposits.

$$\text{ITDR X} \frac{\text{Investment}}{\text{Total Deposits}}$$

Table 4.4

Investment to Total Deposit Ratio

Banks	**Year**					**Mean**
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	
NABIL	29.32	37.46	29.43	28.69	27.62	**30.50**
SCBNL	55.67	54.98	46.82	56.48	56.48	**54.09**
HBL	41.11	39.35	41.89	25.12	19.77	**33.45**

Sources: Appendix 1(iv)

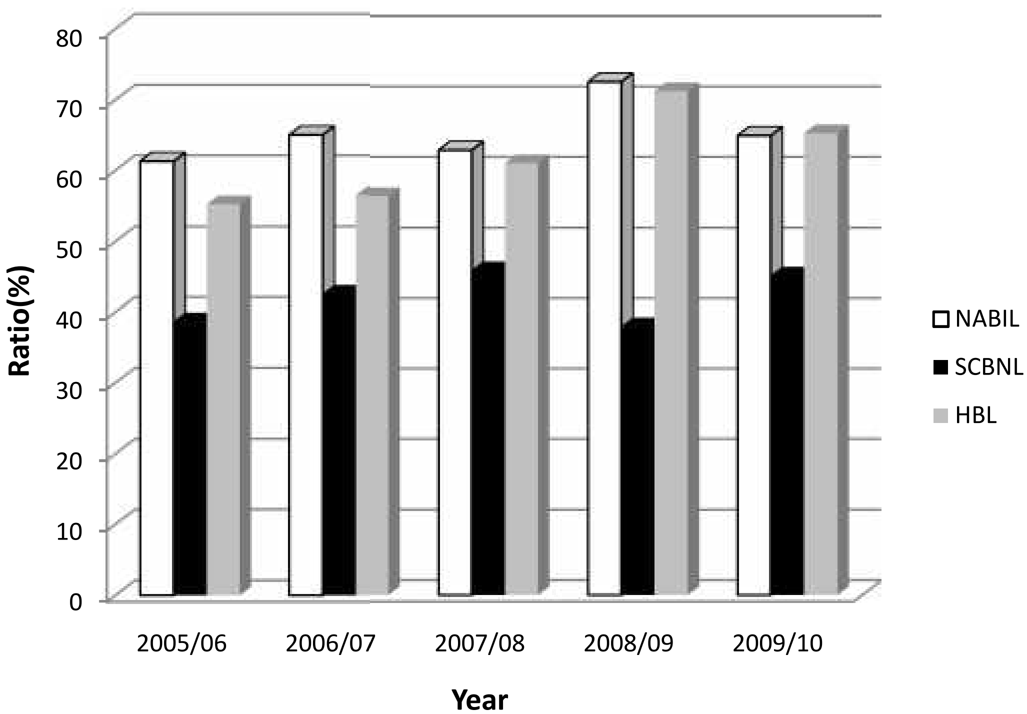
The above table exhibits that the ratio of NABIL is in increasing trend from 2005/06 to 2006/07 and is decreasing trend from 2007/86 to 2009/10. In the case of SCBNL it's also in decreasing trend from year 2005/06 to year 2007/08 and remain same for year 2008/09 to 2009/10. And incase of HBL its ratio has fluctuating trend.

In average NABIL has maintained lower mean value i.e. 30.50<33.45<54.09 than other two banks. SCBNL has maintained the highest mean value of 54.09.

In conclusion, HBL is in weak condition to mobilize its deposits by investing in different sectors in comparison of other two banks.

Figure:4.4

Investment to Total Deposit Ratio(%)



Among the three Commercial Banks, Standard Chartered bank has highest ratio, i.e. 56.48% in the Year 2008/09 and 2009/10. SCBNL seems successful to utilize the depositor's fund in investment.

4.1.2.b Loans and Advances to Total Deposits Ratios (LATDR)

This ratio is calculated by using following formula.

$$\text{LATDR X} \frac{\text{Loans \& Advances}}{\text{Total Deposits}}$$

Table 4.5

Loans and Advances to Total Deposits Ratios(%)

Banks	Year					Mean
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	61.29	65.03	63.08	72.79	65.15	**65.47**
SCBNL	38.74	42.61	46.12	38.13	45.35	**42.19**
HBL	55.27	56.56	61.23	71.48	65.50	**62.01**

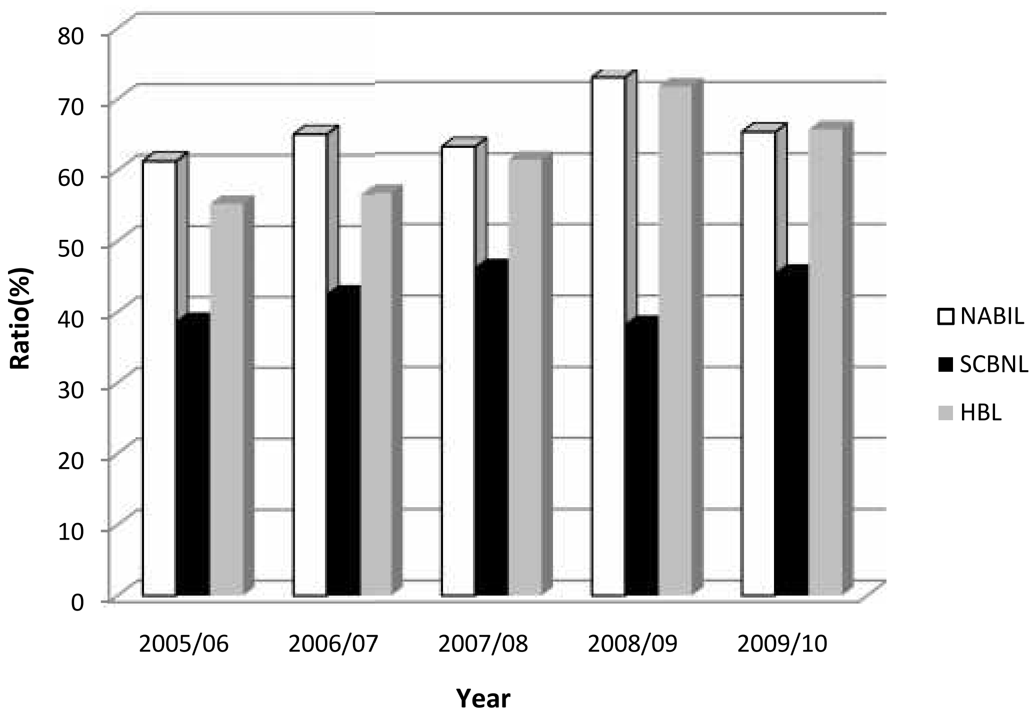
Sources: Appendix 1(v)

In the table 4.6,the ratio of loan to total deposit of NABIL is in fluctuating trend. The ratio of SCBNL increases from year 2005/06 to 2007/08 and decreases in the year 2008/09 and increases in 2009/10. The ratio of HBL is in increasing trend from 2005/06 to 2008/09 and decrease in year 2009/10 during the study period,

In over all mean ratio of loan & advances to total deposit of NABIL is higher than that of SCBNL & HBL. NABIL has strong position regarding the mobilization on loan and advances to the total deposit and acquiring higher profit with compare to SCBNL and HBL.

Figure 4.5

Loan & Advances to Total Deposit Ratio(%)



Among the three Commercial Banks, Nabil has highest current ratio, i.e. 72.79% in the Year 2008/09 and and lowest of 38.13% of SCBNL.It shows that NABIL bank is mobilizing its total deposits in loan and advances adequately and it has efficiently utilized its total deposits for loan and advances. Higher ratio reveals that it is efficient to utilize the financial resources in productive sectors.

4.1.2.c Loan Advances Total Assets Ratio (LATAR)

This ratio is obtained by dividing loans and advances by total assets.

$$\text{LATAR X} \frac{\text{Loans \& Advances}}{\text{Total Assets}}$$

Table 4.6

Loans and Advances to Total Assets Ratios

Banks	Year					Mean
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	57.87	57.04	57.53	62.89	61.87	**59.44**
SCBNL	34.67	36.72	41.15	33.70	39.68	**37.18**
HBL	49.70	50.71	53.89	63.05	65.50	**56.57**

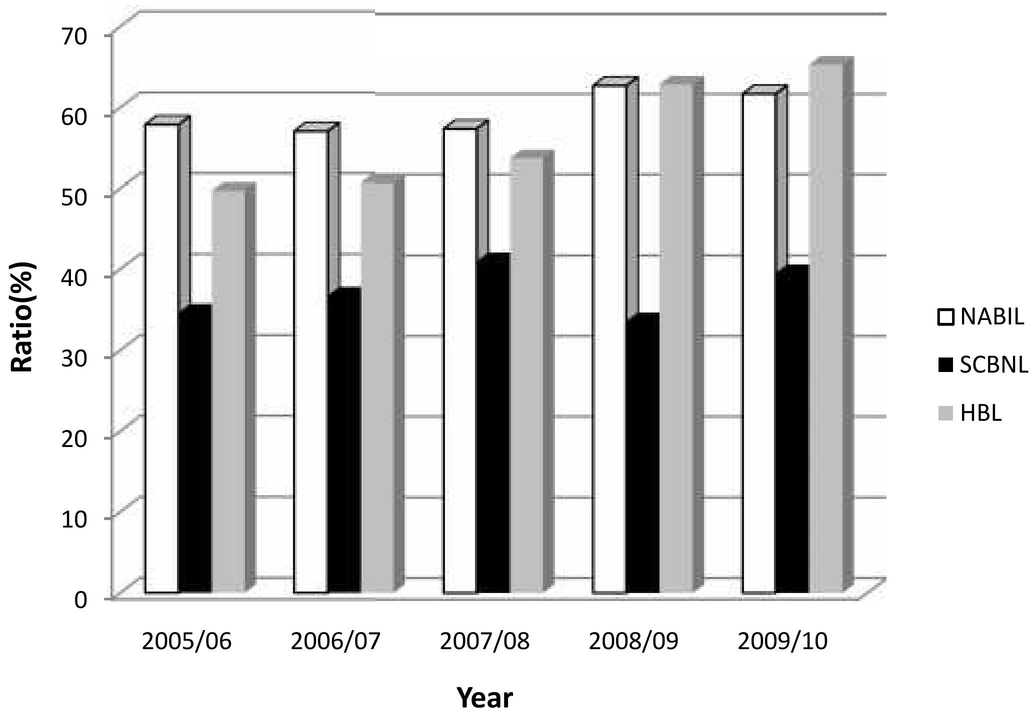
Sources: Appendix 1(vi)

The above table exhibits that the ratio of NABIL and SCBNL are in fluctuating trend. The ratio of HBL is in increasing trend during the study period. The Highest ratio is 62.89% in Year 2008/09 and lowest of 57.04% in Year 2006/07 of NABIL. The highest ratio of SCBNL is 41.15% in the Year 2007/08 and lowest of 33.70% in 2008/09. Similarly HBL highest ratio is 65.50% and lowest of 49.70 in Year 2005/06.

On the basis of mean ratios, NABIL has maintained the higher ratio than that of HBL & SCBNL i.e.0.599>0.566>0.372. So, NABIL is in good condition to mobilize its total assets as loan and advances.

Fig 4.6

Loans and Advances to Total Assets Ratios



Among the three Commercial Banks, HBL has highest ratio, i.e. 65.50% in the Year 2009/010 and and lowest of 33.30% of SCBNL in year 2008/09.So HBL has efficiently utilized its total assets for loan and advances. than NABIL and SCBNL.

4.1.3 CAPITAL ADEQUACY RATIO

The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.

4.1.3.a Net Worth to Total Assets Ratio (NWTAR)

This ratio is computed by dividing net worth by total assets.

$$\text{NWTAR X} \frac{\text{Net Worth}}{\text{Total Assets}}$$

Table 4.7

Net Worth to Total Assets Ratio(%)

Banks	Year					Mean
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	5.88	5.44	4.46	4.27	3.94	**4.79**
SCBNL	6.81	7.40	7.48	7.52	8.38	**7.52**
HBL	6.01	7.12	8.02	8.00	5.56	**6.94**

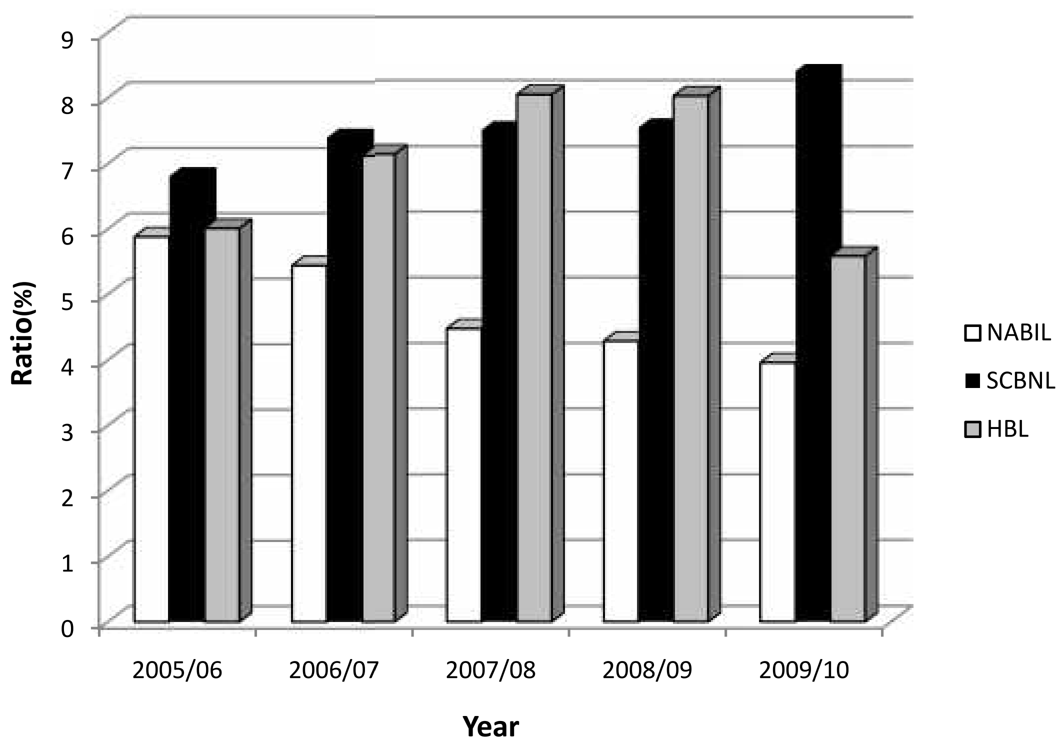
Sources: Appendix 1(vii)

The above table exhibits that the ratio of NABIL decreases from Year 2005/06 to 2009/10. The ratio of SCBNL increases during the study period. Similarly the ratio of HBL increases from Year 2005/06 to 2008/09 and then decreases thereafter. The greater ratio indicates that SCBNL has greater contribution to investors fund and strong capital adequacy position. This ratio measures the percentage of shareholder fund in relation total assets owned by banks.

On the basis of mean ratios, SCBNL has maintained the higher ratio than that of NABIL and HBL i.e.7.52>6.94>4.79. So, the percentage of shareholder fund is higher than total assets of bank.

Fig 4.7

Net Worth to Total Assets Ratio(%)



Among the three Commercial Banks, SCBNL has highest ratio, i.e. 8.38% in the Year 2009/10 and lowest of 3.94% of NABIL in year 2009/10.So SCBNL has greater contribution to investors fund and strong capital adequacy position.

4.1.4 Capital Structure Ratios

Capital structure ratio also known as leverage ratios are the measures of long-term solvency of a bank. Capital structure generally refers to the composition of debt and equity component of overall capital of a firm.

4.1.4.a Debt to Equity Ratio (DER)

This ratio can be calculated in this way.

$$\text{DER X} \frac{\text{Total Debt}}{\text{Shareholders Equity}}$$

Table 4.8

Debt to Equity Ratio

Banks	Year					Mean
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	45.23	45.66	50.01	51.20	53.41	**49.10**
SCBNL	52.48	50.98	56.02	45.47	48.00	**50.59**
HBL	76.16	73.43	80.30	81.82	84.68	**79.28**

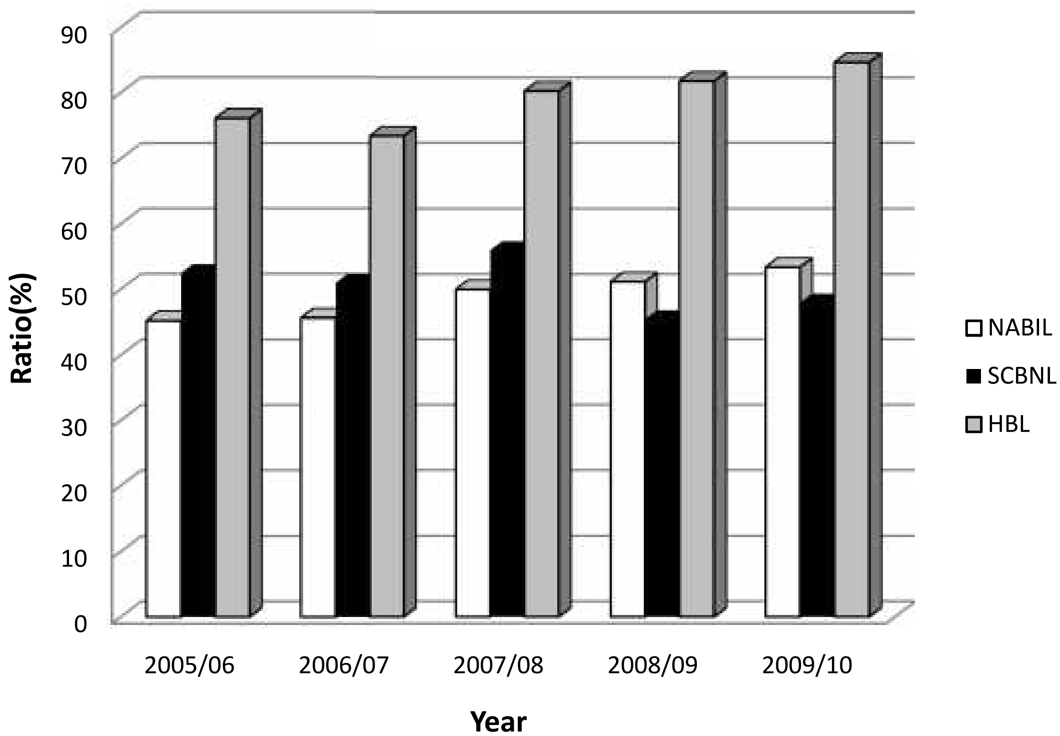
Sources: Appendix 1(viii)

The above table exhibits that the ratio of NABIL and SCBNL are in fluctuating trend. The ratio of HBL is in decreasing trend from year 2005/06 to 2006/07 and then increases during the study period.NABIL has the highest ratio of 53.41% in Year 2009/10 And lowest of 45.23 in Year 2005/06. The highest ratio of SCBNL is 56.02% in Year 2007/08 and lowest of 45.47% in Year 2008/09. Similarly the highest ratio of HBL is 84.68% and lowest is 73.43 in Year 2006/07.

On the basis of mean ratios, HBL has maintained the higher ratio than that of NABIL and SCBNL i.e.79.28>50.59>49.10. So, investment of creditor in HBL is higher than owner investment

Fig 4.8

Debt to Equity Ratio(%)



The above fig shows that the HBL has the highest ratio of 84.68% in year 2005/06 amd lowest of 45.23 of NABIL.It shows that HBL bank has the high debt equity ratio, which means creditors have invested more in the HBL bank than the owners. So this shows role of creditors in the bank is higher than the owners in investing sector of Bank.

4.1.5 PROFITABILITY RATIOS

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.

4.1.5.a Return on Total Assets Ratio (ROTA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently is the assets of a firm able to generate more profit are measured by this ratio is calculated by dividing NPAT by Total Assets. This ratio provides the foundation necessary for a company to deliver a good return on equity.

$$\text{ROTA X}\frac{\text{NPAT}}{\text{Total Assets}}$$

Table 4.9

Return on Total Assets Ratio

Banks	**Year**					**Mean**
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	
NABIL	0.14	0.41	2.01	2.35	2.18	**1.42**
SCBNL	2.55	2.41	2.45	2.52	2.70	**2.53**
HBL	1.55	1.46	1.75	1.91	1.19	**1.57**

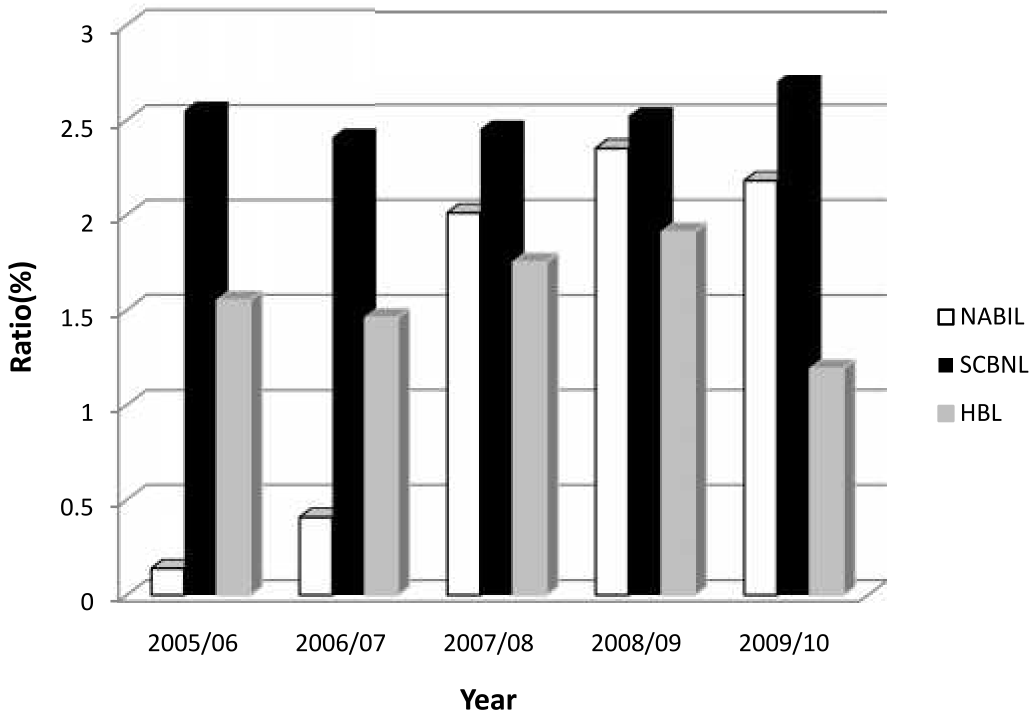
Sources: Appendix 1(ix)

The above table exhibits that the ratio of NABIL is in increasing trend from Year 2005/06 to 2008/09 and then decreases. Similary the ratio of SCBNL decreases from 2005/06 to 2006/07 and increases then after.The ratio of HBL is in fluctuating trend.

On the basis of mean ratios, SCBNL has maintained the higher ratio than that of HBL & NABIL i.e.2.53>1.57>1.42. So, SCBNL is in good condition to return net profit on Total Assest.

Figure:4.9

Return on Total Assets Ratio(%)



The above figure shows that the return on total deposits of the SCBNL Bank has highest ratio of 2.70% in the year 2009/10 and lowest is 0.14% of Nabil in the year 2005/06.So it shows that SCBNL is successful to earn higher profit on total assets than NABIL and HBL.

4.1.5.b Return on Equity Ratio (ROE)

Total shareholders' equity consists of preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses. This ratio can be computed as Net profit after tax (NPAT) divided by average total shareholders' equity.

$$\text{ROE X} \frac{\text{NPAT}}{\text{Total Equity}}$$

Table 4.10

Return on Equity Ratio

Banks	**Year**					**Mean**
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009/10**	
NABIL	25.34	10.55	30.03	35.98	36.37	**27.65**
SCBNL	37.55	32.68	32.85	33.58	32.22	**33.77**
HBL	25.90	22.91	25.30	24.13	14.79	**22.60**

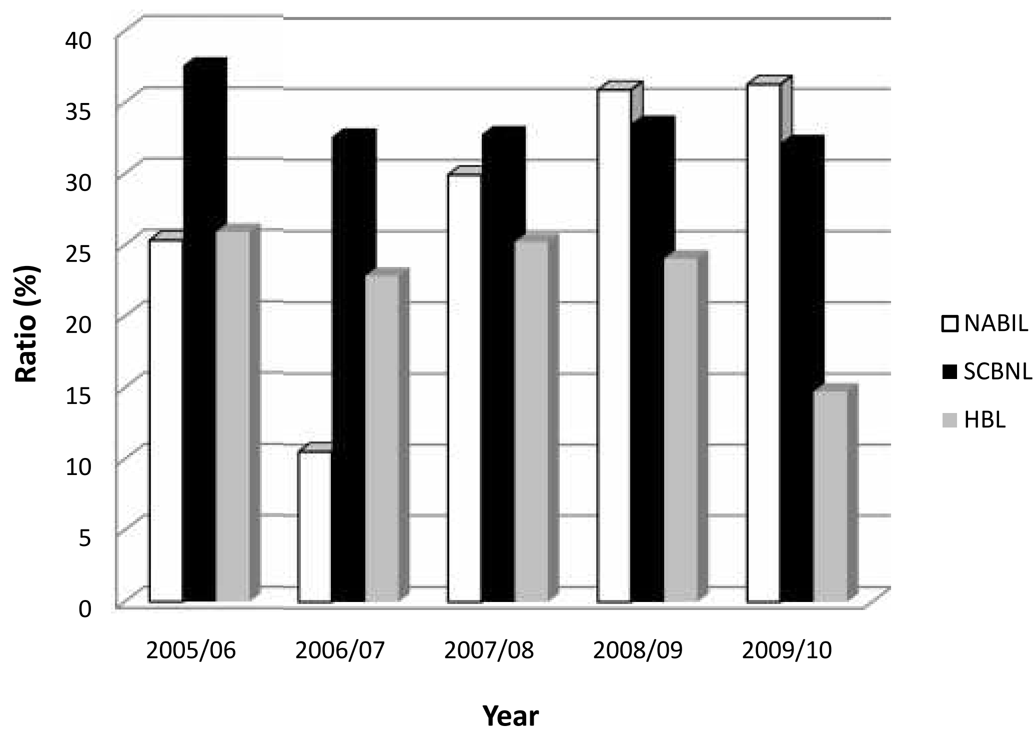
Sources: Appendix 1(x)

The ratio of NABIL, HBL and SCBNL is fluctuating trend during the study period. SCBNL has 37.55% profit in the year 2005/06.

SCBNL has the highest mean ratio than NABIL and HBL i.e. 33.77%>27.65>22.60. It shows that SCBNL is earning higher profit than other two banks by utilizing its funds of total equity. It also indicates that the Bank has properly utilize the resources of owner.

Figure:4.10

Return on Equity Ratio(%)



Return on Equity (ROE) measures the income on the owner's investment. This ratio indicates how well the bank has used the resources of the owners. The return on equity of SCBNL is maximum of 37.55% in the year 2005/06 and of minimum of 10.55% of NABIL in the year 2006/07. So SCBNL is earning reasonable profit by utilizing its funds of total equity

4.1.5.c Return on Total Deposits Ratio (RTDR)

This ratio is computed by dividing NPAT by Total Deposits.

$$\text{RTDR X}\frac{\text{NPAT}}{\text{Total Deposits}}$$

Table 4.11

Return on Total Deposits Ratio

Banks	Year					Mean
	2005/06	2006/07	2007/08	2008/09	2009/10	
NABIL	0.15	0.47	2.20	2.72	2.29	**1.56**
SCBNL	2.86	2.81	2.75	2.86	3.08	**2.87**
HBL	1.73	1.64	1.99	2.17	1.19	**1.74**

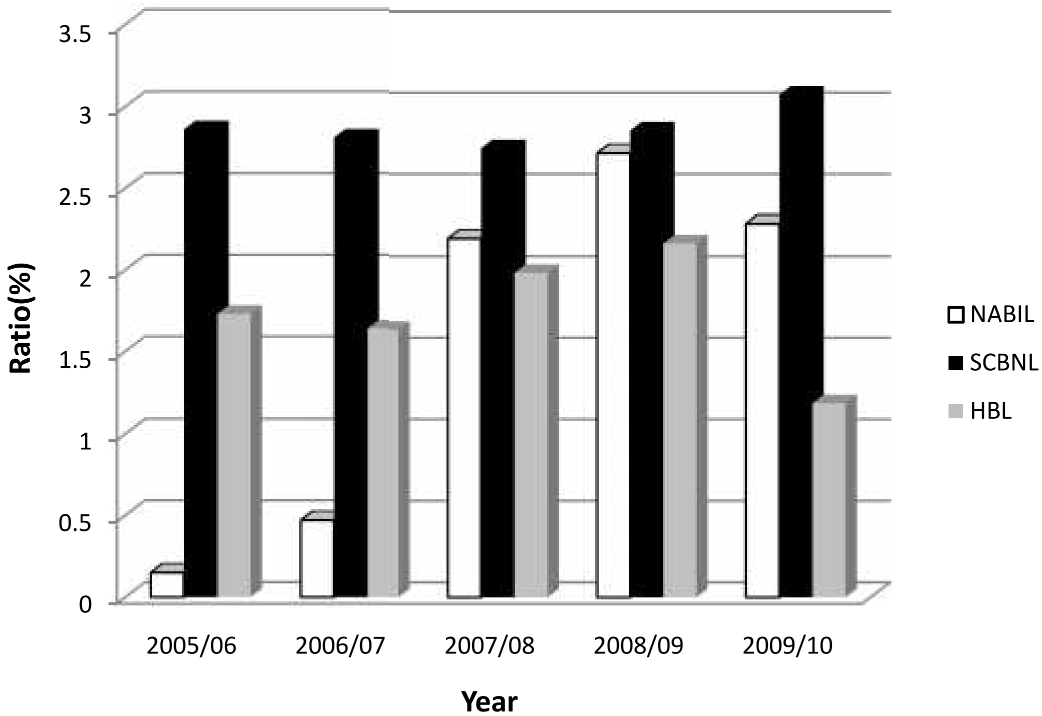
Sources: Appendix1(xi)

The above table shows that the ratio of net profit to total deposit of the NABIL Bank increases from year 2005/06 to 2008/09 and then decreases then after. The ratio of SCBNL decreases from the year 2005/06 to 2007/08 and increases from 2008/09 to 2009/10. The ratio of HBL is in fluctuating during the study period.The highest ratio of NABIL is 2.72% in Year 2007/08 and lowest is 0.15% in the Year 2005/06.The highest ratio of SCBNL is 3.08% in Year 2009/10 and lowest is 2.75% in Year 2007/08. Likewise the highest ratio of HBL is 2.17% in the year 2008/09 and lowest is 1.19 in Year 2009/10.

In general, the average return ratio shows that SCBNLhas the highest mean ratio than HBL and NABIL i.e.2.87%>1.74%>1.56%. It shows that SCBNL is successful to earn constant profit over the study period.

Figure:4.11

Return on Total Deposits Ratio



The above figure shows that the return on total deposits of the SCBNL Bank has highest ratio of 3.08% in the year 2009/10 and lowest is 0.15% of Nabil in the year 2005/06.So it shows that SCBNL is successful to earn higher profit than NABIL and HBL.

4.2 CORRELATIONS ANALYSIS

Karl Pearsons's coefficient of correlation is most widely used in practice to measure the degree of relationship between two variables of the banks. So, it is measured by understanding the following formula.

$$r\ \mathrm{X} \frac{n\phi XY\ \mathrm{Z}\phi X\phi Y}{\sqrt{n\phi X^{2}\ \mathrm{Z}(\phi X)^{2}}\sqrt{n\phi Y^{2}\ \mathrm{Z}(\phi Y)^{2}}}$$

Where, r = the coefficient of correlation

n = no. of observations

ϕ XY = sum of the product of observations in two series

ϕ X = sum of observation in the series X

ϕ Y = sum of observation in the series Y

ϕ X^2 = sum of squared observation in X-Series

ϕ Y^2 = sum of squared observation in Y-Series

The relationship between these two categories of variables has been developed for study purpose.

- Total Deposit (X) and Investment (Y)
- Total Deposit (X) and Loan and Advance (Y)
- Loan and Advance (X) and Net Profit (Y)

4.2.1 Correlation between Total Deposit and Investment of Nabil Bank

Total deposit and investment variables of NABIL Bank for different sampled years have been presented below.

Table 4.12

Correlation between Total Deposit and Investment

Rs. In Million

Year	Total Deposit X	Investment Y	ΣXY	ΣX2	ΣY2
2005/06	21082	6180	130286760	444450724	38192400
2006/07	23905	8956	214093180	571449025	80209936
2007/08	33867	9966	337518522	1146973689	99321156
2008/09	37901	10874	412135474	1436485801	118243876
2009/10	49528	13682	677642096	2453022784	187197124
SUM	**166283**	**49658**	**1771676032**	**523164492**	**6052382023**

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

$$= \frac{5 \times 1771676032 - 166283 \times 49658}{\sqrt{5 \times 6052382023 - (166283)^2}\sqrt{5 \times 523164492 - (49658)^2}}$$

$$= \frac{8858380160 - 8257281214}{\sqrt{30261910115 - 27650036089}\sqrt{2615822460 - 2465916964}}$$

r = 0.960

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.960^2}{\sqrt{5}}$$

= 0.0236

Correlation coefficient came higher than six times than the probable error 0.96 > 6 X 0.0236. It shows high degree of positive correlation. According to the above calculation, it is cleared that there is a significant correlation between deposit and investment in NABIL. NABIL is successful to raise the volume of investment with rise in the volume of total deposit.

4.2.2 Correlation between Total Deposit and Investment of Standard Chartered Bank

Total deposit and investment variables of Standard Chartered Bank for different sampled years have been presented below.

Table 4.13

Correlation between Total Deposit and Investment

Rs. In Million

Year	Total Deposit X	Investment Y	ΣXY	ΣX2	ΣY2
2005/06	23061	12838	296057118	531809721	164814244
2006/07	24647	13553	334040791	607474609	183683809
2007/08	29743	13927	414230761	884646049	193961329
2008/09	35871	20260	726746460	1286728641	410467600
2009/10	35182	19871	699101522	1237773124	394856641
SUM	**148504**	**80449**	**2470176652**	**4548432144**	**1347783623**

$$r \,\mathrm{X} \frac{n\phi XY \,\mathrm{Z}\, \phi X \phi Y}{\sqrt{n\phi X^2 \,\mathrm{Z}\, (\phi X)^2}\sqrt{n\phi Y^2 \,\mathrm{Z}\, (\phi Y)^2}}$$

$$= \frac{5 \times 2470176652 - 148504 \times 80449}{\sqrt{5 \times 4548432144 - (148504)^2}\sqrt{5 \times 1347783623 - (80449)^2}}$$

$$= \frac{12350883260 - 11946998296}{\sqrt{22742160720 - 22053438016}\sqrt{6738918115 - 6472041601}}$$

r = 0.9421

Calculation of Probable Error

$$P.E.(r) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.942^2}{\sqrt{5}}$$

$$= 0.0339$$

Correlation coefficient came higher than six times than the probable error 0.942 > 6 X 0.0339. It shows high degree of positive correlation. According to the above calculation, it is cleared that there is a significant correlation between deposit and investment in Standard Chartered Bank. SCBNL is successful to raise the volume of investment with rise in the volume of total deposit.

4.2.3 Correlation between Total Deposit and Investment of Himalayan Bank

Total deposit and investment variables of Himalayan Bank for different sampled years have been presented below.

Table 4.14

Correlation between Total Deposit and Investment

Rs. In Million

Year	Total Deposit X	Investment Y	ΣXY	ΣX2	ΣY2
2005/06	26490	10890	288476100	701720100	118592100
2006/07	30048	11822	355227456	902882304	139759684
2007/08	31842	13340	424772280	1013912964	177955600
2008/09	34681	8710	302071510	1202771761	75864100
2009/10	42717	8444	360702348	1824742089	71301136
SUM	**165778**	**53206**	**1731249694**	**94746029218**	**583472620**

$$r \, \mathrm{X} \frac{n\phi XY \, \mathrm{Z} \phi X \phi Y}{\sqrt{n\phi X^2 \, \mathrm{Z} (\phi X)^2} \sqrt{n\phi Y^2 \, \mathrm{Z} (\phi Y)^2}}$$

$$= \frac{5 \mid 1731249694 \, \mathrm{Z} 165778 \mid 53206}{\sqrt{5 \mid 94746029218 \; \mathrm{Z} \; (165778)^2} \sqrt{5 \mid 583472620 \, \mathrm{Z} \; (53206)^2}}$$

$$= \frac{1731249694}{\sqrt{5646029218}\sqrt{583472620}}$$

r = 0.953

Calculation of Probable Error

$$\text{P.E.(r)} = 0.6745 \text{ X } \frac{1 \mathrm{Z} r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1 \mathrm{Z} 0.0953^2}{\sqrt{5}}$$

= 0.0276

Correlation coefficient came higher than six times than the probable error 0.95 > 6 X 0.0276. It shows high degree of positive correlation. According to the above calculation, it is cleared that there is a significant correlation between deposit and investment in Himalayan Bank. HBL is successful to raise the volume of investment with rise in the volume of total deposit.

4.2.4 Correlation between Total Deposit and Loan and Advance of Nabil Bank

Total deposit and loan and advance variables of NABIL Bank for different sampled years have been presented below.

Table 4.15

Correlation between Total Deposit and Loan and Advance

Rs. In Million

Year	Total Deposit X	Loan and advance Y	ΣXY	ΣX2	ΣY2
2005/06	21082	12922	272421604	444450724	166978084
2006/07	23905	15545	371603225	571449025	241647025
2007/08	33867	21365	723568455	1146973689	456463225
2008/09	37901	27589	1045650689	1436485801	761152921
2009/10	49528	32268	1598169504	2453022784	761152921
SUM	**166283**	**109689**	**4011413477**	**523164492**	**2387394176**

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

$$= \frac{5 \times 4011413477 - 166283 \times 109689}{\sqrt{5 \times 523164492 - (166283)^2}\sqrt{5 \times 2387394176 - (109689)^2}}$$

$$= \frac{20057067390 - 18239415990}{\sqrt{26158224600 \, Z 27650036089}\sqrt{119369708800 \, Z 2387394176}}$$

r = 0.358

Calculation of Probable Error

$$\text{P.E.(r)} = 0.6745 \text{ X } \frac{1 Z r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1 Z 0.960^2}{\sqrt{5}}$$

$$= 0.262$$

Correlation coefficient came lower than six times than the probable error 0.358 < 6 X 0.262. It shows high degree of negative correlation. According to the above calculation, it is cleared that there is a negative correlation between deposit and loan and advance in NABIL. Therefore we can say that the change in total deposit negatively effects loan and advances policy of NABIL bank Ltd.

4.2.5 Correlation between Total Deposit and Loan and Advance of Himalayan bank

Total deposit and loan and advance variables of Himalayan Bank for different sampled years have been presented below.

Table 4.16

Correlation between Total Deposit and Loan and Advance

Rs. In Million

Year	Total Deposit X	Loan and advance Y	ΣXY	ΣX2	ΣY2
2005/06	26490	14642	387866580	701720100	214388164
2006/07	30048	16997	510725856	902882304	283798909
2007/08	31842	19497	620823474	1013912964	380133009
2008/09	34681	24793	859846033	1202771761	614692849
2009/10	42717	27980	1195221660	1824742089	782880400
SUM	**165778**	**103909**	**3574483603**	**5646029218**	**2275893331**

$$r \text{ X} \frac{n\phi XY \text{ Z}\phi X\phi Y}{\sqrt{n\phi X^2 \text{ Z}(\phi X)^2}\sqrt{n\phi Y^2 \text{ Z}(\phi Y)^2}}$$

$$= \frac{5 \mid 3574483603 \text{ Z} 165778 \mid 103909}{\sqrt{5 \mid 5646029218 \text{ Z } (165778)^2}\sqrt{5 \mid 2275893331 \text{ Z } (103909)^2}}$$

$$= \frac{17872418020 - 1722582620}{\sqrt{28230146090 \text{ Z} 27482345280}\sqrt{11379466660 \text{ Z} 10797080280}}$$

r = 0.997

Calculation of Probable Error

$$\text{P.E.(r)} = 0.6745 \text{ X } \frac{1 \text{Z} r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1 \text{Z} 0.997^2}{\sqrt{5}}$$

= 0.003

Correlation coefficient came higher than six times than the probable error 0.997 > 6 X 0.003. It shows high degree of positive correlation. According to the above calculation, it is cleared that there is a significance correlation between deposit and loan and advance in HBL. Therefore we can say that the change in total deposit positively effects loan and advances policy of Himalayan bank Ltd.

4.2.6 Correlation between Total Deposit and Loan and Advance of Standard Chartered Bank

Total deposit and loan and advance variables of SCBNL for different sampled years have been presented below.

Table 4.17

Correlation between Total Deposit and Loan and Advance

Rs. In Million

Year	Total Deposit X	Loan and advance Y	ΣXY	ΣX2	ΣY2
2005/06	23061	8935	206050035	531809721	79834225
2006/07	24647	10502	258842794	607474609	110292004
2007/08	29743	13718	408014474	884646049	188183524
2008/09	35871	13679	490679409	1286728641	187115041
2009/10	35182	15956	561363992	1237773124	254593936
SUM	**148504**	**62790**	**1924950704**	**4548432144**	**820018730**

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

$$= \frac{5 \times 1924950704 - 148504 * 62790}{\sqrt{5 \times 4548432144 - (148504)^2}\sqrt{5 \times 820018730 - (62790)^2}}$$

$$= \frac{962475352 - 9324566160}{\sqrt{22742160720 Z 22053438016}\sqrt{4100093650 Z 3942584100}}$$

r = 0.25

Calculation of Probable Error

$$P.E.(r) = 0.6745 \text{ X } \frac{1 Z r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1 Z 0.25^2}{\sqrt{5}}$$

$$= 0.282$$

Correlation coefficient came lower than six times than the probable error 0.25 < 6 X 0.282. It shows high degree of negative correlation. According to the above calculation, it is cleared that there is a negative correlation between deposit and loan and advance in SCBNL. Therefore we can say that the change in total deposit negatively effects loan and advances policy of SCBNL.

4.2.7 Correlation between Loan and advance and Net Profit of Nabil

Table 4.18

Rs. In Million

Year	X	Y	ΣXY	ΣX2	ΣY2
2005/06	12922	334	4315948	166978084	432964
2006/07	15545	113	1756585	241647025	477481
2007/08	21365	746	15938290	456463225	669124
2008/09	27589	103	2841667	761152921	10404
2009/10	32268	113	3646284	1041223824	11664
SUM	**109689**	**1409**	**28498774**	**2667465079**	**1601637**

$$r \text{ X} \frac{n\phi XY \text{ Z}\phi X\phi Y}{\sqrt{n\phi X^2 \text{ Z}(\phi X)^2}\sqrt{n\phi Y^2 \text{ Z}(\phi Y)^2}}$$

$$= \frac{5 \mid 28498774 \text{ Z}1409 \mid 109689}{\sqrt{5 \mid 2667465079 \text{ Z } (109689)^2}\sqrt{5 \mid 1601637 \text{ Z } (1409)^2}}$$

$$= \frac{142493870 - 154551801}{\sqrt{1333732540 \text{ Z}1203167672}\sqrt{8008185 \text{ Z}1985281}}$$

r = 0.436

Calculation of Probable Error

$$\text{P.E.(r)} = 0.6745 \text{ X } \frac{1 \text{ Z} r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1 \text{ Z} 0.436^2}{\sqrt{5}}$$

= 0.244

Correlation coefficient came lower than six times than the probable error 0.436< 6 X 0.244. It shows high degree of negative correlation. According to the above calculation, it is cleared that there is a negative significant correlation between loan and advance and Net profit in NABIL.

4.2.8 Correlation between Loan and advance and Net Profit of Himalayan Bank

Table 4.19

Correlation between Loan and Advance and Net Profit

Rs. In Million

Year	X	Y	ΣXY	ΣX2	ΣY2
2005/06	14642	457	6691394	214388164	208849
2006/07	16997	491	8345527	288898009	241081
2007/08	19497	635	12380595	380133009	403225
2008/09	24793	752	18644336	614692849	565504
2009/10	27980	508	14213840	782880400	258064
SUM	**103909**	**2843**	**60275692**	**2020984231**	**1676723**

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

$$= \frac{5 \times 2020984231 - 103909 \times 2843}{\sqrt{5 \times 2020984231 - (103909)^2}\sqrt{5 \times 1676723 - (2843)^2}}$$

r = 0.35

Calculation of Probable Error

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

$$= 0.6745 \times \frac{1 - 0.960^2}{\sqrt{5}}$$

$$= 0.264$$

Correlation coefficient came lower than six times than the probable error 0.35> 6 X 0.264. It shows high degree of positive correlation. According to the above calculation, it is cleared that there is a significant correlation between loan and advance and Net profit in Himalayan Bank.

4.2.9 Correlation between Loan and advance and Net Profit of Standard Chartered bank Ltd.

Table 4.20

Correlation between Loan and Advance and Net Profit

Rs. In Million

Year	X	Y	ΣXY	ΣX2	ΣY2
2005/06	8935	658	5879230	79834225	432964
2006/07	10502	691	7256882	110292004	477481
2007/08	13718	818	11221324	188183524	669124
2008/09	13679	102	1395258	187115041	10404
2009/10	15956	108	1723248	254593936	11664
SUM	**62790**	**2377**	**27475942**	**820018730**	**1601637**

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

$$= \frac{5 \times 27475942 - 62790 \times 2377}{\sqrt{5 \times 820018730 - (62790)^2}\sqrt{5 \times 1601637 - (2377)^2}}$$

r = 0.758

Calculation of Probable Error

$$P.E.(r) = 0.6745 \text{ X } \frac{1 Z r^2}{\sqrt{n}}$$

$$= 0.6745 \text{ X } \frac{1 Z 0.758^2}{\sqrt{5}}$$

$$= 0.128$$

Correlation coefficient came lower than six times than the probable error 0.758< 6 X 0.128. It shows high degree of negative correlation. According to the above calculation, it is cleared that there is a negative correlation between loan and advance and Net profit in Standard Chartered Bank.

4.3 Least Square Linear Trend Analysis

Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative items. On the basis of tendencies in the dependent variables in the past periods, the future trend is predicted. This analysis takes the historical data as the basis of forecasting. This method of forecasting the future trend is based on the assumptions that the past tendencies of the variables are repeated in the future or past events the future events significantly.

The future trend is forecasted by using the following formula,

- Total Deposits
- Net Profit

4.3.1 Least Square of Linear Trend of Total Deposits of Nabil Bank

Table 4.21

Least Square of Linear Trend of Total Deposits

In Million

Fiscal Year X	Total Deposits y	x = X - 2008	x2	xy
2006	21082	-2	4	-42164
2007	23905	-1	1	-23905
2008	33867	0	0	0
2009	37901	1	1	37901
2010	49528	2	4	99056
N=5	166283	**0**	**10**	∑XY=70888

Since,

$$\phi x = 0$$

$$a = \frac{y}{5}$$

$$= \frac{166283}{5}$$

$$= 33256.6 \text{ million}$$

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

$$= \frac{70888}{10}$$

$$= 7088.8 \text{ million}$$

Substituting these values in the following formula,

$$Y = a + bx$$

$$= 33256.6 + 7088.8 \text{ X } 3$$

$$= 54523 \text{ million}$$

Hence, estimated Total Deposit of NABIL for the year 2011 would be 54523 million.

4.3.2 Least Square of Linear Trend of Total Deposits of Himalayan Bank

Table 4.22

Least Square of Linear Trend of Total Deposits

In Million

Fiscal Year X	Total Deposits y	x = X - 2008	x2	xy
2006	26490	-2	4	-52980
2007	30048	-1	1	-30048
2008	31842	0	0	0
2009	34681	1	1	34681
2010	42717	2	4	85434
N=5	**165778**	**0**	**10**	∑XY=37087

Since,

$\phi x = 0$

$a = \frac{y}{5}$

$= \frac{165778}{5}$

$= 33155.6$ million

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

$= \frac{37087}{10}$

$= 3708.7$ million

Substituting these values in the following formula,

$$Y = a + bx$$

$$= 33155.6 + 3708.7X\ 3$$

$$= 44281.7 \text{ million}$$

Hence, estimated Total Deposit of Himalayan Bank for the year 2011 would be 44281.7 million.

4.3.3 Least Square of Linear Trend of Total Deposits of Standard Chartered Bank

Table 4.23

Least Square of Linear Trend of Total Deposits

In Million

Fiscal Year X	Total Deposits y	x = X - 2008	x2	xy
2006	23061	-2	4	-46122
2007	24647	-1	1	-24647
2008	29743	0	0	0
2009	35871	1	1	35871
2010	35182	2	4	70364
N=5	**148504**	**0**	**10**	∑XY=35466

Since,

$$\phi x = 0$$

$$a = \frac{y}{5}$$

$$= \frac{148504}{5}$$

$$= 29700.8 \text{ million}$$

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

$$= \frac{35466}{10}$$

$$= 3546.6 \text{ million}$$

Substituting these values in the following formula,

$$Y = a + bx$$

$$= 29700.8 + 3546.6X\ 3$$

$$= 40340.6 \text{ million}$$

Hence, estimated Total Deposit of Standard Chartered Bank for the year 2011 would be 40340.6 million.

4.3.4 Least Square of Linear Trend of Net Profit of Nabil Bank

Table 4.24

Least Square of Linear Trend of Net Profit

In Million

Fiscal Year X	Net Profit y	x = X - 2008	x2	xy
2006	334	-2	4	-334
2007	113	-1	1	-113
2008	746	0	0	0
2009	1031	1	1	1031
2010	1139	2	4	2278
N=5	**3363**	**0**	**10**	∑XY=2862

Since,

$$\phi x = 0$$

$$a = \frac{y}{5}$$

$$= \frac{3363}{5}$$

= 672.6 million

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

$$= \frac{2862}{10}$$

= 286.2 million

Substituting these values in the following formula,

$$Y = a + bx$$

$$= 672.6 + 286.2 \text{ X } 3$$

$$= 1531.2 \text{ million}$$

Hence, estimated Net Profit of NABIL for the year 2011 would be 1531.2 million.

4.3.5 Least Square of Linear Trend of Net Profit of Himalayan Bank

Table 4.25

Least Square of Linear Trend of Net Profit

In Million

Fiscal Year X	Net Profit y	x = X - 2008	x2	xy
2006	457	-2	4	-457
2007	491	-1	1	-491
2008	635	0	0	0
2009	752	1	1	752
2010	508	2	4	1016
N=5	**2843**	**0**	**10**	∑XY=820

Since,

$\phi x = 0$

$a = \frac{y}{5}$

$= \frac{2843}{5}$

= 568.6 million

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

$= \frac{820}{10}$

= 82 million

Substituting these values in the following formula,

Y = a + bx

= 568.6 + 82 X 3

$= 814.6$ million

Hence, estimated Net Profit of Himalayan bank for the year 2011 would be 814.6 million

4.3.6 Least Square of Linear Trend of Net Profit of Standard Chartered Bank

Table 4.26

Least Square of Linear Trend of Net Profit

In Million

Fiscal Year X	Net Profit y	x = X - 2008	x2	xy
2006	658	-2	4	-658
2007	691	-1	1	-691
2008	818	0	0	0
2009	1025	1	1	1025
2010	1085	2	4	2170
N=5	**4277**	**0**	**10**	∑XY=1846

Since,

$\phi x = 0$

$a = \frac{y}{5}$

$= \frac{4277}{5}$

$= 855.4$ million

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

$= \frac{1846}{10}$

= 184.6 million

Substituting these values in the following formula,

$$Y = a + bx$$

$$= 855.4 + 184.6 \times 3$$

$$= 1409.2 \text{ million}$$

Hence, estimated Net Profit of Standard Chartered bank for the year 2011 would be 1409.2 million

Major Findings of the Study

The major findings of the study from the analysis are as follows.

1. The correlation between Total Deposit and Investment of NABIL Bank is positively correlated.
2. The correlation between Total Deposit and Investment of HBL is positively correlated.
3. The correlation between Total Deposit and Investment of SCBNL is highly positively correlated.
4. The correlation between Total Deposit and Loan and Advance of NABIL is positively correlated.
5. The correlation between Total Deposit and Loan and Advance of HBL is positively correlated.
6. The correlation between Total Deposit and Loan and Advance of SCBNL is positively correlated.

7. The correlation between Loan and Advance and Net Profit of NABIL is negatively correlated.

8. The correlation between Loan and Advance and Net Profit of HBL is positively correlated.

9. The correlation between Loan and Advance and Net Profit of SCBNL is negatively correlated.

10. Trend analysis of Total Deposit of NABIL, HBL, SCBNL is in increasing trend. But trend of Net Profit of HBL is in Fluctuating and NABIL and SCBNL is in increasing trend.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Many commercial banks have been competing with each other in their business. Commercial Banks are established to improve people's economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. They collect fund from by accepting deposit from the public on the condition that they are repayable on demand or on short notice. The modern banking system that we have today has passed the several stages before reaching the present stage. Banking is considered as the platform of money market and capital markets, commercial banks basically help to promote the money market by providing qualitative managerial skills, customers' satisfaction objective so using of advance technology.

The primary objective of this study is to make analysis of the financial performance of listed commercial bank i.e. NABIL, SCBNL, HBL and recommend suggestion for the improvement of state of affairs. To achieve the basic objectives some specific objectives have been set. To examine and analyze the financial performance, financial strength and weakness, to study the comparative financial position, to provide a package of suggestions and possible guidelines to improve the banking business are the main objective of the study.

The study suffers different limitations. It covers the financial data of a period 2005/06 to 2009/10. Basically, the data are of secondary nature. Time and resource are other constrains of the study. Therefore, the study may not be generalized in all cases.

In the past financial performance of the bank is remarkably good but in present due to various reasons and factors affecting the bank so it is not able to utilize and mobilize its funds properly. The thesis covers the financial performance analysis of NABIL, SCBNL, and HBL is prepared with the objective of finding out whether concern bank is able to maintain its liquidity position and profitability or not. To fulfill the objective of the research basically secondary data are used in which includes annual report, balance sheet, income statement, NRB report, and articles etc, in the primary data personal meeting with the staff of the concern bank has been conducted. To have the study regarding bank, data have been basically obtained from secondary sources. The main sources are annual report, articles, newspapers, and so on. Only limited primary data were used.

For the procedure of analysis ratio, average of the ratios for the five years period is used in which bar diagrams, tables were used to obtain a clear performance of the bank, the ratios are expressed in percentage and summary are given below.

5.2 Conclusion

From the analysis of liquidity ratio HBL is capable to pay their current obligations in comparison to NABIL and SCBNL. Comparatively NABIL has maintained low ratios, it shows some difficulties to meet the demand of its customers on their deposit to pay at any time but it may be earning more by investing cash to different sectors. But it should ensure to have enough liquid funds to serve its customer. NABIL is low capable to maintain cash & bank balance in comparison to other two banks. SCBNL has invested its more portions of current assets as government securities than that of NABIL & HBL. SCBNL liquidity portion from the point of view of investment on government securities is better than that of other two banks.

From the analysis of activity ratio NABIL has strong position regarding the mobilization on loan and advances to the total deposit and acquiring higher profit with compare to SCBNL & HBL. HBL is in weak condition to mobilize its deposits by investing in different sectors in comparison of other two banks. And SCBNL has the highest investment in different other sector than NABIL and HBL. In terms of loan and advance to total assets HBL has the highest ratio I loan and advance to total deposit ratio but Nabil is more satisfactory to mobilize its total assets as loan and advance than that of other banks.

In Capital adequacy ratio, SCBNL has greater contribution to investors fund and strong capital adequacy position among the three Commercial Banks, SCBNL has highest ratio, i.e. 8.38% in the Year 2009/10 and lowest of 3.94% of NABIL in year 2009/10. On the basis of mean ratios, SCBNL has maintained the higher ratio than that of NABIL and HBL i.e.7.52>6.94>4.79. So, the percentage of shareholder fund is higher than total assets of bank.

Capital structure generally refers to the composition of debt and equity component of overall capital of a firm. During the study period HBL has the highest ratio It shows that HBL has the highest debt equity ratio than SCBNL and NABIL. On the basis of mean ratios, HBL has maintained the higher ratio than that of NABIL and SCBNL i.e.79.28>50.59>49.10. So, investment of creditor in HBL is higher than owner investment.

In profitability ratio, it can be concluded that SCBNL is in strong position in the earning capacity by utilizing available resources than other banks. It’s more consistent and homogeneous than HBL and NABIL. NABIL is significantly able to earn high return on its loan and advances in comparison of other two banks. NABIL has mobilized its equity capital more efficiently than other banks. NABIL has sound investment policy on equity capital more over its lower mean shows its more homogenous during the study period. SCBNL shows consistent profit during the study period and higher profit than NABIL and HBL.

5.3 RECOMMENDATION

- The bank should keep up the act of wealth maximization of the shareholders as they are true owners of the bank. The bank should always abide the directives given by NRB.
- The bank is advised to introduce new product lines and services to further attract the customers. It should keep in mind that it is competing with 31 other banks and more than 50 finance companies and other competitors, so the management should be alert to either comprehend customer philosophy or to manipulate them through introduction of new, efficient and convenient services.
- The bank should never forget that customer is a king of the market so its objectives should be to conduct more training, seminars, workshops and managerial development schemes to help the local bank compete with the foreign bank.
- Being the part of the society, it has a great responsibility in the social development, therefore it is recommended that Bank to participate in social events such as in education, health program, environment protection etc, so that more customers are attracted towards it.

- All imperfect practices inherent from the past mistakes should be avoided to re-orient the bank to new discuss of change and other further improvement.
- In today's competitive banking environment, protection of employees is one of the most important factors to be considered by the management. Job security, promotion and career development should go side by side to motivate employees towards better work performance. Proper training of both old and new employees is necessary for generating efficiency. They should be trained in keeping with the international banking system.

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APPENDIX - 1

i. Current Ratio

NABIL Amount in Rs thousand

Fiscal year	2005/06	2006/07	2007/08	2008/09	2009/10
Current Assets	15832351	18021187	26594948	32380029	37699780
Current Liabilities	20454976	25196343	34455560	40437156	48015482
Ratio	**0.77**	**0.71**	**0.77**	**0.80**	**0.78**

SCBNL

Fiscal year	2005/06	2006/07	2007/08	2008/09	2009/10
Current Assets	12827494	14917865	19315697	19693156	20247268
Current Liabilities	24013213	26480336	30843240	37014100	36843610
Ratios	0.53	0.05	0.62	0.53	0.54

HBL

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Current Assets	18030534	21122096	22109286	29657434	29667244
Current Liabilities	27334214	33212641	32802540	35700441	35710251
Ratio	**0.65**	**0.63**	**0.67**	**0.83**	**0.83**

ii. Cash and Bank Balance to Total Deposit Ratio

NABIL Amount in Rs thousand

Year	2005/06	2006/07	2007/08	2008/09	2009/10

Cash and Bank Balance	630238	1399825	2671141	3372512	1400097
Total Deposit	21082301	23905817	33867408	37901144	49528844
Ratio	**2.99**	**5.85**	**7.88**	**8.80**	**2.80**

SCBNL

Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Cash and Bank Balance	3253512	3782172	4247780	5192712	3598766
Total Deposit	23061032	24647020	29743998	35871721	35182721
Ratio	**14.10**	**15.34**	**14.28**	**14.47**	**10.22**

HBL

Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Cash and Bank Balance	1717352	1757341	1966672	4219320	4175330
Total Deposit	26490851	30048417	31842789	34681345	42717124
Ratio	**6.48**	**5.84**	**6.17**	**12.16**	**9.77**

iii. Investment on Government Securities to Current Assets Ratio (%)

NABIL Amount in Rs thousand

Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Investment Got. Securities	147861	152005	198442	290360	397084

Current Assets	15832351	18021187	26594948	32380029	37699780
Ratio	**0.93**	**0.84**	**0.74**	**0.89**	**1.05**

SCBNL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Investment Got. Securities	355290	326549	319814	406980	436961
Current Assets	12827494	14917865	19315697	19693156	20247268
Ratio	**2.77**	**2.18**	**2.16**	**2.21**	**2.15**

HBL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Investment Got. Securities	172242	191558	201309	354949	216035
Current Assets	18030534	21122096	22109286	29657434	29667244
Ratio	**0.95**	**0.91**	**0.91**	**1.19**	**0.72**

iv. Investment to Total Deposit Ratio (%)

NABIL Amount in Rs thousand

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Investment	6180658	8956308	9966562	10874805	13682368

Total Deposit	21082301	23905817	33867408	37901144	49528844
Ratio	**29.32**	**37.46**	**29.43**	**28.69**	**27.62**

SCBNL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Investment	12838555	13553233	13927194	20260496	19871886
Total Deposit	23061032	24647020	29743998	35871721	35182721
Ratio	**55.67**	**54.98**	**46.82**	**56.48**	**56.48**

HBL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Investment	10890372	11822984	13340176	8710690	8444910
Total Deposit	26490851	30048417	31842789	34681345	42717124
Ratio	**41.11**	**39.35**	**41.89**	**25.12**	**19.77**

v. Loan and Advances to Total Deposit Ratio (%)

NABIL Amount in Rs thousand

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advances	12922543	15545778	21365053	27589933	32268873

Total Deposit	21082301	23905817	33867408	37901144	49528844
Ratio	**61.29**	**65.03**	**63.08**	**72.79**	**65.15**

SCBNL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advances	8935417	10502637	13718597	13679756	15956955
Total Deposit	23061032	24647020	29743998	35871721	35182721
Ratio	**38.74**	**42.61**	**46.12**	**38.13**	**45.35**

HBL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advances	14642559	16997997	19497520	24793155	27980628
Total Deposit	26490851	30048417	31842789	34681345	42717124
Ratio	**55.27**	**56.56**	**61.23**	**71.48**	**65.50**

viii. Loan and Advances to Total Assets Ratio (%)

NABIL Amount in Rs thousand

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advances	12922543	15545778	21365053	27589933	32268873

Total Assets	22329971	27253393	37132759	43867397	52150237
Ratio	**57.87**	**57.04**	**57.53**	**62.89**	**61.87**

SCBNL

Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Loan and Advances	8935417	10502637	13718597	13679756	15956955
Total Assets	25767352	28596689	33335788	40587468	40213319
Ratio	**34.67**	**36.72**	**41.15**	**33.70**	**39.68**

HBL

Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Loan and Advances	14642559	16997997	19497520	24793155	27980628
Total Assets	29460389	33519141	36175531	39320322	42717124
Ratio	**49.70**	**50.71**	**53.89**	**63.05**	**65.50**

ix. Net worth to Total Assets Ratio

NABIL Amount in Rs thousand

Year	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**

Net Worth	1314187	1481682	1657638	1874994	2057049
Total Assets	22329971	27253393	37132759	43867397	52150237
Ratio	**5.88**	**5.44**	**4.46**	**4.27**	**3.94**

SCBNL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Worth	1754139	2116353	2492548	3052470	3369709
Total Assets	25767352	28596689	33335788	40587468	40213319
Ratio	**6.81**	**7.40**	**7.48**	**7.52**	**8.38**

HBL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Worth	6890120	9823732	1163290	1414643	1712606
Total Assets	2946038	3351914	36175531	39320322	42717124
Ratio	**6.01**	**7.12**	**8.02**	**8.00**	**5.56**

x. Debt to Equity ratio

NABIL Amount in Rs thousand

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total Debt	20556	21759	27999	27999	33030
Shareholder equity	13141	14816	16576	18749	20570
Ratio	**45.23**	**45.66**	**50.01**	**51.20**	**53.41**

SCBNL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total Debt	9206	10790	13963	13880	16176
Shareholder equity	17541	21163	24925	30524	33697
Ratio	**52.48**	**50.98**	**56.02**	**45.47**	**48.00**

HBL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total Debt	13451	15761	20179	25519	29123
Shareholder equity	17661	21465	25129	3119	34392
Ratio	**76.16**	**73.43**	**80.30**	**81.82**	**84.68**

xi. Return on Total Assets

NABIL Amount in Rs thousand

Year	2005/06	2006/07	2007/08	2008/09	2009/10

Net Profit	33438	113381	746468	1031053	1139099
Total Assets	22329971	27253393	37132759	43867397	52150237
Ratio	**0.14**	**0.41**	**2.01**	**2.35**	**2.18**

SCBNL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Profit	658755	691668	818921	1025114	1085871
Total Assets	25767352	28596689	33335788	40587468	40213319
Ratio	**2.55**	**2.41**	**2.45**	**2.52**	**2.70**

HBL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Profit	457457	491822	635868	752834	508798
Total Assets	29460389	33519141	36175531	39320322	42717124
Ratio	**1.55**	**1.46**	**1.75**	**1.91**	**1.19**

xii. Return on Equity Ratio (ROE) (%)

NABIL

Amount in Rs thousand

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Profit	33438	113381	746468	1031053	1139099
Equity Capital	1314187	2481682	2657638	3874994	3057049
Ratio	**25.34**	**10.55**	**30.03**	**35.98**	**36.37**

SCBNL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Profit	658755	691668	818921	1025114	1085871
Equity Capital	1754139	2116353	2492547	3052470	3369710
Ratio	**37.55**	**32.68**	**32.85**	**33.58**	**32.22**

HBL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Profit	457457	491822	635868	752834	508798
Equity Capital	1766176	2146500	2512992	3119881	3439205
Ratio	**25.90**	**22.91**	**25.30**	**24.13**	**14.79**

xiii. Return on Total Deposit

NABIL Amount in Rs thousand

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Profit	33438	113381	746468	1031053	1139099
Total Deposit	21082301	23905817	33867408	37901144	49528844
Ratio	**0.15**	**0.47**	**2.20**	**2.72**	**2.29**

SCBNL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Profit	658755	691668	818921	1025114	1085871
Total Deposit	23061032	24647020	29743998	35871721	35182721
Ratio	**2.86**	**2.81**	**2.75**	**2.86**	**3.08**

HBL

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net Profit	457457	491822	635868	752834	508798
Total Deposit	26490851	30048417	31842789	34681345	42717124
Ratio	**1.73**	**1.64**	**1.99**	**2.17**	**1.19**