CHAPTER-I

INTRODUCTION

1.1 General Background

A well-developed banking system is necessary pre condition for economic development in a modern economy. Besides producing financial resources for the growth of industrialization, banks can also influence the direction in which there resources are to be utilized. In a modern economy, banks are to be considered not merely in money but also the leaders in development. They are not only the storehouse of the country's wealth but they are utilizing the resources necessary for economic development. It is the growth of commercial banking n 18th and 19^{th} centuries that facilitated the occurrence industrial revolution.

Banks are the key organization that is carrying out the entries task arises in the economic revolution of the nation. It can employ their credits on the industrial sectors, business sector and different other productive sectors to develop the diversify it. To develop and spread industry, to boost the trade and commercial activities, employment generation and in foreign business, the bank cannot be ignored or rather bank is must.

The main objectives of commercial bank are to mobilize idle resources are productive use after collecting them from different places. It brings about greater mobility of resources to meet the emerging necessity of the economy. There are various roles played by a commercial bank for the development of an economy which are capital formation, encouragement to entrepreneurial innovations, influencing economic activity, promotion of trade and industry, development of agriculture and other neglected sectors.

The banks hold savings of the overall health of the economy; regulators and public subject them to constant scrutiny. The banks will generate their income in a different way. They collect money from savers and lend it to borrowers. They make profit by paying less for saving than what they charge to the borrowers.

Accepting of deposits and advancing of loans are the primary functions of a commercial bank upon which the business of commercial banks are mainly dependent. Bank deals with money and so it collects money from one group of people and makes available or lends the same money to another group of people. Bank collects money out of the saving of the public. They invest the same money, which generate profit out of the interest. Interest earning capacity depends upon the volume of investment. Bank pay interest to the depositors out of the extra money they have gained. So the interest rate will generally be high on loans and advances.

The major problem in almost all underdeveloped countries like Nepal is lack of capital formation and their proper mobilization. In such countries, commercial banks should act as a development bank. Nepal is a small and poor country but she has sufficient natural resources. To utilize those resources capital is required. Commercial banks gather monetary resources from different areas in the form of deposits and provide loan to investing areas like industry, agriculture etc. Commercial banks are indispensable financial institution of every country; it plays the vital role in the development of the national economy predominantly by financing in large-scale development projects like hydro-projects, water supply housing projects and a range of other development projects.

Therefore the fate of the country is greatly determined by the active role of commercial banks. Banks provides facilities to their customers by

providing loans, remitting funds, purchase and sale of bills and other market information. There services help to run the business and other economic activities rapidly as well as smoothly which ultimately helps in economic development.

1.2 Statement of Problem

Establishment of commercial banks is growing rapidly in Nepalese contemporary situation. There is high flow of money in the market but leads viable and ingestible project. Therefore, the introduction of new bank is just sharing a cake rather than pumping new capital or new technology, as Nepalese market is almost felt saturated. Few commercial banks are continuously making profit and satisfying their shareholders and returning them adequate profit. This has attracted the potential customer to the power their money into banks, as there are very few sectors to make a profitable investment and the investors are always reluctant to risk. They do not take initiation to invest in other sectors. Therefore, commercial banks have a lot of deposits but very little investment opportunity. They are even discouraging people by offering very low interest rate and minimum threshold balance. This will definitely make bad impact on economy of the country. This has decelerated the pace of economic development. Lack of sound investment policy is another reason for a commercial bank not to properly utilize its deposits that is making loan and advanced or lending for a profitable project. This condition will lead the commercial bank to the position of liquidation; they face so many difficulties to mobilize their deposit fund on the profit making investment, so they can achieve sufficient return from the investment and satisfy their shareholder. The lack of knowledge on financial risk, interest rate risk, management risk business risks

liquidity risk, default risk and purchasing risk etc. granting loan against insufficient deposit, overvaluation of goods pledge, land building mortgaged, risk averting decision regarding loan recovery and negligence in recovery of overdue loan are some of the basic lapses and the result of unsound credit policy sighted in the banks.

A sound banking system with wide spread of branches throughout the country with varieties of banking services to fulfill commerce trade, industry and agricultural needs of the country is of crucial importance for Nepal. It can be visualized that the banking development in Nepal is yet in its infant stage.

In the light of the very fact that commercial banks are the backbone of the economy of a country, it is highly useful to make the present study on the Himalayan Bank Limited and Nabil Bank Limited. This study enables us to see clear pictures of the status of the bank like show encouraging and attractive its profitability position is, how its income and expenditure status is and how far it heads achieved success of any business enterprises. But the financial performance of the enterprises in Nepal is quite dismal and has not been able to contribute towards the generation of surplus.

Both the commercial banks have succeeded to capture a remarkable market share of Nepalese banking sector of financial services industruy in a relatively short period of time. These banks have an experience on international banking and computerized services. Professional attitude is a factor for their rapid progress. They have been gaining from weakness and inefficiency of domestic commercial banks.

The financial performance of any financial institution can be evaluated with the aid of balance sheet and P/L a/c. The bank most provide with the statistical information about their business. The information must be

provided in a prescribed from for the publication. However, the details of the information regarding loan disbursement are not accessible in the both the banks. So, the evaluation of financial performance of the banks has been done with the aid of balance sheet and profit and loss account only.

Trends of different variables like cash and bank balance, cash in hand, investment, loans and advances, fixed assets, total assets total assets, liabilities, shareholders equity, reserve fund, net profit etc. can be studied with the use of balance sheet.

So by observing the balance sheet, it is found that cash and bank balance is in fluctuation trend. It increases in third year and decreases in last two years of Nabil and that in HBL it is decreasing in first two years and then increasing in last two years.

In the same way investment of both the banks is in increasing trend. The ratio of increase of investment in HBL is lower than that of Nabil. Loan and advances of Nabil is in decreasing trend and that of HBL in increasing trend.

Total liabilities of Nabil are fluctuating and HBL is increasing. Share capital of both the banks is increasing. The growth of reserve fund is in increasing in Nabil and decreasing in HBL. Net profit of both the banks is increasing.

Some of the trends of variables are fluctuating, incomes are increasing and some are highly fluctuating. So these fluctuation rends are of concern. The research is needed to be conducted to determine the factor affecting the trends of different variables and to know the reasons why these trends are fluctuating. As a result, the areas of improvement could be identified and necessary suggestions could be given to improve those areas.

1.3 Objectives of the Study

The basic objective of the study is to review the investment policies adopted by NABIL Bank and Himalayan Bank. The main objectives of this study are given below:

a. To evaluate the liquidity management, efficiency, profitability, risk position and lending practices of commercial banks.
b. To analyze the financial position of the relevant banks in terms of deposit collection and mobilization procedure.
c. To measure the lending capacity of the commercial banks on study.
d. To analyze the trends of deposits mobilization towards total investment and loan and advances and its projection for next 5 years.

1.4 Research Questions:

This study attempts to solve the following research questions.

- How commercial banks analyze and measure their financial position?
- How far Commercial Banks have mobilized its resources?
- How effectively the Commercial Banks are managing their liquidity, profitability, risk, assets management, deposits and capital structure?
- What tools and technique are used for evaluating the performance?

1.5 Importance of the Study

A sound banking system with wide spread of branches throughout the country, availing varieties of banking services to fulfill commerce, trade industry and agriculture need of the country, is of crucial importance for Nepal. Commercial banking aids in accelerating the process of development through deposit mobilization.

Although the commercial banks performs different type of functions viz. accepting deposit, keeping safe the deposited funds, discounting bill of exchange, the agency function viz. like collecting of dividends on shares, make payments as instructed, remittance of funds, purchasing and sale of securities etc., the main function of the commercial bank is mobilizing the collected deposits. No matter how much they perform other functions, the banks will not be able to improve until it mobilizes its deposits appropriately.

The proper mobilization of domestic resources becomes indispensable for any developing country aspiring for a sustainable economic development of the nation. The success and prosperity of the bank relies heavily up in the successful formation and effective implementation of investment policy, which is the prime requisite for the development of the commercial banks.

Basically, this study attempts to find out the current role of NRB in banking development, and it is necessary keeping in mind the existing constraints in resources mobilization in the country.

1.6 Limitations of the Study

The study is only the partial fulfillment of MBS program. However there are some limitations, which narrowed the generalization e.g. inadequate coverage of the industry, time period taken, availability of data, reliability of data used and other variations. The study will be limited by following factors:

1. The whole study is based on secondary data collected from the respective banks. The output may not be accurate one since the secondary data itself induces various limitations.
2. This study is limited to only a period of 5 years trend of the concerned banks and hence the conclusion drawn confines only to the above period.
3. This study deals with only two Joint Venture Commercial banks such as NABIL Bank and Himalayan Bank. Other commercial banks have not been considered.
4. Out of numerous affecting factors, only those factors related factor with fund mobilization as loan and advance, investment in government securities and other financial institutions are considered in this study.
5. Though there are many NRB directives issued for the progress of commercial banks, this study includes only directives regarding deposit mobilization of commercial banks in the country.
6. This thesis is particularly based on the data as derived from the published annual report of two banks along with NRB directives.

1.7 Organization of the Study

This study has been divided into five major chapters, which are as follows:

1. Introduction: The first chapter deals with background, evolution of banking system in Nepal, a brief overview of NABIL Bank Limited and Himalayan Bank Limited, focus of the study, statement of problem, objectives of the study and limitation of the study.
2. Review of Literature: The second chapter deals with the conceptual frameworks like concept, types, policy, needs, determinants and review of literatures.
3. Research Methodology: The third chapter includes introduction, data plan, nature and sources of data, collection of data, data processing, horizon of the study, analyst technique.
4. Presentation and analysis of data: Fourth chapter presents the analysis of data. In addition to the analysis of data, this chapter presents the finding of the study.
5. Summary, Conclusion and Recommendation: The fifth chapter summarizes the whole study. Moreover, it draws the conclusion and forwards the recommendation of the improvement of working capital management of NABIL Bank Limited, and Himalayan Bank Limited.

CHAPTER-II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the financial performance of commercial banks. Every study is very much based on past knowledge. The past knowledge or the previous studies should not be ignored as it provides foundation to the present study. Therefore, this chapter has its own importance in this study. This chapter is divided into following parts:

2.1 Conceptual Framework

Commercial Bank

Commercial bank act, 2031 has defined commercial Bank "It means a Bank which operates currency exchange, transactions, accepts deposits, provide loan and performs dealing relating to commerce, and other than those banks which have been specified for the co-operative, agriculture, industry of likely any other specific objective." The commercial banks it has been amended for six times till today. Now commercial bank act, 2049 is active.

Financial Performance

In any business profit is one of the indicators of sound financial performance. It is usually the result of strong business management, cost control credit risk management, and general efficiency of operation. Profit is essential for an enterprise for its survival and to maintain capital adequacy by profit retention.

Through profit is vital for any business concern including banks however profit cannot be the sole objective. For example neither the banks nor the community will be best served if the banker unreasonably sacrifices the safety of its funds or the liquidity of the banking in an effort to increase income.

When we discuss about liquidity is needed to honor cheques and at the same time to enable its bank to make profitable loans when an opportunity arises.

Difficulties on the other hand if it maintains excess liquidity, it may be retained earnings to the point where it can be built up the capital needed to hold its relatives position in the banking structure. Excess liquidity is the loss of income.

Investors more concerned with firms long term financial strength or solvency. While evaluating the financial performance, business conserving with resource mobilization failure to collect enough deposit and exhibit in efficiency of the bank. In this contest some of the research works have been examined.

丿 Statement Analysis

The analysis of financial statement is done to obtain a better insight into a firm’s position and performance. Analysis of financial statement is a process of evaluating the relationship between the component parts of the financial statements to obtained better understanding of a firm’s position and performance.

In order to make financial statement more meaningful, analysis of financial statement is prepared. Analysis of financial statement means a study of relationship among the various financial factors. It is a process of classifying and arranging mass data of financial statement. For obtaining

a better understanding of the position of a business and its performance, classifying and arranging are needed. The objective of this process is to understand the financial position, profitability, operational efficiency and growth potential of the business.

A) Ratio Analysis

Ratio is the expression of one figure in terms of another .It is the expression of the relationship between mutually independent figures. It is a simple mathematical expressions of the relation of one item with another independent figure alone convey no meaning unless they are compared each other. Accounting rations shows the interrelationship existed among various accounting data.

According to Kohler, “A Ration is the relationship of one amount with another expressed as the ratio of or as a simple fraction, integer, and decimal fraction percentage.”

Ratio refers to the numerical or quantitative relationship between two items or variables. In simple language, ratio is one number expressed in terms of another and can be worked out by dividing a number with other. So to speak, it is calculated by dividing by one item of the relationship with other.

Ratio analysis is the numerical relationship between any two variables of financial statements, which should serve some meaningful purpose. Ratios are expressions of logical relationship between items in the financial statements of a single period. Analysts can compute many ratios from the same setup financial statements. A ratio can show relationship between two items on the same financial statement or between two items on different financial statements (e.g. balance sheet and income statement).The only limiting factor in choosing rations is the requirement

that the items used to construct a ratio have a logical relationship to one another.

2.2 Features of Sound Lending Policy

The succession of the bank measure by its income and profit, which is depends upon its lending procedure, lending policy and investment of its fund in different securities. The profitability will be higher, the greater the credit created by the bank. A sound lending and investment policy is not only prerequisite for bank profitability, but also crucially significant for the promotion of commercial savings of a backward country like Nepal.

Different authors as under have pointed some necessities for sound lending and investment policies, which most of the banks must consider.

Liquidity

Banking is a serious business, once it last the confidence in depositor's eye, they may withdraw all their deposits within a brief period without giving any chance the bank to many.

Liquidity refers to that state of position of a bank that pronounces its capacity to meet all of its obligations. In other words, it refers to the capacity of bank to pay cash against deposits. Liquidity generally refers to the cash or any assets that can be converted into cash immediately. People deposit money at the bank in different account with confidence that the bank will repay their money when they need. To maintain such confidence of the depositors, the bank must keep this point in mind while investing its excess funds in different securities or at the same time of lending. So that it can be meet current or short-term obligations when they become due for payment. Hence, the liquidity position of a bank is such an important factor that it must be able to meet its cash requirement

either by its cash in vault or by the help of converting its assets into cash in case of demand for such form its customers.

Profitability

Commercial banks invest on there sectors that drive the maximum income. The profit of commercial bank mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. It is a fact that a commercial bank can maximize its volume of wealth through maximization of return on their investment and leading. So, they must invest their funds where they gain maximum profit.

Who contributed to build up the banks capital and interest to the depositors? For this bank calculates the cost of fund and likely return, if the spread is enough irrespective of risk involved and absorbs its liquidity obligation, it will go ahead for investment. A good bank is one who invests most of it, funds in different earning asset standing safely from the problem of liquidity i.e. keeping cash reserves to meet day-to-day requirements of the depositors.

Safety and Security

Bank must take care while investing funds. It should never invest its fund in those securities, which are too volatile since a small chance causes a great loss. Similarly, the businessman who is bankrupt at once or earns million in a minute should not be financed at all. Only commercial, durable, marketable and high market valued securities should be accepted. For this purpose, MAST should be followed.

M - Marketable

A - Ascertainable

S - Stability

T - Transferability

Bank should never forget that its fund basically consists of money borrowed from customers on various accounts as current account, saving account, call deposit account etc. Bank deals with customer's money. Hence it must take care the belonging of public while investing of public while investing and providing loan received in the form of deposits. The risk and return involved must be analyzed thoroughly so that depositor's money is advanced safety where the risk of loss does not exit. The three "C" should be followed in arriving the decision regarding the advances of fund. The there "C" stand for character, capacity and capital.

Purpose of Loan

Bank should always know that why a customer needs loan because if the borrower misuse the loan granted by bank he will never be able to repay loan in order to avoid such circumstances advances should be allowed to selected the suitable burrowers and it should demand all the essential detailed information about the scheme of the project in which the bank is lending for. Detailed information about the scheme of the project or activities would be examined before lending. Bank must keep in mind due overall development plans of the ration and the credit policy of the concerned authority i.e. central bank.

Commercial bank has to cover all the expenses and make payment in the form of dividend to the shareholders who contributed to build up the bank's capital and interest to the depositors. For this the bank calculates the cost of fund and likely return, if the spread in enough irrespective of risk involved and absorbs its liquidity obligation, it will go ahead for investment.

Diversification

Diversification of loan helps to sustain loss according to the law of average because, if securities of a company deprived, there may be

appreciation in the securities of other companies. In this way, the loss can be recovered. The bank must not invest the funds in specific rector but to the various sectors, so that when something goes wrong in once particular sector others will recover. A bank should not lay all its eggs on the same market.

Tangibility

Thought it may be considered that tangible property doesn't yield on income apart from direct satisfaction of possession of property, many times intangible securities have lost their value due to price level inflation. A commercial bank should prefer tangible security to intangible one.

2.3 Meaning of Some Important Terms

In the study has been made to clarify the meaning of some important terms, which are frequently used in this study.

Deposits

Deposit means the amounts deposited in different accounts such as fixed account, saving account, current account etc. of a bank or financial institution. Deposit is the most important source of the liquidity for a commercial bank. It is also the main source of fund that a bank usually uses for the generation of profit. Therefore, the efficiency depends on its ability to attract deposits. Deposit being the borrowed amount from the depositors or from general public and institutions, it constitutes the liability of a bank.

Basically deposits are categorized in three headings for accounting and analysis purpose.

(i) Current Deposits

(ii) Saving Deposits and

(iii) Fixed Deposits

Loan and Advances

This is the primary source of income and most profitable asset to a bank. Bank deposits can be crossed beyond a desired level but the level of loans, advances and overdrafts will never cross it. Every bank is always willing to lend as more as possible since they constitute the largest part of revenue. But bank must careful while providing loans and advances since they may not be realized at short period of time. And sometimes they may turn into bad debt. Therefore it is wise not to rely on them at the time of emergency for all banks. A commercial bank is less interested to lend its funds for a long period of time. If lends money for a short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long-term loan because it has to synchronize the loans and advances with the nature of deposits they receive. Loans and advances are provided against the personal security of the borrower or against the security of the immovable and moveable properties. Banks provide the loans in the various forms i.e. direct loans, cash credit, overdraft and discounting bills of exchange. In mobilization of commercial banks, founds, loan, advances and overdraft have occupied a large portion.

Other Use of Funds

Commercial bank must maintain the bank balance with Nepal Rastra Bank as prescribed by the bank in Nepal. Similarly, the have to maintain the cash balance in local currency in the vault of the bank.

Off-balance Sheet Activities

Off-balance sheet activities involve contingent liabilities. These activities are not recognized as assets or liabilities on balance sheet. These items are letter of credit, letter of guarantee, bills of collection etc. These are

very important, as they are the good source of profit to bank though they have risk.

2.4 Review of Books

Financial manages also have the responsibility for deciding the credit terms under which costumers may buy. How much inventory the firm should carry, how much cash to keep on hand, whether to require other firm (merger analysis). [Brigham, Gapenski and Ehrhardt, 1999, pp-35]

I.M Pandey in his financial management has said, “Financial management is that managerial activity which is concerned with planning and controlling of the firm’s financial resources. Through it was a branch of economics till 1890 as a separate activity or discipline it is of recent origin still. It has no unique body of knowledge of its own and draws heavily on economics for its theoretical concept even today. He further says it is of great interest to academician’s new manages and practicing manages. [Panday, 1999, pp-95]

Brigham, Gapenski and Ehrhardt in this book financial management have said “Financial management is the broadest of three areas, the one with the greatest member of job opportunities, financial management is important in all types of business, including banks and other financial destitutions as well as industrial and retail firms. Financial management is also important in government operation from schools to hospitals to highway department.

Surendra Pradhan: in his book financial management has said “financial management is defined as the process of financial decision making founded as the principal of maximizing share holder wealth. In broadest terms its scope covers all financial matters that affects the financial out comes of a firm. He further says “the secret of success in the competitive

world lies in the ability of managers to foresee the direction of changes with respect to consumer preferences and development in technologies. [Pradhan, 2000, pp-85]

James C. Van Horne has defined “Financial management involves the solutions of three major decisions. Together they determine the value of a company to its shareholders. Assuming that our objectives is to maximize this value, the firm should step for an optimal combination of the three enter related decisions solved joint the decision to invest is a new capital product, for example, necessitates financing the investment. [James C. Van Horne, 2001, pp-115]

The financing decision in tern unbalances and is imbalanced by the divided decision, for retained earnings used in internal financing.

Shiva Prasad Munakarmi says: - “Financial account is concerned with the recording of financial transaction of the business and provides information in financial terms to parties or people wanting information about the state of the business. It is that part of accounting which is employed to communicate the financial information of a business unit. The object of financial accounting is to find out the profitability and to provide information about the financial position of the business concern. [Munakarmi, 2002, pp. 75]

Radhe S. Pradhan in his book ‘Financial Management’ has said “Anybody wishing to start a business would have to decide (1) the nature of long term investment or lines of business, and sorts of buildings, machinery and equipment (2) the long term financing to pay for investment should be financial with owners’ equity or debt and (3) managing everyday financial activities such as collecting from customers and paying to suppliers etc. These are simply the most important question. There are other questions as well financial management is

basically concerned with the study of the ways to deal with these decisions. [Pradhan, 2003, pp. 2-3]

2.5 Review of Thesis

Mr. Raja Ram Khadka, (1997), has conducted a research in the topic "A study on the Investment Policy of Nepal l Arab Bank Ltd. (NABIL) in comparison to other Joint Venture Banks of Nepal" compared NABIL with that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosweze Bank Ltd. (NIBL). The research was mainly centered with to evaluate the liquidity, assets management efficiency and profitability positions in related to fund mobilization of NABIL in comparison to other JVBs. To discuss fund mobilization and investment policy of NABIL in respect to its fee-based off-balance sheet transaction and fund-based off-balance sheet transaction. The data and other necessary information's were collected by suing secondary as well as primary sources of data.

In his research Mr. Khadka has pormed out various findings find recommendation. Some are that is the liquidity position of NABIL is comparatively worse that that of Nepal Grindlays Bank Ltd. (NGBL) and Nepal Indosweze Bank Ltd. (NIBL).

It is also comparatively less successful in On-balance sheet utilization as well as off-balance sheet operation than that of NGBL and NIBL. In the case of profitability ratio he has concluded that the profitability position of NABIL is comparatively not better than that of other joint venture banks (JVBs). NABIL is more successful in deposit mobilization but failure to maintain high growth rate of profit in compare to NGBL and NIBL.

Mr. Shankar Kumar Singh, (1997) has conducted a research in the topic "A Comparative Evaluation of Financial Performance of Nepal Arab Bank Ltd. and Nepal Grindlays Bank Ltd". The major objectives of his study were that to present the background of the study by assessing the financial position of both banks and it seeks to identify the financial strengths and weakness by analyzing the following ratios: Liquidity ratios, Leverage ratios, Activity ratios, Profitability ratios. To analyze these banks performance by the help of trend analysis the data and other necessary information's were collected by suing secondary as well as primary sources of data.

Mr. Singh concluded the some remarkable the liquidity position in terms of current ratio of both banks is below the normal standards. Current ratio indicates unsatisfactory liquidity position in both banks. On the average, NABIL has slightly higher liquidity than NGBL. Loan & advances to total deposit ratio and loan & advances to saving deposit ratio of NABIL are higher than NGBL.

Total debt to shareholders equity and total debt to total assets are slightly higher in NGBL than NABIL whereas shareholders equity to total assets in higher in NABIL than NGBL. Coverage ratio in regard to interest coverage ratio as well as provision for possible losses ratio of NABIL is higher than NGBL. Profitability ratios of both the banks reveal positive reform during the study period. The performance of NGBL is better than NABIL in terms of all the profitability ratios except interest earned to total assets ratios and net operating profit to total asset which are higher in NABIL.

Mr. Prem Bahadur Shahi, (1999), on his study "Investment Policy of Commercial Banks in Nepal : A Comparative Study of Nepal Bank Limited (NBL) and Joint Venture Banks (JVBs)". Mr. Shahi mainly

concerned his study in to evaluate the liquidity, asset management efficiency and profitability and risk position of NBL in comparison to the JVBs, to discuss fund mobilization and investment policy of NBL in respect to its fee-based Off-balance sheet transaction and fund-based On-balance sheet transaction in comparison to the JVBs. The data and other necessary information's were collected by suing secondary as well as primary sources of data.

Mr. Shahi has pointed out various liquidity position of NBL is comparatively better than that of the JVBs. It has more positions of current assets as loan and advance but less portion as investment on government securities. NBL is comparatively less successful in On-balance sheet as well as Off-balance sheet operation than that of the JVBs. It has not followed any definite policy with regard to the management of its assets. It predicts that in the coming days NBL can not mobilize and utilize its resources as efficiency as the JVBs to maximize the returns and may lag behind in the competitive market of banking. There is comparatively higher risk in NBL than that of the JVBs regarding various aspects of the banking function. NBL has not been more successful to increase its sources of funds i.e. deposits and mobilization. Seems to have failed to maintain high growth rate of profit. It has not made any effective strategy to win the confidence of shareholders, depositors and its all customers.

Mr. Upendra Tuladhar (2000) in his studies "A Study on the Investment Policy of Nepal Grindlays Bank Ltd. in Comparison to other Joint Venture Banks of Nepal". Mr. Tuladhar had concerned his study in the fund mobilization and investment policy with respect to Fee- based Off-balance sheet transaction and fund based On-balance sheet. To evaluate the liquidity, efficiency of assets management and profitability

position. To evaluate the growth ratios of loan & advances and total investment with respective growth rate of total deposit and net profit of sample banks. To perform an empirical study of the customer's views and ideas regarding the existing services and adopted investment policy of the joint venture banks. The data and other necessary information were collected by using secondary as well as primary data.

Mr. Tuladhar had pointed out various findings and recommendations some were as follows: the liquidity ratio of NGBL has maintained successful in it’s on- balance sheet operation. But in the case of Off-balance sheet operation, NGBL is advanced than NABIL and HBL.

In the case of profitability ratio NGBL is higher profitability position than NABIL and HBL as well as it use to provide interest to the customers for different activities is highly consistent whether may be the volume. The growth ratio of net profit of NGBL seemed to be more satisfactory than NABIL but in the case of HBL it seemed to be very high.

In the case of coefficient of correlation, there is negative correlation between NGBL and NABIL but positive correlation between NGBL and HBL in respect to deposit and total investments.

Mr. Shiba Raj Laudari, (2001), has conducted a research in the topic "A Study on Investment Policy of Nepal Indosuez Bank Ltd. in Comparison to Nepal State Bank of India Bank Ltd". The researcher's main objective of study was to examine the liquidity, assets management and profitability position and investment policy of NIBL in comparison to NSBI. The data and other necessary information's were collected by suing secondary as well as primary sources of data.

Mr. Laudari had pointed out various finding and recommendation the both banks current assets have exceeded the current liabilities therefore the ratio is consider satisfactory. But there cash reserve ratios have

fluctuated in high degree. However NIBL has maintained both current ratio and cash reserve ratio better than that of NSBI. The assets management ratio shows that deposit utilization of NIBL is less effective than NSBI. The research stated that NIBL has invested lesser amount on government securities and share and debenture than that of NSBI. The growth ratio of total deposit, loan and advances, total investment and net profit of NIBL are less than that of SBI.

Mr. Ganesh Ragmi, (2001), has conducted a researcher the topic "A Comparative Study of the Financial Performance Himalayan Bank Ltd and Nepal Bangladesh Bank Ltd." The researcher's objective of study was to examine the current financial position of these banks and to analyze the comparative financial position of these joint venture banks.

Through his research Mr. Regmi has found due remark table finding and suggestion. Same were the current assets of HBL are adequate to meet the current liabilities where as it is in sufficient for NBBL. Further as per his study long term debt to net worth ratio is higher in NBBL than in HBL but both banks are following an aggressive strategy of higher risk-higher return. Both banks are utilizing their deposits fund through loan and advances to generate revenue efficiently, but comparatively NBBL is doing more efficiently than HBL.

HBL has better utilization of resources in short-term investment and NBBL has more non earning idle assets as cash and bank balance and profitability position of HBL is better than that of NBBL.

Mr. Jhalak Bdr. Oli, (2001), has conducted his study entitled "Financial performance of Himalayan Bank Ltd., Nepal State Bank of India Bank Ltd. and Nepal Bangladesh Bank Ltd." The researcher's main objective of study was to examine the financial performance of HBL. NSBI and NBBL and to analyze the comparative financial position of the three joint

venture banks. The data and other necessary information's were collected by suing secondary as well as primary sources of data.

Through his research Mr. Oli has found some remarkable the short term solvency position of NBBL is seen well than in NSBI and HBL and liquidity position of HBL is below than normal standard. As per the research NBBL has been successfully utilized their total deposits in the turn of extending loans and advances for profit generating purpose on compared to NSBI and HBL and HBL has better turnover and efficiently utilizing fixed deposits in loan and advances.

The interest income of NSBI and HBL are higher than that of NBBL and income received from commission and discounts are higher in HBL than of NBBL and NSBI, where as income from foreign exchange fluctuation is higher in NBBL than that of HBL and NSBI.

Mr. Shakta Man Ghale, (2001), has conducted his study in topic "A Study on Comparative Analysis of Financial Performance of Joint venture Banks in NEPAL. (NABIL and NBBL)". The researcher's main objective of study was to evaluate the financial performance of NABIL and NBBL comparatively in terms of their Liquidity Ratio, Activity Ratio, Leverage Ratio and Profitability Ratio and to compare the performance of the two banks. The data and other necessary information's were collected by suing secondary as well as primary sources of data.

Mr. Ghale has found some remarkable the current assets of these banks are adequate to meet the current liabilities and NABIL has very poor performance in utilizing its fund compared to that of NBBL. Performing assets to total assets ratio shows that although NABIL is performing slightly better than NBBL, both are under performing. The return on net worth ratio, return on total deposit ratio and return on total assets ratio for

NABIL are higher whereas the return on capital employed ratio and interest earned to total asset ratio of NBBL are better.

Foreign exchange fluctuation and other income is higher in NBBL and earning per share trend shows that NABIL has a negative rate of change on EPS whereas NBBL has positive rate of change.

Mr. Padam Raj Upreti (2001) has conducted research in the topic "A Comparative Study on Financial Performance of Himalayan Bank Ltd. and Nepal Grindlays Bank Ltd.". The short term solvency positions of both banks are found below than normal standard. As per Mr. Upreti HBL has been successfully utilized their total deposits in the form of extending loan and advances for profit generating purpose on compared to HBL. NGBL have been investing more in government securities rather investing in loan and advances. Further the capital structure of both banks is highly leveraged.

Mr. Sahadev Bhatta, (2001), has conducted his study entitled "A Financial Study of Joint ventures Bank in Nepal. A Comparative Study of Nepal Grindlays Bank Ltd and Himalayan Bank Ltd". More successful in utilizing more amounts of deposits in investment opportunities than that of HBL. NGBL is more efficient in debt mobilization than HBL, the shareholders fund to total deposits of NGBL is greater resulting maintaining the sufficient amount as capital fund than HBL.

The capital structure of HBL is more leveraged in comparison to NGBL and HBL is utilizing more outside funds for the benefit of its shareholders. Shows that NGBL is more efficient in mobilizing the resources of owners in comparison to HBL.

There is significant relationship between deposits and loan & advances as well as deposit and total investment (which is negative of NBL), but not between profit and outside assets in case of NBL and the JVBs.

2.6 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and Knowledge, which are required to make this study meaningful and purposeful. There is various researchers conduct on investment policy, lending practice, credit policy, financial performance and credit management of commercial bank. In order to perform those analysis researchers have used various ratio analysis. The past researches in measuring credit management of bank have focused on the limit ratios which are incapable of solving the problems. Actually credit management is determined by various factors. In this research various ratio are systematically analyzed and generalized. Past Researchers have not properly analyzed about financing performance and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this study of Financial Performance of Commercial Bank i.e. NABIL and Himalayan Bank Limited is measured using various ratios, trend analysis and different statistical tools as well and financial tools. The present researcher has used the latest data of the study that concerns a period of five years starting from 2002/03 to 2006/07 consecutive year. This study tries to define by applying and analyzing various financial tools like liquidity ratio, leverage ratio, profitability ratio and lending efficiency ratio as well as different statistical tools like coefficient of correlation and trend analysis.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter efforts have been made to present and explain the specific research design for the sake of attaining the research objectives of includes research design, nature of data, population and sample, data analysis procedures.

3.2 Research Design

As per the nature of study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive technique has been adopted to evaluate investment of Himalayan Bank and compare it with other NABIL Banks.

3.3 Sources of Data

Data were mainly collected from the secondary data. The data relating to the investment, deposit, loan and advances and profit are directly obtained from the balance sheet and profit and loss account of concerned banks annual reports.

3.4 Population and Sample

There are altogether 26 commercial banks functioning all over the kingdom and most of their stocks are traded actively in the stock market. In this study investment policy of Himalayan Bank is compared with the NABIL Banks only, which are selected from population. The population of these researches is 26 commercial banks of Nepal.

Himalayan Bank Ltd. and NABIL bank Ltd. have been selected for this study purpose. The related data of HBL to Financial Performance are comparatively studied with the NABIL Bank Ltd.

1. Himalayan Bank Ltd. (HBL)
2. NABIL Bank Ltd.

3.5 Methods of Analysis:

In this study, various financial, accounting and statistical tolls have been used to achieve the objective of study. The analysis of data is done according the pattern of available data.

The various tools applied in this study, are presented as follows:

3.5.1 Financial Tools

Financial tools are used to examine the financial strength and weakness of bank. In these study financial tools like ratio analysis has been used.

Ratio Analysis

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus, ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to itself overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis. In this study different ratios are calculated and analyzed, which is given below:

1) Liquidity Ratio

Liquidity ratio shows that ability of banks to meet its short-term liabilities that are likely to mature in the short period. From them, such insights can

be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is the measurement of speed with which a bank's assets can be converted in to cash to meet deposit withdrawal and other current obligations.

There are various ratios under liquidity ratio, which are calculated as follows:

a. Current Ratio

Ability for payment of current debt from current assets is current ratio. It shows the relationship between current assets and current liabilities.

Current assets includes cash and bank balance, money at call or short notice, loans and advances, overdrafts, bills purchased and discounted and miscellaneous current assets. Similarly current liabilities include deposits and other short-term loan bills payable, tax provision, staff bonus, dividend payables and other miscellaneous current liabilities.

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

b. Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets i.e. cash and ability to meet demand for cash.

This ratio is computed by dividing cash and bank balance by current assets. This can be stated as,

$$\frac{Cashand\ Bank\ Balance}{Current\ Assets}$$

The widely accepted standard of current ratio is 2:1, but accurate standard depends on circumstances in case of seasonal business.

c. Cash and Bank Balance to Total Deposit Ratio

This ratio is computed by dividing cash and bank balance by total deposit.

This can be stated as:

$$\frac{Cash and\ Bank\ Balance}{Total\ Deposit}$$

Cash and bank balance includes cash on hand, foreign cash on hand, cheques and other cash item, balance with domestic bank and balance held a board. The total deposit consists of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits.

d. Investment on Government Securities to Current Assets

Investment on government securities includes treasury bills, development bonds, savings bonds etc. This ratio can be computed by dividing investment on government securities by current assets. This ratio in calculated to find out the percentage of current assets invested in government securities. This can be started as:

$$\frac{Investment\ on\ government\ securities}{Current\ Assets}$$

e. Loan and Advances to Current Assets Ratio

This ratio can be computed by dividing loans and advances by current assets. Greater ratio implies the better utilization total deposits. This can be mentioned as:

$$\frac{Loan\ and\ Advance}{Current\ Assets}$$

The numerator consists of loans, advances, cash credit, local and foreign bills purchased and discounted.

2) Assets Management Ratio: (Activity Ratio)

This implies the utilization of firm's deposit on government securities, investment on debentures and bonds, share in subsidiary companies, shares in other companies and other in investment.

The ratio measures how efficiently the bank managers the resources at its command. The following ratio is used under this asset management ratio.

i. Assets Management Ratio

This ratio can be calculated by dividing total investment by total deposit, it can be mentioned as:

$$\frac{Tota\ Investment}{Total\ Deposit}$$

ii. Loan and Advance to Total Deposit Ratio

Loan and advances is the major component in the total working fund, which indicates the ability of bank to channels its deposits in the form of loan and advances to earn high return.

This ratio can be calculated by dividing loan and advances by total deposit. This ratio can be stated as:

$$\frac{Loan\ and advance}{Totaldeposit}$$

iii. Loan and Advance to Total Working Fund Ratio

This ratio is calculated by dividing loan and advances by total working fund. This can be stated as:

$$\frac{Loan\ and\ Advance}{Total\ working\ \ funds}$$

iv. Investment on Government Securities to Working Fund Ratio

This ratio shows that banks investment on government securities n comparison to the working fund. This ratio is calculated by dividing

investment on government securities by total working fund. This is presented as,

$$\frac{Investment\ on\ government\ securities}{Total\ working\ fund}$$

v. Investment on Shares and Debenture to Total Working Fund Ratio

This ratio shows the banks investment in shares and debenture of and other companies, this ratio can be derived by dividing investment on shares and debenture by total working fund, which can be mentioned as,

$$\frac{Investmenton\ share\ and\ debentures}{Total\ working\ fund}$$

vi. Loan Cost Ratio

This ratio shows the possibility of loan default of a bank, of indicates how efficiently it managers its loan and advances and makes effort for bank recovery.

$$\frac{Total\ loss\ provision}{Total\ loan\ and\ advance}$$

Higher ratio implies higher position at nonperforming loan portfolio.

vii. Total Off-Balance Sheet (OBS) Operation to Loan and Advances Ratio

The OBS operation shows the bankers efficiency in conducting modern off balance sheet transaction in comparison to loan and advances.

This ratio is calculated by total OBS operation by loan and advances. This can be stated as:

$$\frac{Total\ OBS\ operation}{Loan\ and\ advance}$$

3) Profitability Ratio

Profitability ratios are very helpful to measures the overall efficiency of operations of a firm. It is a true indicator of the financial performance of any institution. It is notable that higher the profitability ratio is better the financial performance and vice versa. Profitability positions can be viewed in different ways.

(I) Return on Total Working Fund Ratio

This ratio measures the overall profitability of all working funds i.e. total assets. It is also known as return on asset (ROA).

This ratio is calculated by dividing net profit by total working fund. This can be stated as:

$$\frac{\text{Net Profit}}{\text{Total Working Fund}}$$

This numerator indicates with portion of income is left to the internal equities after all costs, charges, expense have been deducted.

(II) Return on Loan and Advances Ratio

This ratio indicates how efficiently the bank has employed its resources in the form of loan and advances.

The ratio is calculated by divided net profit by loan and advance. This can be stated as:

$$\frac{\textit{Net Profit}}{\textit{Loan and advances}}$$

(III) Total Interest Earned to Total outside Assets Ratio

This ratio measures the interest earning capacity of the bank through the efficient utilization of outside assets.

The ratio is calculated by dividing total interest earned by total outside assets, can be as:

$$\frac{Total\ inerest\ earned}{Total\ \ outside\ assets}$$

Higher ratio implies efficient were of outside assets to earn interest.

(IV) Total Interest Earned to Total Working Fund Ratio

This ratio is calculated to find out the percentage of interest earned to total assets working fund.

This ratio can be calculated by dividing total interest earned by total working fund.

$$\frac{Total\ ierest\ earned}{Total\ \ working\ \ fund}$$

(V) Total Interest Paid to Total Working Fund Ratio

The ratio can be calculated by dividing total interest paid by total working fund and can be stated as:

$$\frac{Total\ \text{interest earned}}{Total\ \ working\ \ fund}$$

The numerator consists of total interest expenses on deposit liabilities, loans and advances (borrowings) and other deposits.

(VI) Return on Equity Ratio (ROE)

This ratio a measure how is efficiently the banks has to use the funds of owners.

This ratio is calculated by dividing net profit by total equally capital (net worth). This can are stated as:

$$\frac{Net\ profit}{Total\ equity\ capital}$$

4) Growth Ratio

Growth ratios ate directly related to the fund mobilization and investment management of a commercial bank. Growth ratios represent how well the commercial bank is maintaining its economic position.

To examine and analyze following growth ratios are calculated in this study.

(i) Growth ratio of total deposits.

(ii) Growth ratio of loan and advance.

D_n = Total deposit in nth year.

D_o = Total deposit in previous year.

g = Growth rate

n = Total no. of year.

$$D_n = D_o (1+g)$$

5) Statistical Tools

Some important statistical tools are used to achieve the objective of this study. In this study, statistical tools such standard deviation. Coefficient of variance, least square linear trend has been used. They basic analysis is written in point below:

(a) Trend analysis

(b) Coefficient of variation

This topic analyzes the trend of deposits, loan and advances, investment and net profit of NABIL Bank and HBL from 2002/03 to 2006/07. Under this topic following subtopic has been presented.

(i) Trend analysis of total deposits.

(ii) Trend analysis of loan and advances.

(iii) Trend analysis of total investment.

(iv) Trend analysis of net profit.

Trend Value Calculation Equation is $y = a + bx$

The objective of this test is the significance regarding the parameters of the population on the basis of sample drawn from the population. This test has been conducted on the various ratios related to the banking business.

Research methodology and the various financial and statistical tools discussed above have been used in the next chapter to analyze and interpret the data regarding the Himalayan Bank and the NABIL for the study from 2002/03 to 2006/07.

CHAPTER-IV

DATA PREESENTATION AND ANALYSIS

This chapter focuses on the presentation, analysis and interpretations of data in analysis form with explanation.

4.1 Financial Analysis

Financial statement analysis in an analysis that highlights the important relationships in the financial statements. It focuses on evaluation of past performance of the business firms in terms of profitability, liquidity, solvency, operational efficiency and growth potentiality. The various financial ratios related to the investment management and the fund mobilizations are studied to evaluate and analyze the performance of NABIL and HBL. The important ratios which are studied for this purpose are given below:

1. Liquidity ratio
2. Asset management ratio
3. Profitability ratio
4. Risk ratio
5. Growth ratio

4.1.1 Liquidity Ratio

Liquidity refers to the ability of a firm to meet its short term obligation and measure the short term solvency or liquidity position of a firm. Liquidity or short term financial position of a firm can be measured by the following ratios

A. Current Ratio

Current ratio indicates the ability of the bank to meet its current obligation. This is the broad measure of liquidity position of the financial institutions. Current ratio is calculated by as follows:

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

The standard current ratio is 2:1 but for seasonal business and banking current ratio is to be 1:1. The current ratio of NABIL and HBL are given below in table no. 4.1 and appendix-I

Table No. 4.1

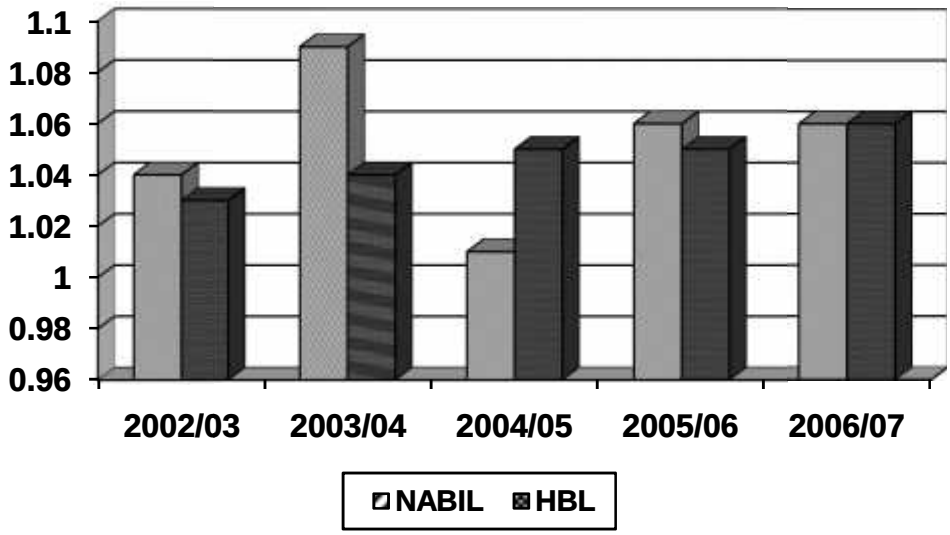
Current Ratio of NABIL and HBL, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	1.04	1.09	1.01	1.06	1.06	1.052	0.026	2.51
HBL	1.03	1.04	1.05	1.05	1.06	1.046	0.01	0.975

Source: Appendix-I

Figure No. 4.1

Current Ratio of NABIL and HBL



Source: Table No. 4.1

Above table shows that current assets of banks exceeds the current liabilities. It indicates that both banks are capable of discharging their current obligation.

On the basis of mean ratio and co-efficient of variance HBL has lower ratio i.e. 1.046 than that of NABIL i.e. 1.052. It states that the liquidity position of NABIL is better. The coefficient of variance between the current ratios of NABIL is 2.51, which is comparatively greater than 0.975 of HBL.

Liquidity position of both NABIL and HBBL are satisfactory because both have its current ratio more than one in each FY and they were able to meet their short term obligation. Since their current ratio is always more than one during the study period and capable to meet its short term obligation.

B. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio measures the availability of a banks highly liquid or immediate funds to meet its unanticipated calls on all types of deposits. Cash and bank balance are assets that constitute the bank's first line of defense and consist of cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held abroad.

Cash and bank balance to total deposit ratio is calculated as follow:

$$\text{Total deposit ratio} = \frac{\text{Cash and bank balance}}{\text{Total deposit}}$$

A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied up and opportunity cost will be higher.

The following table no. 4.2 shows the cash and bank balance to total deposit ratios of NABIL and HBL

Table No. 4.2

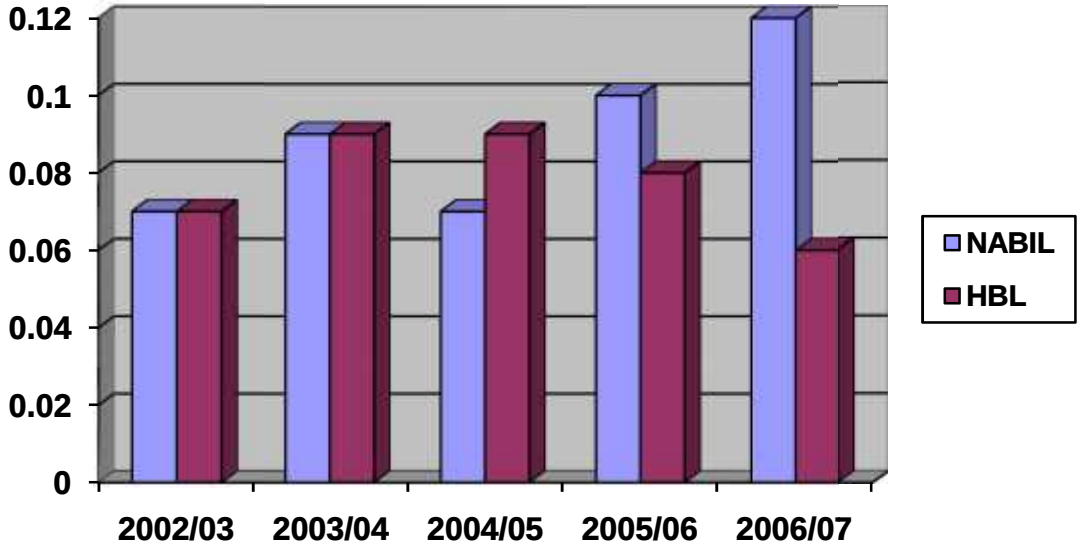
Cash and Bank Balance to Total Deposit Ratio

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	0.07	0.09	0.07	0.1	0.12	0.09	0.019	21.08
HBL	0.07	0.09	0.09	0.08	0.06	0.078	0.011	14.95

Source: Appendix-II

Figure No. 4.2

Cash and Bank Balance to Total Deposit Ratio



Source: Table No. 4.2

The above table shows that the cash and bank balance to total deposit ratios of both banks are in fluctuating trend. NABIL has followed up trend during the study period. Its highest ratio is 0.12 in FY 2005/06 lowest ratio is 0.07 both in 2002/03 and 2004/05 FY. Similarly in case of HBL, highest ratios are 0.09 in FY 2003/04 and lowest ratios are 0.06 in FY 2006/07.

In case of average, it is found that cash and bank balance to total deposit of NABIL and HBL are almost same. Where, the means of NABIL and HBL are 0.019 and 0.011 respectively. On the basis of coefficient of

variance, NABIL is 21.08 which is comparatively higher that 14.95 of HBL.

From the above analysis, NABIL has highest ratio. It has better position regarding the meeting of the demand of its customers on their deposit at any time. That means it operates in lower risks. Though, high ratio indicates its ability but very high ratio shows the inefficiency, as it has to pay more interest on deposit. Thus, NABIL may invest in more productive sectors like short-term marketable security, treasury bills etc. to build up a strong and efficient liquidity position to improve the profitability.

C. Cash and Bank Balance to Current Assets Ratio

This ratio shows the bank's liquidity capacity on the basis of cash and bank balance that is the most liquid asset. High ratio indicates the banks' sound ability to meet the daily cash requirement to their customer deposit and vice-versa. But high ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Lower ratio is also very dangerous as the bank may not be able to make payment against the cheques presented by the customers.

The cash and bank balance to current assets ratios are computed by dividing cash and bank balance by current assets. Table no. 4.3 and appendix-ii

Table No. 4.3

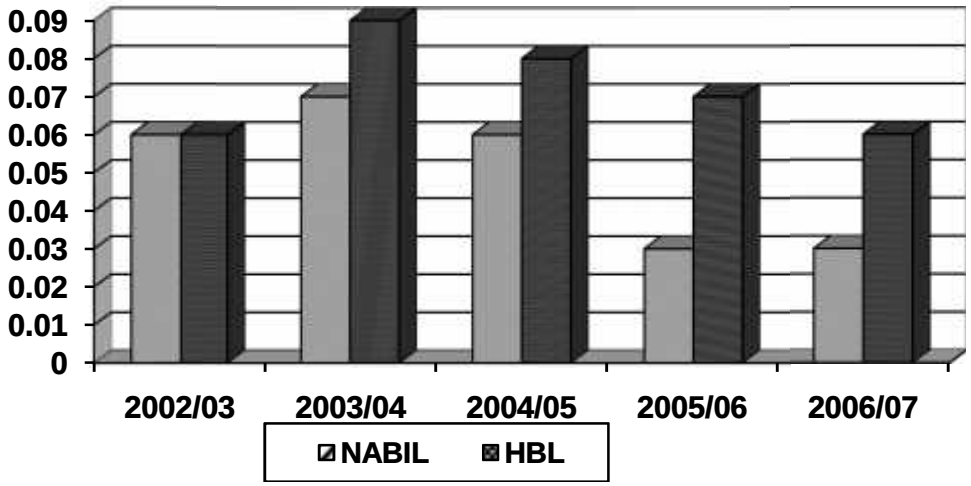
Cash and Bank Balance to Current Assets Ratio

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	0.06	0.07	0.06	0.03	0.03	0.05	0.057	34
HBL	0.06	0.09	0.08	0.07	0.06	0.07	0.12	16.90

Source: Appendix-III

Figure No. 4.3

Cash and Bank Balance to Total Deposit Ratio



Source: Table No. 4.3

The above table shows that cash and bank balance to current assets ratios of both NABIL and HBL have followed fluctuating trend during the study period.

In average, NABIL has almost same cash and bank balance to current ratio, its states that the liquidity position of NABIL is better in this regard. The coefficient of variance between the above ratios of NABIL is 34%, which is comparatively higher than 16.90% of HBL. It shows the current ratios of NABIL are more stable and consistent than that of HBL.

Comparatively, NABIL seems to have better position maintaining the cash and bank balance to current asset ratio. It means that the bank is able to make the quick payment of its deposit. But it does not mean it has mobilized its fund in profitability sector. NABIL and HBL may have mobilized their more funds in productive sectors.

D. Investment on Government Securities to Current Assets Ratio

The major objective of this ratio is to examine that portion of commercial bank's current assets, which is invested on various government securities issued by government. The 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 in other ways. This ratio shows that how much percentage of it has been occupied by the investment on government securities out or total current assets.

This ratio is calculated by dividing investment on government securities by total current assets.

Investment on Govt. Securities to Current asset ratio

$$= \frac{\text{Investment on Govt Securities}}{\text{Current assets}}$$

Table no. 4.4 and appendix-iii shows the details of investment on government securities and current assets.

Table No. 4.4

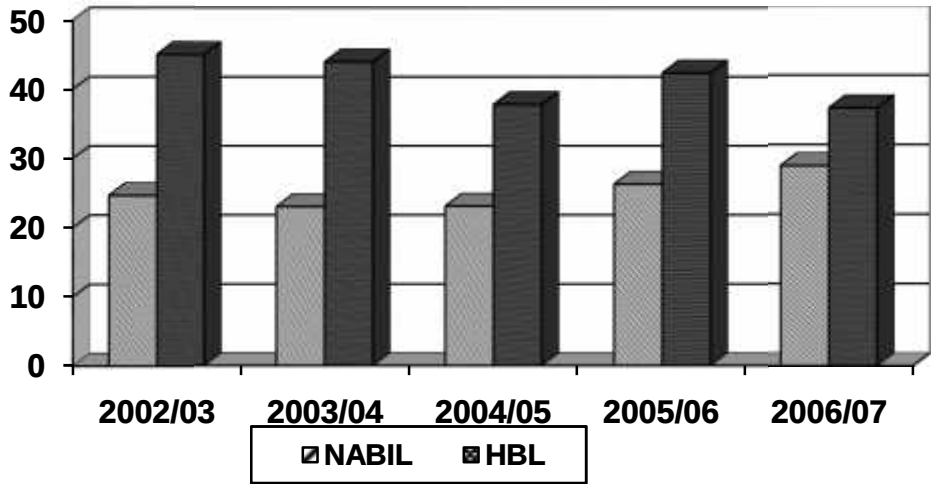
Investment on Government Securities and Current Assets, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	24.64	23.00	23.08	26.25	28.78	25.15	2.17	8.36
HBL	45.03	43.96	37.80	42.36	37.07	41.24	3.23	7.84

Source: Appendix-IV

Figure No. 4.4

Investment on Government Securities and Current Assets



Source: Table No. 4.4

The above table shows that NABIL has invested their funds to government securities throughout the study period. Both banks have followed fluctuating trend during the study period. In case of NABIL, it maintained highest ratio in 2006/07 i.e. 28.78% and lowest ratio in FY 2003/04 i.e. 23.00%. Thus, sometimes it has invested its fund on government securities as low portion of current assets and sometime very high. In case of HBL has maintained highest ratio as 45.03% in FY 2002/03 and in FY 2006/07 lowest ratio as 37.07%.

Finally, HBL has maintained higher ratio of investing in government securities than NABIL. NABIL investing higher position of current assets as government securities indicates that it wants to invest more in other productive sectors.

Liquidity position of both NABIL and HBL are satisfactory because both have its current ratio more than one in each FY and they were able to meet their short term obligation. Since their current ratio is always more than one during the study period and capable to meet its short term obligation.

4.1.2 Asset Management Ratio

Asset management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. A commercial bank must manage its asset properly to make high profit. Under this chapter following ratios are studied.

A. Loan and Advances to Total Deposit Ratio

This loan and advances to total deposit ratio measures the extent to which the banks are successful to mobilize that total deposits on loan and advances for the purpose of generating profit. A high ratio of loan and advances means better mobilization of collected deposits and vice-versa.

But is should be noted that too high ratio might not be better from its liquidity point of view.

This ratio is calculated by dividing loan and advances by total deposits

$$\text{Loan and avances to Total deposit ration} = \frac{\text{Loan and advances}}{\text{Total deposit}}$$

The following table no. 4.5 and appendix-iv presents the ratio of loan and advances to total deposits of NABIL and HBL during the study period.

Table No. 4.5

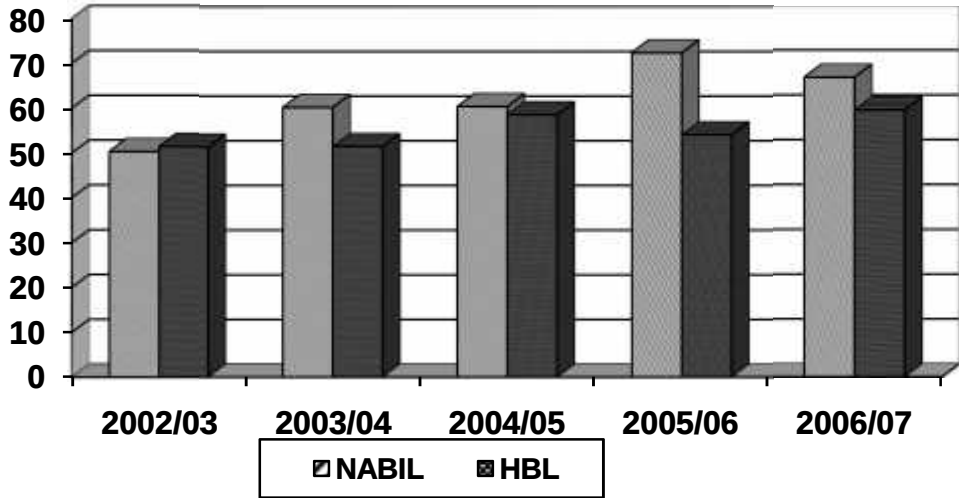
Loan and Advances to Total Deposit Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	50.31	60.34	60.55	72.57	66.79	62.07	7.43	11.97
HBL	51.45	51.59	58.70	54.21	59.49	55.09	3.43	6.22

Source: Appendix-VI

Figure No. 4.5

Loan and Advances to Total Deposit Ratio



Source: Table No. 4.5

The above comparative table reveals that the ratios of NABIL and HBL have followed fluctuating trend. NABIL has more fluctuating trend, in which highest ratio of loan and advances to total deposit are 72.57% in FY 2005/06 and lowest ratio is 50.31% in FY 2002/03. Similarly, the

highest ratios are 59.09% in FY 2006/07 and lowest ratios 51.45 in 2002/03 of HBL. HBL and NABIL may have utilized high portion of their deposits in various investment of cash and bank balance.

B. Total Investment to Total Deposit Ratio

This ratio measures the extent to which the banks are able to mobilize their deposit on investment i.e. various securities. A commercial bank mobilizes its deposit by investing its fund in different securities issued by government and other financial or non-financial companies. A high ratio indicates the success in mobilizing deposit in securities and vice-versa.

This ratio is calculated by dividing total investment by total deposits

$$\text{Total investment to Total deposit ratio} = \frac{\text{Total investment}}{\text{Total deposit}}$$

Table no.4.6 and appendix- v shows details of total investment to total deposit ratio.

Table No. 4.6

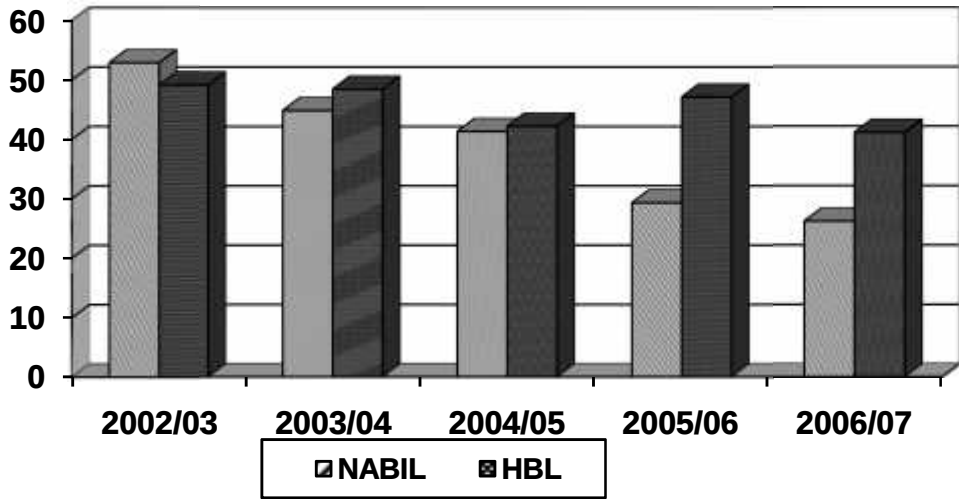
Total Investment to Total Deposit Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	52.88	44.85	41.33	29.31	26.19	38.91	9.20	13.61
HBL	49.19	48.45	42.21	47.12	41.12	45.62	3.31	7.26

Source: Appendix-V

Figure No. 4.6

Total Investment to Total Deposit Ratio



Source: Table No. 4.6

The above comparative table exhibits that the ratios of total investment to total deposit of the banks have followed fluctuating trend during the review period. NABIL has highest ratio is 52.88% in FY 2002/03 and lowest ratio 26.19% in FY 2006.07. Similarly, HBL has highest ratios 19.19 in FY 2002/03 and lowest ratio 41.11% in 2006/07. The table clearly shows that HBL has very low portion investment its deposit.

C. Loan and Advances to Total Working Fund Ratio

Loan and advances is an important part of total assets (total working fund). A commercial bank must be very careful in mobilizing its total asset as loan and advances in appropriate level to generate profit. This ra52tio reflects the extent to which the commercial banks are success in mobilizing their assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of fund as loan and advances and vice-versa.

This ratio is calculated by dividing loan and advances by total working fund i.e. total assets (details in Table 4.7 and appendix-iv)

Table No. 4.7

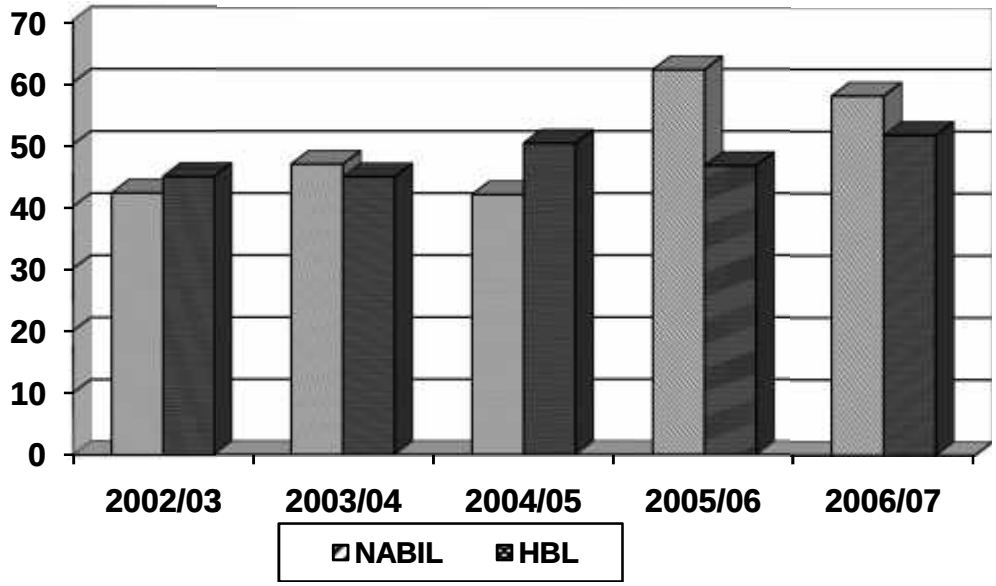
Loan and Advances to Total Working Fund Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	42.19	46.83	41.91	62.04	57.87	51.57	7.31	14.17
HBL	44.84	44.79	50.21	46.59	51.54	47.59	2.79	5.86

Source: Appendix-VI

Figure No. 4.7

Loan and Advances to Total Working Fund Ratio



Source: Table No. 4.7

Referring to the above table the loan and advances to total working fund ratios of both banks have followed fluctuating trend. NABIL has more fluctuating trend, it has highest ratios of 62.04% in the FY 2005/06 and lowest ratio of 42.19 in FY 2002/03. Similarly, HBL has the highest ratio 51.54 in FY 2006/07 and lowest ratio 44.79% in 2003/04. The table shows that the NABIL has higher ratios of loan and advances to total working fund than that of HBL.

From the above analysis it can be concluded that the mobilization of working fund as loan and advances of NABIL is very good comparing to the HBL.

D. Investment on Government Securities to Total Working Fund Ratio

The ratio of investment on government securities to total working fund is very helpful to know the extent on which the banks are mobilizing their total working fund on different types of government securities. All the commercial banks are investing their fund on government securities for investment diversification and security only. Investment on government securities is not help to the commercial for the profit maximization.

The ratio is computed by dividing investment on government securities by total working fund.

Investment on Government securities to total working fund ratio

$$= \frac{\text{Investment on Government Securities}}{\text{total working fund}}$$

Table No. 4.8 and appendix-vii shows the details of investment on government securities to total working fund ratio.

Table No. 4.8

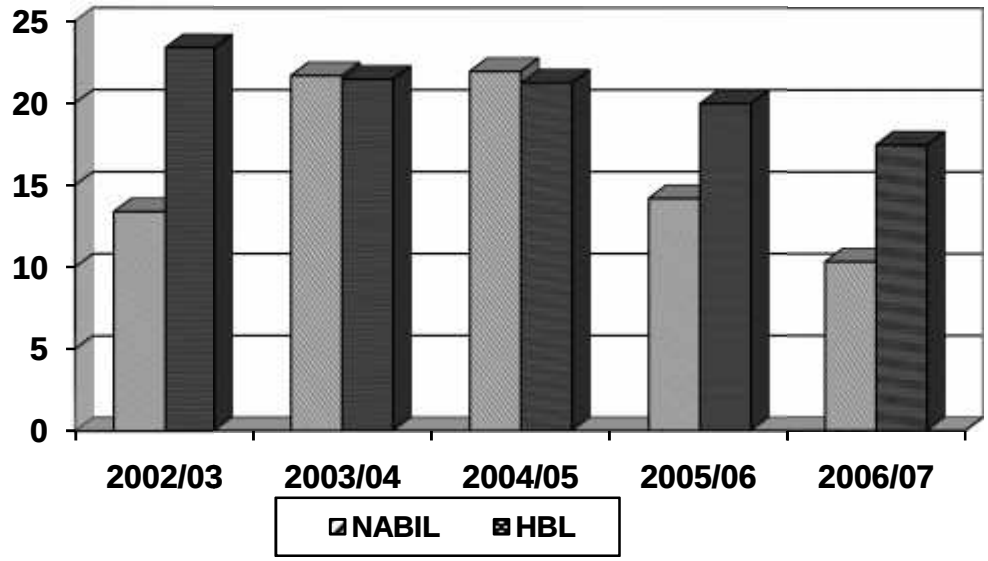
Investment on Government Securities to Total Working Fund Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	13.37	21.67	21.93	14.17	10.31	18.29	5.12	27.98
HBL	23.37	21.45	21.23	19.95	17.46	20.69	3.81	18.40

Source: Appendix-VIII

Figure No. 4.8

Investment on Government Securities to Total Working Fund Ratio



Source: Table No. 4.8

On the basis of above comparative table, it is obvious that the ratios of investment on government securities to total working fund of NABIL and HBL are not similar in all fiscal years. On the basis of mean ratios of investment on government securities and total working fund, BABIL seems to bee weak to cover the average of HBL. Because it's mean ratio is only 18.29% whereas HBL has 20.96%. In case of coefficient of variance, ratios are less consistent than that of NABIL. It is clear that the NABIL has very high variation during the study period.

From the above analysis, it can be conclude that NABIL has invested its very low portion of working fund on government securities. HBL has also not invested their more portion of working fund on government securities. Finally, the table shows that both banks have no sound investment policy towards government securities.

E. Investment on Shares and Debentures to Total Working Fund Ratio

Investment on shares and debentures to total working fund ratio shows to what extent the bank has successfully invested its asset on other company's debentures and shares to generate incomes and utilize their excess fund. A high ratio indicates more portion of investment on shares and debentures.

This ratio is calculated by dividing investment on shares and debentures by total working fund.

Investment on shares and debentures to total working fund ratio

$$= \frac{\text{Investment on shares and debentures}}{\text{total working fund}}$$

Table no. 4.9 and appendix-viii shows the details of Investment on shares and debentures to total working fund ratio.

Table No. 4.9

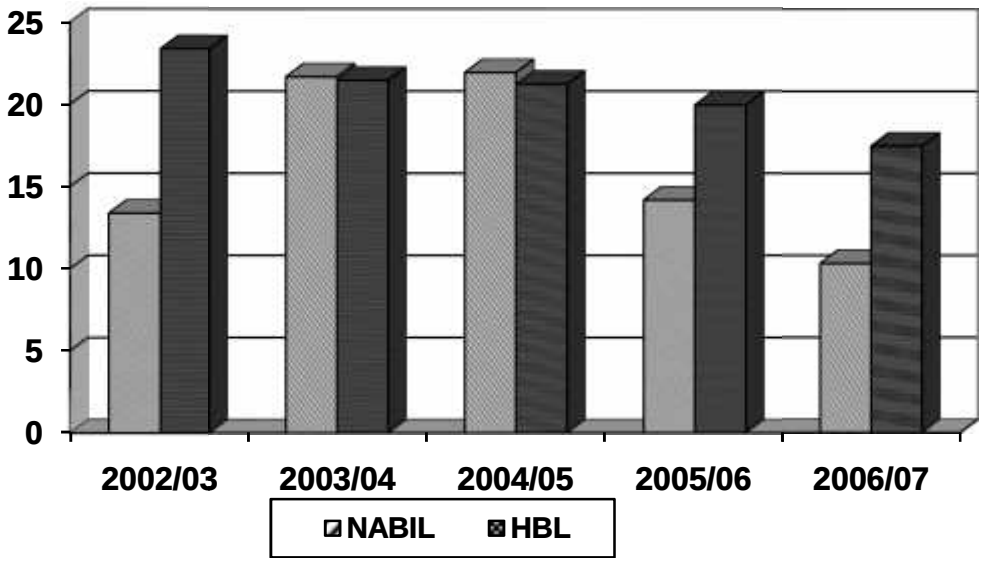
Investment on Shares and Debentures to Total Working Fund Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	0.001	0.001	0.001	0.001	0.001	0.001	0	0
HBL	0.001	0.001	0.001	0.024	0.003	0.006	0.009	150.56

Source: Appendix-VIII

Figure No. 4.9

Investment on Government Securities to Total Working Fund Ratio



Source: Table No. 4.9

From the above comparative table shows that the investment on share and debenture to total working fund ratio of NABIL and HBL have followed fluctuating trend.

In case of mean ratios, NABIL has 0.001% which is comparatively lower than 0.006% of HBL. It indicates that the investment on share and debentures with respect to working fund of NABIL has significantly lower than that of HBL.

F. Loan Loss Ratio

The loan loss ratio shows how efficiently the bank manages its loan and advances and makes effort for timely recover4y of loan.

This ratio is calculated by dividing loan loss provision by loan and advances

$$\text{loan loss ratio} = \frac{\text{loan loss provision}}{\text{loan and advances}}$$

The loan loss ratio of NABIL and HBL are presented in the table no. 4.10 below and details in appendix-ix

Table No. 4.10

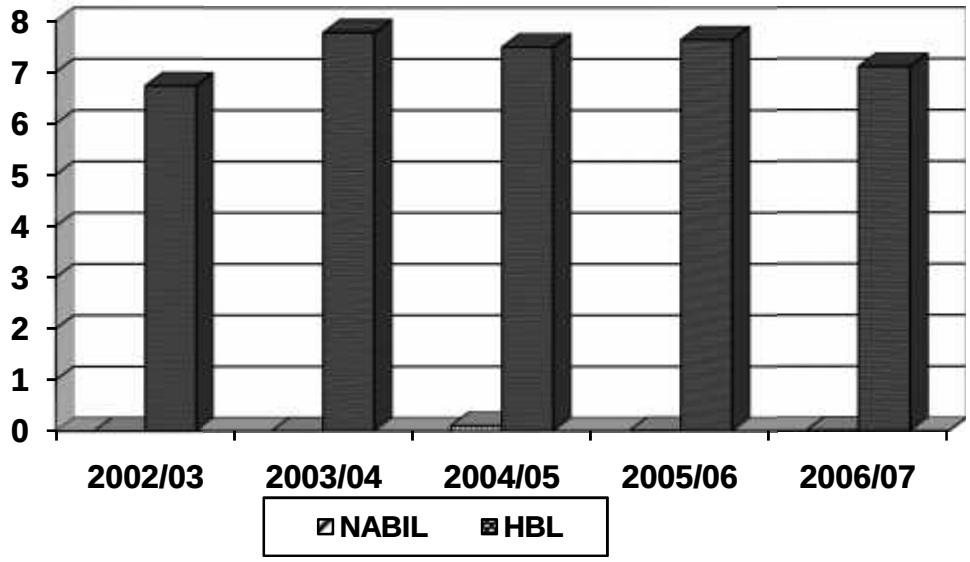
Loan Loss Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	0.00	0.00	0.101	0.01	0.01	0.024	0.038	159.43
HBL	6.73	7.77	7.49	7.63	7.10	7.34	0.38	5.17

Source: Appendix-VIII

Figure No. 4.10

Loan Loss Ratio



Source: Table No. 4.10

The above comparative table present that the loan loss ratio of both banks have followed fluctuating trend.

NABIL and HBL have different mean of loan loss ratio i.e. 0.024% and 7.34% respectively. In case of coefficient of variance, the loan loss ratios of NABIL is 159.43% which is comparatively higher that that 5.17 of HBL. It shows that NABIL has not stable and inconsistent than that of NABIL.

4.1.3 Profitability Ratio

Profitability is an important measure of a company's operating success. The long term survival of a business enterprise depends on satisfactory income earned by it. The banks acquire profit by providing different services to its customers or by making investment of different kinds. Sufficient profit is must to have god liquidity, grab investment opportunities, expand banking transaction, finance government in need of development fund, overcome the future contingencies and meet fixed internal obligation for a bank. Profitability ratios measure the efficiency of a bank. Higher the ratio higher will be the efficiency of a bank.

A. Return on Loan and Advances Ratio

Return on loan and advances ratio measures the earning capacity of a commercial bank on its mobilized loan and advances. Higher the ratio greater will be the return and vice-versa.

This ratio is calculated by dividing net profit by loan and advances

$$\text{Return on loan and advances ratio} = \frac{\text{net profit}}{\text{loan and advnaces}}$$

The following table no. 4.11 and appendix-x presents the return on loan and advances ratio of NABIL and HBL during the study period.

Table No. 4.11

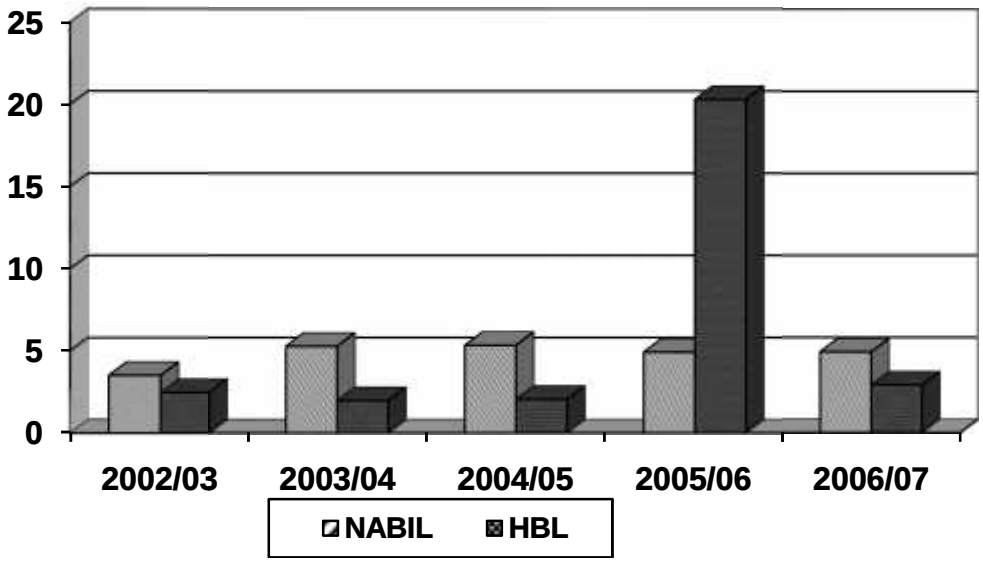
Return on Loan and Advances Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	3.51	5.27	5.33	4.91	4.92	4.79	0.66	13.82
HBL	2.46	1.96	2.04	20.29	2.90	2.33	0.34	14.42

Source: Appendix-VIII

Figure No. 4.11

Return on Loan and Advances Ratio



Source: Table No. 4.11

During the study period, the ratios of NABIL and HBL have followed fluctuating trend. HBL has less fluctuating trend than that of NABIL.

It has the mean return on loan and advances ratio of 4.79% against the 2.33. The coefficient of variance of ratios of NABIL is 13.83% that is comparatively less than that of HBL 14.42%. It presents the unstable and inconsistency in return of HBL.

Thus, it can be concluded that HBL is not able to earn high return on its loans and advances in comparison to NABIL. Moreover, its high coefficient of variance shows its less homogeneous ratios during the study period.

B. Return on Total Asset (ROA)

Return on Total asset ratio measures the profitability with respect to each financial resources investment of the bank asset. Minimizing taxes within the legal option available will also improve the return.

This ratio is calculated by dividing net profit by total assets.

$$\text{Return on Total Asset} = \frac{\text{net profit}}{\text{Total Asset}}$$

The following table no. 4.12 and appendix-xi shows the profitability of NABIL and HBL with respect to total assets.

Table No. 4.12

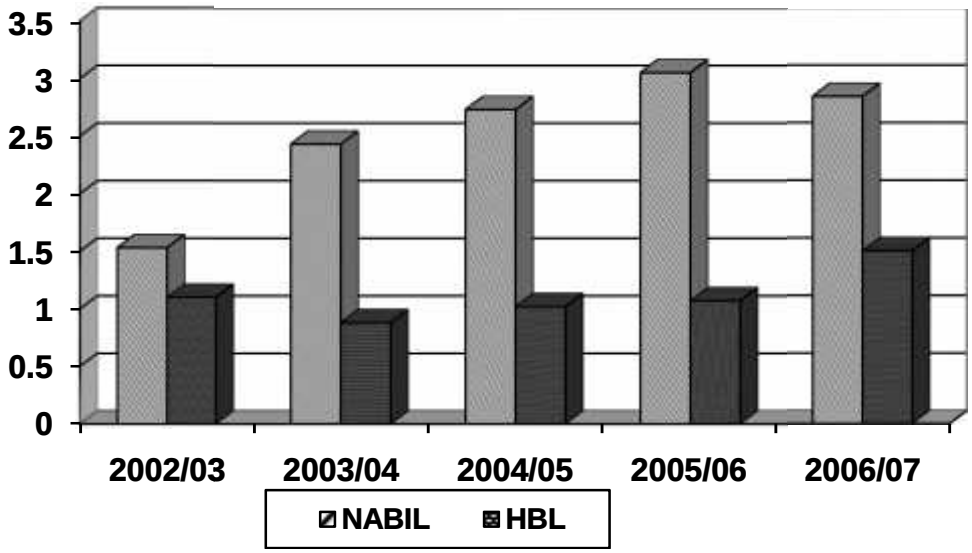
Return on Total Asset Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	1.53	2.43	2.73	3.05	2.84	2.52	0.53	21.12
HBL	1.10	0.88	1.02	1.07	1.50	1.12	0.4	18.51

Source: Appendix-VIII

Figure No. 4.12

Return on Total Asset Ratio



Source: Table No. 4.12

As per above the ratio of NABIL is in fluctuating trend. It has the highest ratio of 3.05% for the FY 2006/07 and lowest ratio of 1.53% for the FY 2002/03.

NABIL has maintained higher ratio, which reveals the position of the bank is good in this regard. But HBL has failed to maintain high ratio as compared to NABIL. The coefficient of variance of NABIL is 21.12% which is comparatively higher than 18.51% of HBL. It indicates the return on total assets of HBL is stable and consistent in compare to NABIL.

From the above it can be concluded that the profitability with respect to financial resources investment of the bank asset is high as well as stable.

C. Return on Equity (ROE) Ratio

The main objective of every bank has to earn high profit. A bank can earn maximum profit, if they mobilize its equity capital properly. Equity capital is a bank's own capital. The return on equity capital measures the extent to which a bank is successful to mobilize its equity. It is the measure rod of the profitability of a bank. Higher the ratio higher will be the success in mobilizing its equity capital for a bank and vice-versa.

This ratio is computed by dividing net profit by total equity

$$\text{Return on equity} = \frac{\text{net profit}}{\text{Total equity capital}}$$

The following table no. 4.13 and appendix-xii exhibits the return on equity ratios of NABIL and HBL.

Table No. 4.13

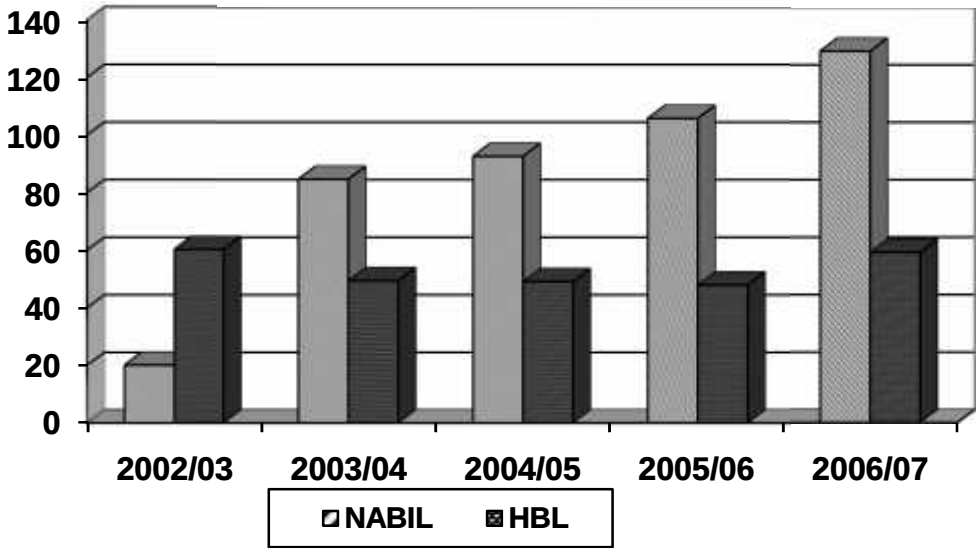
Return on Equity, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	20.06	84.66	92.61	105.79	129.27	86.57	36.47	42.13
HBL	60.26	49.44	49.06	47.91	59.25	53.18	5.40	10.15

Source: Appendix-VIII

Figure No. 4.13

Return on Equity



Source: Table No. 4.13

The above table reveals that return on equity ratio of NABIL has followed moderately fluctuating trend. It has highest ratio of 129.21% for FY 2006/07 and lowest of 20.06% for FY 2002/03. The ratio of HBL is in fluctuating trend.

In average HBL has the lower mean return on equity ratio of 53.18% against the 86.57% of NABIL. The coefficient of variance of NABIL is 42.13% which is comparatively higher than 10.15 of HBL. It indicates the return on equity ratios of the HBL more consistent in compare to NABIL.

D. Total Interest Earned To Total Working Fund Ratio

Total interest earned to total working fund ratio reflects the extent to which the banks are successful in mobilizing their total assets to acquire income as interest. This ratio actually reveals the earning capacity of a commercial bank by mobilizing its working fun. Higher the ratio higher will be the income as interest.

This ratio is computed by dividing total interest earned by total working fund i.e. total asset

Total interest earned to total working fund ratio

$$= \frac{\text{total interest earned}}{\text{Total working fund}}$$

Table no. 4.14 and appendix-xiii shows the details of total interest earned to total working fund ratio.

Table No. 4.14

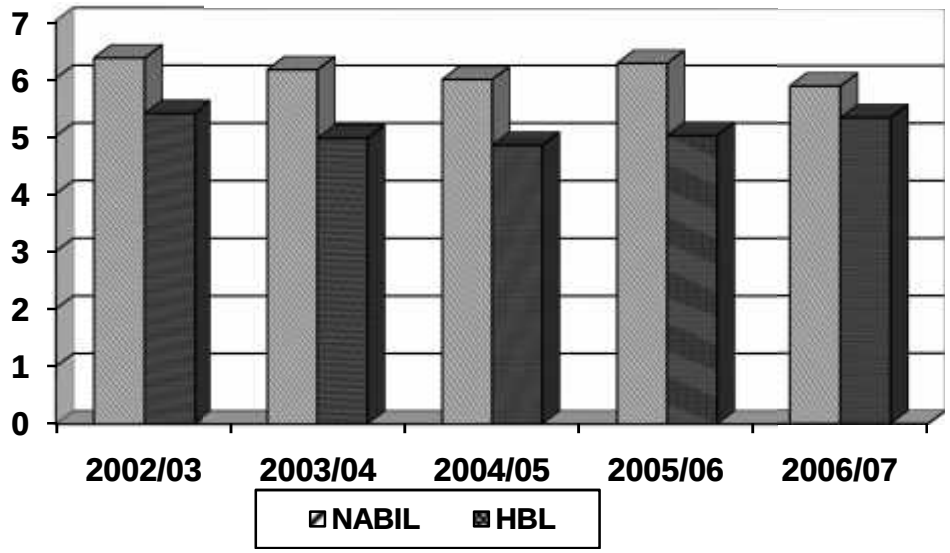
Total Interest Earned To Total Working Fund Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	6.35	6.15	5.98	6.26	5.87	6.12	0.18	2.88
HBL	5.39	4.96	4.84	5.01	5.32	5.10	0.21	4.19

Source: Appendix-VIII

Figure No. 4.14

Total Interest Earned To Total Working Fund Ratio



Source: Table No. 4.14

The above table shows that the ratio of HBL exhibits decreasing trend during the study of period.

In average the mean ratio of NABIL is higher than HBL. It has the mean ratio of 6.12% against the 5.10% of HBL. The C.V. ratio of NABIL is 2.88% that is comparatively lower than that of HBL. It indicates the total interest earned to total working fund ratios of the NABIL is consistent and stable in compare to HBL.

From the above it can be concluded that the ratio of total interest earned to total working fund of NABIL is satisfactory in compare to other banks. It reveals that the bank has high earning power in comparison t HBL.

E. Total interest earned to total operating income ratio

This ratio indicates the extent to which the bank has successfully mobilized its fund in interest bearing asset. Interest earned to total operating income ratio presents the magnitude of interest income in total income.

This ratio is computed by dividing total interest earned by total operating income

Total interest earned to total operating income ratio

$$= \frac{\text{total interest earned}}{\text{Total operating income}}$$

The following table no. 4.15 and appendix-xiv presents the total interest earned to total operating income ratios of NABIL and HBL of different five years during the study period.

Table No. 4.15

Return on interest earned to total operating income ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	68.34	77.92	77.35	89.44	96.36	81.88	6.48	7.91
HBL	141.55	133.44	121.18	120.67	112.02	125.73	10.37	8.25

NABIL has highest ratio of 96.36% in FY 2006.07 and lowest ratio of 68.34% in FY 2002/03.

If the mean ratios are observed, it is found that the NABIL has lower ratio than HBL. It has mean ratio of 123.73% against the 81.88% of NABIL. The C.V. ratio of NABIL is 7.91% that is comparatively lower than HBL i.e. 8.23%. It indicates the total interest earned to total operating income ratio of the NABIL is stable and consistent.

From the above analysis, it can be concluded that both banks have better position regarding the mobilization interest - bearing asset such as loan and advances and investment. The magnitude of interest income in total income is high i.e. more than fifty percent at all. Though, the investment is such fund-based investment has more risk than the fee-based activities.

F. Total interest Paid to total working fund ratio:

This ratio measures the percentage of total interest paid against total working fund. A high ratio indicates the higher interest expenses on total working fund and vice-versa.

This ratio is computed by dividing total interest paid by total working fund i.e. total asset

Total interest paid to total working fund ratio

$$= \frac{\text{total interest paid}}{\text{Total working fund}}$$

The following table no. 4.16 and appendix-xv presents the ratios of total interest paid to total working fund of NABIL and HBL for the study period.

Table No. 4.16

Return on Total Interest Paid to Total Working Fund Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	2.62	1.92	1.69	1.43	1.60	1.85	0.42	22.45
HBL	2.71	2.29	1.91	1.95	2.12	2.20	0.29	13.19

The above table shows that the ratios of NABIL are in decreasing trend during five years period. The ratio has decreased from 2.062 to 1.60 from FY 2002/03 to 2006/07. The ratio of HBL has followed fluctuating trend. It has highest ratio of 2.71% in FY 2002/03 and lowest ratio of 1.91% in FY 2004/05.

If the man ratios are observed, it is found that the HBL has the highest of NABIL. It has the mean ratio of 2.20% against the 1.85% of NABIL. It means the HBL has paid higher interest in compare to NABIL. The C.V. ratio of NABIL is 20.45% that is comparatively higher than 13.19% of HBL. It indicates that total interest paid to total working fund ratio of HBL is stable and consistent than NABIL.

It can be concluded that the position of The HBL is not better as it has paid higher interest on total working fund in comparison to NABIL. It also reveals that NABIL is collecting the funds from expensive sources, which may be the higher portion of fixed deposit in its total deposit.

4.1.4 Risk Ratio

Risk is always sticks with return. If there is return, risk will definitely be there. Higher the risk, higher will be the return. Risk is very closely associated with investment. Banks has to accept and manage high risk to get profit.

Risk ratio measure the level of risk. The following ratios are studied for the purpose of measuring risk.

A. Credit Risk Ratio

The credit risk ratio measure the risk behind measures the risk behind making investment or granting loan. Actually, the proportion of non-performing assets shows credit risk ratio in total loan and advances of a bank. But unavailability of related data the ratio is calculated with the help of loan and advances and total assets.

This ratio is computed by dividing total loan and advances by total assets.

$$\text{Credit risk ratio} = \frac{\text{Total loan and advances}}{\text{Total assets}}$$

The following table 4.17 and appendix-xvi presents the credit risk ratio of NABIL and HBL.

Table No.: 4.17

Credit Risk Ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	42.19	46.83	48.91	62.04	57.87	51.57	7.31	14.17
HBL	44.84	44.82	50.21	46.59	51.54	47.60	2.78	5.84

From the above comparative table shows that the credit risks of banks have followed fluctuating trend throughout the study period. NABIL has maintained the highest ratio is 62.04% in the FY 2005/06 and lowest ratio is 42.19% in the FY 2002/03. Similarly, HBL have maintained the highest ratio 51.54% in FY 2006/07 and lowest ratios 44.82% in FY 2003/04.

NABIL has maintained the mean ratio is 51.57% which is comparatively higher than 47.05 of HBL. It means NABIL has higher credit in compare

to HBL. In case of coefficient of Variance of ratios of NABIL has 14.17%, which is comparatively higher than that of HBL i.e. 5.84%. It indicates that HBL credit policy is stable and consistent than that of NABIL.

From the above analysis, it can be concluded that the credit risk of NABIL is higher in compare to HBL.

B. Capital Risk Ratio

The capital risk ratio of a bank indicates that how much asset values may decline before the position of deposition and other creditors in jeopardized. Capital risk ratio measures banks ability to attract deposits and inter-bank funds. It also determines the level of profit, a bank can earn. If a bank choose to make high capital risk, it ROE will be higher and vice-versa.

The ratio is calculated by dividing capital by risk-weighted asset.

$$\text{Capital risk ratio} = \frac{\text{Capital}}{\text{Risk Weighted asset}}$$

(Only loan and advances is taken as risk weighted asset)

The following table no. 4.18 and appendix-xvii exhibits the capital risk ratio of NABIL and HBL during the study period.

Table No. 4.18

Capital risk ratio, %

Banks	Fiscal Years					Mean	S.D.	C.V.
	2002/03	2003/04	2004/05	2005/06	2006/07			
NABIL	4.65	4.41	4.14	4.64	3.80	4.33	0.32	7.46
HBL	4.08	3.6	4.15	4.78	4.90	4.37	0.39	8.86

The above table exhibits that the ratio of NABIL has followed fluctuating tend. The ratio of HBL has also followed fluctuating trend.

In average the ratio of NABIL is 4.33% which is comparatively lower than HBL of 4.37%. It indicated in average NABIL has highest capital risk. The C.V. of ratio of NABIL shows that the capital risk ratio of NABIL is less variable than that of HBL.

From the above analysis it can be concluded that the degree of capital risk in NABIL and its ratios are highly volatile.

4.1.5 Growth Ratio

4.1.5.1 Growth Ratio of Total Deposit

Growth ratio of total deposit of NABIL and HBL from the fiscal year 2002/03 to 2006/07 are given below in the Table no.4.19 and appendix-xviii

Table No. 4.19

Growth Ratio of Total Deposit, Rs. In '000

Banks	Total Deposit					Growth Rates
	2002/03	2003/04	2004/05	2005/06	2006/07	
NABIL	15506428	13447661	14119032	14586608	19347399	32.64
HBL	18619375	21007379	22010333	24804012	26490895 2	6.76

The above comparative table shows that the growth ratio of NABIL's deposit is higher than that of HBL and NABIL has the rates of 32.64% where as HBL has 6.76%. It means the performance of NABIL to collect greater deposit in compare to other banks is better year by year.

A. Growth Ratio of Loan & Advances

Growth ratio of loan advances of NABIL and HBL from the fiscal year 2002/03 to 2006/07 are given below in the Table on.4.20

Table No. 4.20

Growth Ratio of Loan and advances, Rs. In '000

Banks	Loan and Advances					Growth
	2002/03	2003/04	2004/05	2005/06	2006/07	Rates(%)
NABIL	7437895	7755952	8189993	10586170	12912543	22.07
HBL	9557137	10844599	12919631	13451168	15761977	17.18

Source: Appendix-VIII

The above comparative table shows that the growth ratio of NABIL's loan and advances is higher than that of HBL. NABIL has the rate of 22.07% where as HBL has 17.18%. It means the performance of NABIL to grant loan and advances in compare to HBL.

B. Growth Ratio of Total Investment

Growth ratio of total investment of NABIL and HBL from fiscal year 2002/03 to 2006/07 are given below in table no 4.21

Table No. 4.21

Growth Ratio of Total Investment, Rs. In '000

Banks	Loan and Advances					Growth
	2002/03	2003/04	2004/05	2005/06	2006/07	Rates (%)
NABIL	8199515	6031176	5838948	4275528	6178533	44.51
HBL	9157107	10175435	9292103	11692342	10889031	-6.87

Source: Appendix-VIII

The above table shows that the growth ratio of NABIL's total investment is 44.51%, which is comparatively higher than -6.87% of HBL. The growth ratio of HBL is negative which reveals decreasing trend. The

performance of NABIL in total investment in compare to HBL is increasing year by year.

C. Growth of Net Profit

Growth ratio of net profit of NABIL and HBL from fiscal year 2002/03 to 2006/07 are given below in table no 4.22 and

Table No. 4.22

Growth Ratio of Net Profit Rs. In '000

Banks	Loan and Advances					Growth Rates(%)
	2002/03	2003/04	2004/05	2005/06	2006/07	
NABIL	271639	416236	455311	520114	6235262	22.14
HBL	235023	212132	263052	308277	457458	48.39

Source: Appendix-VIII

The above comparative table shows that the growth ratio of HBL's net profit is higher than NABIL. HBL has the rates of 48.39% whereas NABIL has 22.14%. Between these two banks HBL has better performance in increasing net profit in compare to NABIL.

From the above analysis HBL bank's performance regarding the collection of deposit, granting loan and advances, making investment and making profit is comparatively better.

4.1.6 Analysis and Interpretation of Growth Ratios

The growth ratios represent how well the commercial banks are maintaining their economic and financial position. Higher the ratios better the performance of a bank and vice-versa.

The ratios can be computed by dividing the last period figure by the first period figure then by referring to the compound interest tables.

4.2 Statistical Analysis

Statistical analysis is performed under this chapter. Following statistical analysis tools are used for this purpose.

4.2.1 Trend Analysis

Analysis of trend of deposit, loan and advances, investment and net profit of NABIL and HBL is done under this topic. The forecast is made for the next five years. The forecast is based on the following assumptions.

1. The main assumption is that other things will remain unchanged.
2. The forecast will be true only when the limitation of least square method is carried out.
3. The bank will run in present position.
4. The economy will remain in the present stage.
5. Nepal Rastra Bank will not changes its guidelines to commercial banks.

4.2.1.1 Trend analysis of Total Deposit

The following table shows the trend values of total deposit for 5 years form 2002/03 to 2006/07 of NABIL and HBL.

Table No. 4.23

Trend Values of Total Deposit of NABIL and HBL, Rs. In '000

Years	Trend values of NABIL	Trend Values of HBL
2002/03	10168651.80	18678472.80
2003/04	12029193.60	20633431.50
2004/05	1388735.40	22588390.20
2005/06	15750277.20	24543348.90
2006/07	17610819.00	26498307.60

The above table shows that the deposits of both banks have the increasing trend. If other things remaining the same, the total deposit of the HBL will be 26498307.60 thousand in the 2006/07 that is the highest deposit

among the study period. Similarly, the total deposit of NABIL will be 17610819.00 thousands on 2006/07.

From the above trend analysis, it is found that the deposit collection position of NABIL is not better in compare to HBL.

4.2.1.2 Trend analysis of Loan and Advances

Under this topic, the trend values of loan and advances for 5 years form 2002/03 to 2006/07 have been calculated.

Table No. 4.24

Trend Values of Loan and Advances of NABIL and HBL, Rs. In '000

Years	Trend values of NABIL	Trend Values of HBL
2002/03	8152554.30	10122961.40
2003/04	9649987.20	11561912.80
2004/05	11147420.10	13000864.20
2005/06	12644853.00	14439815.60
2006/07	14142285.90	15878767.00

The above table shows that the loan and advances of both banks have the increasing trend. If other things remaining the same, the total loan and advances of NABIL will be 14142285.90 thousand in the 2006/07 that is the highest deposit among the study period. Similarly, the total loan and advances of HBL will be 15878767.00 thousands.

From the above trend analysis, it is found that the lending position of NABIL is not better in compare to HBL.

4.2.1.3 Trend analysis of Total Investment

The following table shows the trend values of total investment for 5 years form 2002/03 to 2006/07 of NABIL and HBL.

Table No. 4.25

Trend Values of Investment of NABIL and HBL, Rs. In '000

Years	Trend values of NABIL	Trend Values of HBL
2002/03	944890.30	3830254.60
2003/04	1112170.40	45000694.00
2004/05	1281450.50	5171133.40
2005/06	1449730.60	5841572.80
2006/07	1618010.70	6512012.20

The above table shows that the total investment of NABIL and HBL have the increasing trend. If other things remaining the same, the total investment of NABIL will be 1618010.70 thousand in the 2006/07 that is the highest deposit among the study period. Similarly, the total loan and advances of HBL will be 6512012.20 thousands for 2006/07.

From the above trend analysis, it is found that the investment of NABIL is not better in compare to HBL.

4.2.1.4 Trend analysis of Net Profit

The following table shows the trend values of net profit for 5 years form 2002/03 to 2006/07 of NABIL and HBL.

Table No. 4.26

Trend Values of net profit of NABIL and HBL, Rs. In '000

Years	Trend values of NABIL	Trend Values of HBL
2002/03	230781.30	288463.90
2003/04	274179.20	323326.00
2004/05	317577.10	358188.10
2005/06	360975.00	39305.20
2006/07	404372.90	427912.30

The above table shows that the total net profit of NABIL and HBL have the increasing trend. If other things remaining the same, the net profit of NABIL will be 404372.90 thousand in the 2006/07 that is the highest deposit among the study period. Similarly, the total loan and advances of HBL will be 427912.30 thousands for 2006/07.

From the above trend analysis, it is found that the net profit position of NABIL is not better in compare to HBL.

4.2.2 Co-efficient of Correlation Analysis

To find out the relationship between deposit and total investment, deposit and loan and advances and net profit and total outside assets have been used of Karl Pearson's coefficient of correlation.

4.2.2.1 Co-efficient of Correlation between Deposits and Total Investment

The co-efficient of correlation between deposit and investment is to measure the degree of relationship between two variables. In correlation analysis, deposit is independent variable (x) and total investment is dependent variable (y). The purpose of computing co-efficient of

correlation is to justify whether the deposits are significantly used in proper way or not.

The following table no. 27 shows the co-efficient of correlation between deposits and total investment i.e. 'r', 'r^2', 'P.Er.' and '6P.Er.' of NABIL and HBL during the study period.

Table No.4.27

Correlation Between Deposits and Total Investments

Banks	Evaluation criteria			
	R	r^2	P.Er.	6P.Er.
NABIL	0.720	0.589	0.091	0.595
HBL	0.830	0.718	0.069	0.415

From the above table, it is found that the co-efficient f correlation between deposits (independent) and total investment (dependent) value of is 0.720 in case of NABIL. It shows positive relationship between these two variables. However, by application of co-efficient of determination, the value of r^2 is 0.589 which indicates that 58.9% of the variation in the dependent in the dependent variable (total investments) has been explained by the independent variable (deposits). Further value of P.Er. is 0.091 and 6P.Er. Is 0.595. It shows that the value of co-efficient of correlation (r) is greater than 6 times probable error (6P.Er.). Therefore, value of r is significant. It can be concluded that there is significant relationship between deposit and total investments of the NABIL. The bank has investing their deposit by using sound investment policy.

In case of HBL also, that the co-efficient of correlation between total deposit and total investments is 0.830. It shows the positive relationship between these variable. But considering the value of r2 is 0.718. It means there will be the variation of 71.8% in investment due to the deposit. The

remaining 28.2% variation is due to other factors. Moreover, the value of P.Er. Is 0.069 and 6P.Er. Is 0.415. It shows that the value of co-efficient f correlation (r) is significant. IT can be concluded that there is no significant relationship between deposit and total investment and the bank has taken the policy of maximizing the use of their deposit as investment.

From the above analysis, it can be concluded that NABIL and HBL have almost same policy in mobilizing their deposits as investment. Finally, we can say that NABIL and HBL have the policy of maximum investment of their deposits.

4.2.2.2 Co-efficientof Correlation between Deposits and Loan & Advances

Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (x) and loan and advances are dependent variable (y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used as loan and advances in proper way or not.

The table no. 28 exhibits the value of 'r', 'r2', 'P.Er.' and '6P.Er.' between deposits and loan and advances of NABIL and HBL for the study of period.

Table No. 4.28

Correlation between deposits and Loan and Advances

Banks	Evaluation criteria			
	R	r^2	P.Er.	6P.Er.
NABIL	0.993	0.986	0.004	0.025
HBL	0.886	0.772	0.046	0.291

From the above table, it is found that the co-efficient of correlation between deposits and loan and advances of NABIL is 0.993. It shows

positive relationship between these two variables. Moreover, when we consider the value of co-efficient of determination 'r2' is 0.986 and it means 98.6% of the variation in the dependent variable (loan and advances) has been explained by the independent variable (Deposit). Further, value of P.Er. Is 0.004 and 6P.Er. Is 0.025, it shows that the value of co-efficient of correlation 'r' is highly greater than the value of 6P.Er., which reveals that the value of 'r' is significant. In other words, there is significant relationship between deposits and loan advances in case of NABIL.

In case of HBL also, that the co-efficient of correlation between total deposit and loan and advances is 0.886, which shows the positive correlation between these variables. Similarly, the value of co-efficient of determination 'r^{2}' is found 0.772, which shows that 77.6% in the dependent variable (loan and advances) has been explained by the independent variable (deposit). Further, the value of P.Er. is 0.046 and 6P.Er. is 0.291. It shows that the value of co-efficient of correlation (r) is greater than 6 times probable error (6 P.Er.). Therefore, value of 'r' is significant. It can be concluded, there is significant relationship between deposit loan and advances and the bank is successful in mobilizing their deposit and loan and advances.

From the above analysis, it can be concluded that NABIL and HBL are successful in mobilizing their deposit as loan and advances. Value of 'r' and 'r2' for the three banks is positive and greater than the value of six times of their probable error (6P.Er.). NABIL has highest value of 'r' that indicates the better position of it in mobilizing deposit as loan and advances in compare to HBL. We have the lowest value of 'r' for HBL.

4.2.2.3 Co-efficient of correlation between outside assets and net profit

To measure and evaluate the coefficient of correlation between these two variables i.e. total outside assets and net profit, Karl Pearson's co-efficient of correlation has been calculated under this topic. In this analysis, total outside asst is independent variable (x) and net profit is dependent variable (y). The purpose of computing correlation of co-efficient is to justify whether the net profit is significantly correlated with respective total asset or not. The table no. 28 shows the value of 'r', 'r^2', 'P.Er.' and '6P.Er.' between outside asset and net profit of NABIL and HBL for the study period.

Table No. 4.29

Correlation between outside assets and net profit

Banks	Evaluation criteria			
	R	r^2	P.Er.	6P.Er.
NABIL	0612	0.433	0.292	1.368
HBL	0.791	0.504	0.101	0.698

From the above listed table, it has been found that the co-efficient of correlation between total outside assets (independent) and net profit (dependent) of NABIL is 0.612, which indicates positive correlation between these tow variables. On the other hand, considering the value of co-efficient of determination (r2) i.e. 0.433. It indicates that 43.30% of the variation in the dependent variable (net profit) has been explained by the independent variable (total outside assets) Further, value of P.Er. Is 0.292 and 6P.Er. is 1.368. It shows that the value of co-efficient of correlation 'r' is lower than 6 times probable error (6 P.Er.) Therefore, value of 'r' is not significant. It can be concluded that there is not significant relationship between outside asset and net profit of NABIL. The bank is not successful in earning profit by mobilizing its outside asset.

In case of HBL also, that the co-efficient of correlation 'r' between deposit and loan and advances is 6.731. It shows the positive relationship between these two variables. Here, value of co-efficient of determination 'r^2' is 0.504. It means there will be the variation of 50.4% in loan and advances due to the deposit. The remaining 49.6% variation is due to other factors. Further, value of P.Er . Is 0.101 and 6 P.Er. Is 0.698. It shows that the value of co-efficient of correlation 'r' is slightly lower than 6 times probable error (6 P.Er.). Therefore, the value of 'r' is not significant. It can be concluded that there is not significant relationship between outside assets and net profit. And the bank also is not successful in mobilizing its outside assets for earning profit.

From the above analysis, it can be concluded that the three banks are not satisfiable in mobilizing of fund and earn return i.e. net profit from such mobilized funds. Though, values of 'r' of NABIL and HBL are positive. HBL has the highest value of 'r' that indicates the comparatively better position regarding the mobilization of outside assets in profitable way.

4.3 Major Findings of the Study

The main findings of the study are derived on the analysis of financial data of NABIL, HBL summarized below.

4.3.1 Liquidity Ratio

The liquidity position of NABIL and HBL reveals that:

- The mean currant ratio of NABIL is higher at all. It means NABIL has maintained the higher liquidity in compare to HBL Bank. The current ratio of NABIL if more than that of HBL Bank.
- There is not much difference between the mean ratios of cash and bank balance to total deposit ratio of NABIL and HBL. Moreover, NABIL's cash and bank balance to total deposit ratios

are more variable than that of HBL Bank. It states that the liquidity position of NABIL is not better.

- The cash and bank balance to current assets current ratios of NABIL are more stable and consistent than that of HBL banks.
- The mean ratio of investment on government securities to current assets of NABIL has maintained lower than HBL and greater than HBL. Moreover, NABIL seems to have more variable than that of other banks.
- The mean ratio of loan and advances to current assets of NABIL has been found greater than that of HBL. The loan and advances to current assets of NABIL are more stable and consistent than that of other banks.

4.3.2 Assets Management Ratio

The asset management ratio of NABIL and HBL reveals that:

- The mean ratio of loan and advances to total deposit of NABIL is greater than HBL. However, NABIL's ratios seem to be more stable and consistent than that of other two banks. Similarly, the mean ratio of total investment to total deposit of NBIL is lower than HBL.
- The variability of the total investment to total deposit ratio of NABIL is less stable and inconsistent than that of HBL. NABIL has maintained higher mean of loan and advances to total working fund is greater than HBL. On the other had, NABIL's ratios are more stable and consistent than that of HBL.
- The mean ratio of investment on government securities to total working fund of NABIL is greater than HBL. However, NABIL's investment on government securities to total working fund ratios is found more consistent than that of HBL.

- The Mean ratio of investment on shares and debentures to total working fund of NABIL is slightly lower than HBL. The investment on share and debenture to total working fund ratios of NABIL are less consistent than that of HBL.
- The mean ratio of total OBS operation to loan and advances of HBL is highest at all. On the other had, NABIL's ratios are found less consistent than that of HBL.
- There is not much difference between the mean ratios of loan loss of NABIL and HBL. NABIL has highest mean at all. Similarly, the loan loss ratios of NABIL are highly variable than that of HBL.

4.3.3 Profitability Ratio

The profitability ratios of NABIL and HBL reveal that:

- The mean ratio of return on loan and advances of NABIL higher than HBL. It has failed to maintain high ratio than HBL. The ratios of BABIL are highly variable than HBL.
- The mean ratio of return on total assets of NABIL is higher than HBL. It states that the position of NABIL is better in this regard. The ratios of NABIL are more stable and consistent than HBL. Similarly, the mean ratio of return on equity of NABIL is lower than HBL. The ratios of NABIL are more consistent and stable than that of HBL.
- The mean ratio of total interest earned to total outside assets of NABIL is slightly lower than that ratio of HBL. The ratio of NABIL is less variable than that of HBL. It indicates that both NABIL and HBL are better in this position.
- The mean ratio of total interest earned to total working fund ratio of NABIL is high in comparison to HBL. It indicates NABIL is in better position to earned high return on working fund in compare to

other two banks. The ratios of NABIL are more consistent and stable than that of HBL.

- The mean ratio of total interest earned to total operating income of NABIL is lowest of all which indicates that position of NABIL is not satisfactory. The ratios of NABIL are also highly variable than other two banks.
- The mean ratios of total interest paid to total working fund ratio of NABIL is highest of all. It means NABIL has paid higher interest in compare to other banks. But the ratios of NABIL are more stable and consistent than HBL.

4.3.4 Risk Ratio

The risk ratios of NABIL and HBL show that:

- The mean credit risk ratio of NABIL is higher than HBL, which indicates the high credit risk of NABIL. The ratio of NABIL is more variable than HBL. It indicates unstable credit policy of NABIL.
- The mean interest rate risk ratio of NABIL is higher than HBL. It indicates the interest rate structure of NABIL is in average level. The ratios of NABIL are less variable than HBL.
- The mean ratios of capital risk of NABIL are lower than HBL, indicating higher capital risk. The ratio of NABIL is less variable than HBL.

4.3.5 Growth Ratio

The growth ratios of NABIL and HBL reveal that:

- The growth ratio of NABIL's deposit is higher than that of HBL, has the rates of 58.90% whereas HBL has 29.39%. It means the performance of NABIL to collect greater deposit in compare to other banks is better year by year.

- The growth ratio of NABIL's loan and advances is higher than that of HBL. NABIL has the rate of 57.37% whereas HBL has 24.94%. It means the performance of NABIL to grant loan and advances in compare to HBL is better year by year.
- The growth ratio of NABIL's total investment is 27.60% which is comparatively higher than 31.82%. Of HBL. The performance of NABIL in total investment in compare to other bank is increasing year by year.
- The growth ratio of NABIL's net profit is higher than HBL. NABIL has the rate of 75.11% whereas HBL has 19.40%. NABIL has better performance in increasing net profit in compare to HBL.

4.3.6 Trend Analysis

The trend analysis of NABIL and HBL reveal that:

- The deposits of both banks have the increasing trend. The total deposit of NABIL will be 17610819.00 thousand in the 2006/07 that is the highest deposit among the study period. Similarly, the total deposit of HBL will be 31782925.2 thousand in 2006/07. It is found that the deposit collection position of NABIL is not better in compare to HBL.
- The loan and advances of both banks have the increasing trend. The total loan and advances of NABIL will be 14142285.90 thousand in 2006/07 that is the highest among the study period. Similarly the total loan and advances of HBL will be 15878767.00 thousand in 2006/07. It is found that the lending position of NABIL is not better in compare to HBL.
- The total investments of NABIL and HBL have the increasing trend. The total investment of NABIL will be 1618010.70 thousand in 2006/07 that is the highest among the study period. Similarly,

the total investment of HBL will be 6512012.20 thousand for the 2006/07. It is found that the investment position of NABIL is not better in compare to HBL.

4.3.7 Co-efficient of Correlation Analysis

Co-efficient of correlation analysis between different variables of NABIL and HBL reveals that

- It is found that there is significant relationship between deposit and investment, in case of ANBIL and HBL. However, NABIL has the highest value of co-efficient of correlation between deposit and loan and advances than that of other two banks. It indicates that the better position of it in mobilizing deposits as loan and advances in compare to HBL.
- Co-efficient of correlation between deposit and total investment of NABIL is lower than that of HBL. It indicates that NABIL has adopted the policy of minimum investment of their deposits.
- The value of co-efficient of correlation between outside assets and net profit of both banks is positive. HBL has highest value than NABIL, it means it is successful in mobilizing of fund and earns return i.e. net profit from such mobilized funds. It indicates that HBL has better position in this regard in compare to NABIL.

From the above results, it can be concluded that there is significant relationship between 'deposit and loan and advances' and outside assets and net profit' of NABIL and HBL.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter highlights some selected actionable conclusions and recommendations on the basis of the main finding, which are derived from the analysis if NABIL, and HBL. In order to carryout this study, data have been basically obtained by the secondary sources. The analysis is performed with the help of financial tools and statistical tools. The analysis is associated with comparison and interpretation .Under financial analysis, various financial ratios related to the investment function of commercial banks. They are liquidity ratio, profitability; some relevant statistical tools are used. They are coefficient of correlated and trend analysis.

5.1. Summary

In this study, the financial tools-ratio analysis viz. Liquidity ratio, asset management ratios, profitability ratios, risk ratios, growth ratios and statistical tools like percentage, mean, standard deviation, co-efficient of variation, co-efficient of correlation and trend analysis have been used for the analysis and interpretation of the data. The data, which were employed in this research, are secondary in nature. They are obtained from annual reports of the concerned banks. Likewise, the financial statements of five years (2002/03 to 2006/07) were selected for the purposed evaluation.

Since, the liquidity position of NABIL found satisfactory. It is, therefore, suggested them to improve cash and bank balance to meet current

obligations. HBL'S loan and advances to total deposit ratio is lower at all, it is recommended to follow liberal lending policy for enhancement of fund mobilization. The profitability poison of NABIL have lower than HBL but not satisfactory. So, banks have to invest their fund in profitable sectors. The risk ratio of NABIL have higher, it is suggested that they must careful about risk either credit risk or capital risk .In case of growth ratio HBL has failure to maintain its positive growth ratio of total investment and net profit.

There is significant relationship 'between deposit and loan and advance' and 'outside assets and net profit' of NABIL and HBL. But there is no significant relation between deposit and total investment of HBL only. It is recommended to HBL, it has to invest its fund on share and debentures of other companies. The performance of profit earning of NABIL and HBL were found poor .Therefore, it is suggested to enhance off balance sheet transactions, diversity their investments, open new branches, play merchant banking roles and invest their risky assets and shareholder's funds to gain highest profit margin.

5.2 Conclusion

Economic liberalization policy of the government has encouraged the establishment and growth of commercial banks in the country with short span of time. In a situation when the existing financial institutions, especially government's commercial banks were unable o supply credit timely and carry capital market activities, private joint venture commercial banks have contributed a lot. In Nepal, up to now there are 9 joint venture commercial banks in Nepal is 18 and their 513 branches of commercial banks all over the kingdom, but now some branches are reduce and merge with other branches due to lack of proper security.

The overall performance of joint commercial banks is satisfactory and Nepal Rastra Bank has to play more active role to enhance the operation. The analysis of liquidity position of sample joint venture commercial banks (NABIL, HBL) have satisfactory. NABIL has higher liquidity position than that of HBL. The lending and investment activities of HBL has lower position that that of NABIL but the profitability position is higher than that of other banks. The coefficient of correlation of deposit and lending and investment of NABIL have better position .In case of trend analysis, the trend value of loan and advances to total deposit and total investment to total deposit of NABIL is better position .Similarly NABIL has better position in loan and advances to total deposit and poor position in total investment to total deposit .Initially the major part of these banks was consist of business and industrial loan, this is the indication of investment on productive sector. Nowadays, these banks are slowly turned on hire purchase and housing financing.

Strengthening and the institutionalization of the commercial banks are very important to have a meaningful relationship between commercial banks and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of commercial bank, directing attention to venture capital financing, appropriate risk return trade of by linking credit to timely repayment schedules, avoiding imperfections, allowing flexibility in lending, one window service from NRB, need of a strong supervision and monitoring from NRB, diversity scope of activities for commercial banks, professional culture within commercial banks, etc. All these are necessary to ensure better future performance of commercial banks that have already been established and growing in Nepal.

The Commercial banks have to prove that they can really contribute to the national economy, are efficient and viable agencies for mobilization of saving and its canalization into productive sectors, are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive with other agencies and are trust worthy.

5.3 Recommendations

One the basis of analysis and findings of the study, following recommendations can be advanced to overcome weakness, inefficiency and to improve present fund mobilization and investment NABIL, and HBL.

Maintain Sound Liquidity Position

- The liquidity position of a bank may be affected by external as well as internal factors. The affecting factors may be interest rates, supply as demand position of loan and advances as well as saving, investment situations, central bank's directive, the lending policies, and capability of management, strategic planning and funds flow situations. Both NABIL and HBL are recommended to increased cash and bank balance to meet current obligations and loan demand.

Follow the Liberal Lending Policy

- To get the success in competitive banking environment, depositors' money must be utilized as loan and advances. Negligence in administering this asset could be the main cause of a liquidity crisis in the bank and one of the main reasons of a bank failure. It has been found from the study that HBL has greater ratios at all, because its large portion of fund invested as loan and advances and negligence to invest on other sectors. NABIL have not properly used their

existing fund as loan and advances. To overcome this situation, NABIL and HBL are strongly recommended to follow liberal lending policy.

Optimum Utilize of Risky Assets and Shareholders Fund

- As a bank of private sector, commercial banks cannot keep their eyes closed from the profit motive. They should be careful in increasing profit in a real sense to maintain the confidence of shareholder, depositors and its all customers. HBL's profitability position is worse than that of NABIL banks. So, HBL is strongly recommended to utilize risky assets and shareholders' fund to gain highest profit margin. Similarly, it should reduce its expenses and should try to collect cheaper fund being more profitable.

Utilize of Idle Funds

- Though the government securities issued by a government are considered to be free of risk of defaults, such securities yield the lowest interest rates of a particular maturity due to low risk feature. So it is recommended to HBL that if it has idle funds it should be invest them in government securities. It should keep in mind this proverb, "Something is better that nothing."

Proper Management Off-balance Sheet Transaction

- The experience shows that Off-balance sheet operation yield high return in terms of commission, discount, fees etc. So these are very important to the commercial banks. In case of NABIL has found failure in utilizing the modern fee based off-balance sheet activities to the maximum possible extent in comparison to the HBL. So, both

NABIL and HBL have strongly recommended enhancing off-balance sheet transaction in the days to come.

Portfolio Management

- Portfolio condition of all two banks should be examined carefully from time to time and attention should be made to maintain equilibrium in the portfolio condition as far as possible. It can be said "all eggs should not kept in the same basket". The banks should make continuous efforts to explore new, competitive and high yielding investment opportunities to optimize their investment portfolio.

Expansion of Service

- Most of the joint venture banks have focused their banking service especially to big client such as multinational companies, large-scale industries, manufactures and exporters of garments and carpets. The minimum level banks balance and the amount needed to open an account in there banks are very high amount. So, small depositors are very far from enjoying the banking facilities provided by such joint venture banks. So, banks should open its doors to the small depositors and entrepreneurs for promoting and mobilizing small investors' funds.

Developing the Project oriented Approach

- The project oriented approach has to be encouraged in lending business of the banks, in which, security is not necessary, risk is high but the project is important from the point of view of national economy. The project should allow making them capable to generate their own funds and to repay loans timely. So, it is recommended to

all two banks should followed project oriented approach for their efficient performances. Because the chance of loan loss can be minimize by the project-oriented approach.

Managing to increase the Foreign Investment

- One of the main objectives to operate joint venture banks of Nepal is to boost foreign investments in the kingdom. However, these banks don't seem to be successful in this aspect. Therefore, banks are recommended to activate for increasing foreign investment in Nepal by means of the wide international banking networks.

Participate in Merchant Banking

- Though joint venture banks have played important role in the economic development of the country, they are not efficiently playing the role of merchant banks .So, the two banks is suggested to play the role of financial interjectory and merchant banking like underwriting of securities brokers, development of capital markets and supportive role to the security exchange center.

Creating New Market for Better Service

- In the height of growing competition in the banking sector, the business of the banks should be customer oriented. It should strengthen and activate its marketing function, as it is an effective tool of attracting and retaining customers for this purpose, the banks should develop an "Innovative approach to Bank Marketing" and formulate new strategies of serving customers in a more and convenient and satisfactory way.

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APPENDIX-I

Current Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Current Assets (Rs.)	Current Liabilities (Rs.)	Ratio (Times)
2002/03	16720597	16065535	1.04
2003/04	15602099	14313852	1.09
2004/05	15915089	157577513	1.01
2005/06	16312745	15389382	1.06
2006/07	21466214	20281775	1.06

HBL

Fiscal Year	Current Assets (Rs.)	Current Liabilities (Rs.)	Ratio (Times)
2002/03	20331266	19814319	1.03
2003/04	23183775	22292091	1.04
2004/05	24609752	23437859	1.05
2005/06	27618095	26302948	1.05
2006/07	29355868	27694215	1.06

APPENDIX-II

Cash & Bank Balance of Current Assets Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Cash & Bank Balance (Rs.)	Current Assets (Rs.)	Ratio
2002/03	1003236	16720597	0.06
2003/04	1092147	15602099	0.07
2004/05	954905	15915089	0.06
2005/06	489382	16312745	0.03
2006/07	643986	21466214	0.03

HBL

Fiscal Year	Cash & Bank Balance (Rs.)	Current Assets (Rs.)	Ratio
2002/03	1219876	20331266	0.06
2003/04	2086540	23183775	0.09
2004/05	1968780	24609752	0.08
2005/06	1933267	27618095	0.07
2006/07	1761352	29355868	0.06

APPENDIX-III

Investment on Government Securities to Current Assets Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Investment in govt. Securities (Rs.)	Current Assets (Rs.)	Ratio (%)
2002/03	4119955	16720597	24.64
2003/04	3588483	15602099	23.00
2004/05	3673203	15915089	23.08
2005/06	4242095	16312745	26.25
2006/07	6177976	21466214	28.78

HBL

Fiscal Year	Investment in govt. Securities (Rs.)	Current Assets (Rs.)	Ratio (%)
2002/03	9155169	20331266	45.03
2003/04	10191587	23183775	43.96
2004/05	9302486	24609752	37.80
2005/06	11699025	27618095	42.36
2006/07	10882220	29355868	37.07

APPENDIX-IV

Loan & Advance to Total Deposit Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Loan & Advances (Rs.)	Total Deposit (Rs.)	Ratio (%)
2002/03	7437895	15506428	47.97
2003/04	7755952	13447661	57.68
2004/05	8189993	14119032	58.01
2005/06	10586170	14586609	72.57
2006/07	12922543	19347399	66.79

HBL

Fiscal Year	Loan & Advances (Rs.)	Total Deposit (Rs.)	Ratio (%)
2002/03	9557137	18619375	51.45
2003/04	10844599	21007379	51.69
2004/05	12919631	22010333	58.70
2005/06	13451168	24814012	54.21
2006/07	15761977	26490852	59.49

APPENDIX-V

Total Investment to Total Deposit Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Total Investment (Rs.)	Total Deposit (Rs.)	Ratio (%)
2002/03	8199799	15506428	52.88
2003/04	6031276	13447661	44.85
2004/05	4138288	14119032	41.33
2005/06	5670723	14586609	29.31
2006/07	3820233	19347399	26.19

HBL

Fiscal Year	Total Investment (Rs.)	Total Deposit (Rs.)	Ratio (%)
2002/03	9158871	18619375	49.19
2003/04	10178075	21007379	48.45
2004/05	9290562	22010333	42.21
2005/06	11692362	24814012	47.12
2006/07	10890389	26490852	41.11

APPENDIX-VI

Loan & Advances to Total Working Fund Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Loan & Advances (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	7437895	17629521	42.19
2003/04	7755952	16561930	46.83
2004/05	8189993	16475028	48.91
2005/06	10586170	17063459	62.04
2006/07	12922543	22330297	57.87

HBL

Fiscal Year	Loan & Advances (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	9557137	21313865	44.84
2003/04	10844599	24212099	44.79
2004/05	12919631	25731191	50.21
2005/06	13451168	28871363	46.59
2006/07	15761977	30582028	51.54

APPENDIX-VII

Investment on Government Securities to Total Working Fund Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Investment in govt. securities (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	4120019	17629521	23.37
2003/04	3632031	16561930	21.67
2004/05	3672186	16475028	21.93
2005/06	2417892	17063459	14.17
2006/07	2302254	22330297	10.31

HBL

Fiscal Year	Investment in govt. securities (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	4981050	21313865	23.37
2003/04	5193495	24212099	21.45
2004/05	5462732	25731191	21.23
2005/06	5759837	28871363	19.95
2006/07	5339622	30582028	17.46

APPENDIX-VIII

Investment on Share, Debenture to Total Working Fund Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Investment on Shares & Debenture (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	17630	17629521	0.001
2003/04	16562	16561930	0.001
2004/05	16749	16475028	0.001
2005/06	22331	17063459	0.001
2006/07	17063	22330297	0.001

HBL

Fiscal Year	Investment on Shares & Debenture (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	21314	21313865	0.001
2003/04	24212	24212099	0.001
2004/05	25731	25731191	0.001
2005/06	692913	28871363	0.024
2006/07	91746	30582028	0.003

APPENDIX-IX

Loan Loss Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Loan Loss Provision (Rs.)	Loan & Advances (Rs.)	Ratio (%)
2002/03	---	7437895	0.00
2003/04	---	7755952	0.00
2004/05	1052	8189993	0.100
2005/06	8662	10586170	0.08
2006/07	3770	12922543	0.03

HBL

Fiscal Year	Loan Loss Provision (Rs.)	Loan & Advances (Rs.)	Ratio (%)
2002/03	643195	9557137	6.73
2003/04	842625	10844599	7.77
2004/05	967680	12919631	7.49
2005/06	1026324	13451168	7.63
2006/07	1119100	15761977	7.10

APPENDIX-X

Return on Loan & Advances

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Net Profit (Rs.)	Loan & Advances (Rs.)	Ratio (%)
2002/03	271639	7437895	3.65
2003/04	416236	7755952	5.37
2004/05	455311	8189993	5.56
2005/06	520114	10586170	4.91
2006/07	635262	12922543	4.92

HBL

Fiscal Year	Net Profit (Rs.)	Loan & Advances (Rs.)	Ratio (%)
2002/03	235023	9557137	2.46
2003/04	212132	10844599	1.96
2004/05	263052	12919631	2.04
2005/06	308277	13451168	2.29
2006/07	457458	15761977	2.90

APPENDIX-XI

Return on Total Assets Ratio (ROA)

NABIL Bank Ltd. Rs. In '000)

Fiscal Year	Net Profit (Rs.)	Total Assets (Rs.)	Ratio (%)
2002/03	271639	17629252	1.53
2003/04	416236	16562625	2.43
2004/05	455311	16749487	2.73
2005/06	520114	17064082	3.05
2006/07	635262	22329971	2.84

HBL

Fiscal Year	Net Profit (Rs.)	Total Assets (Rs.)	Ratio (%)
2002/03	235023	21315848	1.10
2003/04	212132	24197974	0.88
2004/05	263052	25729787	1.02
2005/06	308277	28871343	1.07
2006/07	457458	30579808	1.50

APPENDIX-XII

Return on Equity Capital Ratio (ROE)

NABIL Bank ltd. (Rs. In '000)

Fiscal Year	Net Profit (Rs.)	Total Equity Capital (Rs.)	Ratio (%)
2002/03	271639	491654	20.06
2003/04	416236	491654	84.66
2004/05	455311	491654	92.62
2005/06	520114	491654	105.79
2006/07	635262	491654	129.21

HBL

Fiscal Year	Net Profit (Rs.)	Total Equity Capital (Rs.)	Ratio (%)
2002/03	235023	390000	60.26
2003/04	212132	429000	49.44
2004/05	263052	536250	49.06
2005/06	308277	643500	47.91
2006/07	457458	772200	59.25

APPENDIX-XIII

Total Interest Earned to Total Working Fund Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Total Interest Earned (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	1120184	17629521	6.35
2003/04	1017872	16561930	6.15
2004/05	1001617	16475028	5.98
2005/06	1068747	22330297	4.79
2006/07	1309999	17063459	7.68

HBL

Fiscal Year	Total Interest Earned (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	1148998	21313865	5.39
2003/04	1201233	24212099	4.96
2004/05	1245895	25731191	5.84
2005/06	1446468	28871363	5.01
2006/07	1626474	30582028	5.32

APPENDIX-XIV

Total Interest Earned to Total Operating Income Ratio

NABIL Bank Ltd. s. In '000)

Fiscal Year	Total Interest Earned (Rs.)	Total Operating Income (Rs.)	Ratio (%)
2002/03	1120184	1639115	68.34
2003/04	1017872	1306353	77.92
2004/05	1001617	1294899	77.35
2005/06	1068747	1194898	89.44
2006/07	1309999	1359513	96.36

HBL

Fiscal Year	Total Interest Earned (Rs.)	Total Operating Income (Rs.)	Ratio (%)
2002/03	1148998	8116858	141.35
2003/04	1201233	900180	133.44
2004/05	1245895	1028075	121.18
2005/06	1446468	1198717	120.67
2006/07	1626474	1451984	112.02

APPENDIX-XV

Total Interest Paid to Total Working Fund Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Total Interest Paid (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	461893	17629521	2.62
2003/04	317989	16561930	1.92
2004/05	282991	16475028	1.69
2005/06	243545	22330297	1.43
2006/07	357161	17063459	1.60

HBL

Fiscal Year	Total Interest Paid (Rs.)	Total Working Fund (Rs.)	Ratio (%)
2002/03	578134	21313865	2.71
2003/04	554128	24212099	2.29
2004/05	491543	25731191	1.91
2005/06	561964	28871363	1.95
2006/07	648842	30582028	2.12

APPENDIX-XVI

Credit Risk Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Loan & Advances (Rs.)	Total Assets (Rs.)	Ratio (%)
2002/03	7437895	17629252	42.19
2003/04	7755952	16562625	46.83
2004/05	8189993	16749487	48.91
2005/06	10586170	17064082	62.04
2006/07	12922543	22329971	57.87

HBL

Fiscal Year	Loan & Advances (Rs.)	Total Assets (Rs.)	Ratio (%)
2002/03	9557137	21315848	44.84
2003/04	10844599	24197974	44.82
2004/05	12919631	25729787	50.21
2005/06	13451168	28871343	46.59
2006/07	15761977	30579808	51.54

APPENDIX-XVII

Capital Risk Ratio

NABIL Bank Ltd. (Rs. In '000)

Fiscal Year	Share Capital (Rs.)	Risk Weighted Assets (Rs.)	Ratio (%)
2002/03	491654	7437895	4.65
2003/04	491654	7755952	4.41
2004/05	491654	8189993	4.14
2005/06	491654	10586170	4.64
2006/07	491654	12922543	3.80

HBL

Fiscal Year	Share Capital (Rs.)	Risk Weighted Assets (Rs.)	Ratio (%)
2002/03	390000	9557137	4.08
2003/04	429000	10844599	3.96
2004/05	536250	12919631	4.15
2005/06	643500	13451168	4.78
2006/07	772200	15761977	4.90

APPENDIX-XVIII

Sample Calculation of Growth Rate

[Growth Ratio of Total Deposit (NABIL)]

Dn = Total deposit in nth year.
Do = Total deposit in previous year.
g = Growth rate
n = Total no. of year.

Here,

Dn = D2006/07 = 19347399
Do = D2005/06 = 14586608
n = 5

Now we have,

$$Dn = Do(1+g)$$
$$\text{or, } D2006/07 = D2005/06(1+g)$$
$$\text{or, } 19347399 = 14586608(1+g)$$
$$\text{or, } (1+g) = 19347399/14586608$$
$$\text{or, } 1+g = 1.3264$$
$$\text{or, } g = 1.3264 - 1$$

or, g = 0.3264
g = 32.64%

Trend Value of Total Deposit of HBL (Rs. In '000)

Years	Total Deposit (Y)	X = (t-2004/05)	X^2	XY	Y =
2002/03	18619375	-2	4	-37238750	18678472.8
2003/04	21007379	-1	1	-21007379	20633431.5
2004/05	22010333	0	0	0	22588390.2
2005/06	24814012	1	1	24814012	24543348.9
2006/07	26490852	2	4	26490832	26498307.6

APPENDIX-XIX

Himalayan Bank Limited

Tridevi Marg, Thamel, Kathmandu, Nepal

Comparative Balance Sheet (Rs. In '000')

Particulars	Fiscal Year				
Capital and Liabilities	2002/03	2003/04	2004/05	2005/06	2006/07
Share Capital	390000	429000	536250	643500	772200
Purposed Dividend	39000	107250	107250	128700	77220
Reserve Fund	309585	404389	510698	611372	760198
Prevision for Loss	643414	842751	967762	1026648	1119417
Accumulated Profit	119530	122493	169968	158175	15658
Bank Loan and Borrowings	534013	645840	659006	506048	504625
Deposits	18619375	21007379	22010333	24814012	26490852
Other Liabilities	660931	638872	768520	982888	698738
Total Liability	21315848	24197974	25729787	28871343	30579808
Assets					
Cash and Bank Balance	1264672	1979209	2001184	2014471	1717352
Money at Call and Short Notice	352350	150100	368900	441081	1005280
Investments	9157107	10175435	9292103	11692342	10889031
Loans, Advances and Bills	9557137	10844599	12919631	13451168	15761977
Purchased	318844	229871	299643	295822	540825
Fixed Assets	665738	818760	848326	976459	665343
Other Assets					
Total Assets	21315848	24197974	25729787	28871343	30579808

Himalayan Bank Limited

Tridevi Marg, Thamel, Kathmandu, Nepal

Comparative Profit and Loss Account (Rs. In '000')

Particulars	Fiscal Year				
Incomes	2002/03	2003/04	2004/05	2005/06	2006/07
Interest Income	1148998	1201233	1245895	1446468	1626474
Interest Expenses	578134	554128	491543	561964	648842
Net Interest Income	570864	647105	754352	884504	977632
Commission and Discount	101704	102562	123929	132816	165448
Foreign Exchange Income	104601	109599	112419	137301	198130
Other Income	32038	30154	34076	41301	52325
Non Operating Income	2451	10760	3299	2795	58449
Gross Income	811658	900180	1028075	1198717	1451984
Expenses					
Personal Expenses	101537	120145	152509	178589	234589
Office Operating Expenses	155786	177131	211047	277375	329699
Provision for Loan Loss	166506	202873	186226	147939	145155
Provision for Staff Bonus	38783	40003	46731	58060	67240
Non-operating Expenses	0	0	10988	15012	2902
Gross Expenses	462612	540152	607501	676175	779585
Profit Before Tax	349046	360028	420574	522542	672399

Provision for Tax	114023	147896	157522	214265	214941
Net Profit After Tax	235023	212132	263052	308277	457458

APPENDIX-XX

NABIL Bank Limited

Kamaladi, Kathmandu, Nepal

Comparative Balance Sheet (Rs. In '000')

Particulars	Fiscal Year				
Capital and Liabilities	2002/03	2003/04	2004/05	2005/06	2006/07
Share Capital	491654	491654	491654	491654	491654
Reserve and Surplus	654774	8220533	990028	1165984	1383340
Debentures and Bonds	-	-	-	-	-
Borrowings	417289	961461	229660	17063	173202
Deposits	15506428	13447661	14119032	14586609	19347399
Bills Payable	67753	108944	173499	85420	112607
Proposed & Undistributed	-	-	-	361221	435084
Dividends	-	-	-	15345	34605
Income Tax Liabilities	491345	730372	741613	340787	352080
Other Liabilities					
Total Liability	17629253	16562625	16745487	17064082	22329971
Assets					
Cash Balance	318159	187777	286886	146353	237819
Balance with Nepal Rastra	506675	892747	606695	389705	318359
Bank	226986	64243	76905	23323	74061
Balance with Banks/Financial	31368	670204	918734	868428	1734902
Institutions	8199515	6031176	5835949	4275528	6178533
Money at Call and Short Notice	7437895	7755952	8189993	10586170	12922543
Investments	237639	251915	338126	361235	319086
Loans, Advances and Bills	-	-	-	-	-
Purchased	671016	708611	492199	413340	544668
Fixed Assets					
Non Banking Assets					
Other Assets					
Total Assets	17629253	16562625	16745487	17064082	22329971

NABIL Bank Limited

Kamaladi, Kathmandu, Nepal

Comparative Profit and Loss Account (Rs. In '000')

Particulars	Fiscal Year				
	2002/02	2003/04	2004/05	2005/06	2006/07
Interest Income	1120184	1017872	1001617	1068747	1309999
Interest Expenses	462079	317348	282948	243545	357161
Net Interest Income	658105	700524	718669	825202	952837
Commission and Discount	114337	144406	135958	128377	138294
Other Operating Income	250375	34151	38755	56441	82898
Exchange Income	154219	144075	157324	184879	185484
Total Operating Income	1177036	1023156	1050706	1194898	1359513
Personal Expenses	144883	210583	180840	199516	219781
Other Operating Expenses	136873	166200	150759	190299	182696
Exchange Loss	-	-	-	-	-
Operating Profit before Provision for Possible Losses	895280	646373	719107	805083	957035
Provision for Possible Losses	-	-	1052	8662	3770
Operating profit	895280	646373	718055	796421	953265
Non Operating Income/(Expenses)	50	86946	92781	(48)	735
Provision for Possible Losses Write Back	441525	(51574)	(81821)	4455	7729
Profit From Regular Activities	453705	681745	729005	800827	961731
Income/(Expenses) from Extra-	-	-	-	41156	26074

ordinary Activities					
Profit from all Activities	453705	681745	729005	841984	987805
Provision for Staff Bonus	44116	66364	71941	84198	89801
Provision for income Tax	137950	199145	201763	237671	262742
Net Profit /(Loss)	271639	416236	455311	520114	635262