CHAPTER - ONE
INTRODUCTION

1.1 General Background

Any country can be said economically developed only when competitive banking services reaches in the nooks and corners of the country. Commercial bank occupied an important role in the economy of any country because it provides the necessary capital for the industrial and other development in the country. It helps the people in providing funds and receiving the deposits. Commercial banks by applying activities roles have changed the economic structure of the world.

The authors on the banking are divided regarding the origin of the word bank. Some author feels that the word bank is derived from the word banco, banke and banqe which all mean accumulation of money or stock. A bank is an institution that deals with money and rendering new financial services. Since the banks are rendering a wide range of services to the public of different walk of life. They have become an essential part of the modern society.

Bank is a financial intermediary accepting deposits and granting loans. It offers the widest menu of services to any financial institution. In fact, a modern bank performs such a variety of functions that it is difficult to give a precise and general definition of a bank. So because of this reason, different scholars had given a different definition of bank. . Some of the popular definition is as follows: -

According to Nepal Company Act 2031 B.S., "A commercial bank refers to such type of bank which deals in money exchange, accepting deposits, advancing loan and commercial transaction except specific banking related to co-operative, agriculture and industry and other objectives."

As per Oxford Dictionary, "A bank is an establishment for custody of money which it pays out on customers' orders."

In 21st century of globalization, financial institutions, especially banks, works as a facilitator for developing sustainable economy by mobilizing and utilizing resources, reducing cost and risk, expanding and diversifying opportunities, increasing the allocate efficiency of resources and promoting the productivity and economic growth. With the economic liberalization initiated in mid 1980s, Nepalese financial system was in significant developments. A well-developed financial system contributes to the society's well-being and to raise the standard of living by channeling the nation's wealth into the best and profitable uses.

It is obvious that economic development is impossible without the development of different sectors like agriculture, industry, trade, tourism, etc. So development of these sectors needs a regular supply of financial resources. In developing countries there is always shortage of the capital for the development activities. It is not possible to handle and develop all the sectors by the government alone at a time. Private people also cannot under take large business because per capital income of the people is very low while their propensity to consume is very high. Due to low income, their saving is very low and capital formation is very low. So their saving is not sufficient for carrying on development works. The development of a country is always measured by the economic development. In other words, bank facilities also became right had for the growth of trade and industry of national economic of development country like Nepal.

Economic stabilization program, adopted in 2042 B.S. with the assistance of IMF can be taken as the beginning of Economic liberalization in Nepal. Structural adjustment program brought in 2044 B.S. with the structural adjustment facility from IMF can be considered as the continuation of same policy. After the restoration of multiparty

system the first elected government (2047 B.S.), encouraged the process of globalization in order the accelerate the process of economic liberalization and globalization the government enforced 'the foreign investment and technology transfer Act-2049 and' foreign Investment and window policy-2049 As per the arrangement in policies license should be taken from the related department for technology transfer Technology can be transferred in case of collage industries the fixed assets constituting up to twenty million rupees. Foreign investors should pay 15% tax on earning.

Similarly, the government enforced 'Industrial enterprises Act-2049 formulated Industrial policy-2049 and' Commercial Policy-2049. The policies include one window provision for Internal and foreign investors, non-nationalization of new industries, implementation of full convertibility of Nepalese currency on current etc. non-requirement aspect of the policy.

In the similar way, the government enforced the privatization Act-2050 including its regulation and guidelines. The government developed various criteria for promoting private sector organizations. They include management contract, partial privatization, and lease contract, asset selling and selling of shares. In case, the shares to the employees of enterprise, 25% to the public and management shares to the competent party or individuals.

Those policies have certainly contributed in the initial stage of globalization in the country. Their effectiveness can be measured in near future in terms of economy generating issues and enhancing overall GNP and GDP of the country. Since last decade, there have been a considerable growth in service sector activities in Nepal including a share increases in banking, insurance, transportation, airlines, finance companies, co-operative societies, hydropower centers etc. A growing number of NGOs and INGOs, multinational companies are mushrooming in Nepal.

The concept of financial institutions in Nepal dates back more than sixty years. In 1994 B.S., first commercial bank, Nepal bank limited was established under the Banking Act-1993. The government provided 51% equity of the bank and the promoters shared the rest Nepal Rastra bank, the central bank emerged in 2013 B.S. under 'Rastra Bank Act-2012'. Since then, it has been providing policies and guidance to the financial sectors in one hand and is monitoring and controlling then in the other Realizing the need of adequate banking services for the integrated and speedy development of industrial sector, RastriyaBanijya Bank came into existence in 2022 B.S. with 100% government equity.

After the establishment of Agricultural Development Bank in 2024 B.S., growth of banking institutions remained almost stagnant till 2040 B.S. No new banks opened in this period though some branches of previously established bank were extended. Liberalization policy of government formulated in 2038 B.S. allowed private sectors to open joint venture banks in foreign collaboration Nepal Arab Bank Limited became the first commercial bank to register under new arrangement. The bank started its operation since 2041 B.S. It is an associated of Dubai Bank Limited, UAE and Nepalese promoters Nepal Indosuez Bank Limited. (Nepal Investment Bank Limited) Nepal grind lays Bank Limited (NSBI) were joint venture banks established after forwards.

1.1.1 Brief Introduction of Nepal SBI Bank Limited

Nepal SBI Bank Limited is a major national level financial services provider engaged in various retail and commercial banking services.NSBI, a team of nearly 580 people, move, lend, invest and protect money of over 350,000 customers nationally and worldwide. Since its inception on July 7, 1993, Bank is continuously upgrading quality of its service delivery and customer satisfaction with the help of state-of-the-art technology.Extending the reach to 27 districts through our 59 physical outlets including 50 branches, 6 extension counters and three administrative offices, we are among

largest private banks in Nepal. In addition, we serve our valued customers through e-delivery points like Mobile Banking, Automated Teller Machines (ATMs) and Online Banking service for both corporate and retail clients.Nepal SBI work as subsidiary of State Bank of India—India's largest bank in almost any benchmark and business parameters, with over 203 years of history and expertise in banking—which has 55 percent of ownership and rest held by a local partner Employee Provident Fund (15%) and general public (30%).

Nepal SBI Banks realizes that the prosperity of bank is high dependent on the development of the nation. The bank is large network in the world. The bank always to do researching and development its prosperity own field. The bank is committed to help development its prosperity own field. The bank is committed to help the process of national development by providing the modern financial services, promote tourism, industry, agriculture, trade, project sector on productive, and the service sector on reputed public opinion. By providing effective and efficient banking services to key industries the bank strives to make those industries more competitive internationally.

Nepal SBI Bank Limited was incorporated with the objected of extending international standard modern banking service to various sectors of the society. NSBI as a pioneer and introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it standard area of modern banking with customer satisfaction measured objective while doing business.

1.1.2 Brief Introduction of Himalayan Bank Limited

Himalayan bank Limited was incorporated in 1992 by a few distinguished business personalities of Nepal in partnership with Employees Provident Fund, one of the largest commercial Bank of Pakistan. Banking operation concerned from January 1993. It is the first commercial bank of Nepal whose maximum shares are held by the Nepalese

private sector. Besides commercial banking services, the bank also offers industrial and merchant banking services.

Himalayan Bank has always been committed to providing a quality service to its valued customers with a personal touch. All customers are treated with utmost courtesy as valued clients. The bank wherever possible offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To future extend the reliable and efficient services to its valued customers. Himalayan Bank has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to technology. The bank already offers unique service such as SMS banking and internet banking to customers and will be introducing more services like these in the near future.

1.2 Focus of the Study

Financial performance is that managerial activity which is concerned with planning rising controlling and administrating of financial resources of an organization. It is basically measured by analyzing financial statements of an organization by writing different financial and statistical tools and techniques financial performance is not only the evaluation of financial condition but also the evaluation of planning and it helps to improve the planning in future. The real picture of financial performance mainly depends upon the past, present and anticipated profit and current financial position of a business organization. Nepal SBI Bankand Himalayan Bank have been operating well from their establishment on time. Their expertise's on international banking, promotes on public interest view and computerized service, professional attitude specific area are factors for their rapid progress. They have been gaining successful on perfect commerce bank of market identified on general know ledge on banking. These banks have absolutely success to capture a remarkable market share of Nepalese banking sector or

financial service industry in a relatively short period of year still come to large number of joint venture banks, insurance and co-operative financing has been competition this Nepalese field. This is a common purpose of way. External environment problem of standard character and Himalayan can be viewed from an insignificant growth rate in Net profit of these banks in present fiscal years.

Threatened of Market and weakness of interest of board can be traced out, with the analysis of standard charter and Himalayan banks financial statements, in some aspects of these banks 'financial performance'. For instance, there banks ' cash and Bank Balance' Published on Nepal Rastra Bank. NRB balance has been in fluctuating and declining trend but various deposits have been increasing which reflects inefficiency in liquidity management of the same banks. In this way, it is obvious the standard charter and Himalayan are facing many internal external source of problem so, he researcher attempts, in this study, to seek on answer of some series issues such as:

a. How far has standard charter and Himalayan banks been able to accumulate deposits and utilize deposits so accumulated?
b. How these banks have been managing their position in relative to the liquidity, assets management, and capital structure and capital adequacy?
c. How matter is the operational result in relative to their profitability?

1.3 Statement of the Problem

A well-functioning financial system is an essential element in economic growth. A good financial system is a supposed to mobilize saving from households and business in low cost of financing activities and channel funds to the most productive investment opportunities.

Almost of the JVBs and financial institution are centered in few towns of Nepal. Due to the growing number of banks and financial institution in a limited economy sector there

is arising a throat cut competition in banking activities although there are banks like NSBI, HBL that are achieving tremendous success in terms of profitability and market share but the management of these banks should always be careful to continue their success in future also.

Through the service industry, especially banking sectors, is an emerging trend, it cannot be predicted that industry would continue to maintain its profitability of earnings, because of the tough global competition. This study has aimed to get the answer of the following question?

- Are they maintaining sufficient liquidity position?
- Are they managing and utilizing their assets (fixed and current)?
- Are their maintaining adequate profitability position?
- Are the growth ratios of both the sample banks consistent or not?
- What are the majors' weaknesses and strengths of commercials bank?

1.4 Objectives of the Study

The basic objectives of this research work is to make comparative analysis of financial performance of the commercial banks namely NSBI and HBL by using financial and statistical tools, and also to recommend the suitable suggestion for improvement of those banks to management and owners. The specific objectives of this research work are as follows:

- To evaluate the liquidity and efficiency of assets management position of the concern banks.
- To examine the areas on which the banks have been utilizing their assets through the analysis of their financial performance.

- To evaluate the profitability position of the concern banks.
- To examine and analyze the growth rates of the variable components of the banks.

1.5 Significance of the Study

The financial published by the banks gives the meaningful picture to the general public regarding the financial position of the banks. Thus, the analysis of these statements is necessary in order to give the full and clear cut position and performance of the banks. This study is mainly compare the financial performance of NSBI and HBL which compare the position of selected bank under the study, which encourage to improve the different position and performance of the elected banks. From data presentation and analysis researcher funds different aspects of the selective banks which is recommended to the banks for their further improving.

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

- This study has multidimensional significance in particular area of concerned banks which have been undertaken that justifies for finding out important points and facts to researcher, shareholders, brokers, traders, financial institution and public knowledge.
- This study helps and justify for findings out the financial performance of concerned selected commercial banks and government of Nepal to make plans and policies.
- This study certainly input the policymakers of concerned selected banks for making plans and policies of the effective banking system.

1.6 Limitation of the Study

This study is conducted for the practical fulfillment of MBS Degree. So, it possesses some limitations. The limitations of this study are as follows:

a. The study focuses only on the financial performance and hence does not touch the other financial aspect.
b. The study is totally dependent on the secondary data analysis and secondary data entirely depends upon the reliability of the annual reports of NSBI and HBL.
c. The study covers only five years data, i.e. from the fiscal year 2005/06 to2009/10.
d. This study focused only two commercial banks, NSBI and HBL, have taken which may not represent the entire population.

1.7 Organization of the Study

The study has been divided into five chapters: Introduction, Review of Literature, research Methodology, presentation and Analysis of Data, and Summary, Conclusion and Recommendation.

General background, brief introduction to Nepal SBI BankLimited and Himalayan Bank Limited, statement of problem, objective, significance, and limitations are presented in the chapter one.

Concept of commercial banks, joint venture banks, History of commercial and joint venture Bank in Nepal, financial performance, financial statement analysis, and types of ratios and research gap are presented in the second chapter.

Research methods followed us has been spelt out in the third chapter. It includes research design, population and sample, nature and resources of data, data processing and methods of data analysis used in the study.

Data presentation and analysis as well as major finding of the study has been presented in chapter four whereas conclusion and suggestions, summary of the analysis and suggestive framework has been presented in the chapter five.

CHAPTER - TWO

REVIEW OF LITERATURE

This chapter covers the review to obtain the basic knowledge for the study. Review of literature means reviewing research studies and other relevant propositions in the related area of the study so that the past studies, their conclusion may be known and further research can be conducted. “Literature review is basically a "Stock taking" of available in ones field of research the literature survey this provides the students with the knowledge of the status of their field of research" (Wolff and Pant, 2002).

The main purpose of literature survey is found out what study have been concluded in one’s chosen field of study. And what remains to be done. It provide the foundation for developing the comprehension theoretical frame work from which hypothesis can be pursing dead ends in research with related topic and good idea of problem. This chapter is organized into four headings, conceptual framework, and types of ratio, review of related articles and review of different master’s thesis.

2.1 Conceptual Framework

2.1.1 Concept of Financial Performance

The goal of performance analysis is to high light strength and weakness so that management can take appropriate action. To strength the weak and maintain performance in the strong areas " Financial analysis is the process of identifying the financial strengths and weakness of firm by property establishing relationship between the items of the balance sheet and profit and loss account.

High performance banking is simply high profitability banking profit is essential for enterprises for its arrival and growth and to maintain capital adequacy through profit retention. Some common characteristic of high performance banks were as follows:

a. Maximization of revenues
b. Expenses control
c. Consistently good management

High performance bank operated with slightly less capital and excellence control of overhead and fewer employees but with higher than average salaries high performance banks had lower ratio of loan to total assets but were able to earn higher yield on loans and experience smaller loan losses. Profit is important for any business concern including joint venture banks but the role objectives of such institution not profit. Factors depressing profitability include extensive branching, high proposition of fixed assets to total assets, and competition from the thrift. Profit is also affected by inflection and government policies with regarding interest rate calling, direct loading and investment, labor laws etc.

The management must try to make profit for their bank. The interest of the nation as well as those of individual stock holders are suppose to be best reserved by vigorously seeking profit. Thought profit is important for any business concern including joint venture banks but profit cannot be the role objective and an enterprise should not be evaluated just on the ground of the profit it earned " Neither the bank nor the community will be best served if the banker unreasonably sacrificed the safety of his fund or the liquidity of this bank in an effort to increase income".

"A firm should assure that it does not have excess of liquidity the failure of a company to meet its obligation due to lack of sufficient liquidity, will result in poor credit worthiness, loss of creditor's confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad, idle assets earn nothing the firm's funds will be unnecessarily tied up in current assets" (Pandey, 1979). Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

Thus enough liquidity is needed to honor the cheques and at the same time to enable to make profitable loans when an opportunity arises. A bank must maintain adequate liquidity to meet a wide range of contingencies. Inadequate and or excess of liquidity both bring obvious difficulties. Excess liquidity is the loss of income but adoptive cash and bank balance must be maintained to meet daily today operative as well as for remote contingencies. It measures the extent to which it can oblige its short term obligations.

The market value of the shares as well as shareholder's return and risk may be affected by the capital structure decision i.e. debt equity mix inadequate equity capital marks the bank more risky. Inadequate equity capital compel to use more debt which has fixed cost, it firm fails to earn revenues and fails to pay fixed interest charges then the firm will be insolvent. On the other hand less are of debts reduces the shareholders profit because the cost of debt is always less than the cost of capital. "Above the indifference point (breakeven point) between stack financing and debt, financing, the debt financing is favorable with respect to earning per share below it stock financing is best" (Vanhorn 1998).

Proper utilization of the bank's resource is an indication of sound performance. How far bank have gained over the years depend chiefly on how far they have been able to utilize, their resource in an effective manner. Resources mobilization management of bank includes resource collection investment portfolio, loans and advances etc. The task of utilization of resources is as must crucial as the mobilization is so the increase profitability the bank should properly utilize the resources.

A bank communicates financial information to the public through financial statements and reports. The financial statement contains summarized information of the bank's financial affairs. The two basis financial statements of the bank are balance sheet and profit and loss account. Investors and financial analysis examine the bank's

performance to make investment decision by analyzing the financial statements of the banks. Thus, ratio is one of the widely used financial tools that have been used to analyze the balance sheet income statement. The income statement of profit and loss account reflects the performance of the banks over a period of time. It represents the summary of income obtained and the costs incurred by the bank during a year.

2.1.2 Financial Statement

A Bank communicates data and information regarding its financial statements reflect, "A combination of recorded facts, accounting commotions and personal judgments and the judgments applied affect them materially" American institute of certified public and accounts, (Pillai and Bagavathi, 1994) The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as of a certain date and the income statement showing the results of operations during a certain period".(Practice hall of India Pvt. Ltd. 1974). Infect, financial statement are historical documents and relate to the past periods and are expressed in monetary terms to indicate the financial position in terms of assets and liabilities through balance sheet. "Financial statements are prepared for the purpose of presenting a periodical review or report on progress by the management and deal with the studies of investment in the business and the results achieved during the period under review". (Pillai and Bagavathi, 1994).The major financial statements are balance sheet and profit and loss statement other derived statement is profit and loss appropriation account and cash flow statements etc.

Balance sheet is a financial statement of greater importance in fact it is called the fundamental accounting report balance sheet provides the value of firms' assets (what the firm owns). Liabilities (what the firms owns outsiders), and equity (what the inside shareholders own) on a particular date. Hence, the balance sheet shoes then assets, liabilities and equity of the firm as of the given date (generally last date of accounting period) If is a static statements as is shows the position of business at a certain moment

of time. If provides a snapshot of the financial position of the business at the closing of the accounting period. If can be prepared either in accountant form as statement from property prepared and certified by an independents auditor, the balance sheet is very useful to give a clear and accurate picture of firm's financial position. When used in conjunction with an income statement and other firm financial rations can be developed to gain an insight in to liquidity, solvency and profitability aspects of the business. This is particularly true because most balance sheets are comparative. A comparative balance sheet displays the current balance and the prior year's balance of each account in tour columns. This allows the analyst to compare the beginning and end of year's position and to measure the changes in each amount during the course of the year.

Profit and loss statement is another major financial statement, which is also known as income statement. The profit and loss statement is a statement of revenues earned and the expenses incurred for earning that revenue. If these is an excess of revenue over expenditure, it will show a profit otherwise loss. Moreover, as the profit and loss statement of a bank present the summary of revenue, expenses, net profit as loss of a bank for a particular period of time; it serves as a measure of the bank's profitability. If provides information on the various revenue generated during the certain period and expenses incurred by the firm during that period.

The profit and loss account is condensed and classified record, prepared from various subsidiary and nominal accounts of the gain as losses to the business for a period of time.It is a report of the firm's activities during a given period (normally one year). If shows the revenue and expenses of the firm, the effect of interest and taxes and the net profit for the period. It reflects the earning capacity and potentials of the firm.

Profit and loss appropriation account is the statement showing the balance in retained earnings after making adjustments for current profit and current dividend. The statement of retained earnings or profit and loss appropriation account acts as a link

between the income statement and the balance sheet. The closing balance of retained earning equals.

Opening balance + Current net income - Dividends.

Cash flow statement is a statement of changes in financial position on cash balance. It is a statement of recording systematically all inflows and outflows of cash of the accounting period. It summarizes the causes of changes in cash position between dates of the two balance sheets. It indicates the sources and uses of cash. Cash flow statement concentrates on transactions that have direct impact on cash. "Cash flow means inflows and outflows of cash during accounting period. From the beginning of the year up to the end of the year cash is received from various sources and spent on various heads. Incoming and outgoing of cash is termed as cash flow" (Pillai and Bagvathi, 1994).

"Cash flow statement is a statement of change in financial position, based on cash concept of funds. In the preparation of such a statement all items that increase/decrease cash are included but all those which have no effect on cash are excluded. Hence, it is a tool of short term financial planning (Khan and Jain, 2000).

These above mentioned financial statements of banks contained summarized information of financial affairs as well as other many important aspect of bank in an organized and systematic way, "Financial statements attempt to do several thing first they portray the assets and liabilities business firm at a moment of time usually at the end of the year, This portrayal is known as the balance sheet. On the other hand, an income statement portray is known as the balance sheet. On the other hand, an income statement portrays the revenues, expenses, taxes and profit of the firm of a particular period of time, again usually a year. While the balance sheet represents a snapshot of the firm's financial position at a movement in time, income statement depicts its profitability over time (James and Van, 1984).

2.1.3 Financial Statement Analysis

Financial statement analysis is a major tool to analyze the firm's financial performance and its position, soundness of the financial performance of a firm can be detailed only through the critical analysis of financial statements. A poor financial analysis may lead the firm to become failure. By comprehend since analysis of financial performance, a firm can evaluate its past and present position and can make a better five planning and improvement toward goal achievement. Users of financial statement can get better insight about financial strength and weakness of the firm if they properly analyze information reported in that statement financial statement. Analysis is the starting point for making plans before using any sophisticated forecasting and planning procedure."Financial statement analysis is an information processing system designed to provide data for decision making. It is the process of analysis of financial and operating data and the preparation and interpretation with measuring device such as ratios, trends and percentages" (Agrawal, 1981).

"Financial statement analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the term of balance and the profit and loss account" (Pandey, 1993).Financial statement analysis thus arrests the management to take benefit of the strategic management techniques by providing the management with the information regarding the strength and weakness of the firm so as to exploit the opportunities lying in the environment and managers the threats posed by the environments. The major purpose of financial statement analysis is to get detailed knowledge of financial/economic condition of firm financial analysis flow the information about relationship of several items shown in financial statements, involves analyzing the firm's financial statements to extract information that can facilitate decision making, an analysis of financial statements can reveal whither the firm will be able to meet its long term debt commitment whether the firm financially distressed, whether the firm is using its physical assets efficiently, whether the firm has an optional financial mix, whether the firm is generating adequate returns for this

shareholders, and whether the firm can sustain its competitive advantage.

After analysis of financial statement its interpretation is most necessary interpretation is impossible without analysis and without interpretation analysis has no value. In fact, analysis means breaking down a complex set of facts or figures into simple terms and to explain in such a simple language of the financial position and earning capacity of the firm which can be understood even by a layman, who does not know accounting. Thus, interpretation acts as a bridge between the act of recording and reporting financial information and the act of using this information.

2.1.3.1 Working Capital Management

Working Capital means the excess amount of current assets over current liabilities. Working capital management involves the relationship between a firm's short term assets and its short-term liabilities. The goal of working capital management is to ensure the firm in able to continue its operations and that it has sufficient ability to satisfy both maturing short term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable and cash. In other word, it is the management of current assets and current liabilities of firm current assets represent the assets, which normally get converted into cash within a year. For example cash, marketable securities, sundry debtors, bills receivable and inventory. Current liabilities, those are normally payable within a year Bank overdraft, sundry creditors, current liabilities are the example of current liabilities.

Working capital is known as an important decision making area of financial management of an enterprise it requires understanding of method of raising and allocating financial resources method by short term investments and financial decisions making paying attention to the overall objective of the firm and now to relate short-term and long-term financial decision making. Working Capital management is a process of short-term decisions making regarding the current assets and affecting the long-term

operation of an organization. It is a process of planning and controlling the level and mix of current assets of the firm as well as financing their assets, it includes decisions regarding inventories and current liabilities with an objective of maximizing the value of firm.

There are two concept of working capital net concept and gross concept. The gross concept of working capital denotes shot-term assets only; it does not include shot- term liabilities. Net concept of working capital refers the difference between current assets and current liabilities. Net working capital can be positive or negative.

2.1.3.2 Receivable Management

Receivable management is considered as assess essential marketing tool acting as a bridge for the movement of goods through production and distribution stage to customers. A firm grants trade credits to protect its products or service and doesn't service cash for it immediately, the firm is said to have granted trade credit to customers. Trade credit, thus creates receivable which the form is expected to collect the near future. So, it is most prominent force of the model business. The term receivable is defined as. “Debt denoted to the firm by customers arising from sale of goods or serves in the ordinary course of business"(Jay 1977).In Simple word, amount due from customers is known as receivable. Receivable represent investment firm would in general. Rather sell for cash them on credit but competitive pressure for most firm’s to offer credit. Thus, goods are shipped inventories are reduced and an account receivable is credited eventually, the customer will pay the account at which time.

The firm will receive cash and its receivable will decline. Carrying receivable has both direct and indirect cost but it also has a critical advantage increased sales. As substantial amount are tied up in receivable they need a careful analysis and proper management. The receivable are also known as account receivable, customer receivable, sundry receivable, and trade debtor trade acceptance book debt bill receivable etc.

2.1.3.3 Inventory Management

The literary meaning of inventory is stock of goods. The various forms of material held by an organization are known as inventory. The basic types of inventory are raw materials. Work in progress, finished goods inventories. It refers to the work pile stock of products of a firm is offering for sale and components that make up the product. In financial parlance, inventory is defined as the sum of value of raw materials, fuels, lubricants, spare parts, and maintains consumer able, semi- processed materials and finished goods stock of any given of time. To expand the definition of inventory and make it applicable to manufacturing firms, it can be stated that items of tangible personal property- which are held for sale in the ordinary course of which are held for sales in the ordinary course of business and are in the process of production for such rule and are to be currently consumed in the production of goods or serves to be civilizable for rule.

Therefore, inventory includes different types of consumable goods stock held by an organization. The basic reason for holding inventory is to keep up the productions activities unhampered. Inventory is one of the most liquid assets to many business concerns. It is also equally important it both governmental as well as nongovernmental sections, inventory, by nature a circulating capital and exhausts frequently either consumption or sale or by fire or other natural calamities. It occupies a large percentage of the working capital employed by a firm. Firms generally maintain some inventory stock to achieve a desired lock level of sale.

The major goal of inventory management is to determine and maintain the optimum level of inventory management, thus, purchasing economically, using appropriately and pressing carefully is the main objectives of inventory is the others words, optimum investment inventory management is and use of inventories so as to ensure the

availability of inventory whenever needed provide adequate cushion for contingencies and derive maximum economy and minimum wastage losses.

2.1.3.4 Cash management

There are various sources of working capital management. Generally, there are three sources of working capital, cash, receivable and inventory. Cash is the most important current assets for the operation of the business. Cash is the basic input needed to keep the business running on a continuous basis It is also the ultimate output expected to be realized by selling the service or product manufactured by the firm, the firm should keep appropriate level of cash, neither more or less It should be managed well, which the firm cash distruster immediately without any restriction (Pandey, 1979).

cash refers to all the moneys items that are immediately available to help to pay a firm's bill on the balance sheet, a firm will normally list cash assets in two categories, cash and marketable securities cash assets are coin and currencies held by the firm 40 cash register and petty cash where marketable securities include the firm short- term investment on treasury bills, commercial paper, negotiable time certificates and deposit etc. Management of cash involves three things.

i. Managing cash flows in and out of the firms.
ii. Managing cash flows within the firm.
iii. Financing deficit or investing surplus cash and thus, controlling cash balance at a point of time. It is an important function in practice because it is difficult to predict cash flows and there is hardly any synchronization between cash inflows and outflows. The main goal of the cash management should be maintain to adequate cash position to keep the firms sufficient liquid and to use excessive cash in same profitable way.

The management of cash is also important because it is difficult to predict cash flows

payment for times dividends, seasonal inventory etc. Built up will exceed cash inflow. At other times, cash inflows will more than cash payments because there may large cash leads and debtors may be realized in large sums promptly. Cash management is on the min area of working capital management. The cash is the most liquid assets. So it should be never under estimated. It should be managed well the cash management involves formulation of policies and programmers for cash receipt and cash payment. For meeting day transaction and unforeseen contingencies, a firm has to hold cash. (Pandey1979).

2.2 Types of Ratio

Ratio can be classified in a number of ways to suit any particular purpose. Different kinds of ratio are selected for different types of situation. The nature of analysis depends on the purpose for which the ratios are used and the kind of data available.

2.2.1 Liquidity Ratio

It is extremely essential for a firm to be able to meet its obligation as measure the activity of the firm to meet to current obligation. In fact, analysis of liquidity need the preparation of cash budget cash fund flow statement, but liquidity ratio by establishing a relationship between cash and other current assets to current obligation, provide a quick measure of liquidity.

2.2.2 Leverage Ratio

Assets management's very importance because of the return on asset will raise, if fewer assets are employed and measure of the effective management of working capital apply. A commercial bank must be able to manage its assets very well to earn high profit to satisfy its customer and for its own existence. This ratio measures how efficiently the bank manages the resources at its command.

2.2.3 Assets Management Ratio

A company should earn profit to survive and grow over long period revenues and is expenses over a period of time. Profit is the ultimate output of the company and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate of the efficiency of the company in term of the profits. The profitability ratios are calculated to measure the operating efficiency of company. Beside management of the company creditors and owners are also interested in the profitability of firm.

2.2.4 Profitability Ratio

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

2.3 Concept of Commercial Bank and Joint Venture Bank

It is difficult to give a precise and universal definition of bank. Various scholars have defined the bank in different ways. The term bank is derived from the Italian word 'Banca' which means a desk used by many exchangers. However, there are various yes of banking organization, here emphasis is given to commercial banks become only the commercial bank is concerned in this study "Commercial bank is his co-operation which accepts demand deposit to cheque and make short term loan to business enterprise regardless of the scope of its other services" (American Institute of Banking, Principle of Banking operation, USA 1972).

The banks, which performance all kinds of banking business and generally finance

trade and commerce, are called commercial banks, "Principally commercials banks accept deposits and provide loans primarily to business firms there by facilitating the transfer of funds in the economy" (Gupta, 1968).

Commercial banks of Nepal can be classified into two categories viz. domestic commercial banks and commercial banks with foreign collaborator. This study in confined to the commercial banks with foreign collaboration, hat is, joint venture banks with foreign collaborator. Joint venture is the joining hands by two or more enterprise/ parties for the purpose of carrying out a specific operation.

In global perspective joint venture is the mode of trading through partnership between various groups of industries and traders. The main purpose of the joint venture is partnership of economics entitles for achieving corporate objective which is difficult to achieve individually. The concept of joint venture is based on the theory of complementation and synergy.

2.4 History of Commercial and Joint Venture Banking in Nepal

In the overall development of banking system in Nepal the 'TejarathAdda' may be regarded as the father of modern banking institution and for a quite a long time it rendered a good service to government staffs as well as to the general public. The concept of financial institutions in Nepal was introduced when the first commercial bank, the Nepal Bank Limited, was established in 1994 BS as a semi government organization. After the establishment of democracy in 2007 BS having felt the need of the development of banking sector, Nepal Rastra Bank was established on 14th Baishak 2013. Under Nepal Rastra Bank act 2012 BS. Among other objectives of its establishment one of them is to supervising protect and direct the functions of commercial banking activities.

The Nepal Bank Limited the only commercial bank was operating at that time had its investment activities limited only in leading to commercial transaction. Investment of bank in industrial and agriculture sector was insignificant, so to develop and promote scientific commercial industrial, agricultural, and capital market activities. NBL alone was not sufficient to extent adequate services in the national economy. Thus, another commercial bank, named as RastriyaBanijya Bank, gets established in 2022 B.S. These two banks Nepal Bank Limited and RastriyaBanijya Bank were established for the general purpose of expending the financial development and pursuing the financial intermediation process to fulfill the development requirement of the nation. But poor management practice and excessive political interference and absence o modern managerial concept, these two banks could not satisfy the need of quality and competitive banking services.

During the past two decades, Nepalese financial sector, especially banking sector has undergone a drastic change. The opening up of financial market to foreign joint venture banks, ending monopoly of two state owned banks is really a notable step, after which a number of private foreign affiliate joint venture Banks emerged. According to the latest report of NRB, there is it commercial banks, operating in Nepal with foreign collaboration.

2.5 Review of Related Thesis and Articles

2.5.1 Review of Thesis

For the purpose of this study the relevant thesis works are completed by thesis workers regarding the various aspect of banking sector that are discussed as follows:

Bajracharya(1978),in his dissertation analyzed**,** "Evaluation of financial patterns of

Nepalese commercial banks" that though the trend of deposit is increasing, the percentage charge in each year in decreasing, commercial banks are contributing to enlarge the gap between collection and utilization of resources. Commercial banks are too liquid oriented to benefit the natural development. In proper utilization of resources in creating sort false in economic up liftmen.

Amatya (1989),in his thesis entitled, “An appraisal of financial position of Nepal bank Limited" found that the liquidity position was fairly maintained and the bank has been found to have adopted conservative financing policy. Low finance total assets. The bank has operated successfully beyond the breakeven point over the study period. Keeping in mind, it suggests using equity capital proportionately.

Panta (2003),in his thesis, has tried to make attempt to highlight the discrepancy between collection and utilization of resources. He has chided that due to their lending confined for short term only, commercial banks are failure in resource utilization. In this content, better utilization or resources has recommended that commercial banks should give important on long term landing too, for sound utilization of the deposits.

Malla (2005),A study conducted by Malla entitled, "A comparative financial analysis of Nepal SBI Bankand Himalayan Bank Limited" Hs concluded that the concern authority of NSBI should focus on interest income as it is decreasing and lower thanNepal SBI's. There could be May research like nonpayment of interest by client in time, improper vitalization of assets, low level of investment. These problems can be solved by efficient management of loans and advances focusing on recovery of interest in time and finding new area of investment.

B.K. (2008),“A comparative analysis of financial performance of Nepal SBI BankNepal and Himalayan Bank Limited” attempted to analyze the financial performance of selected banks using various statistical and financial tools. The specific objectives of

the study were as follows.

- To analyze the financial strengths and weakness of the sample financial institution.
- To evaluate its financial positions.
- To analysis the banks deposit mobilization and investment procedures.

The major findings of this study were as follows.

- The liquidity position of NSBI is comparatively better than HBL.
- NSBI has utilized more portion of current assets as loan and advance lesser portions in the government securities.
- The profitability position of NSBI is comparatively better than HBL.
- NSBI seems to be more successful in increasing its source of found for deposit mobilization and granting loan and advance and maintain a good investment.

2.5.2 Review of Journal

The person's opinions or views expressed regarding commercial banks as well as Joint Venture Banks and their activities on journals, Books and booklets, magazines etc. are focused as follows.

Chopra (1990), in his article “Role of Foreign Banks in Nepal” concluded that the joint venture banks are planning an increasingly dynamic and vital role in the economic development of the country.

Gilles (1991), in his articles “The role of the commercial banks in Nepalese contents” concluded that due to rapid competition in banking sectors for public welfare, five commercial Banks are improving their service issue.

Pradhan (1994),in his article “Financial Management practice in Nepal” has studies about the majors feature of financial management practice in Nepal. To address his

issue, distributing a multiple questionnaire, which contained questions on various aspects of financial management practice in Nepal, carried out a survey of 78 enterprises. He found among the several financial functions, the most important financial function appeared to working capital management while, the least important one appeared to be maintaining good relations which stockholders.

Beaver (1996), in his articles, "financial ratio and Predictors Failure with Accounting Research" tested the ability of financial ratios to predict failure. This study revealed five which could discriminate between failed and non failed firms. The ratios are cash flow to total debt, net income to total assets, total debt to total assets, working capital to total assets and current ratio. It was the failed firms had more debt and low return on assets. They had less cash but more receivable as well as low current ratios the stock was low.

Horrigan (1996), in his article, "The Determination of long term credit standing with financial ratios." tested the power of financial ratios to predict corporate bond ratings. His multiple regression analysis revealed that working capital to sales, net worth to total debt, sales to total net worth and net operating profit to sales were best for predicting bond rating.

Bhatta (2003), in his article "Financial policies to prevent financial crisis" explained that the financial markets have become an exciting, challenging and ever changing sectors in the recent years. The emergence of global financial institutions as a result of increased economic liberalization has raised a host of questions for a financial planners and policy makers. The growth of the financial markets has caused complexities in the management and if they are not and addressed properly with appropriate policies, then the end result is the financial crisis. The financial crisis which took place in Chile in 1992, Mexico in 1994, South Asian countries 1997, Russian Federation in 1998,

Ecuador and Brazil in 1999 and Argentina nil the late 2001 where the result of an abrupt growth in the size of financial markets posing serious challenges their management.

2.6 Research Gap

There has been a lot of research works and studies under taken to examine the financial performance of commercial banks in the past. But the purpose of this study is quite different from the previous studies in term of the time periods its covers i.e. from 2005/06 to 2009/10. At present, there are 32 commercial banks operating in the market; however these two banks have been very successful in maintaining their reputation deposit through competition and unflavored environmental factors, prevailing.

Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about in depth analysis of the major concern of the shareholder and stakeholders. Most of the users of financial statements are interested in assessing the call performance i.e. profitability which is affected by the following factors:

- The structure of balance sheet and profit and loss accounts.
- Operating efficiency and internal management system.
- Managerial decision taken by the top management regarding interest rate, exchange rate, landing policies etc.
- Environmental changes (technology, government, competition, economy).

Many research have been conducted on the financial matters but were limited to liquidity, profitability as well as leverage of the firm, Hence, the present study is concerned to focus on various aspects of financial ratio as well as various statistical tools in order to evaluate both the giant bank, i.e. Nepal SBI Bank Limited and Himalayan Bank Limited in distinct way

CHAPTER - THREE
RESEARCH METHODOLOGY

The research methodology is procedure of relating the solution of the problem through a systematic and planned way with the collection analysis and interpretation of facts and figure. The basic objective of this study is to analyze the financial performance of Nepal SBI Bankand Himalayan Bank limited comparatively. To achieve the desired objectives of the research study, an appropriate research methodology has to be followed. In this chapter focus of the research has been made on research design nature, sources of data, population and sample, data collection procedure, data processing, and tools used for analysis.

3.1 Research Design

The research design followed by us for the purpose of this study is basically the comparative evaluation of financial performance of NSBI and HBL. For evaluating the financial performance of these banks, both the analytical as well as descriptive approaches are used. Analysis is mainly based on the secondary information, and the financial statements of the last five year.

3.2 Population and Sample Mean

Presently thirty one commercial banks are under operation in Nepal these constitute the population of the present study. However, due to resource and time constants only two banks NSBI and HBL are selected as samples.

I. Nepal SBI BankLimited

II. Himalayan Bank Limited

3.3 Sources and Types of Data

The study is based on Secondary data. The required data were directly obtained from financial statements. Such as balance sheet and profit and loss account of the concerned banks.

The major sources of information collection are as follows:

- Financial report of listed companies, published by security board of Nepal.
- Annual reports of concern commercial banks/from 2005/06 to 2009/10.
- Journals, government and non-government publication other supportive books and mostly websites of the companies.
- Other related published and unpublished document

3.4 Method of Data Analysis

In this study, only financial and statistical tools are used for the analysis of data. The procedures of analyzing data are described as follows:

The various calculated results obtained through financial and statistical tools are tabulated under the different headings. Then they are compared with each other to interpret the result.

3.4.1Financial Tools

Financial tools are used to examine the strength and weakness of banks. In these study financial tools like ration analysis and financial statement analysis have been used. In order to achieve the objects of the study the following ratios are used for analysis purpose.

1. Liquidity Ratios

The liquidity ratio measures the ability of a firm to meet its short term financial obligation. The bank is considered to be in liquid position if it has ready access to immediately spendable funds at the time when they require or can quickly raise liquid

funds by borrowing or by selling assets. Therefore, the bank should ensure that it does not suffer from lack of liquidity and also that it does not have excess liquidity. The failure of a company to meet its obligation due to inadequate liquidity will result in a poor creditworthiness, loss of creditors' confidence and may even result in bankruptcy. Likewise, high liquidity may adversely affect the profitability. So it is necessary to maintain an optimum level of liquidity.

a. Current Ratio

Current ratio shows the relationship between current assets and current liabilities. It can be computed by dividing current assets by current liabilities.

$$Currnetratio = \frac{CurrentAssets}{Currentliablities}$$

current ratio comprises cash and bank balance, receivable (Book debts, Bills receivable), inventory or stock, marketable securities or short term investments, prepaid expenses, short-term loan and accrued income, advances etc likewise current liabilities include all obligations maturing within a year and are represented by creditor bills payable, Outstanding expense, bank overdraft, dividend payable tax payable, short term loan and long term loan maturing during the year etc.

Current assets include ass these assets which are in the form of cash can be converted in to cash can be converted into cash in a period of one year, current ratio has a standard measure of 2:1 or that the current assets should be two times or 200% of the total current liabilities.

b. Cash and Bank Balance to Total Deposit Ratio

This ratio measures the percentage of most liquid fund with the bank to immediate payment to the depositor. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as follows:

$$CashandBankBalancetoTotalDeposit = \frac{CashandBankBalance}{TotalDeposit}$$

c. Cash and Bank Balance to Current Assets Ratio

Cash and Bank balance are the most liquid current assets. This rate measures the proportion of the most liquid assets i.e. cash and bank balance among the total current assets to bank higher ratio shows the bank ability to meet the demand for cash. This ratio is computed by dividing cash and bank balance by current assets.

$$CashandBankBalancetoCurrentAssets = \frac{CashandBankBalance}{CurrentAssets}$$

d. Investment on Government Securities to Current Assets Ratio

Most of the firm has invested their fund on government securities. This ratio measures t find out the percentage of current assets invested on government securities (Treasury bill, bonds) this ratio is computed by dividing investment securities by current assets.$InvestmentonGovt.SecuritiestoCA = \frac{InvestmentonGovernmentSecurities}{TotalCurrrentAssets}$

2. Assets Management Ratio

The bank or any firm has to manage the resources in a good way otherwise it's very difficult to run. Assets management ratio measures how efficiency the banks manages the resources at its command. The following ratios are used under this ratio.

a. Loan and Advances to Total Deposit Ratio

This ratio is calculated to find out how the banks are utilizing successfully their total deposits on loan advances or profit generating purpose greater ration implies the better utilization of total deposits. This ration can be computed by divided loan and advance

by total deposits.

$$LoanandAdvancestoTotalDeposit = \frac{LoanandAdvance}{TotalDeposits}$$

b. Total Investment to Total Deposit Ratio

Investment is one of the most important factors to earn income. This implies the utilization of firm's deposit on investment on government securities and share debenture of the companies and bank. This ration can be computed by divided total investment by total deposit this can be mentioned as.

$$TotalInvestmenttoTotalDeposit = \frac{TotalInvestment}{TotalDeposit}$$

The numerator consists of investment on government securities, investment on debenture, investment on debenture bonds and shares in other companies and other investment.

c. Loan and Advances to Fixed Deposit Ratio

Each commercial banks fixed deposit should play vital role on profit generating through fund mobilizing its total deposit on fixed and advances in appropriate levels. This ratio measures the extent to which the commercial banks care success in mobilizing fixed deposit on loan and advances for the purpose of income generation A higher ratio preferable as it includes better mobilization of and a loan and advances and vice versa . This can be mentioned as:

$$LoanandAdvancetoFixedDeposit = \frac{Loanandadvance}{TotalfixedDeposit}$$

Here, the total fixed includes all of period of time deposit on balance sheet items. In other words this includes, three month, six month, nine month, one year, two year and three year.

d. Loan and Advance to Saving Deposit Ratio

Loan and advance are also included in the current asset of commercial bank because generally they provide short-term loan, advance, and overdraft and cash credit. The ration can be computed in the following way.

$$LoanandAdvancetoSavingDepoist = \frac{LoanandAdvance}{TotlaSavingDeposit}$$

e. Fixed Deposit to Total Deposit Ratio

Fixed Deposits to total Deposit Ratio it is the ratio, which shows the percentage of fixed deposit on total deposit. fixed deposit is one of the major sources of fund, which bears cost at a certain rate and has certain maturity Hence, this ratio shows the percentage of total deposit, which bears cost at a fixed rate and calculated by diving fixed deposit ratio of the entire period of the study. This ratio is computed by divide ding fixed deposit by ratio for the entire period of the study. This ratio is computed by dividing fixed deposit by total deposit:

$$FixedDeposittoTotalDepositRatio = \frac{TotalFixedDeposit}{TotalDeposit}$$

f. Saving Deposit to Total Deposit Ratio

It is the ratio which shows the proportion of saving deposit on the total deposit saving deposit is one of the major sources of fund which bears cost at a certain rate and has no certain maturity. Though termed as current liabilities, it should not be paid back any time hence, this ratio shows the proportion of total deposit that bears cost at a saving rate and calculated by dividing saving rate and calculated by dividing saving deposit by total deposit.

$$SavingDeposittoTotalDeposit = \frac{TotalSavingDeposit}{TotalDeposit}$$

3. Profitability Ratios

The firm should earn profits to survive and grow over the long period of time but not at the cost of employees' customers and society. Obviously, if the firm is not able to make reasonable profits from its operation, it will not run for long time the profitability ratios are used as a measure to the operating efficiency (success or failure of any firm Profitability ratios are usually computed by relating it withers sales or investment as listed below.

a. Return on Loan and Advances Ratio

This ratio indicates how efficiency the bank has employed its resources in the form of loan and advances. This ratio is computed by dividing net profit by loan and advances. This can be expressed as follows.

$$ReturnonLoanandAdvances = \frac{NetProfit}{LoanandAdvances}$$

b. Return on Total Working Fund Ratio

This ratio measures the rate of return earned by the firm as a whole for all its investors , this is why this ratio equals net profit after tax plus interest on debt divided by total assets (exclusive of fictitious assets) are financed by the post of funds contributed by shareholders and lenders.

$$ReturnonTotalWorkingFund = \frac{NetProfit}{TotalAssets}$$

Higher ratio indicates the higher return on assets or on amount contributed by investors on account of efficiency management assets or capital.

c. Total Interest Earned to Total Working Fund Ratio

This ratio shows the percentage of interest earned total working fund, higher ratio implies better performance of the bank its terms of interest earning on its total working

fund this ratio can calculate by dividing total interest earned by total working fund this is expressed as:

$$TotalInterestEarnedtoTotalWorkingFund = \frac{TotalInterrestEarned}{TotalWorkingFund}$$

d. Total Interest Earned to Total Outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficiency utilization of outside assets higher ratio implies efficient use of outside assets to earned interest. This ratio can be computed by dividing total interest earned by total outside assets this can be expressed as follows:

$$TotlainterestEarnedtoTotalOutsideAssets = \frac{TotalInterestEarned}{TotalOutsideAssets}$$

Total interest earned companies total interest income from loan and, advances, cash credit and overdraft, government securities, bank and other investments. Total outside assets includes loan and advances bills purchased and discounted and all types of investment.

e. Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. Higher ratio indicates the higher interest expresses on total working funds and vice versa. This ratio can be computed by dividing total interest paid by total working fund this can be expressed as follows:

$$TotalInterestPaidtoTotalWorkingFund = \frac{TotalInterestPaid}{TotalWorkingFund}$$

3.4.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also

analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan and advance or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation Karl person's coefficient of correlation, trend analysis adopted which are as follows:

a. Arithmetic Mean

An average is a single value selected from a group of values to report them in same way which is supposed to stand for a whole group of which it is a part as typical of all the values in the group. Out of various measures of statistical tools, arithmetic mean is one if the useful tools applicable here. It is easy to calculate and understand and based on all observations. Arithmetic mean of a given set of observations is their sum divided by the number of observations. In general, if X1, X2 and X.....Xn are the given observations. Then, arithmetic mean usually denoted by..... In given by

$$Mean\overline{X}=\frac{x1+x2+x3+\cdots\ldots xn}{N}$$

Where, N = Number of observations

$\overline{X}$ = Arithmetic mean

$x_1, x_2, x_3 \ldots x_n$= Value of variable.

b. Standard Deviations

The measurement of the scatter mass of figures in a series about an average in known as dispersion. The standard deviation measures the absolute dispersion. The greater the amount of dispersion, greater the standard deviation mean of high degree of uniformity o the observation as well as homogeneity of the series a large standard deviation means just the opposite. In this study standard deviation of different ratio are calculated. The following formula is used to calculate.

$$S.D = \sqrt{\frac{\Sigma x^2}{N} - (\frac{\Sigma x}{N})}$$

c. Coefficient of Variation

The Coefficient of variation is the relative measure of dispersion, comparable across distribution which is defines as the ratio of the standard deviation to the mean expressed in present symbolically.

$$Coefficient\ of\ Variation = \frac{Standard Deviation\ (\sigma)}{Mean(\bar{X})} \times 100\%$$

d. Correlation Coefficient

Correlation analysis contributes to the understanding of economic behavior, aids in locating the critically important variables on which others depend, may reveal to the economist the connections by which disturbances spread and suggest to him to paths through which stabilizing forces may become effectives (W.A NeisWanger). The coefficient of correlation measures the direction of relationship between the two sets of figures. It is the square root o the coefficient of determination. Two variables are said to be correlation if the change in one variable results in a corresponding charge in the other variable. There is position and negative correlation.

If the values of the two variables deviate in the same direction i.e. the increase in the values of one variable results, on an average, in a corresponding increase in the value of the other value or if a decrease in the value of one variable results on an average n a corresponding decrease in the is said to be positive or direct on the or hand correlation is said to be negative or inverses if the variables donate in the opposite direction i.e. if the increase decrease in the value of one variable results, on the average, in a corresponding decrease increase in the volume of the other variable. In this study coefficient of correlation in calculated between a MVPs and BVPs, ROE and HPR. The degree of association between the two variable, say x and y and is defined by

correlation coefficient(r).

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

Where,

N = the no. of pair of observation

x = dependent variable

y = independent variance

The value of (r) lies between -1 to +1 and if r=1, there is perfect negative relationship. If r = 1, there is perfect negative relationship if r = 0, there is no correlation at all coefficient of determination (r^2). The coefficient of determination is the measure on the degree of liners irradiation or correlation between two variable one of which happens to be independent the other dependent variable. It measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination can have a value ranging from 0 to 1.

$$r^2 = \frac{Explainedvariation}{TotalVariation}$$

e. Probable Error (PE)

The probable error of the coefficient of correlation helps in interpreting its value 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:

$$PE = 0.6745 \ \frac{1-r^2}{\sqrt{N}}$$

Where,

$\frac{1-r^2}{\sqrt{N}}$ = Standard error

r^2 = Coefficient of determination

N = Number of pair of observation

- 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.

- 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.

f. Trend Analysis

Trend analysis is very useful and commonly applied tool to forecast the future event in quantitative term, on the basic of tendencies in depend variable in the past period. The trends of related variable can be calculated as:

$$Y=a+bx$$

The above trend equation can be calculated using following two normal equations.

$$\sum y = na+b\sum x \text{ …..... (i)}$$

$$\sum xy = a\sum x+b\sum x^2 \text{…….(ii)}$$

Where,

Y = Variable

X = Time span

CHAPTER - FOUR
PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation and analysis of data in order to achieve the objects of the study. For the purpose of analysis, the data have been presented using tables and charts, which are analyzed with the help of various tools such as financial ratios and statistical tools.

4.1 Financial Tools

Financial analysis involves indentifying the financial strength and weakness of the organization by presenting the relationship between items of balance sheet. Ratio analysis has been mainly used for the analysis of data to get the objectives. There are various financial ratios related to investment management and fund mobilization, have been presented and discussed in order to evaluate and analyze the performance of two joint venture banks.

The ratio are designed and calculated to highlight the relationship between financial items and figures. These calculations are based on financial statements of concerned joint venture banks. The financial ratios that are calculated for the purpose of this study are as follows:

a. Liquidity Ratio.
b. Asset Management Ratio.
c. Profitability Ratio.
d. Growth Ratio.

4.1.1 Analysis of Liquidity Ratios

Liquidity ratio measures the firm's capability to meet its current obligation. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community, demand for the deposit withdrawals, pay maturity in time and convert non cash assets into cash to satisfy immediate need without loss to bank and consequent impact or long-run profit. The following ratios which measure the liquidity position of banks are calculated.

4.1.1.1 Current Ratio

This ratio establishes a relationship between cash and bank balance to total deposit. The current ratio can give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. Companies that have trouble getting paid on their receivables or have long inventory turnover can run into liquidity problems because they are unable to alleviate their obligations.

Business operations differ in each industry, it is always more useful to compare companies within the same industry. Higher ratio indicates the greater ability to meet the sudden demand of deposits and vice versa. But too, high ratio is undesirable since capital will be tied up and it will maximize the opportunity cost. The ratio is calculated by dividing cash and bank balance by total deposit. Generally, accepted current ratio is 2:1, however, it is accepted 1:1 too for banking and seasonal business.

Table 4.1

Current Ratio

(In Times)

Fiscal Year	NSBI	HBL
2005/06	0.971	0.854
2006/07	0.9688	0.993
2007/08	1.0226	1.098
2008/09	0.981	1.103
2009/10	0.946	1.446
Mean	0.98	1.1
S.D.	0.03	0.22
C.V	2.87%	19.22%

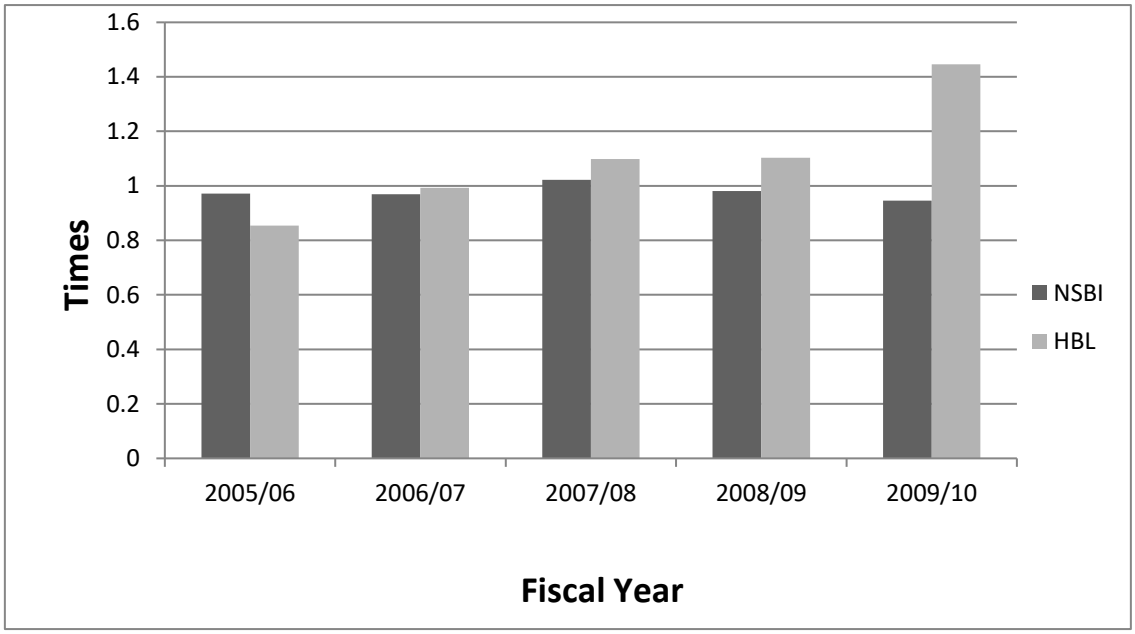
Source: Appendix No. 1

The Table 4.1 shows that NSBI and HBL have maintained current assets more than their current liabilities. Both banks are capable enough to pay their current obligations NSBI has the above comparative a table shows that NSBI and HBL have maintained current assets more than their current liabilities. Both banks are capable enough to pay their current obligations NSBI has the highest current assets of 1.0226 in the F/Y 2007-08 and the lowest is 0.946 in the F/Y 2009/10 respectively.

The average mean ratio of HBL is higher than NSBI i.e. 1.10>0.98. This shows that HBL liquidity position is better than that of NSBI. The lower degree of standard deviation and coefficient of variation suggest that both the banks have maintained consistency in their ratio. Though as per the conventional rule current ratio should be 2.1 but for banks any current ratio above 1 also considered healthy and sound.

Figure 4.1

Current Ratio (Times)



4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

This ratio establishes a relationship between cash and bank balance to current assets. This ratio examines the bank liquidity capacity on the basis of its most liquid assets i.e., cash and bank balance. This ratio reaches the ability of the banks to make the payment of its customer depositors. Higher ratio indicates the greater ability to meet the sudden demand of deposits and vice versa. But too, high ratio is undesirable since capital will be tied up and it will maximize the opportunity cost. High ratio indicates the sound ability to meet their daily cash requirement of their customer deposit and some earning maybe lost. Similarly, lower ratio is also not preferable as the bank may fail to make the payment against the cheques presented by the customers.

The ratio is calculated by dividing cash and bank balance by total deposits. The cash and bank balance to total deposit ratio of NSBI and HBL are given below.

Table 4.2

Cash and bank Balance to Total Deposit Ratio

Fiscal Year	NSBI	HBL
2005/06	8.06	9.42
2006/07	9.56	9.092
2007/08	5.75	8.12
2008/09	5.53	6.84
2009/10	8.21	5.85
Mean	7.42	7.86
S.D.	1.73	1.51
C.V	23.31%	19.18%

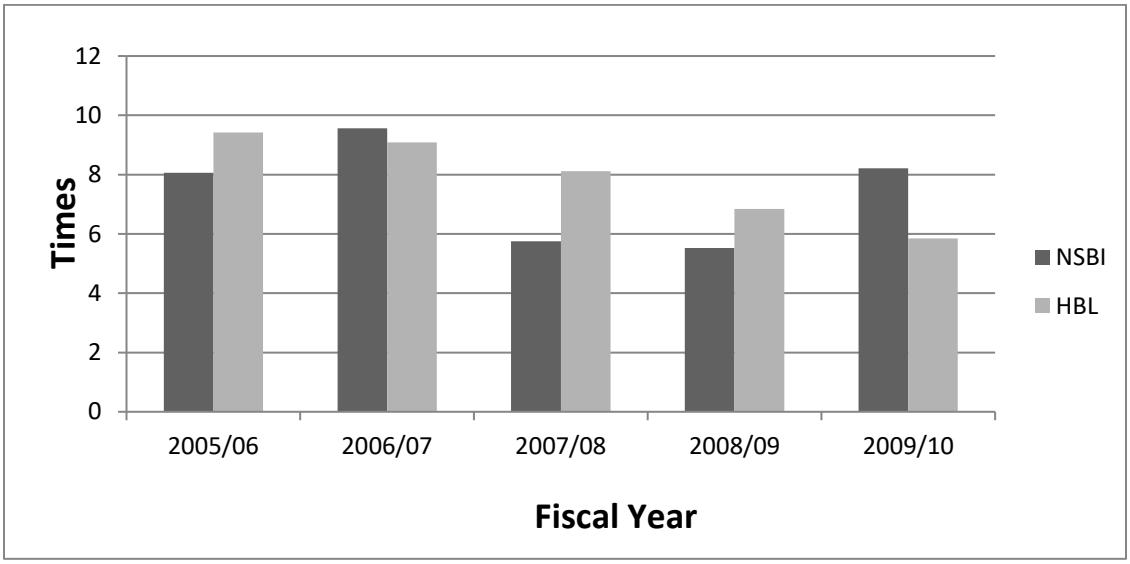
Source: Appendix No. 1 (ii)

The Table 4.2 shows that the cash and bank balance to total deposit of NSBI is in fluctuating trend and HBL has decreasing trend during the study period. NSBI had a high ratio of 9.56% in F/Y 2006/07 and low ratio of 5.53% in F/Y 2008/09. Similarly, HBL has a high of 9.42% in F/Y 2005/06 and low of 5.85% in F/Y 2009/10.

The average mean ratio of HBL is slightly higher than NSBI i.e. 7.86%>7.42%. This shows, HBL readiness to meet customer requirement better than NSBI. The C.V. of HBL of is slightly lower than that of NSBI i.e., 19.18 %< 23.31% on its basis, it can be concluded that NSBI ratios are more consistent than that of HBL.

Figure 4.2

Cash and Bank Balance to Total Deposit



4.1.1.3 Cash and Bank Balance of Current Assets Ratio

This ratio establishes a relationship between cash and bank balance to current assets. This ratio examines the banks liquidity capacity on the basis of its most liquid assets i.e., cash and bank balance. This ratio reaches the ability of the banks to make the payment of its customer depositors. High ratio indicates the sound ability to meet their daily cash requirement of their customer deposit and some earning maybe lost. Similarly, lower ratio is also not preferable as the bank may fail to make the payment against the cheque presented by the customers. This ratio is calculated by dividing cash and bank balance by current assets. The cash and bank balance to current assets ratio are presented in the following table.

Table 4.3

Cash and Bank Balance to Current Asset Ratio

(In Percent)

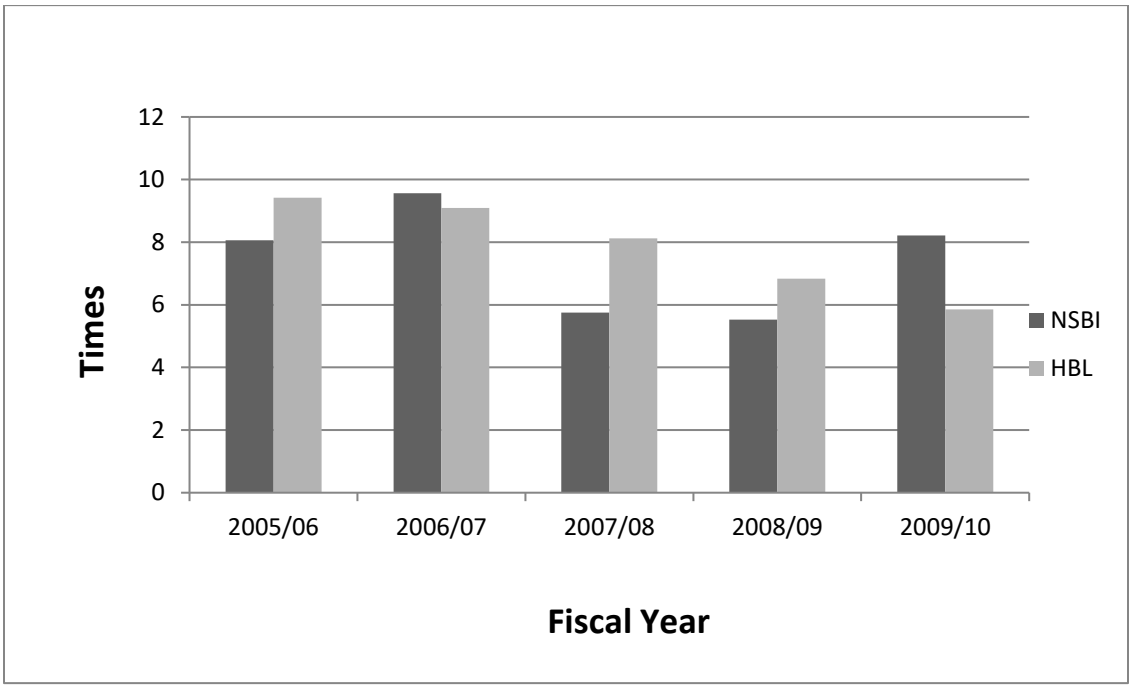
Fiscal Year	NSBI	HBL
2005/06	8.06	9.42
2006/07	9.56	9.092
2007/08	5.75	8.12
2008/09	5.53	6.84
2009/10	8.21	5.85
Mean	7.42	7.86
S.D.	1.73	1.51
C.V	23.31%	19.18%

Source: Appendix No. 1 (iii)

The Table 4.3 shows that NSBI has maintained a high ratio of 9.56% in F/Y 2006/07 and low ratio of 5.53% in 2008/09. Similarly, HBL has a high of 9.42% in F/Y 2005/06 anticipating higher cash requirement depositors in this F/Y. It has a low ratio of 5.85% in F/Y 2009/10. The cash and bank balance to current assets of NSBI is in fluctuating trend and HBL has decreasing trend during the study period. The average mean ratio of HBL is slightly higher than NSBI i.e. 9.22%>7.91%. The C.V. of HBL is greater than that of NSBI i.e. 25.75%>25.83% it shows HBL ratios are less consistent than that of NSBI.

Figure 4.3

Cash and Bank to Current Assets



4.1.1.4 Investing on Government Securities to Current Assets Ratio

This ratio establishes a relationship between investing on govt. securities to current assets. This ratio is interested to invest their collected funds on different securities issued by government in different times to utilize heir excess funds and for other purpose. Though, government securities are not so, much liquid as cash and bank balance.Government securities are not so much liquid as cash and bank balance. They can be easily sold in the market or they can be converted into cash on other ways. This ratio helps to examine that portion of banks, current asset, which is invested on different government securities. This ratio is calculated by dividing investment on government securities by current assets. The investment on government securities to current assets ratio are as follows.

Table 4.4

Investment on Government Securities to Current Assets Ratio

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	38.52	20.54
2006/07	39.53	18.45
2007/08	37.28	25.62
2008/09	40.22	22.22
2009/10	32.27	23.24
Mean	37.57	22.02
S.D.	3.16	2.72
C.V.	8.42%	12.36%

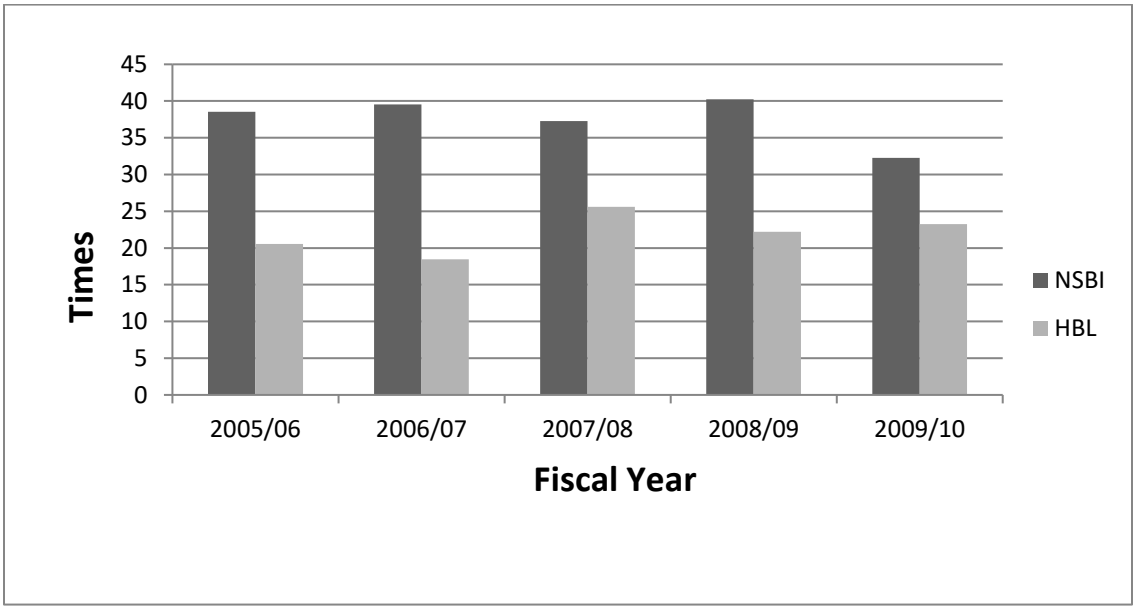
Sources: Appendix No. 1 (iv)

The Table 4.4 shows that the investment on Govt. Securities Current Assets of NSBI and HBL is in fluctuating trend. Never the less, NSBI have tried to maintain consistency from F/Y 2006/07 on words. The figure shows that HBL is lower that of NSBI on investment on Government Securities to Current Assets. From the figure, it is evident that the average mean ratio of NSBI is higher than that of HBL i.e. 37.57>22.02% similarly, the C.V. ratio of HBL is higher than that of NSBI i.e. 12.36%>8.42%. This shows that a greater portion of current assets of NSBI comprises of government securities. Also, NSBI investment in government securities to current assets has an increasing trend over the year. From the point of view of C.V. NSBI ratios have been more consistent.

From the above analysis it is clear that HBL has made lesser investment in government securities, it has injected more funds on other productive sectors. The reason behind NSBI higher ratio could be attributed to more deposit collection and unavailability of other secured and profitable investment sectors.

Figure 4.4

Investment on Government Securities to Current Assets Ratio



4.1.2 Analysis of Assets Management Ratio

A Commercial bank must be able to manage its assets very well to earn high profit to satisfy its customer and for its own existence. This ratio measures how efficiently the bank manages the resources at its command. The following ratios measure the assets management ability of NSBI and HBL.

4.1.2.1 Loan and Advances to Total Deposit Ratio

This ratio establishes a relationship between loan and advance to total deposit. This ratio is calculated to find out how the banks are utilizing successfully their total deposits on loan advances or profit generating purpose. Greater ratio implies the better utilization of total deposits. This ratio actually measure the extent to which the banks are successfully to mobilize their total deposits on loan and advances. This ratio is

calculated dividing loan and advances by total deposits.

Table 4.5

Loan and Advances to Total Deposit Ratio

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	30.36	51.62
2006/07	30.30	58.7
2007/08	42.12	54.21
2008/09	38.75	59.50
2009/10	42.61	56.57
Mean	36.83	56.12
S.D.	6.12	3.25
C.V	16.60%	5.79%

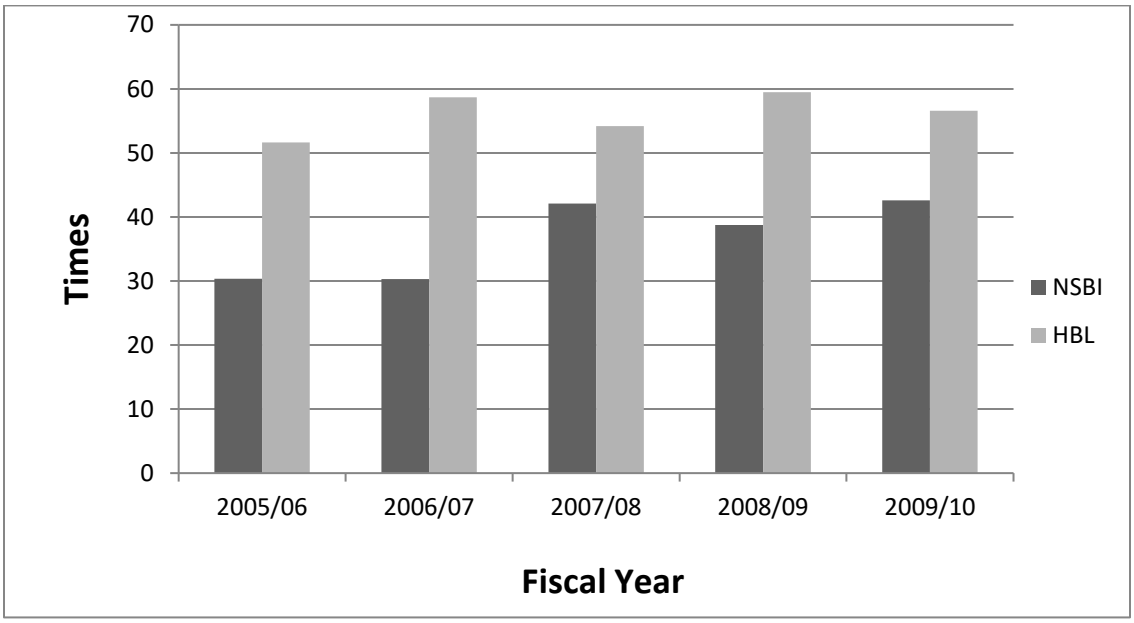
Sources: Appendix No. 1 (v)

The Table 4.5 shows that the loan and advances to total deposit of both the banks have a fluctuating trend. NSBI had a high ratio of 42.61 in F/Y 2009/10 and a low ratio of 30.30% in F/Y 2006/07. Accordingly, HBL had a high of 59.50% in F/Y 2008/09 and low of 51.62% in F/Y 2004/05. The mean ratio of HBL is higher than that of NSBI i.e., 56.12%>36.83% similarly, the C.V. ratio of NSBI is higher than that of HBL i.e., 16.6%>5.79%. HBL seems to be strong in terms of mobilization of its total deposits of loan and advances than NSBI.

A high ratio should not be perceived as a better state of affairs from the point of view of liquidity, as loan and advance are not a liquid as cash and bank balance and other investment. In portfolio management of bank various factors such as availability of funds, liquidity requirements central bank norms etc needs to be taken into account.

Figure 4.5

Loan and Advance to Total Deposit



4.1.2.2 Total Investment to Total Deposit Ratio

This ratio establishes a relationship between total investments to total deposit. The commercial banks are interested to invest its funds in different securities issued by government and other financial or non- financial companies. This ratio measures the extent to which the banks are able to mobilize their deposit on investment in various securities. High ratios indicate the high success in mobilizing deposit in securities and vice versa. Investment is one of the most important factors to earn income. This implies the utilization of firm's deposit on investment on government securities and share debenture of other companies and bank.

This ratio is calculated by dividing total investment by total deposits. The data tabulated below shows the total investment to total deposit ratio.

Table 4.6

Total Investment to Total Deposit Ratio

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	54.47	48.44
2006/07	53.68	42.22
2007/08	50.18	47.2
2008/09	55.71	41.1
2009/10	55.10	39.35
Mean	53.53	43.66
S.D.	02.17	3.96
C.V	4.04%	9.06%

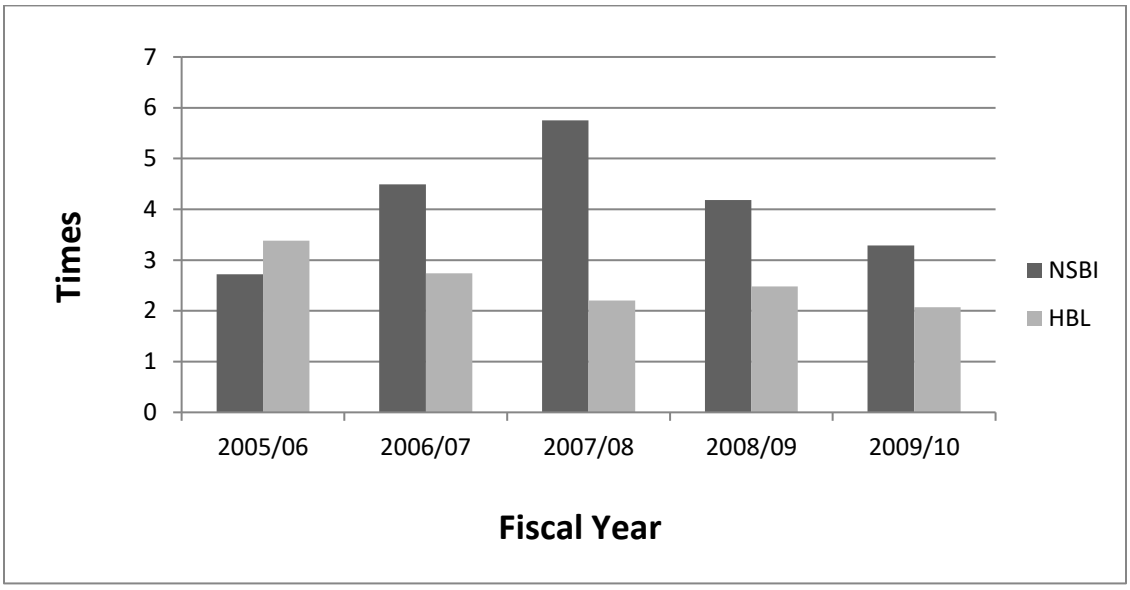
Sources: Appendix 1 (vi)

The Table 4.6 shows that both NSBI and HBL has fluctuating trend in total investment to total deposit. NSBI has a high ratio of 55.71% in F/Y 2008//09 and low ratio of 50.18 F/Y 2007/08. And other side HBL had a high ratio of 48.44% and a low ratio of 39.35% in F/Y 2005/06 and 2009/10 respectively. NSBI has a high mean ratio than HBL i.e. 53.83%>43.66%. From mean ratio perspective, NSBI has been more successful in mobilization of deposit on various from of investment.

HBL has a high C.V ratio than NSBI i.e. 9.06%>4.04% From C.V viewpoint, both the sample banks have been inconsistent with NSBI being little better in term of consistency than HBL. NSBI has been more successful in mobilizing its resource on various forms of investment. What is worth mentioning is that interest on Treasury Bills, Interbank lending and placements are at all time low level, so NSBI has not done itself justice by investing in low yield less risky and risk free assets.

Figure 4.6

Total Investment to Total Deposit Ratio



4.1.2.3 Loan and Advances to Fixed Deposit Ratio

This ratio establishes a relationship between loan and advances to fixed deposit. The main purpose of this ratio is to examine how board area the bank has covered to provide its service efficiently. Each commercial banks fixed deposit should play vital role on profit generating through fund mobilizing its total deposit on fixed and advances in appropriate levels. This ratio measures the extent to which the commercial banks are success in mobilizing fixed deposit on loan and advances for the purpose of income generation. A higher ratio preferable as it includes better mobilization of and a loan and advances and vice versa. This ratio is computed by dividing loan and advances by total fixed deposit. The following table exhibits the ratio of loan and advances to total working fund.

Table 4.7

Loan and Advances to Fixed Deposit Ratio

(In Times)

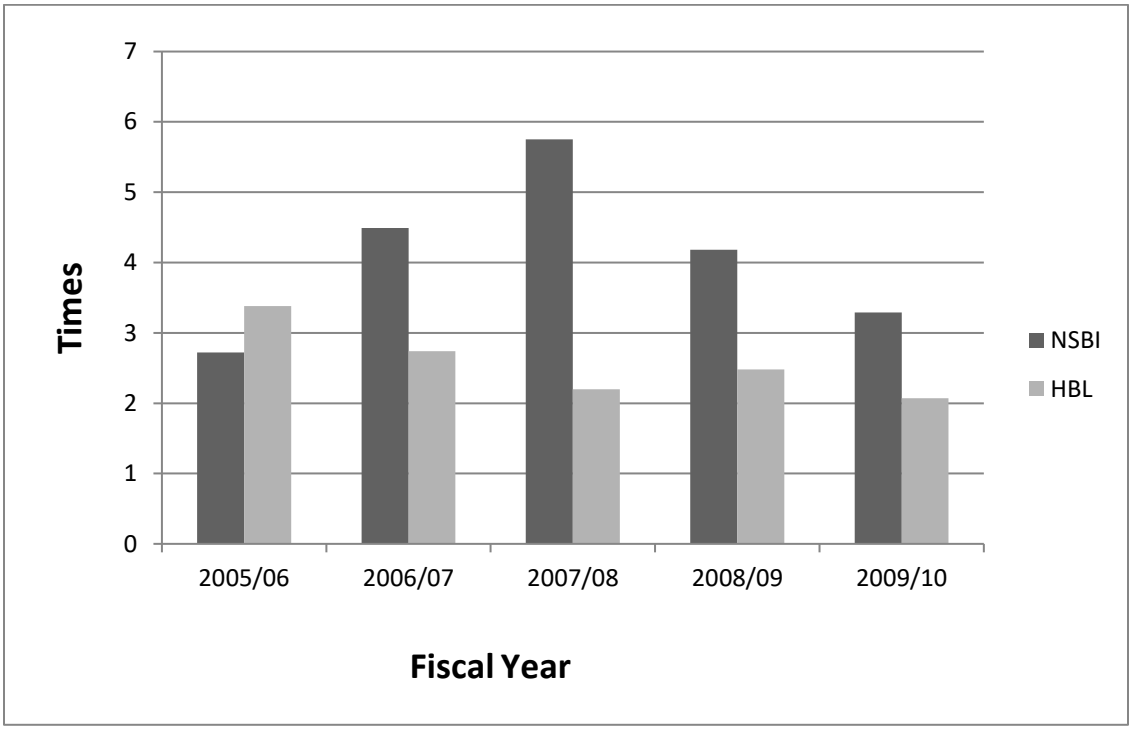
Fiscal Year	NSBI	HBL
2005/06	2.72	3.38
2006/07	4.49	2.74
2007/08	5.75	2.2
2008/09	4.18	2.48
2009/10	3.29	2.07
Mean	4.13	2.57
S.D.	1.11	0.52
C.V	26.90%	20.19%

Sources: Appendix No. 1 (Vii)

The Table 4.7 shows a fluctuating trend of loan and advances to fixed deposit of NSBI and HBL. NSBI has maintained higher ratio of 5.75% in F/Y 2007/08 and a low ratio of 2.72% in F/Y 2005/06. Similarly HBL has maintained a high ratio of 3.38% in F/Y 2005/06 and a low ratio of 2.07% in F/Y 2009/10. NSBI has a high average ratio of loan and advances to total working fund than HBL i.e. 4.13%>2.57% NSBI also has a high CV ratio than that of HBL i.e. 26.9%>20.19%. It reveals the strength of NSBI in mobilizing its total assets as loan advances.

Figure 4.7

Loan and Advances to Fixed Deposit



4.1.2.4 Loan and Advances to Saving Deposit Ratio

This ratio establishes a relationship between loan and advances to saving deposit. Loan and advance are also included in the current assists of commercial bank because generally they provide short-term loan advance, overdraft and cash credit. The ratio can be computed in the following way.

In the present study loan and advance represent to local and foreign bills discounted purchased and loan, cash credit and overdraft in local currency as well as inconvertible foreign currency. To make high profit by mobilizing its fund in the best way, a commercial bank should not keep its all collected funds as cash and bank balance but they should be invested as loan and advance to the customers. If sufficient loan and advances cannot be granted, it should pay interest on those unutilized deposit funds and

may lose some earning. But high loan and advance may also be harmful to keep the bank most liquid position because they can only be collected at the time of maturity only. The ratio can be computed in the following way.

Table 4.8

Loan and Advance to Saving Deposit

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	0.54	1
2006/07	0.50	1.1
2007/08	0.62	1.05
2008/09	0.61	1.08
2009/10	0.69	1.08
Mean	0.59	1.06
S.D.	0.07	0.04
C.V	12.49%	3.67%

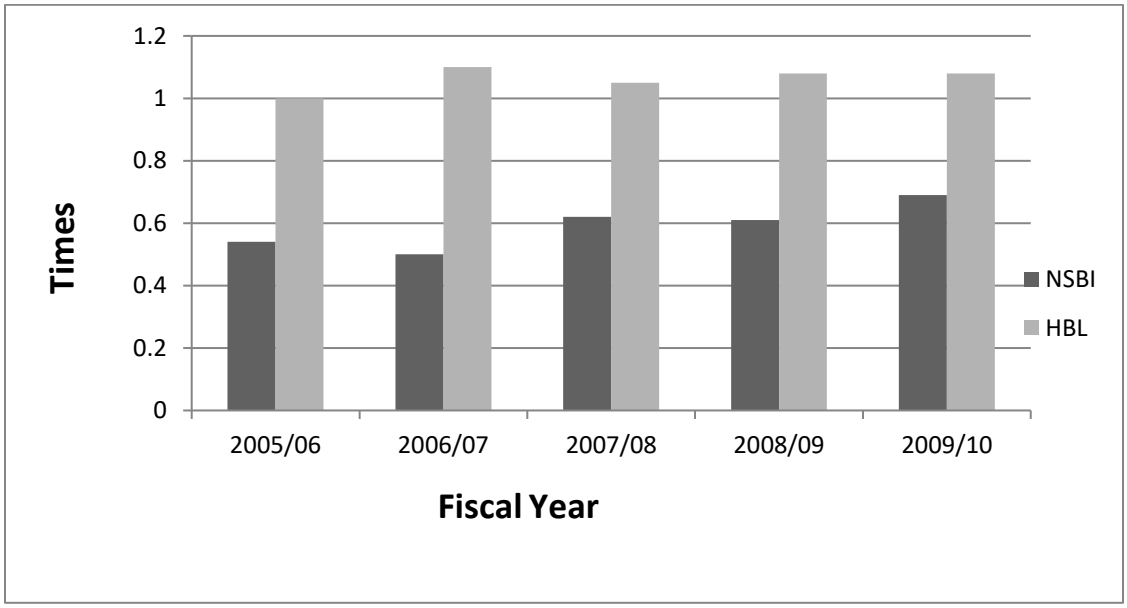
Sources: Appendix 1 (Viii)

The Table 4.8 shows favorable fluctuated trend of loan and advance of NSBI during the study period. The average mean ratio of HBL is the higher compared to NSBI i.e.1.06%>0/59% The C.V ratio of NSBI is higher than the HBL i.e.12.49%>3.67% HBL has experienced an increasing trend of loan and advances up to F/Y2009/10.NSBI had a high ratio of 0.698% in FY 2009/10 and a low ratio of 0.5% in F/y 2006/07. Similarly HBL has experienced a high ratio of 1.08% in F/y 2008/09 and 2009/10 and a low of 1% in F/Y 2005/06.The above analysis reveals the HBL has been more successful in identifying profitable investment sectors and increasing its earning. The same does not hold true of NSBI, whose efforts seems to be more focused on investing

in risk free assets rather than increasing its loan advances volume and subsequent earning from it.

Figure 4.8

Loan and Advance to Saving Deposit



4.1.2.5 Fixed Deposit to Total Deposit Ratio

This ratio establishes a relationship between fixed deposits to total deposit. It is the ratio, which shows the percentage of fixed deposit on total deposit. Fixed deposit is one of the major sources of fund, which bears cost at a certain rate and has certain maturity.This ratio show the percentage of total deposit, which bears cost at a fixed rate and calculated by dividing fixed deposit ratio for the entire period of the study.

The following table shows the fixed deposit to total deposit ratio is NSBI and HBL during period. If can be mentioned as

Table 4.9

Fixed Deposit to Total Deposit Ratio

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	10.39	15.26
2006/07	6.75	21.4
2007/08	7.33	24.61
2008/09	9.26	23.97
2009/10	12.97	24.29
Mean	9.34	22.51
S.D.	2.50	4.56
C.V	26.78%	20.26%

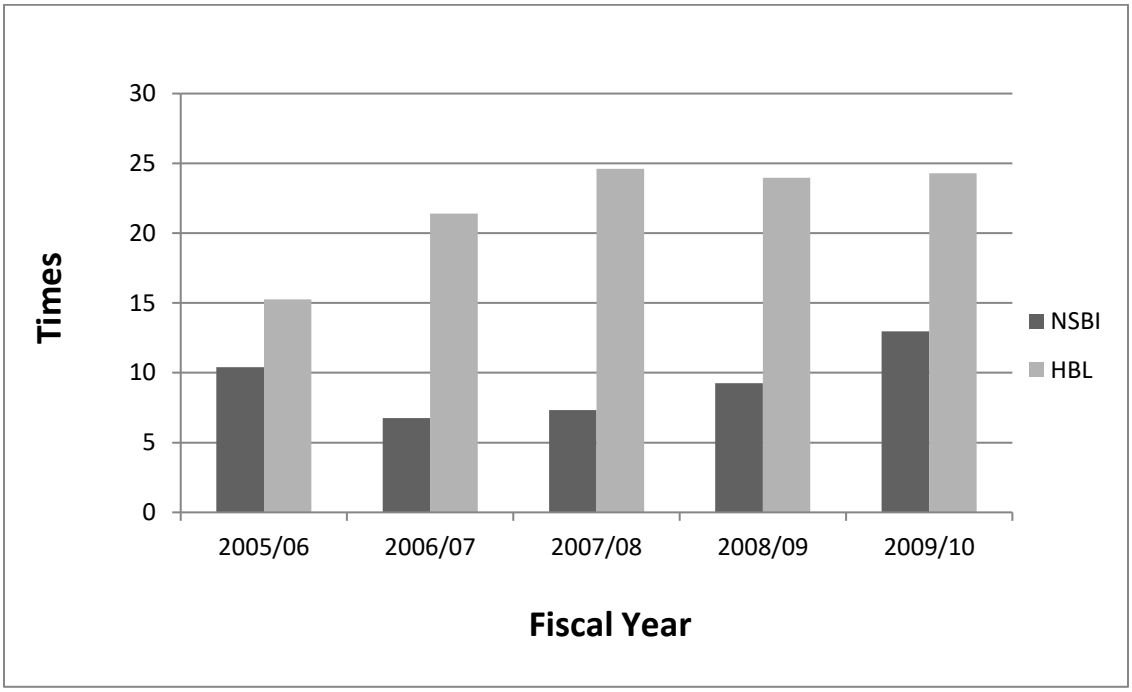
Sources: Appendix No. 1 (ix)

The Table 4.9 shows the amount of fixed deposit to total deposit and their ratios of NSBI and HBL along with their average standard deviation and C.V. of ratios. HBL has a higher fixed deposit to total deposit ratio than NSBI. If the total deposit of HBL is 1 than fixed deposit will 22.51.The average fixed deposit to total deposit of HBL and NSBI are 22.51 & 9.34.

Similarly, NSBI has a higher C.V. than HBL i.e. 26.78%>20.26%. It clearly states that HBL has the maximum fixed chare bearing deposit than NSBI. From viewpoint of cost minimizing more is not favorable other hand, from view point of liquidity greater portion of fixed deposit maybe termed as favorable one. The HBL has been more successful in indentifying profitable investment sectors and increasing its earning. The same does not hold true of NSBI, whose efforts seems to be more focused on investing in risk free assets, rather than increasing its loan and advances volume and subsequent earning from it.

Figure 4.9

Fixed Deposit to Total Deposit Ratio



4.1.2.6 Saving Deposit to Total Deposit Ratio

"This ratio establishes a relationship between saving deposit to total deposit. It is the ratio which shows the proportion of saving deposit on total deposit. Saving deposit is one of the major sources of fund, which bears cost at a certain rate and has no certain maturity. Though termed as current liabilities, it should not be paid back any time. This ratio shows the proportion of total deposit which bears cost at a saving rate and calculated by dividing saving rate and calculated by dividing saving deposit by total deposit ratio for the entire period of the study. The following table shows the saving deposit to total deposit ratio is NSBI and HBL during period it can be mentioned as:

Table 4.10

Saving Deposit to Total Deposit Ratio

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	56.69	51.75
2006/07	60.35	53.43
2007/08	67.4	51.79
2008/09	63.3	55.05
2009/10	61.85	52.53
Mean	61.92	52.91
S.D.	3.93	1.38
C.V	6.35%	2.60%

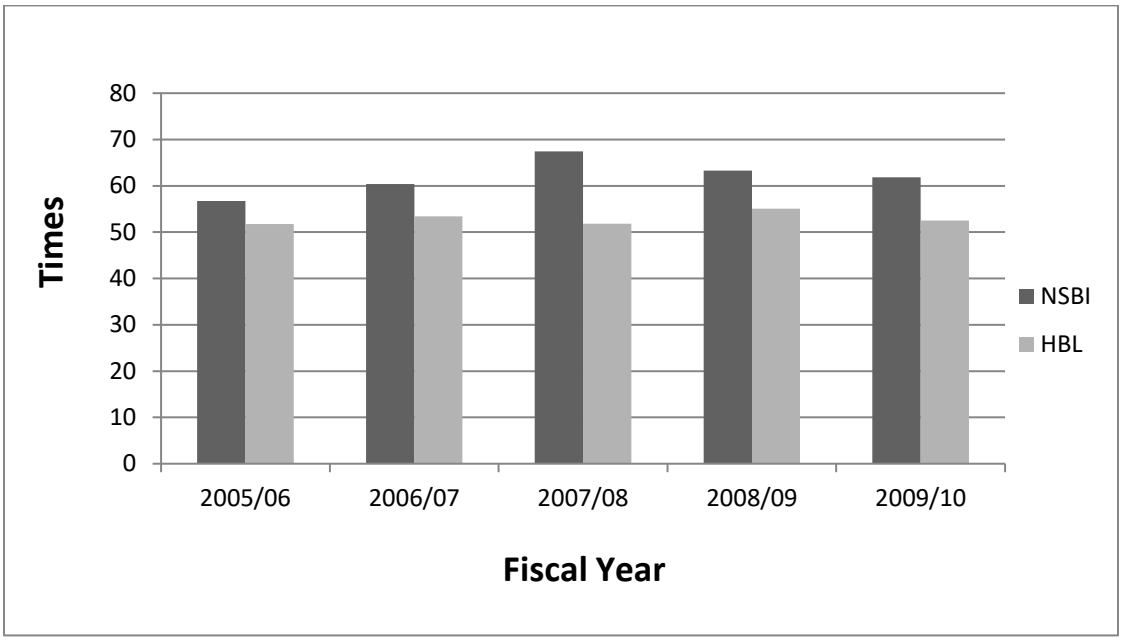
Sources: Appendix No. 1 (x)

The Table 4.10 shows the amount of saving deposit to total deposit and their ratios of NSBI and HBL along with their average standard deviation and C.V. of ratios. NSBI has a higher saving deposit to total deposit ratio than HBL. If the total deposit of NSBI is 1 than saving deposit will 61.92. The average saving deposit to total deposit ratios of NSBI and HBL are 61.92 and 52.92. NSBI has a higher C.V ratio than that of HBL, i.e., 6.35%>2.60%. It clearly states that NSBI has the maximum saving change bearing deposit than HBL.

From viewpoint of cast minimizing more is not favorable other hand, from viewpoint of liquidity greater portion of saving deposit may be termed as favorable one. The above analysis reveals than NSBI has been successful in indentifying profitable investment sector.

Figure 4.10

Saving Deposit to Total Deposit Ratio



4.1.3 Analysis of Profitability Ratios

The main objectives of a commercial bank are to earn profit providing different types of banking services to its customers. To meet various objectives like to have a good liquidity position, meet fixed internal obligation, overcome the future contingencies, grab hackle investment opportunities expand banking transaction in different places, finance government in need of development funds etc. a commercial bank must have to earn sufficient profit. Of course, profitability ratios are the best indicates of overall efficiency. Here, mainly, those ratios are presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NSBI and HBL.

4.1.3.1 Returns on Loan and Advances Ratio

This ratio establishes a relationship between dividing net profit by loan and advances. Return on loan and advances ratios measures the earning capacity of commercial banks its mobilized fund based loan and advances. The high ratio indicates the high return and vice versa. This ratio calculated by dividing net profit by loan and advances.

The following table shows the return on loan and advances ratio is NSBI and HBL during period it can be mentioned as:

Table 4.11

Return on Loan and Advances Ratio

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	8.90	1.96
2006/07	8.41	2.03
2007/08	6.62	2.30
2008/09	7.37	2.90
2009/10	6.60	2.89
Mean	7.58	2.42
S.D.	1.04	0.46
C.V	13.77%	18.85%

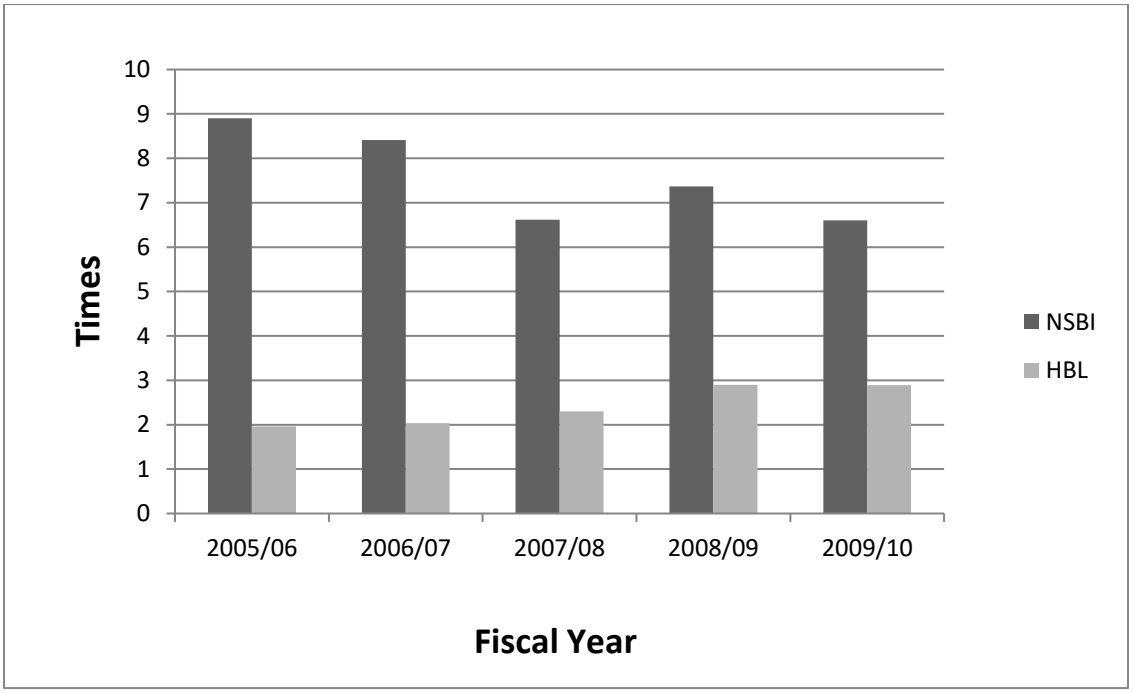
Sources: Appendix No. 1 (ix)

The Table 4.11 shows that the ratio of return on loan and advances of NSBI are better than HBL in all F/Y, though they have a fluctuating trend. NSBI ratios have witnessed decrees in trend up to F/Y 2007/08; therefore they have an increasing trend. NSBI has recorded a high ratio of 8.9% in F/Y 2005/06 and a low ratio of 6.6% in F/Y2009/10. Similarly, HBL recorded a high of 2.90% in F/Y 2008/09 and a low of 1.96% in F/Y 2005/06.

The comparison of mean ratio reveals that NSBI has a higher ratio than HBL i.e. 7.85 > 2.42%. This shows that NSBI has been more successful in maintaining its higher return on loan and advances than HBL. C.V. of NSBI is significantly lower than HBL, i.e. 13.77 %< 18.85%. It proves that HBL has higher variability of ratio than NSBI. In conclusion, it can be said that HBL profit earning capacity by utilizing available resources in weaker compared to NSBI, but nevertheless HBL is making significant improvements in this regards.

Figure 4.11

Return on Loan and Advances Ratio



4.1.3.2 Return on Total Working Fund Ratio

This ratio establishes a relationship between dividing net profit and total assets. Return on total working fund ratio measures the profit earning capacity by investing financial resources of the bank assets.Return will be higher if the banks working fund is well

managed and efficiency utilized and vice versa. The data tabulated below reflects the profitability position, which respect to total assets of NSBI and HBL. It can express as:

Table 4.12

Return on Total Working Fund Ratio

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	2.424	0.88
2006/07	2.27	1.02
2007/08	2.46	1.06
2008/09	2.55	1.5
2009/10	2.42	1.43
Mean	2.42	1.18
S.D.	0.40	27.00
C.V	4.17%	23.05%

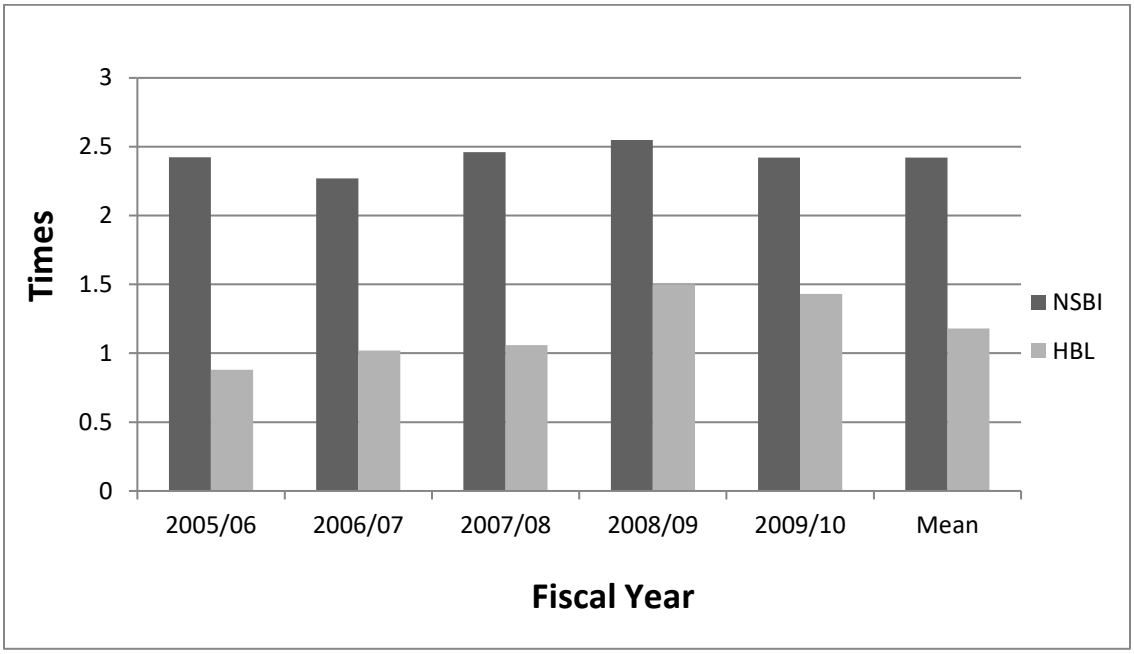
Sources: Appendix No. 1 (xii)

The Table 4.12 reveals that the ratio of return on total working fund is fluctuated in case of NSBI and increasing trend in case of HBL during the study period. NSBI has had a high ratio of 2.55% in F/Y 2007/08 and a low ratio of 2.27% in F/Y 2005/06. Similarly, HBL has had a high of 1.50% and a low of 0.88% in F/Y 2007/08 and 2004/05 respectively.

Return on Total Working Fund ofNSBI, has a slightly high mean ratio than HBL i.e. 2.42>1.18 it reveals that NSBI has been able to earn high profit on total working fund in comparison to HBL. From the view point of C.V. NSBI ratios are less consistent than HBL i.e., 4.17 %< 23.05%. Both banks need to exert more effort in mobilizing its working assets more efficiently.

Figure 4.12

Return on Total Working Fund Ratio



4.1.2.3 Total Interest Earned to Total Working Fund Ratio

This ratio establishes a relationship between dividing total interest earned and total working fund. This ratio is very helpful to reveals the earning capacity of commercial banks by mobilizing its working fund. This ratio is important to know the extent on which the banks are successful in mobilizing their total assets to generate high income as interest. Higher the ratio, higher will be the earning power of the bank on its total working fund and vice versa. The following table shows interest earned to total working fund ratio of NSBI and HBL.

Table 4.13

Total Interest Earning to Total Working Fund Ratio

(In Percent)

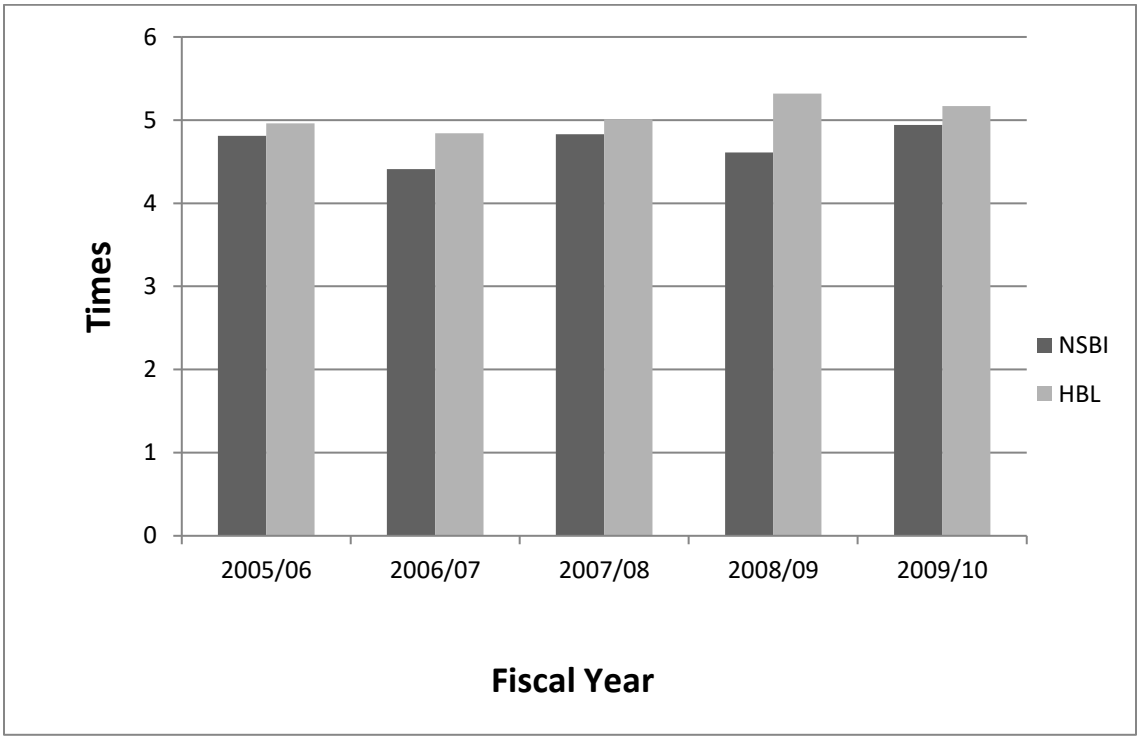
Fiscal Year	NSBI	HBL
2005/06	4.81	4.96
2006/07	4.41	4.84
2007/08	4.83	5.01
2008/09	4.61	5.32
2009/10	4.94	5.17
Mean	4.72	5.06
S.D.	0.21	0.19
C.V	4.45%	3.71%

Sources: Appendix No. 1 (xiii)

The Table 4.13 reflects a fluctuated trend in interest earning ratio of NSBI and HBL. NSBI has had a high ratio of 4.94% in F/Y 2009/10 and a low ratio of 4.41% in F/Y 2006/07. Similarly, HBL has experienced a high of 5.32% in F/Y 2008/09 and a low of 4.84% in F/Y 2006/07. The average interest earning ratio of NSBI is 4.72% whereas the same for HBL is 5.06%. The C.V. ratio of NSBI is 4.45% whereas the same for HBL is 3.71%. This reflects that HBL has been stronger in term of interest earning power with respect to total working fund than NSBI.

Figure 4.13

Total Interest Earning to Total Working Fund



4.1.3.4 Total Interest Earned to Total outside Assets Ratio

This ratio establishes a relationship between dividing total interest earned to total outside assets. The main assets of a commercial bank are its outside assets, which include loan and advances, investment on government securities, investment on shares and debentures and other types of investment. This ratio reflects the extent on which the banks are successful to earn interest a major income on all the outside assets. A high ratio shows high earning power of total outside assets and vice versa. The following table shows interest earned to total outside assets.

Table 4.14

Total Interest Earned to Total OutsideAssets

(In Percent)

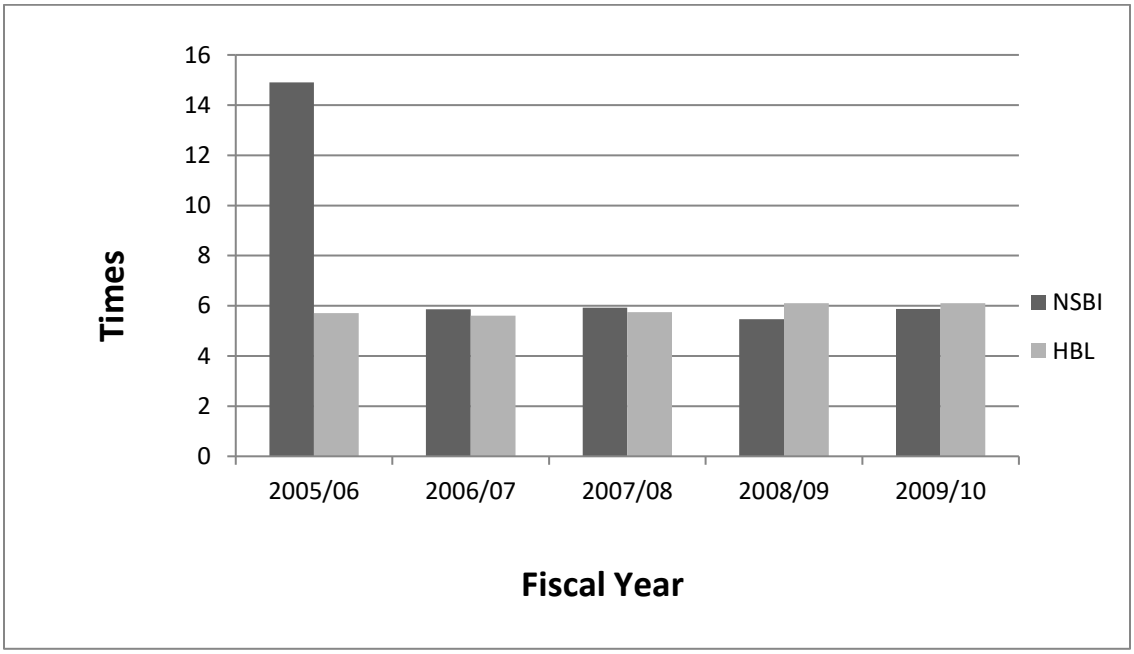
Fiscal Year	NSBI	HBL
2005/06	14.9	5.71
2006/07	5.86	5.61
2007/08	5.93	5.75
2008/09	5.46	6.1
2009/10	5.87	6.1
Mean	7.6	5.85
S.D.	4.08	23.00
C.V	53.63%	3.23%

The Table 4.14 reflects a fluctuated trend in interest earned to total outside assets in case of NSBI and HBL during the study period. NSBI has recorded a high ratio of 14.9% in F/Y 2005/06 and a low ratio of 5.46% in F/Y 2008/09. HBL has had a high ratio of 6.10% in F/Y 2008\09 and 2009/10 and a low ratio of 5.61% in F/Y 2006/07.

In case of mean ratio, NSBI has a higher ratio than HBL i.e., 7.60% >5.85%. It is clear that NSBI has earned higher amount of interest on its outside assets in comparison to HBL. The C.V. of HBL is lower than NSBI i.e. 3.93% <53.69%. This indicates that HBL ratios are more stable than NSBI.

Figure 4.14

Total Interest Earned to Total outside Assets



4.1.3.5 Total Interest Paid to Total Working Fund Ratio

This ratio establishes a relationship between dividing total interest paid to total working fund. This ratio measures the percentage of total interest expenses against total working fund. Total interest paid is that amount which is paid to the leaders as well as bond holders. To operate the business a bank raises the fund through the different source they are (i) issuing share and debenture (ii) taking loan etc. It is called capital gearing i.e. higher the capital gearing the larger the interest paid amount is and vice versa. Generally, this ratio is considering good as lower it is the higher ratio is the indicator or higher interest expenses on total working fund and vice versa.

The following table shows the total interest paid to total working fund ratio. This ratio reveals the relationship between total interests paid amount and total employed. The formula is as follows:

Table 4.15
Total Interest Paid to Total Working Fund Ratio

(In Percent)

Fiscal Year	NSBI	HBL
2005/06	1.22	2.31
2006/07	1.2	1.91
2007/08	1.16	1.95
2008/09	1.2	2.12
2009/10	1.44	2.11
Mean	1.24	2.11
S.D.	0.11	0.18
C.V	8.98%	8.31%

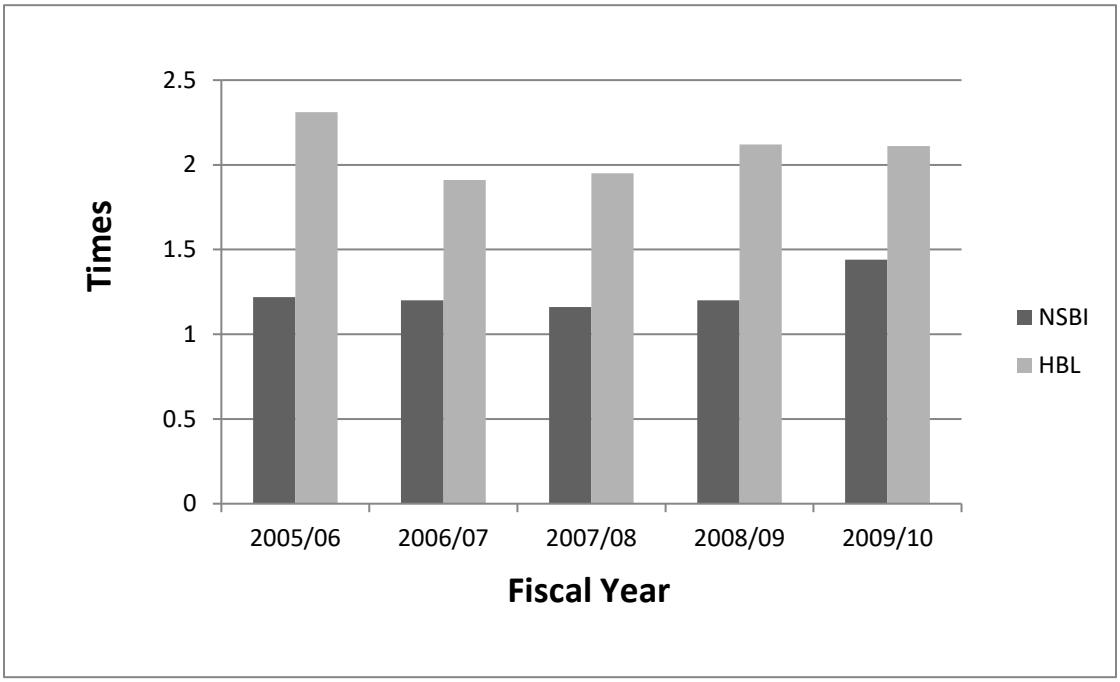
Sources: Appendix No. 4.15 (xv)

The Table 4.15 shows a fluctuated trend in total interest paid to total working fund ratio of NSBI and HBL. The decrees in interest expenses can be attributed to an all time low interest rate offered by banks on deposits, lower interest rates on inter-bank taking and bank borrowings.

The average ratio of NSBI with regards to total interest paid to total working fund ratio is slightly lower than that of HBL i.e. 1.24%<2.11%. In terms of C.V, the C.V ratio of NSBI is higher than HBL i.e. 8.98%> 8.31% so, NSBI ratio are more stable than of HBL.

Figure 4.15

Total Interest Paid to Total Working Fund



4.1.4 Analysis of Growth Ratios

Growth ratio measures the increment and decrement of present year's figure in comparison to previous year's figure. Growth rate analysis of banks involves analysis of Growth in deposits, loan investment and net profit. The rate of growth is self explanatory for the performance of bank.

Table 4.16
Growth Ratio of Total Deposit

(In Millions)

Fiscal Year	NSBI	HBL
2005/06	18756	21007
2006/07	21161	22010
2007/08	19335	24814
2008/09	23061	26490
2009/10	24647	30048
Growth Ratio (%)	7.06	9.36

Source: Appendix No.1 (xvi)

The Table 4.16 shows the growth rate profit of both the banks has in increase sing trend the mean growth rate of HBL in higher than NSBI i.e. 9.36%>7.06% the growth table shows the growth rate of deposit of both the banks in increasing trend the average growth rate of deposits of HBL are significantly higher than NSBI i.e. 9.36%>7.065 thus indicates HBL dismal performance in collecting more deposits.

Figure 4.16

Growth Ratio of Total Deposit

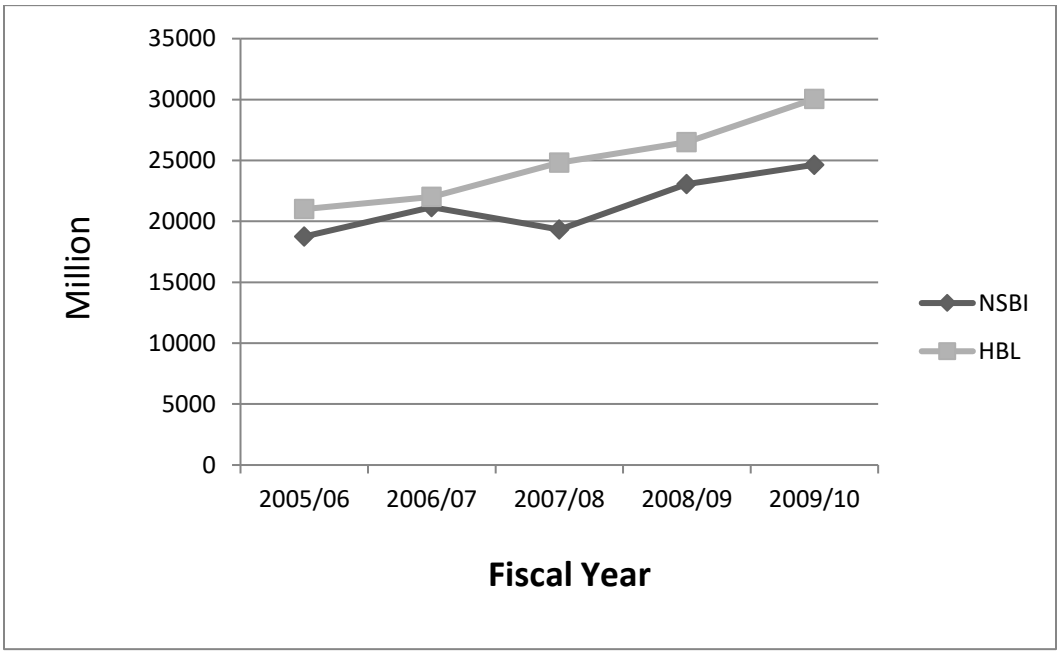


Table 4.17

Growth Ratio of Loan and Advance

(In Millions)

Fiscal Year	NSBI	HBL
2005/06	5696	10845
2006/07	6410	12920
2007/08	8143	13451
2008/09	8935	15762
2009/10	10502	16998
Growth Ratio (%)	16.53	13.18

Source: Appendix No.1 (xvii)

The Table 4.17 shows the growth rate of total loan and advances of both the banks in increasing trend. the average growth rate of total loan and advance of NSBI is better

than HBL i.e. 16.53%> 13.18% the ratio of loan and advance o current assets total deposits and total working fund of HBL is comparatively less than of NSBI.

Figure 4.17

Growth Ratio of Loan and Advance

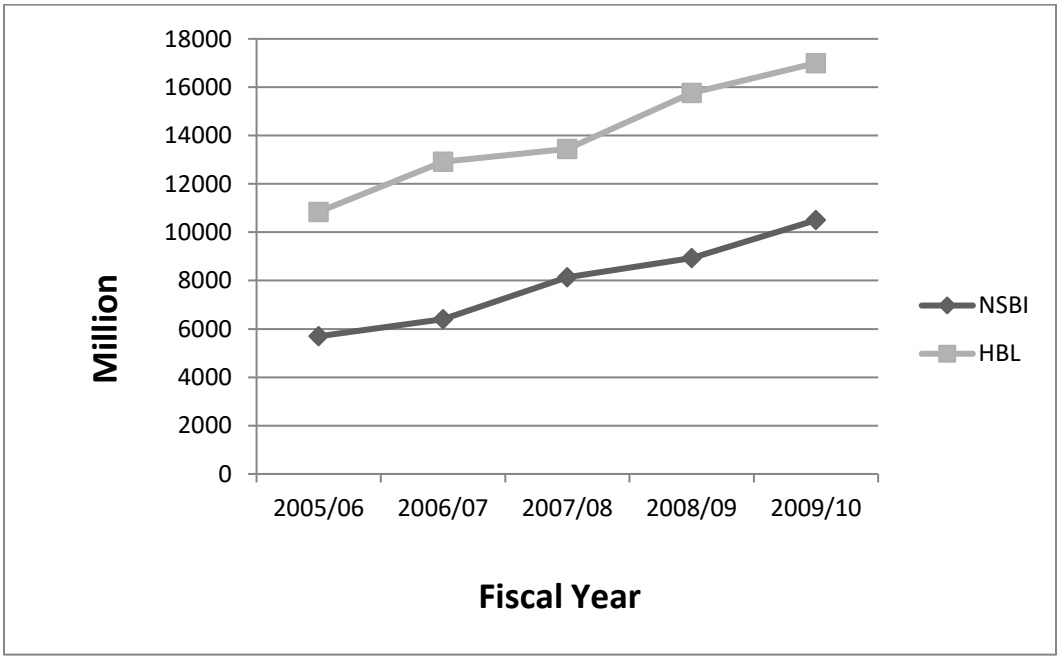


Table 4.18

Growth Ratio of Total Investment

(In Millions)

Fiscal Year	NSBI	HBL
2005/06	10216	10175
2006/07	11360	9292
2007/08	9702	11692
2008/09	12847	10889
2009/10	13553	11823
Growth Ratio (%)	7.32	3.82

Source: Appendix No.1 (xviii)

TheTable 4.18 shows that the growth rate of total investment of HBL is in a fluctuating trend but growth rate of total investment of NSBI is in highly increasing the average growth ratio of investment of NSBI seems to be higher than HBL i.e. 7.32%>3.82%.

Figure 4.18

Growth Ratio of Total Investment

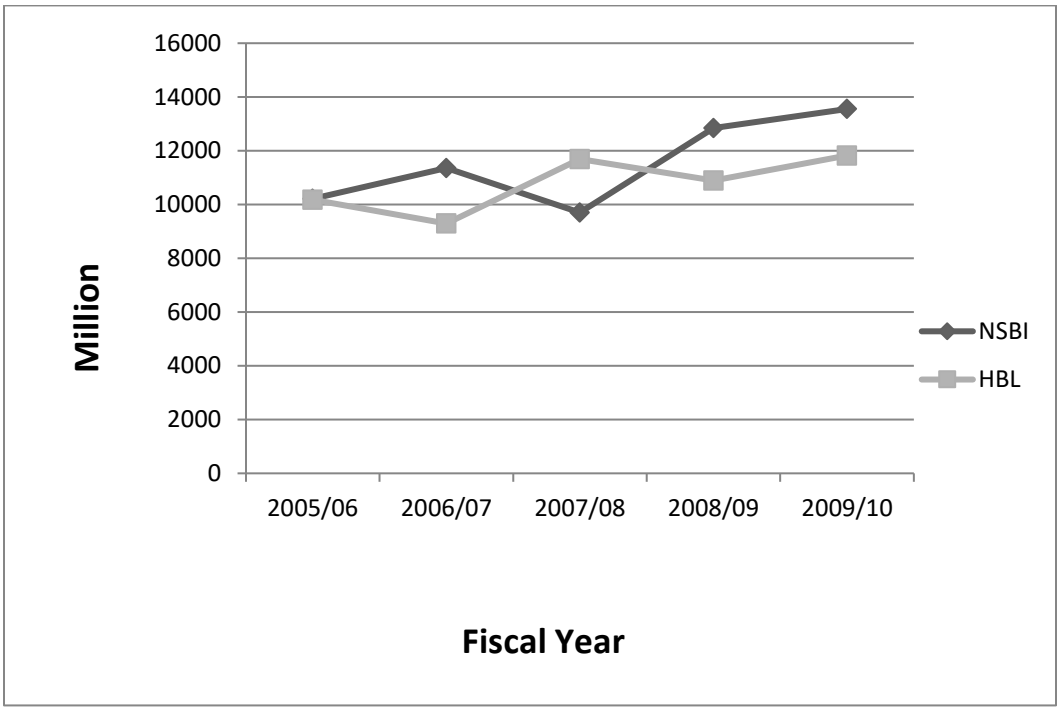


Table 4.19

Growth Ratio of Net Profit

(In Millions)

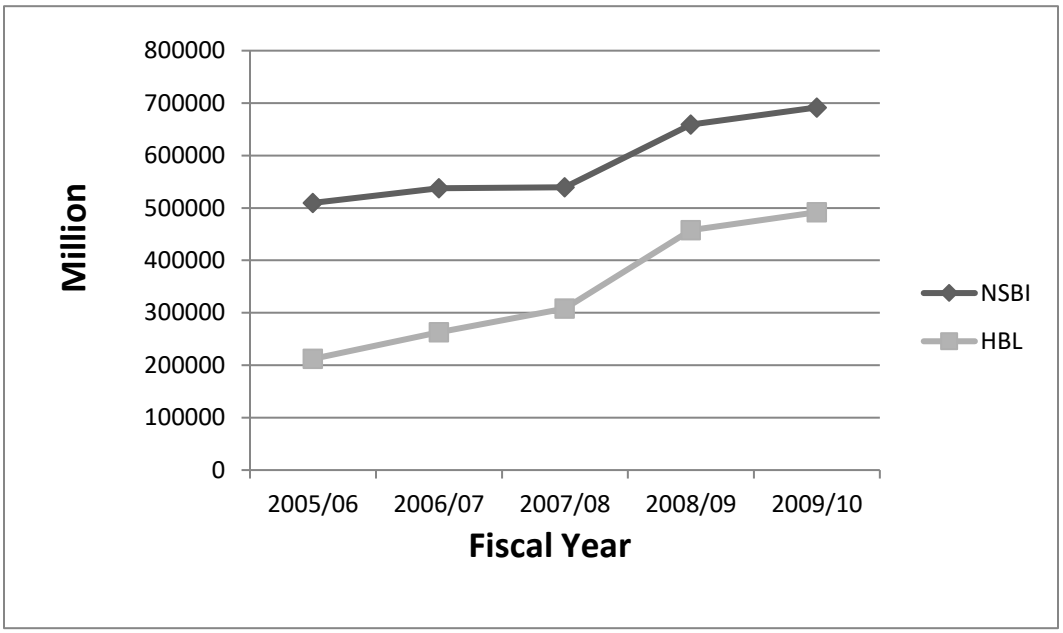
Fiscal Year	NSBI	HBL
2005/06	509623	212132
2006/07	537800	263052
2007/08	539204	308277
2008/09	658756	457458
2009/10	691668	491823
Growth Ratio (%)	8.08	23.43

Source: Appendix No.1 (xix)

The Table 4.19 shows the growth rate of net profit of both the banks has in increasing trend the main growth rate of HBL is higher than NSBI i.e. 23.43%>8.08% .

Figure 4.19

Growth Ratio of Net Profit



4.2 Statistical Tools

Some statistical tools such as coefficient of correlation analysis between different variable, trend analysis of deposits, loan and advances, investment and net profit as well as hypothesis test (t-statistic) are used to achieve the objective of the 4 study. The statistical tools which are used to analysis are a follows.

a. Coefficient of correlation analysis

b. Trend analysis

4.2.1 Coefficient of Correlation Analysis

Under this topic, Karl Person's coefficient of Correlation is used to find out the relationship between deposit and loan and advances, deposit and total investment, outside assets and net profit, deposits and net profit, deposits and interest earned, loan and advances and interest paid, total working fund and net profit. The interpretations of correlation co-efficient are as follows:

- It lies always between +1 to-1.
- When r = -1 there is perfect positive correlation
- When r = 0, there is no correlation.
- Where r lies in between 0.7 to 0.999 (-0.7 to 0.9999) there is a high degree of position or negative correlation.
- Where r lies in between 0.5 to 0.6999 there is moderate degree of correlation.
- If r < 6 P.E., then the value of 'r' is not significant.
- If r > 6 P.E., then the value of 'r' definitely significant.

4.2.1.1 Coefficient of Correlation between Total Deposits and Loan and Advances

The coefficient of correlation between deposits and loan and advances measures the degree of relationship between them. In our study, we have taken deposit as an independent variable demoted by (x) and loan and advances as dependent variable (y). The main objective of calculating 'r' between these two variables is to justify whether deposits are significantly used as long and advances or not.

Table 4.20

Statement Showing Correlation between Total Deposit and Loan and Advances Evaluation Criterion

Banks	r	r^2	P.E.	6P.E.
NSBI	0.8257	0.6818	0.0960	0.5758
HBL	0.9584	0.9185	0.0246	.1476

Sources: Appendix No. 2 (i)

In the Table 4.20 the coefficient of correlation between deposit and loan and advance in case of NSBI is 0.8257. This indicates that there is a positive relationship between deposit and loan and advances. The calculated value of ($r^{2)}$ or coefficient of determination is 0.6818. This mean 68.18% of variation of the dependent variable (loan and advances) has been explained by the independent variable (deposit). When the value of 'r' i.e. 0.8257 is compared with six times the probably error or 6P.E. i.e. 0.5758, we can say that there is significant relationship between deposits and loan and advance because 'r' between deposits and loan and advance in case of HBL is 0.9584, which gives us an indication of higher positive correlation between them.

Similarly, the value of coefficient of determination ($r^{2)}$ is found to be 0.9185. This shows that 91.85% variation of dependent variable (loan and advances) has been explained by the independent variable (deposits). The value of 'r' is greater than six times P.E. i.e. 0.9584>0.1476. This further shows that the value of 'r' is significant. In other words, there is significant relationship between deposit and loan and advances.

From the above analysis, we can conclude that both the banks show positive relationship between deposit and loan and advance. The relationship is highly significant in case of NSBI and HBL and the value of ($r^{2)}$ shows higher percentage of

dependency. Further, the increase in loan and advance is due to effective mobilization of deposits and other factors have marginal role in increase in loan and advances.

4.2.1.2 Coefficient of Correlation between Total Deposit and total Investment

Coefficient of Correlation between deposit and investment measures the degree of relationship between these two variables. Here, deposit in taken as independent variable (x) and the variable dependent on deposit on deposit on deposits is total investment, which is denoted by (y). The purpose of calculating 'r' is to judge whether deposits are significantly mobilized as investments or not. The following table shows the value r, r^2, PE and 6PE of NSBI and HBL during the study period.

Table 4.21

Statement Showing Correlation between Total Deposit and Total Investment Evaluation Criterion

Banks	r	r^2	P.E.	6P.E.
NSBI	0.9786	0.9576	0.0128	0.0768
HBL	0.7870	0.6194	0.1148	0.6889

Sources: Appendix No. 2 (ii)

The coefficient of correlation 'r' between depositor and total investment in case of NSBI is 0.9786, which indicates a positive correlation between deposits and total investment. Coefficient of determination ($r^{2)}$ is 0.9576. This mean 95.76% of variation of the dependent variable has been explained by independent variation of the dependent variable has been explained by independent variables. The value of 'r' i.e. 0.9786 is also greater than six times P.E. This states that there exists a significant relationship between deposits and total investment. In conclusion, it can be said that both the banks show significant relationship between total deposits and total investment.

4.2.1.3 Coefficient of Correlation between Total Outside Assets and Net Profit

The coefficient of correlation 'r' between total outside asset net profit measures the degree of relationship between these two variables, here, total outside assets is independent variable (x) and net profit is dependent variable (y). The main purpose of calculating between these two variables is to justify whether net profit is significantly correlated with total outside assets or not. The following table shows table shows the value of r, r^2, P.E. r and P.E Er of NSBI and HBL during the study period.

Table 4.22

Statement Showing Correlation between Total outside Assets and Net Profit Evaluation Criterion

Banks	r	r^2	P.E.	6P.E.
NSBI	0.8308	0.6903	0.0934	0.5605
HBL	0.9565	0.9149	0.0257	0.1540

Sources: Appendix No. 2 (iii)

The coefficient of correlation 'r' between total outside assets and net profit in case of NSBI is 0.8308, which indicates a positive correlation between outside assets and net profit. Coefficient of determination 'r' is 0.6903. This means 69.03% of variation of the dependent variable has been explained by independent variable. The value of 'r' i.e., 0.8308 is also greater than six times P.E. This states that there exists a significant relationship between outside assets and net profit.

The coefficient of correlation 'r' between total outside assets and net profit in case of HBL is 0.9565, which indicates a positive relationship between the two variables. The coefficient of determination r^2 is 0.9149. This indicates that 91.49% of the variation of the dependent variable has been explained by independent variable. Moreover 'r' is greater than six times to P.E. which further states that there is significant relationship

between outside assets and net profit. In conclusion, it can be said that both the banks show significant relationship between total outside assets and net profit.

4.2.2 Trend Analysis

Trend analysis, present or future analysis, is utilized to see the movement of upward or downward by the help of given numerical values of some specified period of time. The time period may of five years, ten years etc. Here, trend analysis of deposit, loan and advance, investment and net profit of the banks are done. The forecast is made for the next five years. These are based on the following assumptions. The main assumption is there things are remaining the same.

- NRB will not change its guideline to commercial banks
- The economy will remains in the present stage.
- The bank will run is present position.
- The forecast will be true only when a limitation of last square method is carried out.

4.2.2.1 Analysis of Trend value of Total Deposit and Loan and Advances

Under this topic, an effort has been made to calculate the trend values of total deposit and loan and advances of NSBI and HBL for five years from F/Y 2005/06 to 2009/10 and forecast for next five year until F/Y 2014/15. This following table shows the trend value of 10 years from 2005/06 to 2014/15.

Table 4.23

Trend Values of Total Deposit and Loan and Advances of NSBI&HBL

(In millions)

Years	Trend Values of Total Deposit NSBI	Trend Value of Total Deposit HBL	Trend Value of NSBI	Trend Value of HBL
2005/06	104223.75	2061.68	5509706	109652.86
2006/07	105591.99	22618.54	67235.86	124801.60
2007/08	106960.23	24875.40	79374.66	13950.34
2008/09	108328.47	27132.26	91513.46	155099.08
2009/10	109696.71	29389.12	10365.26	170247.82
2010/11	111064.95	31645.98	11571.06	185396.56
2011/12	112433.19	33902.84	127929.86	200545.30
2012/13	113801.43	36159.70	140068.66	21569.04
2013/14	115169.67	38416.56	152207.46	230842.78
2014/15	116537.94	40673.42	164346.26	24991.52

Sources: Appendix No. 3 (I and iv)

From the above comparative Table 4.23 it is clear that a trend value of NSBI is in as increasing trend. If other things remain unchanged the total deposit of NSBI is predicated to be Rs. 116537.91 million and that of HBL to be less than deposit of NSBI by the end of F/Y 2014/15, i.e., Rs. 40673.42 million.

- Trend value of total deposit NSBI
- Trend value of Total Deposit HBL
- Trend value of Loan and Advance NSBI.
- Trend value of Loan and Advance HBL.

From the above trend analysis, it is quite obvious that NSBI deposit collection is proportionately much better than HBL from F/Y 2005/06. The trend value of total deposit of both NSBI and HBL are fitted in the trend lines given in figure on. The above table clearly shows that the loan and advance of both the banks in an increasing

trend. Assuming that other things will remain constant, the loan and advances of NSBI at the end of F/Y 2014/15 is predicted to be Rs. 164346.26.From the above trend analysis, it is quite clear that HBL loan and advance in relation to NSBI is comparatively higher throughout the trend projection period.

4.2.2.2 Analysis of Trend Value of Total Investment and Net Profit

Under this topic, an attempt has been made to analyze total investment and net profit of NSBI and HBL for five years in F/Y 2005/06 to 2009/10 and forecast is made for next five years till F/Y 2014/15.

Table 4.24

Trend Value of Total Investment and Net Profit and NSBI&HBL

Years	Trend Values of Total Investment NSBI	Trend Value of Total Investment HBL	Trend Value of Net Profit NSBI	Trend Value of Net Profit HBL
2005/06	9903.71	9795.98	488.79	195.79
2006/07	10719.84	10285.18	537.83	271.17
2007/08	11535.97	10774.38	586.87	346.55
2008/09	12352.10	11263.58	635.91	421.93
2009/10	13168.23	11752.78	684.95	497.31
2010/11	13984.36	12241.48	733.99	572.69
2011/12	14800.49	12731.18	783.03	648.07
2012/13	15616.6	13220.38	832.07	723.45
2013/14	16432.75	13709.58	881.11	798.83
2014/15	17248.88	14198.78	930.15	874.21

Sources: Appendix No. 3 (v and viii)

From the Table 4.24, it is clear that the trend value of both the banks is in an increasing trend. If other things remain unchanged, total investment of NSBI is predicated to be Rs. 17248.88 in F/Y 2014/15 and that of HBL to be Rs. 14198.78 million. These values are highest under the review period. The above table reveals that NSBI total investment is higher than that of HBL throughout the trend projection period. It can be said that both NSBI and HBL have followed the policy of maximizing their investment.

- Trend value of total investment NSBI.
- Trend value of total investment HBL.
- Trend value of Net profit NSBI.
- Trend value of net profit HBL.

From the above comparative Table 4.24, it is clear that the trend value of both the banks is in increasing trend. Other things remaining the same the trend value of both the banks are in increasing trend. The trend value of NSBI will by highest in F/Y 2014/15 i.e., Rs. 930.15 million. In case of HBL net profit will be Rs. 874.21million on F/Y 2014/15, which is the highest under the review period.

NSBI net profit is higher than that of HBL through the review period. It can be said that both the banks have followed the policy of maximizing their net profit however, we can draw a conclusion that NSBI has utilized its fund better than HBL to earn higher amount of profit.

4.3 Major Findings of the Study

From the data analysis, the following major's findings have been drawn;

Finding from Liquidity Ratio

From the analysis of current ratio it is found that the mean ratio of HBL is slightly higher than that of NSBI. The Ratio of HBL is consistent. The mean current ratio of HBL is greater than 1 and NSBI mean current ratio is less than 1.

- The mean ratio of cash and bank balance to current assets of HBL greater capacity to meet its customer's daily cash requirement than NSBI. The ratios of NSBI are less variable and more consistent than HBL.

- The mean ratio of cash and bank balance to total deposits of HBL is slightly higher than NSBI. HBL has better liquidity position than NSBI because of high percentage of liquid assets. This shows HBL readiness to meet its customer requirement. On the contrary, a high liquidity also indicates the ability of the bank to mobilize its current assets. The ratios of NSBI are more consistent than HBL.

- The mean ratio of investment in government securities to current assets of NSBI is higher than HBL. This shows that NSBI has invested more of its fund in government securities than HBL. The ratios of NSBI are less variable and more consistent than HBL.

The above results show that the liquidity positions of HBL and NSBI are satisfactory. But we can conclude that the liquidity position of HBL is comparatively better than NSBI. It has the highest cash and bank balance to total deposit, cash and bank balance

to current total deposit, cash and ban balance to current assets. HBL is in a better position to meet its daily cash requirement. HBL has a better position to meet its daily cash requirement. HBL has a higher current ratio, which justifies that it is also capable enough to meet its current obligations. NSBI mean investment in government securities is better than HBL. The highest degree of variability is investment is government securities of NSBI during the study period shows lack of concrete policy of the bank in this regards asset enlargement ratio.

The asset management ratio of NSBI and HBL reveals that:

- The mean ratio of loan and advances to total deposit ratio of HBL is higher than NSBI, In terms of consistency both have been stable in their ratios.

- The mean ratio of total investment to total deposits of NSBI is higher than HBL. The ratios of NSBI are more consistent and less variable than HBL.

- The mean ratio of loan and advance to fixed deposit of NSBI is higher than HBL. The ratios of NSBI are less variable and more consistent than HBL.

- HBL has been more successful in identifying profitable investment sectors and increasing its earning. The same does not hold true for NSBI, whose efforts seems to be more focused on investing in risk free assets rather than increasing its loan and advances volume and subsequent earnings from it.

- HBL has a higher fixed deposit to total deposit ratio than NSBI, HBL has the maximum fixed charge bearing deposit than NSBI. From viewpoint of const minimizing more is not favorable other hand from viewpoint of liquidity greater portion of fixed deposit may be termed awes favorable one.

- NSBI has a higher saving deposit to total deposit ratio than HBL. If the total deposit of NSBI is 1 than saving deposit will 61.92. The accurate saving deposit to total deposit ratio of NSBI has the maximum saving charge bearing deposit than HBL. From view point of cost minimizing more is not favorable other hand, from view point of liquidity greater portion of saving deposit may be treed as favorable are.

From the above findings we can conclude that HBL has been more successful in mobilization of its investment to total deposits, saving deposit to total deposit ratio. On other hand, NSBI appears to be stronger in mobilization of total investment to total deposits. Both the banks have successful managed their assets towards different income generation activities.

Finding from Profitability Ratio

The Profitability ratios of NSBI and HBL reveal the following:-

- The mean ratio of return on total working fund of NSBI is slightly higher than HBL. The ratio of NSBI are less consistent and more variables than HBL.

- The mean ratio of total interest earned to total working fund of NSBI is higher that HBL, NSBI ratios are more stable and less variable than HBL.

- The mean ratio of return on total loan and advance of NSBI has been found to be significantly greater than HBL. The ratios of NSBI are less variable and more consistent than HBL.

- The main ratio of total interest earned outside assets of HBL is higher than NSBI. The ratios of NSBI are more consistent than HBL.

- The main ratio of total interest paid to total working fund ratio of NSBI is lower than HBL. However, HBL ratios are more variable than NSBI ratios.

- The mean ratio of total interest earned to total outside assets of HBL is higher than NSBI. The ratios of NSBI are more consistent than HBL.

On the basis of above, we can conclude that NSBI has been more successful in maintaining its higher return on loan and advances and total working fund. On the other hand HBL has been more successful in term of earning power with respect to total working fund. HBL has been more successful in mobilization of its funds in interest bearing assets to earn higher total outside assets than NSBI. HBL is in a better position than NSBI from interest payment point of view. HBL has paid higher interest than NSBI; whereas the letter seems to have collected if funds cheaper sources than HBL.

Finding from Growth Ratios

- The average Growth rate deposit of HBL is significantly higher than NSBI.

- NSBI ratios are highly variable than HBL. The growth rate of total loan and advances of both the banks are in increasing trend. The average growth rate of total loan and advances of NSBI is better than HBL.

- The growth rate of total investment of HBL is in a fluctuating trend but growth rate of total investment of NSBI is in highly increasing trend in FY 2006\07.

Co-efficient to Correlation Analysis

Coefficient of correlation analysis between different variables of NSBI and HBL reveals that:

- The co-efficient of correlation between deposits and total investment of HBL is slightly higher than NSBI.

- HBL is slightly higher than NSBI of coefficient of correlation between deposits and loan and advances.

- The coefficient of correlation between total outside assets and net profit HBL of is slightly higher than NSBI.

In conclusion, we can say that there is a significant relationship between deposit and total investment, total deposit and loan and advances and total outside assets and net profit in case of NSBI. In case of HBL, there exists a significant relationship between deposits and total investment, deposit and loan and advance and total outside assets and net profit.

Trend Analysis and Projection for Next Five year

The trend analysis of deposit, loan and advance, total investment and net profit and its projection for next five years of NSBI and HBL reveals that:

- The deposits of both the banks have an increasing trend. The total deposit of NSBI is predicted to be Rs. 116537.91 million and that of HBL to be Rs. 40637.42 million at the end of F/Y 2013/14. The deposit collection of NSBI is much better than HBL.

- The loan and advance of both the banks have an increasing trend. The total loan and advance of NSBI is predicted to be Rs.164346.26 million and that of HBL to be Rs. 245991.52 million at the end of F/Y 2013/14. The loan and advance of HBL is much better compared to NSBI.

- The loan and advance of both the banks have an increasing trend. The total loan and advance of NSBI is predicted to be Rs. 164346.26 million and that of HBL to Rs. 245991.52 million at the end of F/Y 2013/14 the loan and advance of HBL is much better compared to NSBI.

- The total investments of both the banks have an increasing trend. The total investment of NSBI is projected at Rs. 18044.78 million and that of HBL at Rs. 14198.78 million by the end of F/Y 2013/14. NSBI seems to have a much focused policy with regards total investment than HBL.

- The net profits of both the banks are in an increasing trend. The net profit of NSBI and HBL is predicted at Rs. 930.15 million and Rs. 874.21 million respectively by the end of F/Y 2013/14. The position of NSBI with regard to utilization of the fund to earn profit is better than HBL.

CHAPTER - FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Financial performance concerns with the management and analysis of financial operation of the firm through the means of profitability, liquidity assets management, growth ratios considering these facts, the present study tries to make a comparative financial performance analysis between two commercial banks, namely NSBI and HBL.

The primary objective of the study is to analyze the overall performance of NSBI and HBL, however the other objectives are to examine the overall performance of NSBI and HBL in terms of liquidity, activity, profitability, coverage and capital adequacy ratio to study the achievement of NSBI and HBL, to evaluate the effectiveness of collection of deposit and their utilization to examine the causes of gap existing between deposit and loan investment etc, to provide suggestion and recommendation for the improvement of future performance and maximum utilization of deposit.

The study is about the financial performance of the NSBI and HBL based on its financial data of five years. By using financial and statistical tools, the overall financial performance of the bank has tried to analyze the various ratios have revealed the financial condition of the bank over the five years. Income and expenditure analysis also showed the percentage share of each income and expenses head. Correlation analysis to establish the variable affects of another variable. Likewise trend analysis is used to find out the trend of some very important elements like total deposit, loan and advance, net profit, net worth, NSBI and HBL and investment on the basis of the past data of the bank this can be used in predicting the value of these elements. To achieve

the objectives of the study viz. the comparative study of the financial performance of service industry, commercial banks, various related studies, have been reviewed. Further, different financial and statistical tools have been applied.

5.2 Conclusion

From the data analysis and the major finding drawn, it can be concluded that the current ratio of HBL is greater than I and NSBI current HBL is greater than 1 and NSBI current ratio is less than 1, which should be considered satisfactory for HBL but not satisfactory for NSBI the liquidity position of HBL is better than NSBI. The liquidity position of HBL is better than NSBI. The cash and bank balance of HBL with respect to deposit is greater than NSBI. In this situation, HBL is in a better position with respect to meeting customer requirement than NSBI. In contrast, a high ratio of non-earning cash and bank balance is in indication of bank's unavailability to invest its fund in income generation areas the cash and Bank balance of HBL with respect to current assets is higher than NSBI This shows greater capacity of HBL to meet its customer's cash requirement but that does not mean NSBI cannot meet its daily customer cash requirement. HBL needs to investment fund in more productive sectors.

NSBI has been more successful in maintaining its higher return on loan advance and total working fund. In the other hand, HBL has been more successful in term of earning power with respect to total working fund. HBL has been more successful in mobilization of its funds in interest bearing assents to earn higher total outside assets than NSBI, HBL is in a better position than NSBI from interest payment point of view HBL has paid higher interest than NSBI from interest payment point of view. HBL has higher interest has NSBI, whereas the latter seems to have collected its funds from cheaper sources than HBL.

The ratio of loan and advance to customer assets, total deposit and total working fund of HBL is comparatively less than that of NSBI. The trend value of deposit loan and advances, investment and net profits of NSBI and HBL are in an increasing trend. The trend value of deposits, met profit and investment of NSBI are proportionately higher than HBL in all the years. The trend Value of loan and advances of HBL is proportionately better than NSBI in all the years.

5.3 Recommendations

On the basis of the major findings and conclusion drawn, the following recommendations have been provided.

- Current ratio of the bank is found below the standard. So, it is recommended that the bank should increase the current assets to meet the short- term obligation of the bank. Otherwise there may arise question to the credit worthiness of the bank at any point of time.

- Cash and bank balance of total deposit ratio of the bank were fluctuation order since it is the most liquid assets some provision regarding on this should be made to have consistency. It is recommended to have moderate level of cash and bank balance to meet other deposit.

- The proportion of saving to the total deposit is very low. It is recommended to increase the saving deposit of the bank to moderate the risk and return in the current situation.

- The main source of commercial banks is collecting deposit from public who don't need that fund recently so, it is recommended to collect more amounts as deposit through large variety of deposit schemes and facilities, like cumulative deposits schemes, prize bonds scheme, gift, cheque scheme, recurring deposit scheme (life insurance) monthly interest scheme, house building scheme, direct finance housing scheme, education loan scheme and many others.

- The banks should be very careful in increasing profit in a real sense to maintain the confidence of shareholders, depositors and its all customers HBL is strongly recommended to again highest profit margin Also it should reduce its expense. Profit ability position of NSBI is satisfactory and should try maximizing it.

- It is recommended to adopt innovation approach to marketing. In the banking sector, the business of the bank should be customers oriented. It should strength and activates its marketing function as it is an effectively tools to attract and retain the customers for the purpose, the bank should develop an innovation approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way be optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

- Integrated and speedy development of the country is possible only when competitive banking services reaches books and corners of the country. NSBI and HBL have shown not more interest to open branches in rural areas. Both the bans are recommended to expend their branches and banking services and facilities in rural areas and communities to accelerate their economic development.

- They should attract more non- interest bearing current deposit for increasing profit margin by investing the same as loan and advance.

- NSBI and HBL are facing competition from recently established commercial bank, financial companies, development bank, co- operative and NGO so, giving emphasis on technology development, NSBI and HBL should be more market oriented service- oriented, step forward on new business activities, develop efficiency of manpower, offer a complete range of financial services.

NSBI and HBL have been shown not more interest to open branches in rural areas. Both the banks are recommended to expand their branches and banking services and facilities in rural area and communities to accelerate their economic development.

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www.nepalsbi.com.np

www.himalayanbank.com.np

APPENDIX - 1

i. Current Ratio Times

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Current Assets	17084409	20093715	19322679	21472350	22025802
Current Liabilities	17594654	20740829	18895638	21888227	23283089
Ratio	0.971	0.9688	1.0226	0.981	0.946

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Current Assets	16297019	18602009	21326260	23153115	27775530
Current Liabilities	19083160	18733141	19422823	20091038	19208530
Ratio	0.854	0.993	1.098	1.03	1.446

ii. Cash and Bank Balance to Total Deposit Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/010
Cash and Bank Balance	1512304	2023164	1111117	1276241	221021
Total Deposit	19755635	21161442	19335095	23061032	24647021
Ratio	8.06	9.56	5.75	5.53	8.21

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Cash and Bank Balance	1979209	2001184	2014471	1717352	1757341
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	9.42	9.092	8.12	6.84	5.85

iii. Cash Bank Balance to Current Assets Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Cash and Bank balance	1512304	2023164	1111117	1276241	2021021
Current Assets	17084409	20093715	19322679	21472350	22025802
Ratio	8.85	10.07	5.529	5.94	9.18

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Cash and Bank Balance	1979209	2001184	20144741	1717352	1758191
Current Assets	16297019	18602009	21326260	23153115	27775530
Ratio	12.14	10.76	9.45	7.42	6.33

iv. Investment on Government Securities to Current Assets Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Investment Govt. Securities	6581348	7948217	7203066	863587	7107937
Current Assets	1708440	7948217	7203066	8635875	7107937
Ratio	38.52	39.56	37.28	40.22	32.27

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Investment Govt. Securities	3347102	3431728	5469729	5144312	6454873
Current Assets	16297019	18602009	21326260	23153115	27775330
Ratio	20.54	1845	25.65	22.22	23.24

v . Loan and Advances to Total Deposit Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advance	5695823	6410242	8143208	8935418	10502637
Total Deposit	187559635	21161442	19335095	23061032	24647021
Ratio	30.36	30.30	42.12	38.75	42.61

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advance	10844599	12919631	13451168	15761977	16997797
Total Deposit	21007379	22010333	24814012	26490852	3004841
Ratio	51.62	58.7	54.21	59.5	56.57

vi . Total Investment to Total Deposit Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Total Investment	10211699	11360328	9702553	12847536	13553233
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	54.47	56.68	50.18	55.71	55.10
HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Total Investment	10175435	9292103	11692342	10889031	11822985
Total Deposit	21007379	22010333	24814012	26490852	3004841
Ratio	48.44	42.22	47.20	41.10	39.35

vii. Loan and Advance to Fixed Deposit Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advance	5695823	6410242	8143208	8935418	10502637
Fixed Deposit	1948596	1428495	1416383	2136307	3196490
Ratio	2.92	4.49	5.75	4.18	3.29

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advance	10844599	12919631	13451168	15761977	16997797
Fixed deposit	3205373	4710177	6107431	6350202	8201135
Ratio	3.83	2.74	2.20	2.48	2.07

viii. Loan and Advance to Saving Deposit Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advance	5695823	6410242	8143208	8935418	10502637
Saving deposit	10633162	12771826	13030929	14597674	15244385
Ratio	0.54	0.50	0.62	0.61	0.69

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and Advance	10844599	12919631	13451168	15761977	16997797
Saving deposit	10870542	11759602	12852415	1458255	15784770
Ratio	1.00	1.10	1.05	1.08	1.08

ix. Fixed Deposit to Total Deposit Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Fixed Deposit	1948596	1428495	1416383	2136307	3196490
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	10.39	6.75	7.33	9.26	12.97

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Fixed Deposit	3205373	4710177	6107431	6350202	8201135
Total deposit	21007379	22010333	24814012	26490852	30048418
Ratio	15.26	21.40	24.61	23.97	27.29

X. Saving Deposit to Total Deposit Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Saving Deposit	10633142	12771826	13030929	14597674	15244385
Total Deposit	18755635	21161442	19335095	23061032	24647021
Ratio	56.69	60.35	67.40	63.30	61.85

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Saving Deposit	10870542	11759602	12852415	14582855	15784770
Total Deposit	21007379	22010333	24814012	26490852	30048418
Ratio	51.75	53.43	51.79	55.05	52.53

xi. Return Total Working Fund Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Net profit	506932	537800	539204	658756	691668
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	2.424	2.27	2.46	2.55	2.42

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Net profit	212132	263052	308277	457458	491823

Total Working fund	24197974	25729787	28871343	30579808	34315868
Ratio	0.88	1.02	1.06	1.50	1043

xii. Total Interest Earned to Total Outside Assets Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Total Interest Earned	1001359	1042175	1058677	1189603	1411942
Total Outside Assets	6722023	17770570	17845761	21782954	24055870
Ratio	14.90	5.86	5.93	5.46	5.87

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Total Interest Earned	1201233	1245895	1446468	1626474	1775583
Total Outside Assets	21020034	22211734	25143510	26651008	29616709
Ratio	5.71	5.61	5.75	6.10	6.10

xiii. Return on Loan and Advances

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Net profit	506932	537800	539204	258756	691668
Loan and advance	5695823	6410242	8143208	8935418	10502637
Ratio	8.9	8.41	6.62	7.37	6.6

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Net profit	212132	263052	308277	457458	491823
Loan and Advance	10844599	12919331	13451168	15761977	16997997
Ratio	1.96	2.03	2.30	2.90	2.89

xix. Total Interest Earned to Total Working Fund Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Total Interest Earned	1001359	1042175	1058677	1189603	1411982
Total Working Fund	20910970	23642060	21893578	25776332	28596689
Ratio	4.81	4.41	4.83	4.61	4.94

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Total Interest Earned	1201233	1245895	1446468	1626474	1775583
Total Working Fund	24197974	25729787	28871343	30579808	34315868
Ratio	4.96	4.84	5.01	5.32	5.17

xv. Total Interest Paid to Total Working Fund Ratio

NSBI	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Total Interest Paid	255154	275809	254127	303198	413055
Total Working Fund	20910970	23642060	21893578	25776332	28696689
Ratio	1.22	1.2	1.16	1.20	1.44

HBL	Fiscal Year				
	2005/06	2006/07	2007/08	2008/09	2009/10
Total Interest paid	554128	491543	561964	648842	167411
Total working Fund	24197974	25729878	28871343	30579808	34315868
Ratio	2.31	1.91	1.95	2.12	2.24

Growth Rate as per Formula:

$$\mathbf{D_n = D_0(1+g)^{n-1}}$$

$$\mathbf{g = (D_n/D_0)^{1/n-1} - 1}$$

Where,

D_n= Total amount in nth year

D_0= Total amount in initial year

g = Growth rate

n = Total number of year

XVI) Growth Rate of the Total Deposit

Fiscal Year	D_n= 2009/10	D_0=2005/06	n	Growth Rate
NSBI	24647	18756	5	0.0706
HBL	30048	21007	5	0.0930

XVII) Growth Rate of Loan and Advances

Fiscal Year	D_n= 2009/10	D_0=2005/06	n	Growth Rate
NSBI	10503	5096	5	0.1653
HBL	16998	10845	5	0.1189

XVIII) Growth Rate of Total Investment

Fiscal Year	D_n= 2009/10	D_0=2005/06	n	Growth Rate
NSBI	13553	10216	5	0.0732
HBL	11823	10175	5	0.0382

XIV) Growth Rate of Net profit

Fiscal Year	D_n= 2009/10	D_0=2005/06	n	Growth rate
NSBI	692	507	5	0.0808
HBL	492	212	5	0.2343

Source: An Annual report of NSBI and HBL

Appendix - 2

Coefficient of Correlation can be calculated by using following formula:

Correlation Coefficient simply, r = $\frac{n\Sigma xy - \Sigma x\Sigma y}{\sqrt{[\{n\Sigma x^2 - (\Sigma x)^2\}\{n\Sigma y - (\Sigma y)^2\}]}}$

i) Calculation correlation between Total Deposit and Loan and Advances of NSBI and HBL.

NSBI		
F/Y	Total Deposit	Loan and Advance
2005/06	18755635	5695823
2006/07	21161442	6410242
2007/08	19335095	8143208
2008/09	23061032	8935428
2009/10	24647021	10502637
	r	0.8257
	R^2	0.6818
	P.E.	0.0960
	6P.E.	0.5758

HBL		
F/Y	Total Deposit	Loan and Advance
2005/06	21007379	10844599
2006/07	22010333	12919631
2007/08	24814012	13451168
2008/09	26490852	15761977
2009/10	30048418	16997797
	r	0.9584
	R^2	0.9185
	P.E.	0.0246
	6P.E.	0.1476

ii. Calculation Correlation between Total Deposit and Total investment of NSBI and HBL.

NSBI		
F/Y	Total Deposit	Loan and Advance
2005/06	18755635	10216199
2006/07	21161442	11360328
2007/08	19335095	9702553
2008/09	23061032	12847536
2009/10	24647021	13553233
	r	0.9786
	R^2	0.9576
	P.E.	.00128
	6P.E.	0.0768

HBL		
F/Y	Total Deposit	Loan and Advance
2005/06	21007379	10175435
2006/07	2010333	9292103
2007/08	2481412	11692342
2008/09	26490852	10889031
2009/10	30048418	11822985
	r	0.7870
	r^2	0.6194
	P.E.	0.1148
	6P.E.	0.6889

iii. Calculation of Correlation between Outside Assets and Net Profit of NSBI and HBL

NSBI		
F/Y	Total Outside Assets	Net profit
2005/06	6722023	506932
2006/07	17770570	537800
2007/08	17845761	839204
2008/09	21782954	658756
2009/10	24055870	691668
	r	0.8308
	r^2	0.6903
	P.E.	0.0934
	6P.E.	0.5605

HBL		
F/Y	Total Deposit	Loan and Advance
2005/06	21020034	212132
2006/07	22211734	263052
2007/08	2543510	308277
2008/09	26651008	457458
2009/10	29616709	491823
	r	0.9565
	R^2	0.9149
	P.E.	0.0257
	6P.E.	0.1540

Source: An Annual Report of NSBI and HBL

APPENDIX - 3

Trend Value of Total Deposit of NSBI

Fiscal Year (t)	Total Deposit(y)	X=(t-2006)	X^2	(Rs in million) xy
2005/06	18755.64	-2	4	-37511.28
2006/07	21161.44	-1	1	-21161.44
2007/08	19335.03			0
2008/09	23061.03	1	1	23061.03
2009/10	24647.02	2	4	49294.04
N=5	106960.23	0	10	13682.35

$a = \frac{\sum y}{N} = \frac{10690.23}{5} = 21392.0$

$b = \frac{\sum xy}{\sum x^2} = \frac{13682.35}{10} = 21392.05$

The equation of the straight line trend is :

$Y_c = a+bx$

$Y_c = 106960.23+1368.24x$

Year	X=(t-2006)	Trend Value $Y_c=106960.23+1368.24x$
2005/06	-2	14223.75
2006/07	-1	10591.99
2007/08	0	10696.23
2008/09	1	108328.47
2009/10	2	109696.71
2010/11	3	111064.95
2011/12	4	112433.19
2012/13	5	113801.43
2013/14	6	115469.67
2014/15	7	116537.91

ii. Trend Value of Total Deposit of HBL

Fiscal year (t)	Total deposit(y)	X=(t-2006)	X^2	(Rs in million) xy
2005/06	21007.38	-2	4	-42014.76
2006/07	22010.33	-1	1	-22010.33
2007/08	24814.01			0
2008/09	26496.85	1	1	26496.85
2009/10	30048.42	2	4	60096.84
N=5	124376.99	0	10	22568.6

$a = \frac{\sum y}{N} = \frac{124376.99}{5} = 24875.40$

b= $\frac{\sum xy}{\sum x^2} = \frac{22568.6}{10}$ = 2256.86

The equation of the straight line trend is:

Y_c= a+bx

Y_c=24875.40+2256.86x

Year	X=(t-2006)	Trend Value Y_c=24875.40+2256.86$_x$
2005/06	-2	20361.68
2006/07	-1	22618.54
2007/08	0	24875.40
2008/09	1	27032.26
2009/10	2	29389.12
2010/11	3	31645.98
2011/12	4	33902.84
2012/13	5	36159.70
2013/14	6	38416.56
2014/15	7	40673.42

iii. Trend Value of Loan and Advances of NSBI

Fiscal Year (t)	Loan Advance(y)	X=(t-2006)	X^2	XY
2005/06	56958.23	-2	4	-113916.46
2006/07	64102.42	-1	1	-64102.42
2007/08	81432.08	0	0	0
2008/09	89354.18	1	1	89354.18
2009/10	105026.37	2	4	210052.74
N=5	396873.28	0	10	121388.04

a = $\frac{\sum y}{N} = \frac{396873.28}{5}$ = 79374.66

b = $\frac{\sum xy}{\sum x^2} = \frac{121388.04}{10}$ = 12138.8

The equation of the straight line trend is:

Y_c= a+bx

Y_c=79374.66+12138.80x

Year	X=(t-2006)	Trend Value Y_c=9374.66+12138.800$_x$
2005/06	-2	55097.06
2006/07	-1	67235.86
2007/08	0	79374.66
2008/09	1	91513.46
2009/10	2	103652.26

2010/11	3	115791.06
2011/12	4	127929.86
2012/13	5	140068.66
2013/14	6	152207.46
2014/15	7	164346.26

iv. Trend Value of Loan and Advances of HBL

Fiscal Year (t)	Loan Advance(y)	X=(t-2006)	X^2	XY
2005/06	108445.99	-2	4	-216891.98
2006/07	129196.31	-1	1	-129196.31
2007/08	134511.68	0	0	0
2008/09	157619.77	1	1	157619.77
2009/10	169977.97	2	4	339955.94
N = 5	699761.72	0	10	151487.42

$a=\frac{\sum y}{N}=\frac{699751.72}{5}=139950.34$

$b=\frac{\sum xy}{\sum x^2}=\frac{151487.42}{10}=15148.74$

The equation of the straight line trend is:

$Y_c= a+bx$

$Y_c=139950.34+15148.74x$

Year	X=(t-2006)	Trend Value $Y_c=24875.40+2256.86_x$
2005/06	-2	109652.86
2006/07	-1	124801.60
2007/08	0	139950.34
2008/09	1	155099.08
2009/10	2	170247.82
2010/11	3	185396.56
2011/12	4	200545.30
2012/13	5	215694.04
2013/14	6	230842.78
2014/15	7	245991.52

v. Trend Value of Total Investment of NSBI

Fiscal Year (t)	Loan Investment(y)	X=(t-2006)	X^2	XY

2005/06	10216.20	-2	4	-20432.4
2006/07	11360.33	-1	1	-11360.33
2007/08	9702.55	0	0	0
2008/09	12847.54	1	1	12847.54
2009/10	13553.23	2	4	27106.46
N=5	57679.85	0	10	8161.27

$a = \frac{\sum y}{N} = \frac{57679.85}{5} = 11535.97$

$b = \frac{\sum xy}{\sum x^2} = \frac{8161.27}{10} = 816.13$

The equation of the straight line trend is:

$Y_c = a+bx$

$Y_c = 11535.97+816.13x$

Year	X=(t-2006)	Trend Value $Y_c=24875.40+2256.86_x$
2005/06	-2	9903.71
2006/07	-1	10719.84
2007/08	0	11535.97
2008/09	1	12352.10
2009/10	2	13168.23
2010/11	3	13984.36
2011/12	4	14800.49
2012/13	5	15616.62
2013/14	6	16432.75
2014/15	7	17248.88

vi. The Trend Value of Total Investment of HBL

Fiscal Year (t)	Loan Investment(y)	X=(t-2006)	X^2	XY
2005/06	10175.44	-2	4	-20350.88
2006/07	9292.10	-1	1	-9292.1
2007/08	11692.34	0	0	0
2008/09	10889.03	1	1	10889.03
2009/10	11822.99	2	4	23645.98
N=5	53871.9	0	10	4892.03

$a = \frac{\sum y}{N} = \frac{53871.9}{5} = 10774.38$

$b = \frac{\sum xy}{\sum x^2} = \frac{4892.03}{10} = 489.20$

The equation of the straight line trend is:

$Y_c = a+bx$

$Y_c = 10774.38+489.20x$

Year	X=(t-2006)	Trend Value $Y_c=24875.40+2256.86_x$
2005/06	-2	9795.98
2006/07	-1	10285.18
2007/08	0	10774.38
2008/09	1	11263.58
2009/10	2	11752.78
2010/11	3	12241.98
2011/12	4	12731.18
2012/13	5	13220.38
2013/14	6	13709.58
2014/15	7	14198.78

vii. Trend Value of Net Profit of NSBI

Fiscal Year (t)	Loan Investment(y)	X=(t-2006)	X^2	XY
2005/06	506.93	-2	4	-1013.86
2006/07	537.80	-1	1	-537.8
2007/08	539.20	0	0	0
2008/09	658.76	1	1	658.76
2009/10	691.67	2	4	1383.34
N=5	2934.36	0	10	490.44

$a = \frac{\sum y}{N} = \frac{2934.36}{5} = 586.87$

$b = \frac{\sum xy}{\sum x^2} = \frac{490.44}{10} = 49.04$

The equation of the straight line trend is:

$Y_c = a+bx$

$Y_c = 586.87 + 49.04x$

Year	X=(t-2006)	Trend Value $Y_c=24875.40+2256.86_x$
2005/06	-2	488.79

2006/07	-1	537.83
2007/08	0	586.87
2008/09	1	635.91
2009/10	2	684.95
2010/11	3	733.99
2011/12	4	783.03
2012/13	5	832.07
2013/14	6	881.11
2014/15	7	930.15

viii. Trend Value of Net Profit of HBL

Fiscal Year (t)	Net Profit (y)	X=(t-2006)	X^2	XY
2005/06	212.13	-2	4	-424.26
2006/07	263.05	-1	1	-263.05
2007/08	308.28	0	0	0
2008/09	457.46	1	1	457.46
2009/10	491.82	2	4	983.64
N=5	1732.74	0	10	753.79

$a = \frac{\sum y}{N} = \frac{1732.74}{5} = 346.55$

$b = \frac{\sum xy}{\sum x^2} = \frac{753.79}{10} = 75.38$

The equation of the straight line trend is:

$Y_c = a+bx$

$Y_c = 346.55 + 75.38x$

Year	X=(t-2006)	Trend Value $Y_c = 24875.40 + 2256.86_x$
2005/06	-2	195.79
2006/07	-1	271.17
2007/08	0	346.55
2008/09	1	421.93
2009/10	2	497.31
2010/11	3	572.69
2011/12	4	648.07
2012/13	5	723.45
2013/14	6	798.83
2014/15	7	874.21

Source: An Annual Report of NSBI and HBL