# CHAPTER - I

# INTRODUCTION

## 1.1 Background of the Study

Nepal is the least developed country in the world. Agriculture is the main source of its economy but industrial development is the essential part for the rapid economy development of a country. Development is the process that brings positive change in the life style of the people. Constructive change is the sign of development. A country's development depends upon the progress in agriculture, industry and trade. People often associate development with economic growth. The progress from lower economic status to higher economic status through the increase in income is taken as economic development. Economic development is now seen as multidimensional process. It involves the acceleration in economic growth, reduction of inequality and the eradication of poverty. Therefore, economic development as such has social, cultural, and political impact in the national development of a country.

Finance is the art of managing money, affects the lives of every individual as well as organization. It is concerned with institution market and involved in the transfer of money among the individuals, business man and the government. Previously, the concept of finance was limited but now the traditional concept of finance is changed due to industrial and technical development.

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly evaluating relationship between the items of the balance sheet and profit and loss account. Quality government is not possible without effective analysis and evaluation of financial information. In financial analysis, a ratio is used as an index for evaluating the financial position and performance of a firm. Analysis of various ratios should give an experience and skill for better

understanding of financial condition and performance of a firm. So financial analysis depend to a very large extent on the use of ratio through other equally important tool of such analysis. It provides a framework for financial planning and control after identifying so much scopes and importance of financial analysis. This study focus on the financial performance of Himalayan Bank Limited.

### 1.1.1 Introduction of Banking

A Bank is an institution which deals with money and credit. Bank accepts the deposit from the public and mobilizes the fund to the productive sectors. It also provides remittance facility to transfer money from one place to another. Generally bank accepts deposit from business institution and individuals, which is mobilized into productive sectors. Bank, is therefore known as accepting deposits and granting loan.

In addition to this, a bank may be engaged in different types of function such as remittance, exchange currency. Joint venture, bank guarantee discounting bills etc. In short term, modern bank refers to an institution having the following features. It deals with money and accepts deposit and advance loans. It also deals with credit and has the ability to create credit by expanding its liabilities. And it is a commercial institution, it aims at earning profit.

Banks are principle source of credit for millions of individual and families and for many units of the governments. They are the most impartment financial institution in the economy. Banks are among the most important source of short term working capital for business. They have become increasing active in recent years in making long term business loans. When business and consumers must make payment for purchase of goods and service, more often they use bank provides cheque, credits or debit card or electric account connected to a computer network.

It is the banker to whom they turn most frequently for advice and counsel, when they need financial information and financial planning.

**Introduction of Commercial Bank**

A Commercial bank can be defined as an institution which deals with money. In words of Crowther "Banks collect money from those who have it to spar or who are saving it out their income and lend this money out against goods security to those who requires it" *(Crowther; 1985:58).*

Commercial banks are those banks that poll together the savings of the community and arrange for their productive use. They supply the financial needs of modern business by various means. They accept deposits from the public on the condition that they are repayable on demand of short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry such as working capital financing. They can't finance in fixed assets. They grant loans in the form of cash credits and over drafts. A past from financing they also render services like collector of bills and cheques, safe keeping of valuables, financing advising etc to their customers.

Commercial banks are those banks which perform all kinds of banking functions are accepting deposits, advancing loans, credit creation and agency functions. They provide short term loan, medium term loans and long term loans to different business houses and trading companies.NRB act 2031 has defined the meaning of commercial banks as the bank, which performs the commercial functions Commercial banks are the heart of our financial systems. They hold the deposits of million of persons, government and business units. They make fund available through their lending and investing activities to borrow individuals, business units and government. Banks are among the most important financial institutions in the economy and essential business in thousands of towns and cities.

Hence, we can conclude from the above that the commercial banks are established under the rules and legislation of the central bank of the country. It has to move as per the directives given by the central bank. Tough banks are established for the mobilization of the saved fund central bank makes certain rules and regulations so that the public or the customer of the bank may not under go on less of their hard earned money by the disinvestments procedure of the bank.

**Introduction of Joint Venture Bank**

Joint venture is a mode of trading through the partnership among nations and also a form negotiations between the various groups of industrialists, traders and mercantile to achieve mutual exchange of goods and services for sharing comparative advantage in their contribution. Joint venture is joining the forces between two or more enterprises for the purpose of carrying out a specific operation.

In the context of Nepal, JVBs plays very important role to national economy. Since Nepal is follower of mixed economic policy. They bring foreign capital, skills, art, technique and experience. "Joint Venture Banks pose a serious challenge to the existence of the inefficient native banks as an opportunity to modernize themselves and sharpen their competitive zealous".

A country to be beneficial from venture capital should have a favorable investment climate. In Nepal, three of the dramatic reforms were carried out in 1980's. The major are allowing the foreign banks to operate as a joint venture banks lifting a control on interest rate and introduction of auctioning of government securities. Local banks are efficient and expertise in rural sector. But having number of deficiencies. So local banks have to be face growing constraints of socio-economic political system on one hand spectrum and that of issue and challenges of JVBs commanding significant banking business on other spectrum.

**Introduction of Himalayan Bank Limited**

Himalayan Bank Limited started it's operations in 1993 A.D. with a view an objective of extending professionalized and efficient banking services to various segments of the society.HBL joined hands with Habbib Bank of Pakistan. Drawing its strength from its joint venture partner, HBL has been steadily growing in its size and operations and established itself as a leading private sector bank.

This sustained growth of the bank is attributable to its strong systems and procedures, professional approach, quality lending and highly motivated staff members. The bank is association with Smart Choice Technology (SCT) is providing ATM services for its Customer.HBL debit card can be accessed at more than 50 ATMs and over point of sales across the nation. The bank is providing its services through a wide network of its branches across the nation and 250 correspondents across the globe. All the major branches of the bank are connected through Anynlhone Branch Banking system a facility which enables a customers to do banking transactions from any of the branches irrespective of their having account in other branch. With an aim to help Nepalese Citizens Working abroad, the bank has entered into arrangement with banks and finance companies in different countries which enable quick remittance of funds by the Nepalese Citizens in countries like UAE, Kuwait, Bahrain, Qatar,  Saudi Arabia, Malaysia, Singapore and UK.

The bank recognize the value of offering a complete range of services. We have pioneered in extending various customer friendly products such as Home loan, Education loan, HBL Flexi loan, Property Plus loan, Vehicle loan, Loan against shares, Loan against life insurance policies, Remittance facilities, Foreign exchange, Bank guarantee etc. are the facilities provided by HBL. We at HBL have always endeavored  in delivering innovative products suiting the consumer's requirements and needs thus enriching, enabling and beautiful their lives.

## 1.2 Focus of the Study

The main focus of this study is to analyze the Financial Performance Analysis of Himalayan Bank Limited (HBL). Financial Performance covers the financial analysis and functions. Financial Analysis is the process of determining significant operating and financial performance of the firm by using its financial statement and reports. Financial analysis is done to determine the firm's financial position in order to identify its current strengths and weakness and to suggest action that might enable the firm to take advantage of its strengths and correct its weakness. Joint venture commercial banks plays a vital role a development of developing nation also helps in the economic sector of the country. Typically commercial bank's main motive is to make a profit by providing quality service to the customers in Nepal. In Nepalese Context most of the commercial bank is joint venture bank. Although joint venture banks have managed to perform better than other local commercial bank within short span of time, they have been facing a neck to neck competition against one another among the joint venture bank; this research is based on Himalayan Bank Limited.

The main coverage of this research is to analyze the financial performance through the use of appropriate financial tools. Research is based on the certain financial tools, i.e. Ratio Analysis and necessary statistical tools.

## 1.3 Statement of the Problem

The study mainly focuses on the problems that are related to Nepalese Banking sector with special reference to Himalayan Bank Limited. The HBL has achieved tremendous success in term of market shares and profitability. Although the bank has established itself as the market leader in banking sector is can not be predicted that how far the bank is able to maintain its position because of the throat cut competition with other banks.

HBL basic objectives are to uplift the economic activities and strengthen welfare of the general public to facilitate loan in different sector and provide the banking services to its country and people. Therefore, this study concentrates on it to meet its objective.

The study of financial performance is a basic process, which provides information about the profitability, liquidity position, earning capacity, efficiency in operation, credit worthiness, source and use of capital, financial achievement and status of the bank. The information obtained can be used to measure the efficiency and effectiveness of the bank respect of deploying financial resource in the profitable manner. The study aims to find out the answer to the following questions:

- What is the financial position of HBL in the market?
- What are the major factors affecting the financial performance of HBL?
- Does the overall financial statement analysis and financial position indicate any specific strengths and weakness?
- How far has HBL been able to convert the mobilized resources into investments?
- What steps should be taken to improve the financial performance of the Bank?

## 1.4 Objectives of the Study

The main objective of this research is to analyze the financial performance through the use of appropriate financial tools. Research is based on the certain financial tools i.e. Ratio Analysis and necessary statistical tools. The specific objectives of this study are:

- To see the relationship between investment and deposit, profit and deposit, profit and assets of the Bank.

- To evaluate the financial performance of Himalayan Bank Limited in terms of different kind of ratio.
- To identify the strength and weakness of the Bank.

## 1.5 Significance of the Study

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

As it has been stated earlier that development of a country cannot be imagined without economic activities and the development of the banking system is one of the grounds of economic development. In the other words, there is no possibility of economic development of a country without the development of a banking system. So the study of financial performance of a commercial bank is very useful to stake holder as well as the general public.

## 1.6 Limitation of the Study

There will be some limitations while under going this study. The main limitation of the study will be
- The study will be based on secondary data.
- Although there are many joint venture banks the study limits to only one, HBL.
- The study is limited to the five years of period.
- This study focuses on the financial performance only.

## 1.7 Organization of the Study

### Chapter-I:  Introduction

First chapter deals with general background, introduction of Himalayan Bank Limited, focus of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

### Chapter-II:  Review of Literature

The second chapter includes the basis framework for the present study on "Financial Performance and Analysis of Himalayan Bank Limited" has drawn from the past research study, books, articles, journals etc. I n this chapter attempts have been made to review the literatures pertinent to study. It includes theoretical and research review of related study by different researcher.

### Chapter-III:  Research Methodology

The third chapter is based on secondary data. For the purpose of the study, financial statement, balance sheet, profit and loss account, annual report of bank, brochure, document related to journal and publication are basic data sources. Thus collected and processed will be analyzed by using relevant tools and techniques i.e. necessary financial and statistical tools.

### Chapter-IV:  Data Presentation and Analysis

The fourth chapter data presentation and analysis includes presentation and analysis of using financial tools such as ratio analysis and statistical tools.

### Chapter-V:  Summary, Conclusion and Recommendations

The last and fifth chapter involves with suggestion which incorporate the summary of finding, recommendation and suggestions for further improvement and conclusion of the study.

# CHAPTER - II
# REVIEW OF LITERATURE

This chapter highlights available literature related to this research, which makes base of knowledge for the study. It comprises conceptual review and review of related studies.

## 2.1 Conceptual Framework

### 2.1.1 Financial Analysis

Financial Analysis can get better insight about financial strengths and weakness of the firm (Bank) if they properly analyze information reported in these statements. Management should be particularly interested in knowing financial strengths of the firm to make their best use and to be able to spot out financial weakness of the firm to take suitable corrective actions. The future plans of the firm should be laid down in view of the firm's financial strengths and weakness. Thus, financial analysis is the starting point for making plans before using any sophisticated forecasting and planning procedures. Understanding the past is a pre-requisite for anticipating the future. "Financial Analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. Financial analysis can be undertaken by management of the firm or parties outside the firm, viz. owners, creditors, investors and others" (*Pandey; 1997:103).*

"The focus of financial analysis is on key figure in the financial statements and the significant relationship that exist between them. The analysis of financial statement is a process of evaluating the relationship between component parts of financial statements to obtain a better understandings of the firm's position and performance" *(Khan and Jain; 1999:4.1).*

"Financial statements provides information about a firm's position as well as its operation over some period. However, the real value of financial statement uses in the fact that they can be used to predict the firm's financial position in the future, and to determine expected earning and dividends. From an investors stand points, predicting the future is what financial statement analysis is all about, while managements stand points financial statement is useful to anticipate future conditions and for course of events" *(Westen and Brigham;1999:93).*

"Financial analysis is the process of determining financial strengths and weakness of a company by establishing strategic relationship between the components of analyzing balance sheet and other data" *(Pandey;1994:96).*

"Financial statement analysis involves a comparison of analysis form's performance with that of other form's in the same line of business which often is identified by the form's industry classification. Generally speaking, the analysis is used to determine the form's financial position in order to identify it's current strengths and weakness and to suggest action that might enable the form to take advantage of the strength and current it's weakness" *(Western, Basley and Brigham; 1996:78).*

"Financial analysis involves the use of various financial statement the first is the balance sheet, which represents a snapshot of firms financial position at a moment in time and next is the income statement that depicts a summary of the firm's profitability over time"*(Van Horne and Wachowiez;1997:120).*

"Financial is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The analyst is

attempting to measure the firm's liquidity, profitability and other indications that business is conducted in a rational and orderly way. If a firm does not achieve financial norms for its industry or relationship among data that seen reasonable, the analyst note the deviations. The burden of explaining the apparent problems may then be placed upon management" *(Hampton; 2006:98).*

"Financial statement analysis includes the study of relationship within a set of financial statement at a point in time and with trends in these relationship over the time" *(Foster; 2002:58).*

"According to Surendra Pradhan, "Financial analysis is to analyze the achieved statements to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and/or likely to be in the future and to provide recommendations to solve the problems" *(Pradhan;2000:120).*

### 2.1.2 Ratio Analysis

Ratio Analysis is such a powerful tool of financial analysis  that through it economic and financial position of a business unit can be fully x-rayed.They also are a measure of work efficiency and prove to be basic instruments in the control process. They are the backbone in schemes of business forecasts. Besides, they enable us to take rational and profitable investment decisions. Thus, ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns.

"Ratio analysis is a widely-used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined" *(Khan and Jain; 1999:4.1).*

"Ratio analysis is a powerful tool of financial analysis. A Ratio is defined as " The indicated quotient of two mathematical expressions and as the relationship between two or more things." In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm" *(Pandey; 1999:109).*

## 2.1.3 Risk Analysis

Risk is the chance of financial loss. In general, other things being equal, a firm would be well advised to accept a project which is less risky and reject those that involve more risk. This recommendation is consistent with the assumption that the management is averse to risk. Some risk is directly affect the financial managers and shareholders. Business risk and financial risk are more firm, specific and therefore are of greatest interest to financial managers. Interest rate, Liquidity and market risks are more share-holder specific and therefore are of greatest interest to stock holders. Events ,exchange rate, purchasing power, and task risk directly affect formal (Banks) and shareholders.

## 2.1.4 Return Analysis

Obviously, if we are going to assess risk on the basis of variability of return, we need to be certain we know what return is and how to measure it. The return is the total gain or loss experienced on an investment over a given period of time. It is commonly measured as cash distributions during the period plus the change in value, expressed as a percentage of the beginning of period investment value. In general, the return on an assets investment for a given period, say a year, is the annual income received plus any charge in market price, usually expressed as a percent of the opening market price.

## 2.1.5 Balance Sheet

Balance Sheet is the most significant financial statement. It indicates the financial consideration or the state of affairs of a business at a particular moment of time. More specifically, balance sheet contains information about resources of a business entity and about its owner's interests in the business at a particular point of time. Thus, the balance sheet of a firm prepared on reveals the firm's financial position on this specific data. In the language of accounting, balance sheet communicates information about assets, liabilities and owner's equity for a business firm as on a specific date. It provides a snapshot of the financial position of the firm at the close of the firm's accounting period.

## 2.1.6 Profit and Loss Account

It informed income and expenses of the firm. Previously, statement analysis was basically related the balance sheet since profit and loss accounts were not available readily at that time. The profit and loss account was considered as a supplement to the balance sheet in rendering information. But, in those days, P/L A/C are compulsorily prepared and publicly published in annual report. They are regarded as primary function of accounting and these are related to be complementary to balance sheet.

The major income items of banks include interest income, foreign exchange income and commission. On the other hand, interest expenses, staff bonus and personnel expenses from major of a bank. The analysis of financial statement is essential but it is worth mentioning the extent of requirement. They shouldn't be considered the concluded reports but they should be further processed and analyzed to obtain more liquid picture of the bank.

"Profit is one of the basis indicators of sound financial performance. It is usually the result of sound business management, cast control, credit risk management and

general efficiency of operation. Profit is essential for an enterprise for its survival, growth and maintains capital adequacy profit retention."

"The profit is important for any business concern including joint venture banks but profit can't be the sole objective, for example neither the bank nor the community will be best serve is the banker on reasonably sacrifice the safety of its fund or the liquidity of the banking is an effort to increase income"*(American Institute of Banking;1972:149).*

### 2.1.7 Liquidity

Analysis of liquidity needs the preparation of cash budgets and cash and fund flow statement but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it doesn't suffer from lack of liquidity and also that it doesn't have excess liquidity. The failure of a company to meet its obligations due to lack to sufficient liquidity, will result in a poor credit worthiness, loss of creditor's confidence or even in legal tangles resulting in the closer of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firms funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

### 2.2 Review of Nepal Rastra Bank (NRB) Directives

The Directives of Nepal Rastra Bank (NRB) are presented as:

**Directive No. 1: Capital Fund**

The capital fund is the summation of Tier 1 and Tier 2 capital. The sum total of the different components of the tier 2 capitals will be limited to the sum total of the various components of the Tier 1 capital net of deductions as specified in 2.4. In case the Tier 1 capital is negative, Tier 2 capital shall be considered to be "Nil" for

regulatory capital adequacy purposes and hence, in such a situation, the capital fund shall be equal to the Tier 1 capital.

**Computation of Core Capital, Supplementary Capital and Capital Fund**

Core capital is The key element of capital on which the main emphasis should be placed is the Tier 1 (core) capital, which comprises of equity capital and disclosed reserves. Elements of tier 1 capital are Paid up Equity Capital, Irredeemable non-cumulative preference shares, Share Premium, Proposed Bonus Equity Share, Statutory General Reserve, Retained Earnings available for distribution to shareholders.etc.

The Supplementary (Tier 2) Capital includes reserves which, though unpublished, have been passed through the profit and loss account and all other capital instruments eligible and acceptable for capital purposes. Elements of the Tier 2 capital will be reckoned as capital funds up to a maximum of 100 percent of Tier 1 capital arrived at, after making adjustments referred to in 2.4. In case, where the Tier 1 capital of a bank is negative, the Tier 2 capital for regulatory purposes shall be considered as zero and hence the capital fund, in such cases, shall be equal to the core capital.

**Computation of Risk Weighted Assets**

Risk-weighted asset is a bank's assets weighted according to credit risk. Some assets, such as debentures, are assigned a higher risk than others, such as cash or government securities/bonds. Since different types of assets have different risk profiles, weighing assets based on the level of risk associated with them primarily adjusts for assets that are less risky by allowing banks to "discount" lower-risk assets.

**Comment on the Capital Plan**

Capital plan is all about a plan, usually four to six years, which identifies capital projects and equipment purchases, provides a planning schedule and identifies options for financing the plan. A plan for a company's capital expenditures. Capital expenditures are payments made over a period of more than one year. They are used to acquire assets or improve the useful life of existing assets

**Overall Opinion on Capital Adequacy**

Capital adequacy a measure of the financial strength of a bank or securities firm, usually expressed as a ratio of its capital to its assets. The capital must be sufficient to protect a financial organization's depositors and counterparties from the risks of the institution's on- and off-balance sheet risks.

**Directive No.2:  Loan Classification and Loan Loss Provisioning**

Adequate loan classification practices are an essential part of a sound and effective credit risk-management process in a bank. Loan classification system mainly covers the following  categories:

**Pass**: Loans for which borrowers are current in meeting commitments and for which the full repayment of interest and principal is not in doubt

**Special Mention**: Loans with which borrowers are experiencing difficulties and which may threaten the authorized institution's position.

**Substandard**: Loans in which borrowers are displaying a definable weakness that is likely to jeopardise repayment.

**Doubtful**: Loans for which collection in full is improbable and the authorized institution expects to sustain a loss of principal and/or interest, taking into account the net realizable value of collateral.

**Loss**: Loans that are considered uncollectable after all collection options (such as the realization of collateral or the institution of legal proceedings) have been exhausted.

Loans that are classified as substandard, doubtful or loss are collectively known as classified loans.

**Comment on the Assets Quality and Classification**

Asset quality is one of the most critical areas in determining the overall condition of a bank. The primary factor effecting overall asset quality is the quality of the loan portfolio and the credit administration program.

Asset classification is done in three different ways:

**Substandard**: Inadequately protected by current sound worth and paying capacity or collateral.

**Doubtful**: Collection or liquidation in full highly questionable and improbable.

**Loss:** Consider uncollectible; not "bankable ".

**Adequacy of Loan Loss Provisions**

In evaluating the financial strength of any credit-granting institution, the adequacy of the institution's loan loss reserve is a primary consideration. Loan loss provision is allocation in current period to the loan loss reserve and the purpose is to indicate provisioning requirements on loan portfolio for current period.

Loss Provision Ratio = Loan Loss Provision/Average Performing Assets

**Loan Loss Provisions in case of Restructuring and Rescheduling of Loans**

Banking institutions must have in place policies approved by the board which define the circumstances and conditions under which a loan/financing may be rescheduled or restructured. The policies should address controls to avoid 'ever-greening' of loans/financing, including situations where loans/financing may be rescheduled or restructured more than once, and provisioning policies with respect to such loans/financing.

**Directive No.3: Single Obligor Limit**

The single obligor limit is the maximum amount banks can lend to a borrower and it is pegged to the capital base of each bank.

- Bank's procedures to identify a group of borrowers
- Comment on the Facilities in excess of Single Obligor Limits, if any
- Loan Loss Provision in case of borrowers availing facilities in excess of the SOL
- Review and ratification mechanisms for excessive exposures in respect of sectoral credit.

**Directive No.4: Presentation and Disclosure in the Financial Statement**

Presentation and Disclosure, including Financial Reporting Boundaries, is to determine the concepts underlying display and disclosure of financial information, including the boundaries of such information that will achieve the objective of general purpose financial reporting. Financial statement presentation is developing guidance for the presentation of information in the financial statements to enhance the usefulness of that information. The purpose of disclosure requirements is to complement the minimum capital requirements and the review process by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the bank.

**Directive No 5: Risk Minimization**

Banks may use a number of techniques to mitigate the risks to which they are exposed. The prime objective of this provision is to encourage the banks to manage credit risk in a prudent and effective manner, and also market and operational risk.

**Mechanisms to Minimize Liquidity Risk**

Liquidity risks arise when a bank cannot meet its cash obligations in a timely and cost-efficient manner. To minimize liquidity risk, all Branches should prepare a 'Fund Plan' that anticipates the cash inflow and outflow for that branch. It takes into account the cash inflow from loan and savings installment collections and matches it against the cash outflow from loan disbursements plus operational expenses. Any surplus funds are deposited with a correspondent bank and any anticipated shortfall is covered by withdrawing funds from the bank. Branches are not allowed to hold cash overnight to reduce risks of theft or misappropriation.

**Use of GAP Analysis and other Mechanisms to Measure and Manage Interest Rate Risk**

To properly identify the various sources of IRR, management must comprehend the structure and nature of the institution's balance sheet and the business activities that create risk Effective control of IRR requires a comprehensive process that embodies fundamental components including the following:

- Policies and procedures designed to control the nature and amount of IRR the institution assumes.
- A system for identifying and measuring IRR
- A system for monitoring and reporting IRR
- A system of internal controls, reviews, and audits to ensure the integrity of the overall risk management process.

**Mechanisms to Minimize Foreign Exchange Risk**

There are various strategies to avoid foreign exchange risks. The first strategy is to pursue local currency loans first, and these loans have low complexity and low to moderate cost. Companies also go for hedging to avoid foreign currency risks. Hedging is the practice in which you make two investments in two different currencies. So that, if the value of one currency goes down then other may go up and you may face no risk. This strategy has high complexity and moderate to high cost. Companies also make policies with the foreign companies to manage their foreign exchange risk however, it cannot be achieved very easily.

**Directive No.8: Investments in Shares and Debentures**

A debenture is an unsecured loan you offer to a company. The company does not give any collateral for the debenture, but pays a higher rate of interest to its creditors. When you buy shares, you become one of the owners of the company. Debentures are more secure than shares, in the sense that you are guaranteed payments with high interest rates. The company pays you interest on the money you lend it until the maturity period, after which, whatever you invested in the company is paid back to you. The interest is the profit you make from debentures. While shares are for those who like to take risks for the sake of high returns, debentures are for people who want a safe and secure income.

**Investments in Unlisted Companies**

In the quest for making quick money, many investors have been careless while making investments and at times have opted to invest in unknown unlisted companies. Typically, such a company would be an unlisted public company, offering securities by way of private placement, holding out a promise of early listing and a consequent capital appreciation. At times, the promoters or the middleman could ask for a cash premium, as well.

**Investment in Companies with Financial Interest**

Interest refers to the income, figured as a percentage of principal, that you're paid for purchasing a bond, keeping money in a bank account, or making other interest-paying investments. Corporate management seeks to maximize the value of the firm by investing in projects which yield a positive net present value when valued using an appropriate discount rate.

**Investment in Shares of Other Bank/FIs**

Shares have the potential to generate great returns. However, it can also be risky. Investors deciding to invest in shares should have a long term view, this means 5-7 year time frame. It is important to understand that the past performance does not necessary mean the bank will perform in the same way in the future.

**Investments arising out of Underwriting Commitments**

Agreement between the managing underwriter, acting as agent for the underwriting group , and the securities issuer is an underwriting commitment.

**Review of the Investment Portfolio**

Pool of different investments by which an investor bets to make a profit (or income) while aiming to preserve the invested (principal) amount. These investments are chosen generally on the basis of different risk-reward combinations: from 'low risk, low yield' (gilt edged) to 'high risk, high yield' (junk bonds) ones; or different types of income streams: steady but fixed, or variable.

**Adequacy of Provisioning Requirements**

Provisioning is best recognized as an Identity Management term servicing the creation and deletion of identities and security rights, or entitlements (as in the hire/fire scenario). However, throughout the Enterprise, provisioning is generally defined by the associated business unit or function referenced.

**Directive No.11: Consortium Financing**

A group of independent companies participating in a joint venture for mutual benefit .Under consortium financing, several banks (or financial institutions) finance a single borrower with common appraisal, common documentation, joint supervision and follow-up exercises, these banks have a common agreement between them, the process is somewhat similar to loan syndication.

**Directive No.12: Credit Information and Blacklisting**

Your credit profile contains your personal details, where and how many times you've applied for credit, as well as information on your paying habits. Whenever you apply for credit, the creditor will check your profile and decide whether to give you credit based on the information they receive from the credit bureau.

If you have a bad credit history, it impacts on your credit profile for years to come. Different credit problems are kept on record for different lengths of time:

- Liquidations & Sequestrations - Ten Years
- Court Judgments Against You - Five Years
- Negative Records (eg Unpaid Accounts) - Three Years
- Collection Records and Administration Orders - until the debt is Settled.

**Criteria for Blacklisting:**

On the request of Bank & FIs if following conditions arises:

- Interest or principle overdue for 6 month
- Bankruptcy or Disappearance of the Borrower
- Inadequate or Inappropriate security
- Misuse of Credit facilities by the Borrower
- Other circumstances such as
  - Auction notice by the Bank or FIs for loan recovery
  - Borrower proven guilty by the court for forgery cases
  - Borrower proven guilty for any kind of financial crime

**Directive No. 13: Cash Reserve Requirement**

The reserve requirements (or cash reserve ratio) is a state bank regulation that sets the minimum reserves each bank must hold to customer deposits and notes. It would normally be in the form of fiat currency stored in a bank vault (vault cash), or with a central bank.

**Directive No. 15: Interest Rates**

An interest rate is the rate at which interest is paid by a borrower for the use of money that they borrow from a lender. Interest rates are normally expressed as a percentage rate over the period of one year.

**Interest Rate Determination Procedures**

Effective Rate on a Simple Interest Loan = Interest/Principal

Effective rate on a Loan with a Term of Less Than one Year:
Effective rate = Interest/Principal X Days in the Year (360)/Days Loan is Outstanding

Effective rate on a discounted loan = Interest/Principal - Interest X Days in the Year (360)/Days Loan is Outstanding

**Directive No. 16: Mobilization of Financial Resources**

The mobilization of financial resources with due attention to the interrelationships among various macro-economic policies for the maximum utilization of' the opportunities of development generated by the liberal economic policy and an increase in the Gross Domestic Saving rate in the economy have become necessary for development.

The main objectives of the resource mobilization policy will be the followings:

1. To assist in increasing the Gross Dome stick Saving Rate by changing the unnecessary and inappropriate consumption patterns

2. To create a conducive atmosphere for channeling the investment to productive sectors by raising the total investment growth rate by 3.0 percentage points during the plan period.

3. To avail regular Supply of financial resources ill required quantity in order to carry oil with development activities in kit) uninterrupted and sustainable manner

4. TO Make efforts for efficient mobilization of internal resources and to make appropriate and optimum utilization of foreign assistance.

5. To utilize the internal and external resources in a complementary perspective taking their interrelationships into consideration.

**Directive No.17: Deprived Sector Lending**

The deprived sector-lending program was launched with the objective of uplifting the socio-economic status of poor deprived people of the society. A loan amount up to a limit of Rs. 30 thousand per borrower granted by the commercial banks for productive purpose qualifies for the deprived sector lending. As for such, commercial banks are required to lend a minimum of 0.25 to 3.0 percent of their total loans to the deprived sector. Failure to comply such provision causes them to be penalized in monetary terms.

Commercial banks in Nepal are required by the central bank to earmark a portion of their loan portfolio to priority lending (agriculture, cottage industry, services), which includes 0.25% to 3% to the deprived sector (poor population). Under this obligation, commercial banks can lend directly to individuals or self-help groups, charging a 6-7% interest rate, or provide wholesale funds or equity to microfinance providers serving the poor. Two thirds of the priority and deprived

sector lending and investment are provided by the two public commercial banks, Nepal Bank Limited and Rastriya Banijya Bank. Commercial banks are required to extend 12 percent of their outstanding loans and advances as priority sector credit, of which 0.25 to 3.00 percent should be extended to deprived sector

## 2.3 Review of Journals and Articles

Options or views expressed regarding commercial bank activities by different experts in articles published in Journal are focused as follows:

Poudel (1998), in his article, *"Banking Challenges Ahead"* focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently growth in the profitability of JVBs has been mainly due to external factors such as foreign exchange rate but not to the growth in the real sector of the economy. Therefore to sustain the current financial position in the long-run, banks should enter new areas by making their credit in important sub-sectors such as Hydro-electricity, tourism, irrigation.

Poudel further writes that saving collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash-flows, In recent years, growth rate of bank deposits has declined comparatively. Mobilization of internal resources in the country demands that banks attract more financial resources from the public.

Poudel (2063), in his article, *"Financial Statement Analysis"* states that, balance sheet, profit and loss accounts and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank's balance sheet and profit and loss a/c. The bank balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account from a small portion of the total assets. Financial

innovations, which are generally contingent in nature are considered as off-balance sheet item.

Interest received on loan and advances and investment and paid on deposits liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and service charges.

The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank's financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Poudel, the principal objectives of analyzing financial statements are to identify:
- Financial Adaptability (Liquidity)
- Financial Performance (Profitability) and
- Financial Position of  Bank (Solvency)

Most of the users of the financial statements are interested in assessing the bank's overall performance i.e. profitability which is affected by the following factors:
a. The structure of balance sheet and profit and loss account.
b. Operating efficiency and internal management systems.
c. Managerial decisions taken by top management regarding interest rate, exchange rate, lending policies etc.
d. Environment changes (Technology, Government, Competition, Economy)

According to Poudel, the other factors to be considered in analyzing the financial statements of bank is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by bank for international settlement (BIS), capital adequacy of a bank is assessed on the basis of risk weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measured by the speed with which a bank's assets can be converted into cash to meet deposit with drawls and other current obligations. It is also a important on view of survival and growth of a bank.

He has laid down an approach to evaluate the bank's overall performance through balancing between the risk and return components of the bank.

Diamond and Rajan (2005), in their article, *"Liquidity Shortage and Banking Criese"* concluded that how liquidity short ages and solvency problem in banks interact and how each can caused the other. Interestingly, the possibility of the contagion of banking failures arises precisely because of the structure of banks to deals with a commitment problem; they finance liquid assets with demandable claims. But if deposits can't be made perfectly state, contingent this structure can cause or exacerbate a liquidity shortage when depositor losses are unavoidable each depositor demands payments. This can force banks to foreclose on loans that otherwise would soon produce real liquidity.

Krishnan, Ritchken and Thomson (2005), in their article, *"Monitoring and Controlling Bank Risk: Does Risky Debt Help?"* concluded that whether risky

debt issued by banks and Bank Holding Comprises (BHCs) enhances risk monitoring and helps control risk taking: In theory if investors accurately understand changes in a firm's risk condition and incorporate their assessment promptly into the prices of risky debt issued by a firm, then changes in credit spreads should provides useful information on how firm specific risks have changed. In this way, risky debt may be less likely to adopt risk strategies in first place, because if they take excessive risks, debt prices may reflect the risk taken by the firm and make borrowing costlier for the firm. This is the preventive influence benefit of risk debt that serves to control risk taking.

Boyd and Nicolo (2005), in their article, *"The theory of Bank Risk Taking, and Competition Revisited"* explained that when confronted with increasing competition moral hazard is exacerbated and bank intentionally take on more risk, shown that a positive relationship between the number of bank competitors and risk seeking is fragile. In particular it makes an enormous difference when one allows for the existence of loan markets and requires that there be the same number of banks competing for both deposits and for loan. They assumed that borrowers entirely determine project risk conditional on the loan rate set by banks. In effects bank a raised portfolio problem and transform it into a contracting problem with moral hazard. Without structure, banks use increasing market power to raised loan rates and when confronted with increased funding cost, borrowers optimally choose higher risk, projects.

Pradhan (2006), in his article, *Opportunities and Challenges on WTO Accession in Insurance and Banking and Financial service in Nepal"* explained that Nepal is scheduled to open its banking sector to foreign competition by 2010 A.D. Banking community needs to accepts the challenges and be prepared to enter into global market with proper strategic plan and strengthen their domestic financial strength through expanding the business, merger, acquisition, management contracts,

technical service and management agreement. Regional ,Bilateral and Multilateral integration have already created foundation for global integration which needs to be continuously strengthened in the future too.

The key of integration today is to accept fair competition and achieve development benefit. Therefore, the banking industry should be prepared to accept the challenges concerned and explore the opportunities contained therein by enhancing capital.

## 2.4 Review of Thesis

Various thesis works have been done in different aspects of Commercial banks such as lending policy, investment policy, financial performance analysis, resource mobilization and capital structure. The review of some previous study, which found relevant for this research are as below:

Poudel (2002), in his study *"Financial Performance Analysis of EBL"* has focused on the objectives as to examine the financial statement of the bank and analyze them to see the financial soundness of the bank, to observe the return over the equity, to highlight the relationship between different variables, to highlight provide suggestions and recommendations for the improvement of the future performance of EBL.

Based on the study of analysis, the researcher found that:
The liquidity position of the bank to meet the daily cash requirement is sound. There is strong position regarding the mobilization of total deposit on loan and advances, normal position and decreasing trend regarding the mobilization of total deposit as investment and bank has average position towards utilization of working fund. Analysis of EPS reveals that the bank has very good increasing trend regarding EPS even though first two years shows the negative figure. The

trend analysis of deposits, net profit, loan and advances and EPS shows the increasing trend even though values shows the negative in beginning of study period.

Luintel (2003), in his thesis *"A Study on Financial Performance of Nepal Bank Limited"* had main objectives to evaluate the bank's efficiency to face the challenges and measure the comparative financial strength and weakness and analyze the bank's performance under priority sectors of government. And concluded that the Nepal Bank Limited has not maintained a balance ratio among its deposit liabilities during the last five year period. The bank is seemed to be unable to utilize its high cost resources in high yielding investment portfolio. Operating profit for some year has gone negative. The study period at an average showed negative net profit. The only positive aspect is if risk can be managed, percentage of loan and advance on total deposit has increased. But due to the bank's failure in collecting earned interest and matured loan, it has suffered continuous loss. The net worth for some year is negative due to the heavy loss during the year long-term debts, total debts and total deposit ratios have gradually decreased. It indicated that bank has not followed any experienced negative EPS and P/E ratio have also heavily fluctuated during the study period. Thus, it can be said the financial position of the NBL is worse due to its failure to utilize its resources efficiently and due to worse management.

Dangol (2004), in her thesis *"Financial Performance Analysis of Nepal Credit and Commerce Bank Limited".* She concluded this study to evaluate financial performance of NCCB Ltd. With the major objectives as follows:
- To access the financial performance of NCCB.
- To measure liquidity position and investment portfolio.
- To study the relationship between deposit, credit on financial strength and net profit.

On the basis of various analyzes, the researcher came out with the following conclusion. The financial position of the NCCB from the year 1999 to year 2003 the collection of deposits and loan investment are increasing satisfactory and there be also improvement in the operating profit but there is heavy fluctuation in the financial position of the bank. It is due to the provision of the various rules of NRB and due to change in the management in the short period for the many times. From the overall analysis the liquidity position of the NCCB in the five year period is satisfactory, collection of deposit, investment in loan and advances is also satisfactory. Due to systematic credit policy interest earned from loan and advance is good but bank is not able to invest in profitable sector other than loan and advance. Financial resource investment of the bank assets is not satisfactory and net profit of the bank is not satisfactory through there is improvement in the profit earning than year 2002 in which the profit is negative of Rs 397.1 million the negative profit shows that the bank has just done the job of paying interest and has not mobilized the deposit.

Darshandhari (2005), in his study *"Financial Performance Analysis of Everest Bank Limited"* had a major objectives to evaluate the earning generating capacity and analyze the liquidity, turn over and profitability of the EBL and conducted that current ratio of the bank over five year is 1.03 times on a average. It indicates that the margin for safety for customers has not been maintained satisfactorily. The average of cash and bank balance to current assets ratio is 14.26 that indicates that the cash and bank balance proportion with respect to the current assets is moderate. The ratio for loan and advances to current assets have been lent to the customers as loan and advances. The result of the analysis indicates that the share of fixed deposit is high in the total deposit, which may be termed as favorable one from view point of liquidity. Cash and bank balance has been maintained properly against anticipated calls of its depositors. Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation.

The researcher found that the operating efficiency of the bank is fair enough. Interest earned in comparison to total assets is not fair enough; this might be the reason that the bank has average operating profit. Interest paid to total assets is relatively low which is good from view-point of probability.Net profit earned in comparison to total assets and total deposit is relatively low.

K.C. (2006), in his study *"Comparative Study of Financial Performance Between Everest Bank Limited and Bank of Kathmandu Limited."* The main objective of the study is to made a comparative financial analysis between EBL and BOK. The other specific objective are;

- To compare the liquidity position of EBL and BOK.
- To examine the efficiency of EBL and BOK.
- To analyze the solvency of EBL and BOK.
- To trace out the financial strength and weakness.

His major findings are;

a. The current ratio of both banks are not satisfactory cash and bank balance to total deposits of EBL and BOK don not go outward equally.EBL has more secured credit position than BOK.

b. Loans and advances to total deposit ration of BOK is better than EBL. But the ratio implies that EBL is utilizing its fixed deposit in loans and advance more efficiently.

c. Net profit to working found ratios on both banks is in poor condition but in latest years, it seems in positive way. Both banks have been improving or overcoming from the weak condition.

d. Average earning per share of EBL is seen well rather than BOK but both of them are not running in favor of investors. Market value per share of EBL is increasing slowly while in case of BOK, it has zero value in initial three years.

e. To sum up, it can be said that EBL has performed better than BOK during the study period. It seems that EBL will perform better than BOK in future too.

Regmi (2007), in his thesis *"A Comparative Study of the Financial Performance of HBL and NBBL"*. His main objective was to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customer, depositors and debtor by his findings. He used financial tools like average, CV,SD, hypothesis tests(F-test) in his study. And he concludes that NBBL maintains above the standard liquidity ratio, NBBL is better at mobilizing the deposits at mobilizing fixed deposits HBL is better, HBL is more leveraged and riskier, NBBL has been found better performed at utilizing overall resources, where as net profit to total deposit ratio is higher with HBL,HBL in better at mobilizing the equity. NBBL has higher fluctuation at net profit margin so it has high risk of solvency, NBBL is better at commission and discount whereas HBL is better at interest income, operational cost of HBL is higher.

Adhikari (2008), in his thesis, *"A Comparative Study of Financial Performance of NSBIBL and EBL"*. The main objective of the study is to made a comparative financial analysis between NSBIBL and EBL. He had an intention to benefit the management, stockholders, stock traders, customers, depositors and debtors by his findings. He used financial tools. And he concluded that EBL is found superior regarding the liquidity, quality assets they possessed and capital adequacy overall capital structure of NSBIBL appears more levered than that on EBL. But NSBIBL is found superior in terms of profitability and turn over comparatively interest remained more dominant in the total income and expenses of NSBIBL than that of EBL. Regarding the test of hypothesis of is (at 5% level of significance) the performance of the sampled banks significantly different with respect to the ratios, loans and advances to saving deposits. Loan loss provision to total assets and tax

per share correlation analysis signifies that EBL is successful to utilize its resources more efficiently than NSBIBL.

The review of the above mention bunch of research writes have definitely enriched my vision to elaborate analysis to come to the meaningful. Conclusion, few key suggestions that help in improvement of commercial banks. Previous researchers on the basis of financial performance of commercial banks in Nepal. But this research is about joint venture bank of Nepal with sample of Nepal SBI Bank Limited and Everest Bank Limited. This research is about the financial performance of selected two banks. In the previous research, there is no clear-cut financial performance of joint venture bank. The research can help the people who wanted to know about the overall financial performance of joint venture bank in Nepal. There are two selected bank to find out the comparative financial position of selected bank. Therefore, this topic may not new but the researcher effort may be appreciable.

Dangi (2008), in his thesis *"A Comparative Study of Financial Performance of SCBNL, NABIL and HBL"* has main objective to make comparative study of financial performance of the above mentioned banks. He had an intention to benefit the management, shareholders, stock traders, customers, depositors and debtors by his findings. He used financial tools excessively but did not use any statistical tools in his study. And he concludes all have unsatisfactory liquidity position, all are highly leveraged, all have low coverage ratio due to excessive use of debts, SCBNL is better at mobilizing assets, SCBNL is better at EPS suggesting effective utilization of owner's equity. DPR higher with SCBNL, HBL at interest payment, NABIL at general expenditure all borrowed but SCBNL is continuously borrowing throughout the period suggest to improve quality of current assets structure, to increase equity base, and EBT.

Rai (2009), in his study *"A Comparative Study on Financial Performance between the Commercial Banks"* has the main objective of the study is to examine the financial performance of SBI Bank and NBBL Bank. The other objectives are:

- To study the liquidity position of both the banks.
- To analyze the lending position of both the banks.
- To examine marketability position and the efficiency ratio of SBI and NBBl.

His major findings are:

a. The analysis of liquidity position of these commercial banks shows different position. The current ratio measures only total rupees worth of current assets and total rupees worth of current liabilities i.e. it indicates the availability of current assets in rupees for everyone rupee of current assets than current liabilities. The average current ratio of SBI (1.05) is greater than that of NBBL (0.98). Therefore, the liquidity position of SBI bank is in normal standard and NBBL is also trying to gain that position.

b. From the analysis of turnover of these two banks, NBBL has better turnover than SBI bank in terms of loans and advances to total deposit ratio. Thus, NBBL has better utilization of resources income generating activities than SBI bank.

c. The analysis of profitability of these two commercial banks is also different. The overall collection seems to better for NBBL. Though certain ratio like dividend per share, dividend payout ratio etc better for SBI bank. The writer has also conduced that earning per share of NBBL is better than that of SBI bank.

**Research Gap**

Research gap is the difference between previous works done and the present research work. Earlier works conducted in the matching topic *"Financial Performance of Commercial Banks"* are very useful for modifying this study.

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make study meaningful and purpose. There has been lots of work done financial performance of commercial banks. Most of the thesis studies are on comparative type. Comparing of the firm's from same industry can make the sense. But at the same time, the individual firm may have its own strategy for business. In such a case, comparative study may mislead the researcher. So, this is the exclusive study of HBL.

# CHAPTER - III

# RESEARCH METHODOLOGY

The prime objective of this study is to evaluate and assess the "Financial Performance Analysis of HBL. Research methodology refers to the various sequential steps (along with a rational at each such step) to adopt by a researcher in studying a problem with certain objectives in view" *(Kothari; 1985:112).*

Though limited to some conventional boundaries to research has something to offer all the concerned. "Research Methodology is a way to systematically solve the research problem. It may be understand as a science of studying how research is done significantly. It is necessary for the researcher to know to not only the research methods/techniques but also the methodology. Researchers not only need to know how to develop certain indices or test, not to calculate the mean, mode, the research techniques but also need to know which of these methods or techniques are used relevant and which aren't, what would they mean and indictable and why*"(Kothari;1994:10).*

In other word research methodology describes the methods and process applied in the entire aspect of the study. Thus, this chapter highlights the research methodology used in the study for analysis of financial performance analysis of HBL to draw the same potential conclusion from this.

## 3.1 Research Design

Decision regarding what, where, when, how much, by what means concerning an enquiry or a research study constitute a research design. "A Research Design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with the economy in procedure". In

fact, the research constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outlines of what the researcher will do from writing the hypothesis and its operational implications to find analysis of data.

A Research Design, bearing the techniques and systematic steps of research helps to collect various information required to researcher thesis writing or any investigations. In the lack of the research design, the functional process on researches is never achieved.

"After the research study has been formulated, the next logical steps are to construe the research design which refers to the entire process of planning and carrying out a research study. The research design asks what approach to the problem should be taken. What method will be used? What strategies will be most effective? Identification, selection and formulation of a research problem may be considered as the planning stage of a research. The remaining activities refer to the designs, operation and completion of research study" *(Wolf and Pant;1999:53).*

## 3.2 Sources of Data

Data are collected from two sources. They are primary sources and secondary sources in this study. But this study mainly based on secondary data provided by HBL. It constitutes mostly the prospects of the company and audited annual reports that contain balance sheet and profit and loss A/C. Other supplementary data and information have been obtained from various sources such as NRB, Nepal Stock Exchange Limited, Library of SDC, TU Central Library and previous studies and reports.

## 3.3 Analysis of Data

In this study, various financial and statistical tools have been used to achieve the objectives of the study, which are as follows:

### 3.3.1 Financial Tools

To evaluate the financial condition and performance of a company, the financial analysis needs data. The data frequency used is a ratio of index relating two pieces of financial data to each other.

### 3.3.1.1 Ratios Analysis

Ratio refers to the numerical or quantitative relationship between two items/variables. A ratio is calculated by dividing one item of relationship with other. Ratio is a tool of financial management which can be expressed in percentage, fraction of in a stated comparision between numbers. "The technique of ratio analysis is a part of the whole process of analysis of financial statement of any business of industrial concern especially to take output and credit decisions. Through this technique, a comparative study can be made between different statistics concerning varied facts of a business units. Just as the blood pressure, pulse and temperatures are the measures of health of an individual, so does ratio analysis measures the economic of financial health of business concern. Thus, the technique of ratio analysis is of a considerable significance in studying the financial stability, liquidity, profitability and the quality of the management of the business and industrial concerns" *(Kothari; 1994:487).*

### 3.3.1.1.1 Liquidity Ratio

Liquidity ratios measure the firm's ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short term solvency position of a term. And liquidity is measured by the speed with which banks assets that can be converted into cash meet to deposit with drawls and other current obligations. A bank is subjected to minimum Cash Reserve Requirement (CRR) imposed by Central Bank to ensure that a minimum amount of total assets to meet unexpected with drawls.

As financial tools, following ratios have been used to find out the liquidity position of HBL

## 1. Current Ratio

Current Ratio is the relationship of current assets and current liabilities. Current assets are those assets which can be converted into cash within short period of time. Current liabilities are those items which are paid within a year. Current ratio measures paying ability of short-term debt of the firm.Traditionally,2:1 is standard ratio but it is a conservative outlook about the coverage of current liabilities. Current ratio is calculated by dividing current asset by current liabilities.

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

Note:

Current Assets = Cash and Bank balance, Investment in Treasury bills, Bills purchased and discounted, Sundry debtors, Accrual incomes, Prepaid expenses bills for collection etc.

Likewise, current liabilities = Bank overdraft, Sundry creditors, Bills payable, Outstanding expenses, Provision for taxation, Proposed dividend etc.

## 2. Working Capital

Firms need cash to pay for all their day to day activities. They have to pay for the raw materials, pay bills and so on. The money available to them to do this is known as the firm's working capital. The main sources of working capital are the current assets these are the short-term assets that the firm can use to generate cash. However, the firm also has current liabilities and so these have to taken account of when working out how much working capital a firm has at its disposal. Working

capital management is the management of current assets and current liabilities of the firm.

Working Capital = Current Assets – Current Liabilities

## 3. Cash and Bank Balance to Current Assets Ratio

Cash and Bank Balance are the most liquid form of current assets. This ratio measures the preparation of cash and bank balance held by the banks under study. Higher ratio indicates the bank's sound ability to deposit. If the bank maintain low ratio, bank may not be able to make the payments of against cheques. So, the bank has to maintain cash and bank balance to current assets ratio properly. The ratio can be computed as:

$$\text{Cash and Bank Balance to Current Asset Ration} = \frac{\text{Cash and Bank Balance}}{\text{Current Asset}}$$

## 4. Loan and Advance to Current Asset Ratio

This ratio indicates the relationship between loan and advance to current ratio. It shows the capacity of the bank to purchase, discount bills and loan, credit and overdraft facility to its customer. It is calculated as:

$$\text{Loan and Advance to Current Asset Ratio} = \frac{\text{Loan and Advance}}{\text{Current Assets}}$$

## 5. Cash and Bank Balance to Total Deposit Ratio

This ratio measures the bank's ability of with drawl of fund immediately of their depositors. A higher ratio represents a greater ability to cover their deposits and vice-versa. The large ratio shows the idle cash and bank balance in banks while small ratio shows the utilization of deposit from banking prospective. Cash and bank balance includes cash in hand, foreign cash in hand, cheque and other cash

items, balance with domestic bank and balance held abroad. The total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits.

This ratio can be calculated as:

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

## 6. Fixed Deposit to Total Deposit Ratio

This ratio indicates the percentage of total deposit has been collected in form of fixed deposit. Higher ratio indicates better opportunity available to the bank to invest in sufficient profit genetic long term loans. This ration can be calculated

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

## 3.3.1.1.2 Profitability Ratio

Profitability is the different between the revenues and the expenditure over a period. Profitability ratios measure the efficiency of a business enterprise. Profit is the main element that makes an organization to survive for long-term. There are two areas when judging profitability one is relationship between on the income statement that indicate a company's ability to recover the costs and expenses and other is relationship of income of various balance sheet measure that indicate the company's relative ability to earn incomes on assets employed. The profit measures the management ability regarding how well they have utilized their funds to generate surplus, for this following ratios have been analyzed.

## 1. Basic Earning Power

The ratio of EBIT to Total Assets is called Basic Earning Power .The ratio indicates the ability of the firm's assets to generate operating income.

It is calculated as:

$$\text{Basic Earning Power} = \frac{\text{EBIT}}{\text{Total Asset}}$$

## 2. Return on Total Assets (ROA)

The ratio of net profit to total assets, measures the return on total investment in the firm. It shows the relationship of net profit and total assets and determines how efficiently the total assets have been used by the management. This ratio evaluates the overall return on investment earned by the firm. Net profit refers to the profit after deduction of interest and tax. Total assets means the assets that appear in assets side of the balance sheet. It measures the efficiency of banks in utilization of the overall operation. Higher ratio shows the higher return on the assets used in the business thereby indicating effective use of the resource available and vice-versa. This ratio evaluates the overall return on investment earned by the firm. Net profit refers to the profit after deduction of interest and tax. Total assets mean the assets that appear in assets side of the balance sheet. It measures the efficiency of banks in utilization of the overall operation. Higher ratio shows the higher return on the assets used on the business thereby indicating effective use of the resource available and vice-versa. This ratio is calculated as:

$$\text{Return on Assets} = \frac{\text{Net Profit after Tax}}{\text{Total Asset}}$$

## 3. Return on Common Equity (ROE)

It shows the relationship of net profit and equity. It is an important ratio because it judges whether the firm has earned a satisfactory return for its equity holders or not. It indicates how well the firm has developed the resources of the owners to earn profit. Higher ratio represents sound management and efficient mobilization of owner's equity. This ratio is calculated as:

$$\text{Return on Common Equity} = \frac{\text{Net profit after Tax}}{\text{Common Equity}}$$

## 4. DuPont Analysis

A DuPont analysis shows the return on equity is affected by assets turnover, profit margin and leverage. The DuPont chart was developed by Dupont managers for evaluating performance and analyzing ways of improving performance.

The net profit margin times the total assets turnover is called the Dupont equation. This equation gives the rate of return on assets (ROA).

Return on Total assets = Net profit margin $\times$ Total Assets Turnover

$$= \frac{Net\ Income}{Sales} \times \frac{Sales}{Total\ Assets}$$

The ROA times the equity multiplier (Total assets divided by common equity) yields the    return on equity. This equation is referred to as the extended Dupont equation.

$$Return\ on\ Equity = \frac{Net\ Income}{Total\ Assets} \times \frac{Total\ Assets}{Common\ Equity}$$

If a company financed only with common equity, the return on assets (ROA) and return on equity(ROE) are the same because total assets will equal common equity. This equity holds only if the company uses no debt.

## 5. Net Income to Total Deposit Ratio

This ratio enables to evaluate how much extent the management has been succeeded to mobilizes the deposits in profit generating sector. Higher ratio is favorable for banks. This ratio measures the level of net profit after tax by using total deposits. This is calculated as:

$$Net\ Income\ to\ Total\ Deposit\ Ratio = \frac{Net\ Income}{Total\ Deposit}$$

**3.3.1.1.3 Turnover/Efficiency Ratio**

Turnover ratio measures the performance efficiency of an organization that whether it is using its resources properly or not. To carry out operations, a firm need to invest in both short term and long term. Turnover ratios describe the relationship between the firm's level of operations and assets needed to sustain the activity. Activity ratio can also be used to forecast a firm's capital requirement. Activity ratios enable to analyst to forecast these requirements and to access the firm's ability to acquire the assets needed to sustain the forecasted growth. The activity ratios analyzed in the study are;

**1. Loan and Advances to Total Deposit Ratio**

This measures the extent to which the banks are successful to mobilize their total deposit on loan and advances consists of loan, advances, cash credit, overdrafts and foreign bills purchased and discounted. The ratio indicates the proportion of total deposits invested in loan and advances by total deposit as follows:

$$\text{Loan and Advance to Total Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

**2. Total Investment to Total Deposit Ratio**

Investment to Total deposit ratio shows how efficiently the major resources of the bank have been mobilized. Investment consists of investment in Nepal Government (NG) Treasury bills, development bonds, company shares and other types of investments. This ratio is calculated by dividing investment by total deposits collected in the bank as follows:

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

**3. Loan and Advance to Fixed Deposit Ratio**

This ratio represents how many times the funds are used in loan and advance against fixed deposits. Fixed deposits are long-term interest bearing obligations

and loan and advances are the main source of earning of the bank. It can be calculated as follows:

$$\text{Loan and Advance to Fixed Deposit Ratio} = \frac{\text{Loan and Advance}}{\text{Fixed Deposit}}$$

### 3.3.1.1.4 Debt Management Ratio/Solvency Ratio

It is also called leverage or capital structure ratio. Debt management ratio measure the extent to which firm is using debt financing or financial leverage and the degree of safety afforded to creditors. A solvency ratio measures the relationship between debts and owner's equity and examines the proportion of debt the company is using.

### 1. Debt to Total Assets Ratio

This ratio exhibits the relationship between creditors fund and owner capital. This ratio show the proportion of outside fund used in financing total assets. It also provides security/financial safety to outsider i.e. potential shareholder, depositor or investor. Higher debt ratio indicators higher financial risk as well as decreasing claims of outsider over the total assets of the firm. Generally 1:2 ratios are considered good but however no hard and fast rule is prescribed. This ratio implies a finance company success to exploiting debt to more profitable areas. The ratio is computed as:

$$\text{Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

### 2. Time Interest Earned Ratio

The ratio of earning before interest and taxes (EBIT) to interest charges. It measures the ability of the firm to meet its annual interest payment. The times interest earned(TIE) ratio is determined by dividing earning before interest and taxes by the interest charge as:

$$\text{Time Interest Earned Ratio} = \frac{\text{EBIT}}{\text{Interest Charged}}$$

**3. Debt to Equity Ratio**

The debt to equity ratio measures the extent to which the owners are using debt rather than their own funds to finance the company. The debt to equity ratio indicates how well creditors are protected in case of the company's insolvency. High ratio show that the creditor's claim are greater than those of owners. Low ratio implies a greater claim of owners than creditors. The ratio can be found by dividing total debt by total owner's equity as below.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total owner's Equity}}$$

**3.3.1.1.5 Market Value Ratio**

Market Value Ratio relates the firm's stock price to its earning and book value per share and thus give management and identification of what investors thing of the company's past performance and future prospects. If the firm's liquidity, assets management, debt management and profitability ratio are all good, then its market value ratios will be high and its stock will probably be highs can be expected.

**1. Price Earning Ratio**

This ratio measures investor's expectations and the market appraisal of the performance of a firm. P/E ratio is widely used to assess the bank's performance as expected by investors. It represents the investor's expectation about the growth in the bank earning. In another words, it measure how the market is responding towards the earning performance of the concerned institution. High ratio indicates higher expectation of the market towards the achievement of the firm. This ratio is calculated as follows:

$$\text{Price Earning Ratio} = \frac{\text{Market Value Per Share}}{\text{Earning Per Share}}$$

## 2. Earning Per Share Ratio

The value of firm increase with the increase in earning per share. Earning per share, commonly used, as EPS is the total amount earned by a share during a year and calculated by dividing total net profit a firm during a year by total number of outstanding ordinary shares. Hence, higher the amount of net profit, higher will be the amount of EPS.Net profit is that part of a firm's income which remain after paying all compulsory on which the share holders have the full claims. As it is the amount earned by a share of total capital, higher EPS indicates a firm's better position and vice- versa. Earning per share ratio can be calculated as:

$$\text{Earning Per Share Ratio} = \frac{\text{Earning Per Share}}{\text{Face Value Per Share}}$$

## 3.3.2 Statistical Tools

The main statistical tools used in analyzing the data obtained are:

Measures of Central Tendency like mean, measures of dispersion like standard deviation, Karl Pearson's Coefficient of Correlation between different variables, Straight line analysis of important variables

## 3.3.2.1 Arithmetic Mean

Arithmetic mean is the most popular and widely used measure of central tendency. Arithmetic mean represents the entire data by a single value. It is also known as an average. An average is the typical value around which other items of distribution congregate. It can be calculated as:

Arithmetic Mean $(\overline{X}) = \frac{\Sigma x}{N}$

Where,

$\Sigma x$ = Sum of observation

N = Number of observation

### 3.3.2.2 Standard Deviation

Standard Deviation is defined as the positive square root of the arithmetic mean of the square of the deviation of the given observations from their arithmetic mean. The standard deviation measures the absolute dispersion or variability. It is said that higher the value of standard deviation, higher the variability and vice-versa.

The formula used to calculate standard deviation is as follows:

Standard deviation $(\delta) = \sqrt{\dfrac{\Sigma(x-\bar{x})^2}{N}}$    Where, N= No. of observation

### 3.3.2.3 Coefficient of Correlation

Coefficient of Correlation is statistical tool, which measures the relationship between variables .It is widely used statistical tool. It helps to describe how well one variable is explained by another. Coefficient of Correlation analysis is the technique of studying how the variations in on series are related to variations in another series. The coefficient of Correlation symbolically denoted by 'r'. Karl Pearson's method is most widely used method of measuring the relationship between two variables. We can use following formula for finding the value of 'r'.

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

Where,

n = No. of observations

$\sum x$ = Sum of observations in series x

$\sum y$ = Sum of observations in series y

$\sum x2$ = Sum of squared observations in series x

$\sum y2$ = Sum of squared observation in series y

$\sum xy$ = Sum of product of observation in series x and y

If, r = +1, there is perfectly positive correlation between the variables

r = -1, there is perfectly negative correlation between the variables

r = 0, there is no correlation between the variables

## 3.3.2.4 Probable Error of Correlation Coefficient (r)

Probable error of correlation coefficient denoted by P.E. is the measure of testing the reliability of the calculated value of 'r'. If r be the calculated value of 'r' from a sample of 'n' pair of observations, then P.E. is defined by:

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

It is used in interpretation whether calculated value of 'r' is significant or not.

If,

1. r < P.E., it is insignificant.
2. r > 6 × P.E., it is significant.
3. In other cases, nothing can be calculated.

## 3.3.2.5 Trend Analysis

Trend analysis is an analysis of financial ratio over time used to determine the improvement of deterioration of financial situation. Trend analysis is a very useful and commonly applied tool to forecast the future event in quantitative term on the basis of the tendencies in the dependent variable in the past period. Using the least square method, the projection for three years is done. For the estimation of linear trend line, following formula has been used.

Y = a + bX

Where,

Y = value of dependent variable

a = y-intercept

b = slope of the trend line

X = value of independent variable

$$a = \frac{\sum y}{n}$$

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

when $\sum x = 0$

Where,

$\sum x$ = Sum of the observation in series

$\sum xy$ = Sum of the observations in series x and y

$\sum x^2$ = Sum of squared of the observations in series x

# CHAPTER - IV
# DATA PRESENTATION AND ANALYSIS

Introduction review of literature and research methodology are presented in the previous chapter provide the basic inputs to analyze and interpret the data. In this chapter, collected data are analyzed and interpreted as the stated methodology in the previous chapters. This chapter of the study presents the data and facts, which is related to different aspects of HBL. The included data are collected from various sources. These available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. The main objective of analyzing the financial performance and interpretation is to highlight the strengths and weakness of the business. The collected data are analyzed and interpreted by using the financial and statistical tools.

## 4.1 Financial Analysis

Effective planning and control are central to enhancing enterprises value. Financial plans may take forms but any good plan must be related to the firm's existing strength and weakness. The strength must be understand if they are to be used to proper advantages and the weakness must be recognized if corrective action is to be taken. The financial manager can plan future financial requirement in accordance with the forecasting and budgeting procedures, but the plan must begin with type of financial analysis.

Financial Statements analysis involves a study of the relationship between incomes statement and balance sheet accounts, how these relationship changes over time and how a particular firm compares with other firms in this industry (Comparative Ratio Analysis).Parties interested in financial position analysis of a firm may be a management, creditors and shareholders.

### 4.1.1 Ratio Analysis

Various financial ratios are used to study the relative strengths and weaknesses of the bank are calculated as follows:

### 4.1.1.1 Liquidity Ratio

The following ratios are calculated to find the liquidity position of the bank.

### a.  Current Ratio

A Current ratio is the ratio of current assets and current liabilities.

**Table 4.1**

**Current Assets to Current Liabilities Ratio**

(Rs. In million)

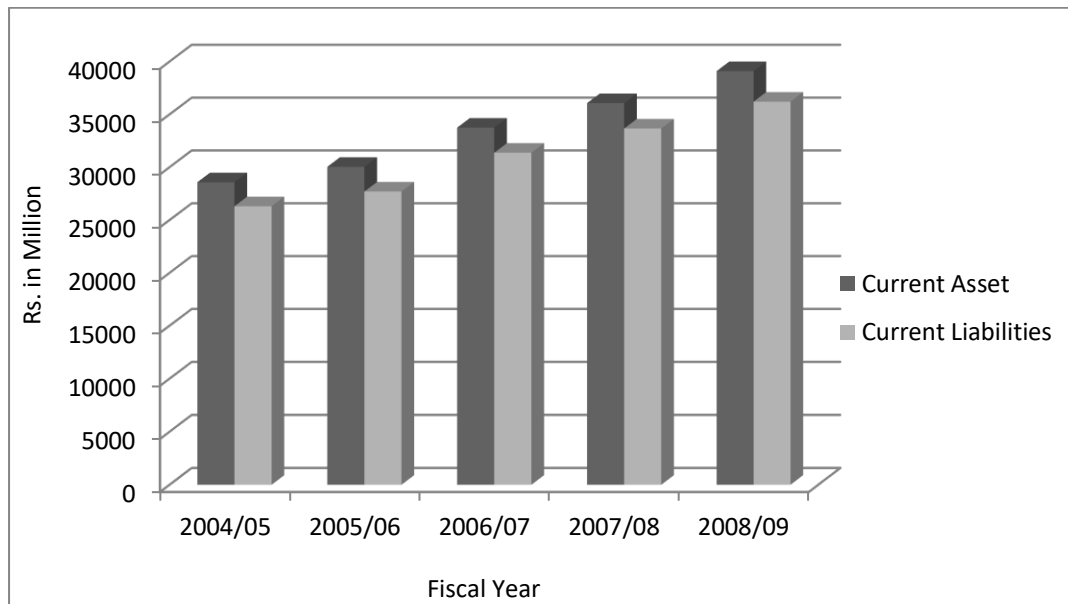| Fiscal year | Current Asset | Current Liabilities | Ratio |
|---|---|---|---|
| 2004/05 | 28575.52 | 26302.95 | 1.09 |
| 2005/06 | 30038.98 | 27694.22 | 1.08 |
| 2006/07 | 33740.81 | 31372.64 | 1.08 |
| 2007/08 | 36062.31 | 33662.54 | 1.07 |
| 2008/09 | 39094.49 | 36200.44 | 1.08 |
| Average | | | 1.08 |
| Standard Deviation | | | 0.0063 |

*Source: Financial Reports of the Bank*

The above table shows the current assets and current liabilities of HBL and current ratios are calculated by dividing current assets by current liabilities. In the year 2004/05 the current ratio shows of 1.09. Similarly, in the year 2005/ 06, 2006/07, 2007/08, 2008/09, the current ratio are 1.08,1.08,1.07 and 1.08 respectively. The current ratio is increasing is 2004/05, remained constant for three year i.e. 1.08 and decreasing in 2007/08 i.e.1.07. Thus, the table shows the growing trend of current ratio and little fluctuation too.

The current ratios of 1.07,1.08 and 1.09 are seemed not satisfactory. The standard ratio is 2:1 more or less standard deviation is not preferable. The current ratio of 1.07 shows that the solvency position of the bank is not good. However, the current ratio is gradually rising, improving its short term creditors are covered by assets to some extent that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims. The table shows the average of current ratios for the period to be 1.08.The standard deviation, which is 0.0063 for the period shows that there is a relative fluctuation in current ratio for the study period. From this analysis, it seems that HBL should try to come to the current ratio of 2:1 to satisfy the claims of short-term creditors.

From the above table following graphical figure can be done to make it clear to understand.

**Figure 4.1**

**Current Assets and Current Liabilities**



In the graph, the current assets and current liabilities of HBL from the year 2004/05 to 2006/07 are shown. Y-axis represents amount of in million Rs. and X-axis represents Fiscal year. From the above graph, we can conclude that the

current assets and current liabilities are in increasing trend and highest in year 2008/09 in compare to other fiscal year.

The current ratio is also called working capital ratio. Working capital measures the ability to pay current obligations. The table below shows the working capital of HBL

**Table 4.2**

**Calculation of Working Capital for the year 2004/05 to 2008/09**

| Fiscal Year | Current Assets | Current Liabilities | Working capital |
|-------------|----------------|---------------------|-----------------|
| 2004/05 | 28575.52 | 26302.95 | 2272.57 |
| 2005/06 | 30038.98 | 27694.22 | 2344.76 |
| 2006/07 | 33740.81 | 31372.64 | 2368.17 |
| 2007/08 | 36062.31 | 33662.54 | 2399.77 |
| 2008/09 | 39094.49 | 36200.44 | 2894.05 |
| | | Average | 2455.86 |

*Source: Financial Reports of the Bank*

Working capital should be positive. When establishing the projected balance sheet for any business plan, the analyst must always set up a positive working capital in the bank is considered satisfactory. A negative working capital (or close to zero) is not start for any business angles, banker or financial analyst.

**b. Cash and Bank Balance to Current Assets Ratio**

Cash and Bank Balance to current asset ratio assets. The table below shows the cash and bank balance to current assets ratio.

**Table 4.3**

**Cash and Bank Balance to Current Assets Ratio**

(Rs. In million)

| Fiscal Year | Cash and Bank Balance | Current Assets | Ratio % |
|---|---|---|---|
| 2004/05 | 2014.47 | 28575.52 | 7.05 |
| 2005/06 | 1717.35 | 30038.98 | 5.72 |
| 2006/07 | 1757.34 | 33740.81 | 5.21 |
| 2007/08 | 1448.14 | 36062.31 | 4.02 |
| 2008/09 | 3048.53 | 39094.49 | 7.8 |
| Average | | | 5.96 |
| Standard Deviation | | | 1.34 |

*Source: Financial Reports of the Bank*

The above table shows that cash and bank balance and current assets and the percentage that show how much of current assets of the bank represent cash and bank balance. In year 2004/05, 7.05% of assets represent cash. In year,2005/06,the percentage has dropped to 5.72% from 7.05%.In year 2006/07, the percentage decreases to 5.21%.In year 2007/06,the percentage decreases to 4.02%.In year 2008/09 , the percentage increases to 7.80%.

It is highest in year 2008/09 i.e. 7.80% that means 7.80% of current assets are cash and bank balance. The average of cash and bank balance to current assets ratio is 5.96%.It can be said that average of 5.96% as cash is holding cash and bank balance. To keep more than 5.96% as cash is positive aspect from the view point of liquidity but negative aspects from viewpoint of probability. The study period show the standard deviation is 1.34%.

Holding excess cash means to make it idle. Where as holding less cash and bank balance can have negative impact on the goodwill and reputation of the bank. So, bank should maintain sufficient cash.

**Figure 4.2**

**Cash and Bank Balance to Current Assets**
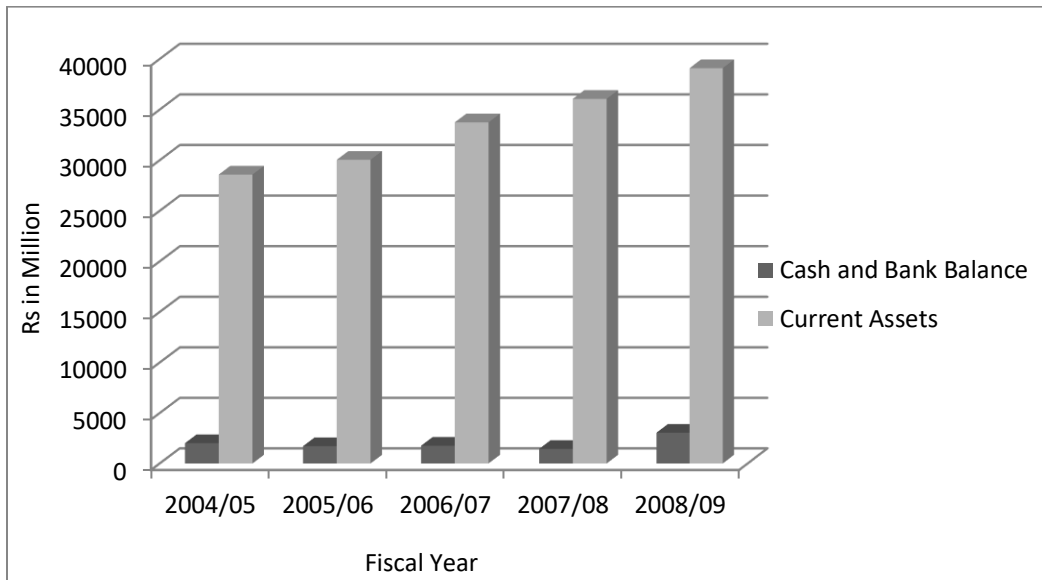


In the above figure, Y- axis represents amount in Rs. and X-axis represents fiscal year. There is the increment in cash and bank balance and current assets in each year. They are in increasing trend and the highest in fiscal year 2008/09.

### c. Loan and Advance to Current Assets Ratio

It is the ratio, which shows the percentage of loan and Advance to Current Assets of HBL,

**Table 4.4**

**Loan and Advance to Current Asset Ratio**

(Rs, in million)

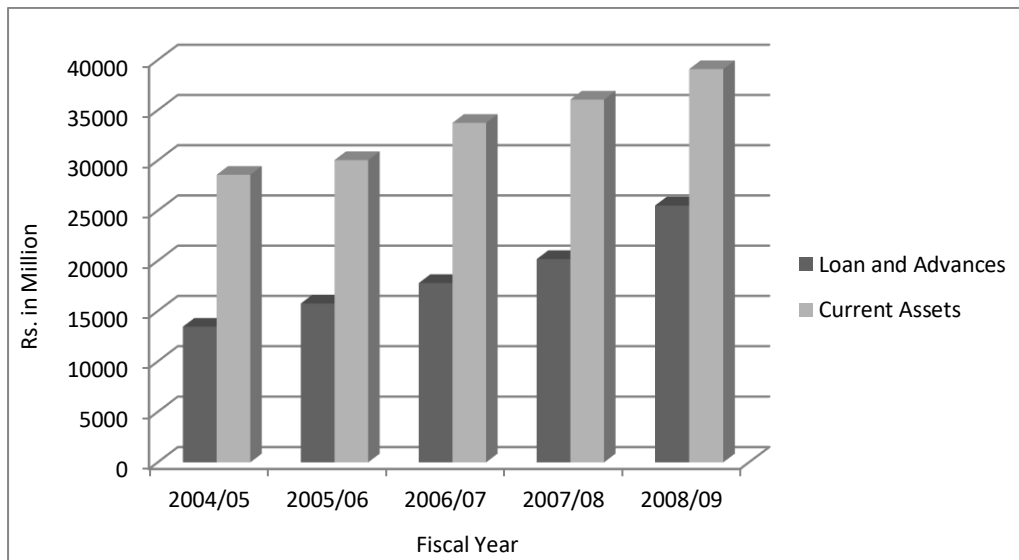| Fiscal year | Loan and Advances | Current Assets | Ratio % |
|---|---|---|---|
| 2004/05 | 13451.17 | 28575.52 | 47.07 |
| 2005/06 | 15761.98 | 30038.98 | 52.47 |
| 2006/07 | 17793.72 | 33740.81 | 52.74 |
| 2007/08 | 20179.61 | 36062.31 | 55.96 |
| 2008/09 | 25519.52 | 39094.49 | 65.28 |
| Average | | | 54.7 |
| Standard Deviation | | | 6.01 |

*Source: Financial Reports of the Bank*

In year 2004/05, 47.07% of current assets have been lent as loan and advances. Similarly in the year 2005/06, 2006/07, 2007/08 and 2008/09, the ratios are 52.47%, 52.74%,55.96%  and 65.28%.the ratio has been increased from 2004/05 to 2008/09. The average of the ratio is 54.70%.The study period show the standard deviation is 6.01%.

The ratios reveal that more than 47% of current assets have been lent to the customers as loan and advances. As already stated loan and advances earn return at a certain rate and to invest more amounts of resources in the portfolio yielding return at fixed rate is always as positive principal and interest from them. But the recent trends of recovering loan have shown that a very large amount of loan has been facing difficulties to be recovered. Failure in recovering the loan has been the main reason for show trend of profitability for the bank.

**Figure 4.3**

**Loan and Advance to Current Assets**



In the above figure, Y-axis represents the amount in Rs. and X-axis represents the five fiscal years, 2004/05 to 2008/09 respectively. Its ratio shows the relationship between the loan and advances and current assets and measure how much of current assets have been lent out as loan and advances.

59

**d. Cash and Bank Balance to Total Deposit Ratio**

This ratio shows the percentage of total deposit which can be immediately discharge by the bank from its ready cash.

**Table 4.5**
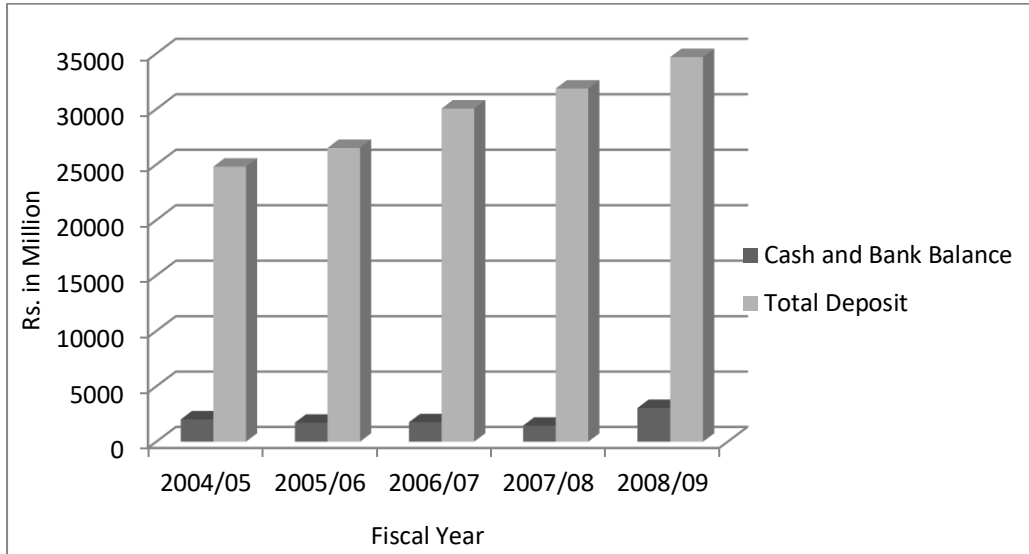
**Cash and Bank Balance to Total Deposit Ratio**

( Rs. in million)

| Fiscal Year | Cash and Bank Balance | Total Deposit | Ratio % |
|---|---|---|---|
| 2004/05 | 2014.47 | 24814.01 | 8.12 |
| 2005/06 | 1717.35 | 26490.85 | 6.48 |
| 2006/07 | 1757.34 | 30048.42 | 5.85 |
| 2007/08 | 1448.14 | 31842.79 | 4.55 |
| 2008/09 | 3048.53 | 34681.35 | 8.79 |
| Average | | | 6.76 |
| Standard Deviation | | | 1.53 |

*Source: Financial Reports of the Bank*

In above table for the year 2004/05, the ratio is 8.12%.Similarly, in the year 2005/06, 2006/07 and 2007/08, the ratios are 6.48%, 5.85% and 4.55%.The ratio is decreasing till 2007/08 and increasing in year 2008/09, the ratio is 8.79% which implied that 8.79% of bank's deposit is idle, or they earn very little. The average of the ratio and standard deviation are 6.76 and 1.53 percentage respectively.

Cash and Bank Balance shows a firm's strong position regarding its liquidity a firm's strong position regarding its profitability.

**Figure 4.4**
**Cash and Bank Balance to Total Deposit**



The above graph represents the total cash and bank balance and the total deposit.This ratio showw there relationship between cash and bank balance and total deposit i.e. how much of total deposit are cash and bank balance.In above figure,Y-axis represents the amount in Rs. and X-axis represents the five years 2004/05 to 2008/09 respectively.

**e. Fixed Deposit to Total Deposit Ratio**

It is the ratio, which shows the percentage of fixed deposit on total deposit.

**Table 4.6**

**Fixed Deposit to Total Deposit Ratio**

(Rs. in million)

| Fiscal year | Fixed Deposit | Total Deposit | Ratio % |
|---|---|---|---|
| 2004/05 | 6107.43 | 24814.01 | 24.61 |
| 2005/06 | 6350.2 | 26490.85 | 23.97 |
| 2006/07 | 8201.13 | 30048.42 | 27.29 |
| 2007/08 | 6424 | 31842.79 | 20.17 |
| 2008/09 | 6377.13 | 34681.35 | 18.39 |
| Average | | | 22.89 |
| Standard Deviation | | | 3.2 |

*Source: Financial Reports of the Bank*

In the above table, for the year 2004/05 the ratio is 24.61%.In year 2005/06, it slightly decreases to 23.97% and again increases to 27.29 in the year 2006/07.And then again decreases to 20.17% and 18.39% in 2007/08 and 2008/09.It is clear that the bank has failed to more fixed deposit amount. The average ratio for the period is 22.89% and standard deviation is 3.20%.

**Figure 4.5**

**Fixed Deposit to Total Deposit**
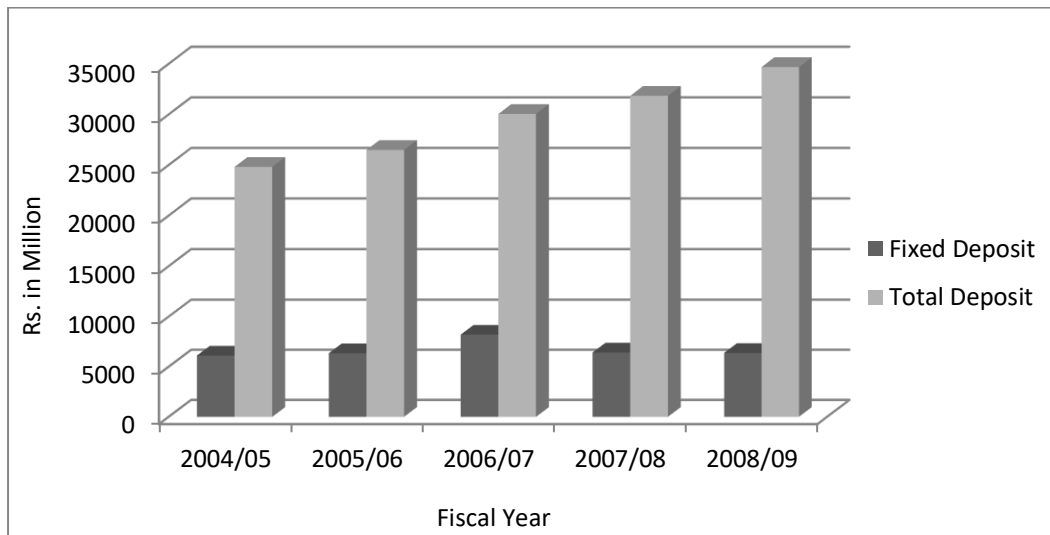


In the figure, Y-axis represents amount and X-axis represents fiscal year respectively.

## 4.1.1.2 Profitability Ratio

To measure the probability of the HBL, following ratios have been calculated and analyzed.

## a. Basic Earning Power Ratio

The ratio is of EBIT to total Assets. The ratio indicates the ability of the firm's assets to generate operating income. The table below shows the basic earning power ratio of HBL.

**Table 4.7**

**Basic Earning Power Ratio**

(Rs. in million)

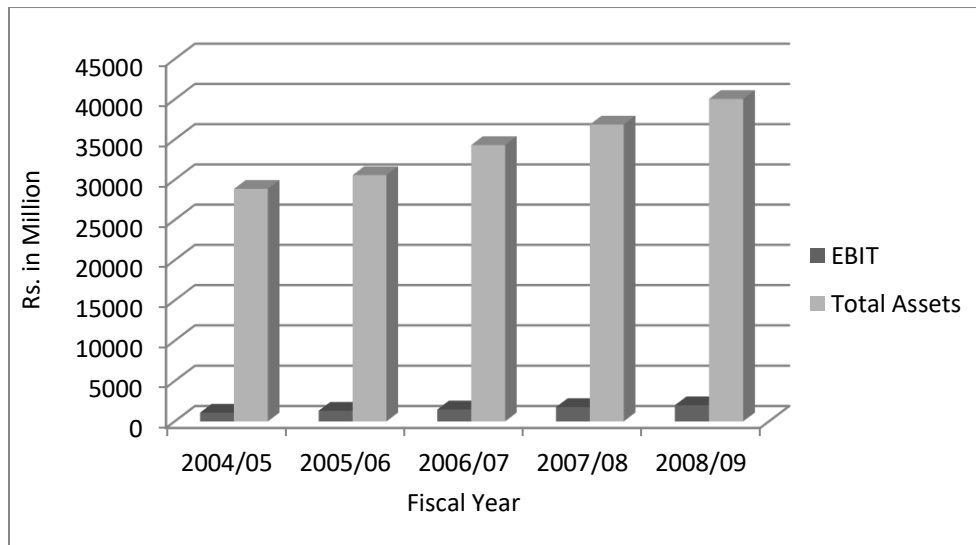| Fiscal year | EBIT | Total Assets | Ratio % |
|---|---|---|---|
| 2004/05 | 1084.51 | 28871.34 | 3.76 |
| 2005/06 | 1321.24 | 30579.81 | 4.32 |
| 2006/07 | 1484.81 | 34314.87 | 4.33 |
| 2007/08 | 1772.58 | 36857.62 | 4.81 |
| 2008/09 | 2001.39 | 40046.69 | 5.00 |
| Average | | | 4.44 |
| Standard Deviation | | | 0.43 |

*Source: Financial Reports of the Bank*

The above table reveals the basic earning power of HBL, for the year 2004/05 to 2008/09.The basic earning power is 3.76, 4.32, 4.33, 4.81, and 5% for the five year 2004/05 to 2008/09 respectively. The average ratio is 4.44% and standard deviation is 0.43% for the period of five. The basic earning power of the bank is increasing trend which shows the net income of the bank, has been increasing in every subsequent year.

**Figure 4.6**

**EBIT to Total Assets**

**Basic Earning Power (EBIT to Total Assets)**

**b. Return On Total Assets (ROA)**

The ratio is of net income and total assets.ROA shows the management's capability to generate profit on using assets. The table below shows the ROA of HBL.

**Table 4.8**

**Return On Total Assets**

(Rs. in million)

| Fiscal year | Net Income | Total Assets | Ratio % |
|:---:|:---:|:---:|:---:|
| 2004/05 | 308.28 | 28871.34 | 1.07 |
| 2005/06 | 457.46 | 30579.81 | 1.50 |
| 2006/07 | 491.82 | 34314.87 | 1.43 |
| 2007/08 | 635.87 | 36857.62 | 1.73 |
| 2008/09 | 752.84 | 40046.69 | 1.88 |
| Average | | | 1.52 |
| Standard Deviation | | | 0.28 |

*Source: Financial Reports of the Bank*

The table shows the calculations of Return of Assets from the year 2004/05 to 2008/09. ROA is 1.07, 1.50, 1.43, 1.73 and 1.88 % for the period respectively. The return on assets increases from 1.07% to 1.50% in the year 2005/06.And then again decreases to 1.43% in 2006/07.The decease in total assets is not good so that bank should try to increase the ratio. Again, in year 2007/08 it increases to 1.73% and has reached to 1.88% in year 2008/09.The increase in total assets is good. The average ratio is 1.52% and standard deviation is 0.28% for the period of five years.

**Figure 4.7**

**Net Income to Total Assets**
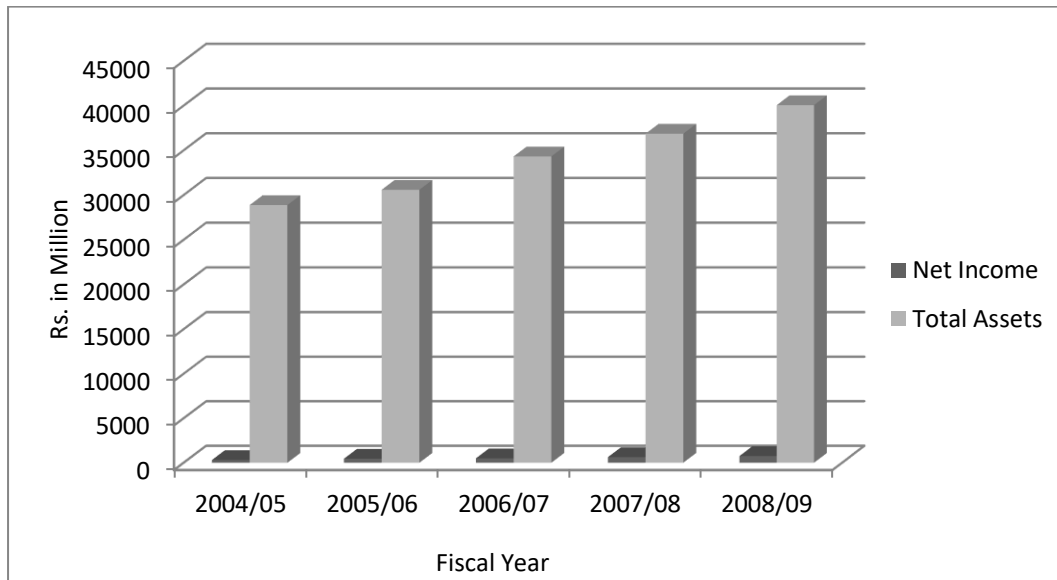


**c. Return On Common Equity**

The ratio is of net income to common equity. Higher ROE ratio show the better operating efficiency of a firm and vice-versa. Following table shows the calculation of Return on Common Equity of the HBL in percentage.

**Table 4.9**

**Return On Equity**

(Rs, in million)

| Fiscal year | Net Income | Common Equity | Ratio % |
|---|---|---|---|
| 2004/05 | 308.28 | 2568.4 | 12.00 |
| 2005/06 | 457.46 | 2885.6 | 15.85 |
| 2006/07 | 491.82 | 2942.23 | 16.72 |
| 2007/08 | 635.87 | 3195.08 | 19.90 |
| 2008/09 | 752.84 | 3846.25 | 19.57 |
| Average | | | 16.81 |
| Standard Deviation | | | 2.87 |

*Source: Financial Reports of the Bank*

It can be seen that the ratio for Fiscal Year 2004/05 is 12%. In FY 2005/06, it dramatically rises to 15.85%.In FY 2006/07 it reaches to 16.72% and then after it dramatically rises to 19.90% in FY 2007/08.In FY 2008/09, it slightly deceases i.e. 19.57%. From the above table, it can be said that bank isn't in good position because in 2008/09, it decreases ratio. The average ratio is 16.81% and standard deviation is 2.87% for the period of five year.

**Figure 4.8**

**Net Income to Common Equity**
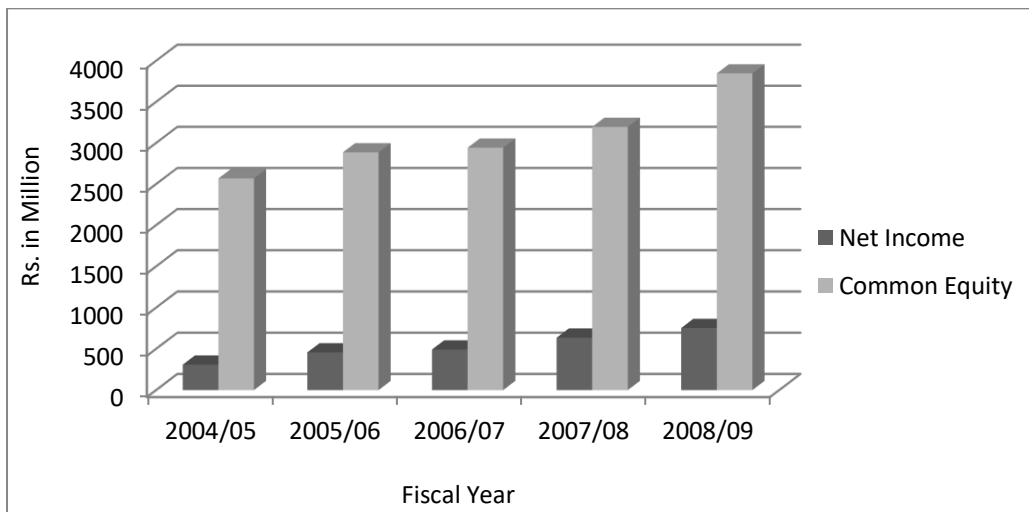


**DuPont Analysis based on the Data of Fiscal Year 2008/09**

DuPont Company has created a financial analysis chart based on relationship between different ratios. This chart is the best available financial tool. The profit margin times the total assets turnover is called the DuPont equation and it gives the rate of return on assets.

ROA = Profit Margin × Total Assets Turnover

$$= \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \qquad \text{..................(equation 1)}$$

$$= \frac{\text{Net Income}}{\text{Total Assets}} \times 100$$

$$= 752835000 / 40046686000$$

$$= 1.88\%$$

The net income of FY 2008/09 is Rs. 752835000 and total assets are 40046686000. So, the bank earned a return of 1.88% on its assets. Specifically, the rate of return on assets (ROA) must be multiplied by the equity multiplier, which is the ratio of assets to common equity to obtain the rate of return on equity (ROE).

$$\text{ROE} = \text{ROA} \times \text{Equity Multiplier}$$

$$= \frac{\text{Net Income}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Common Equity}} \quad \dots\dots\dots\dots\dots \text{ (equation 2)}$$
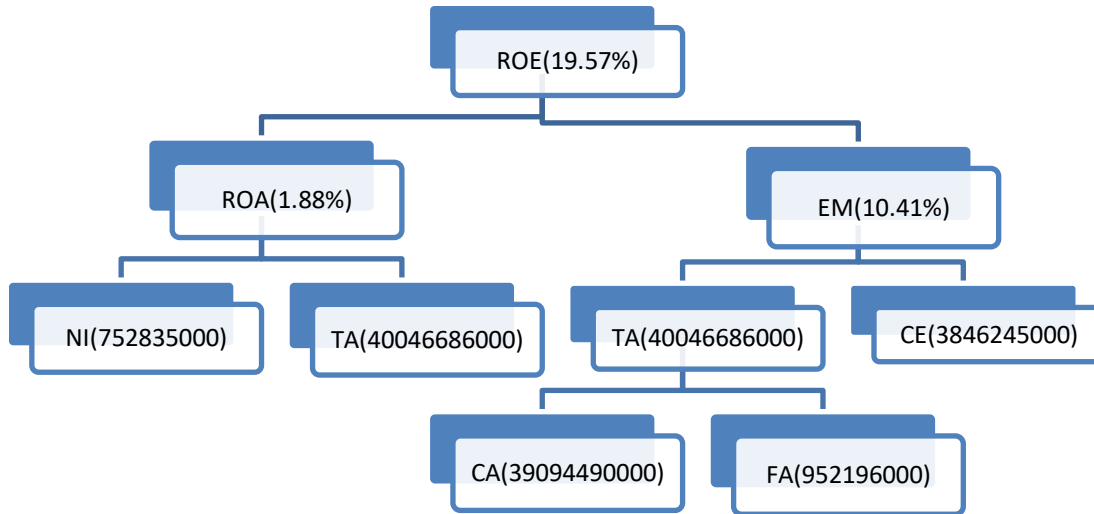
$$= 1.88 \times \frac{40046686000}{3846245000}$$

$$= 19.57\%$$

Combining equation 1 and 2 from the extend DuPont Equation.

ROE = (Profit Margin) (Total Assets Turnover) (Equity Multiplier)

$$= \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Common Equity}}$$

$$= \frac{\text{Net Income}}{\text{Common Equity}} \times 100$$

$$= \frac{752835000}{3846245000} \times 100$$

$$= 19.57\%$$

The ROE 19.57% is of course be calculated directly, net income after takes by common equity is equal to 19.57%.However, DuPont equation shows how the profit margin, the total assets turnover ratio and the use of debt interact to determine the return on equity.

**DuPont Chart Based on the Data of 2008/09**

```
                          ROE(19.57%)
                 ┌─────────────┴─────────────┐
            ROA(1.88%)                   EM(10.41%)
         ┌──────┴──────┐            ┌────────┴────────┐
   NI(752835000)  TA(40046686000)  TA(40046686000)  CE(3846245000)
                                ┌──────┴──────┐
                         CA(39094490000)  FA(952196000)
```

Where,

ROE   =   Return on Equity

ROA   =   Return on Assets

EM   =   Equity Multiplier

NI   =   Net Income

TA   =   Total Assets

CA   =   Current Assets

CE   =   Common Equity

FA   =   Fixed Assets

### d. Net Income to Total Deposit Ratio

The relationship between the net profit and total deposit for which the net profit to total deposit ratio has been calculated in the following table.

**Table 4.10**

**Net Income to Total Deposit**

(Rs. in million)

| Fiscal year | Net Income | Total Deposit | Ratio % |
|---|---|---|---|
| 2004/05 | 308.28 | 24814.01 | 1.24 |
| 2005/06 | 457.46 | 26490.85 | 1.73 |
| 2006/07 | 491.82 | 30048.42 | 1.64 |
| 2007/08 | 635.87 | 31842.79 | 2.00 |
| 2008/09 | 752.84 | 34681.35 | 2.17 |
| Average | | | 1.76 |
| Standard Deviation | | | 0.32 |

*Source: Financial Reports of the Bank*

The ratio for the FY 2004/05 is 1.24% ; it increases to 1.73% in FY 2005/06.In FY 2006/07, the ratio slightly decreases to 1.64%.Then after, the ratio increases to 2% in FY 2007/08 and again increases in FY 2008/09 to 2.17%.The average ratio for the five years period is 1.76% and standard deviation is 0.32%.

**Figure 4.9**

**Net Income to Total Deposit**
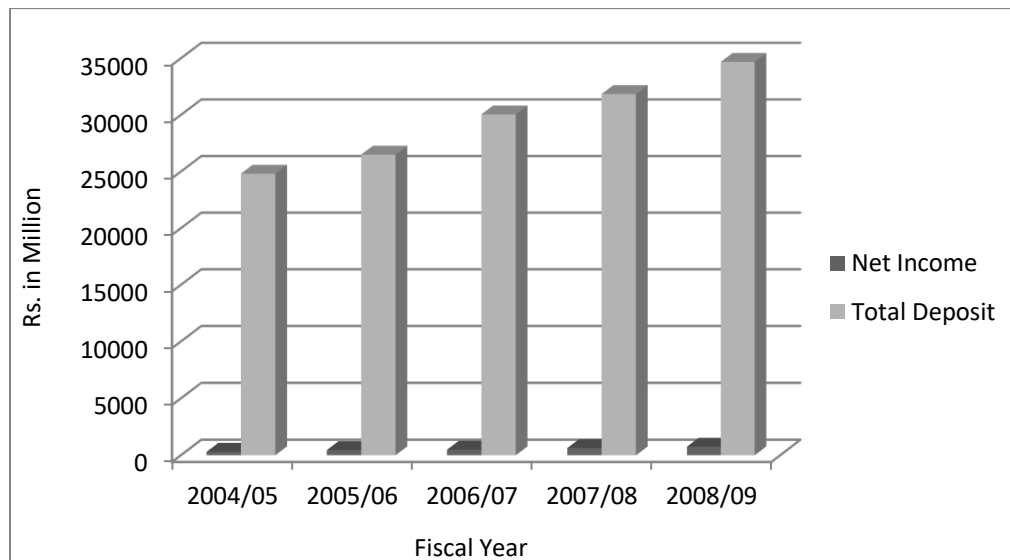


The above chart depicts the net income and total deposits for five fiscal year. X-axis represents the five fiscal year 2004/05 to 2008/09 and Y-axis represents the

amount in million. From the above chart, we can say that the net income of the bank is much lower than in comparison to the total deposits.

### 4.1.1.3 Turnover Ratio

This ratio measures the efficiency of the firms in utilization of the resources. Following ratios are calculated under the ratio.

### a. Loan and Advances to Total Deposit Ratio

This ratio shows the percentage of total deposit that has been utilized on loan and advances. Following table showing the loan and advances to total deposit ratio.

**Table 4.11**

**Loan and Advances to Total Deposit**

(Rs. in million)

| Fiscal Year | Loan and Advances | Total Deposit | Ratio % |
|---|---|---|---|
| 2004/05 | 13451.17 | 24814.01 | 54.21 |
| 2005/06 | 15761.98 | 26490.85 | 59.50 |
| 2006/07 | 17793.72 | 30048.42 | 59.22 |
| 2007/08 | 20179.61 | 31842.79 | 63.37 |
| 2008/09 | 25519.52 | 34681.35 | 73.58 |
| Average | | | 61.98 |
| Standard Deviation | | | 6.49 |

*Sources: Financial Reports of the Bank*

The ratio of 54.21% in FY 2004/05 shows that 54.21% of the total deposits are lending out as loan to customers. There is gradual increase in the ratio in FY 2005/06 i.e. 59.50%.There is an small decrease in the ratio in FY 2006/07.This means fund mobilization of the bank has increased in the subsequent years. In FY 2007/08, it rises and reaches to 63.37% and again in FY 2008/09 it rises and reaches to 73.58%.The average of 61.98% of total has been mobilized as loans and advances and standard deviation is 6.49%.

**Figure 4.10**

**Loan and Advance to Total Deposit**
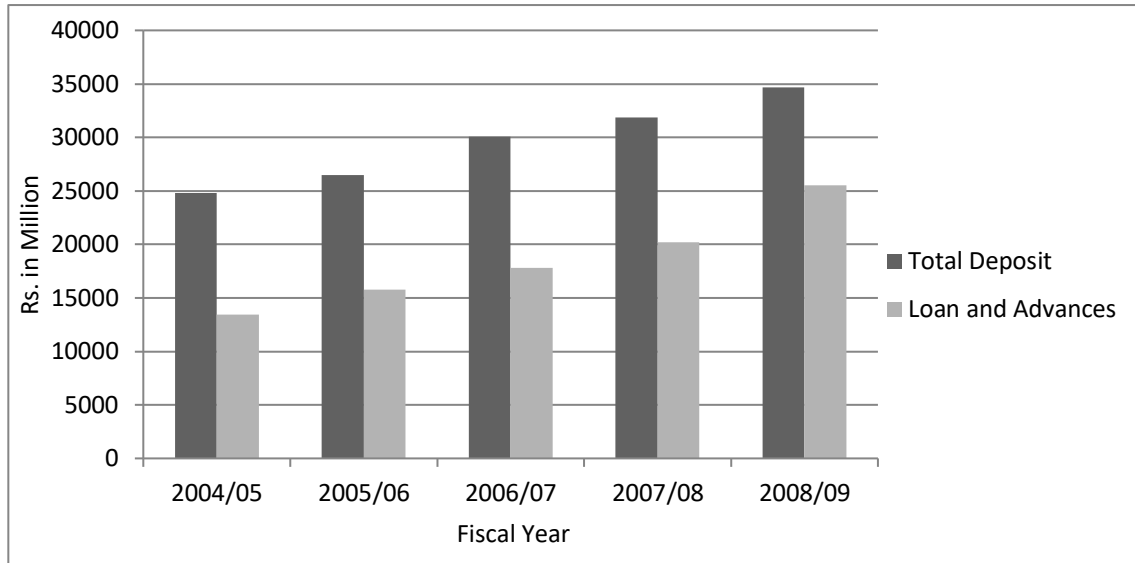


X and Y- axis represents five fiscal year and amount respectively. From the charts, we can easily conclude that the amount of loan and advances and total deposits are in increasing trend and continues increasing in every fiscal year.

**b. Total Investment to Total Deposit Ratio**

The total deposit is the main source of a bank's fund and this ratio shows how the bank utilizes its fund on investment sectors. The table blows shows the ratio.
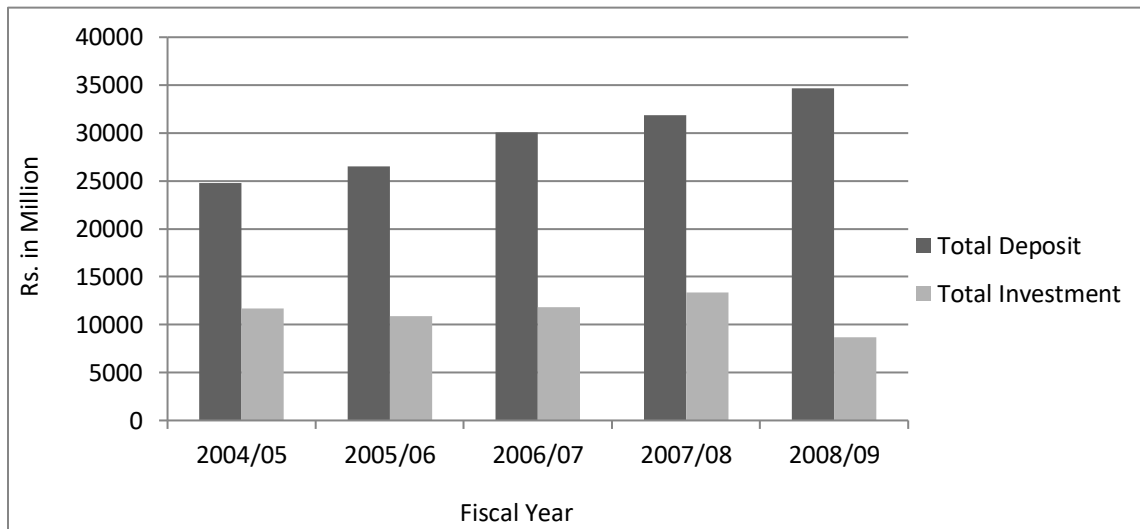
**Table 4.12**

**Total Investment to Total Deposit Ratio**

(Rs. in million)

| Fiscal Year | Total Investment | Total Deposit | Ratio % |
|-------------|------------------|---------------|---------|
| 2004/05 | 11692.34 | 24814.01 | 47.12 |
| 2005/06 | 10889.03 | 26490.85 | 41.10 |
| 2006/07 | 11822.99 | 30048.42 | 39.35 |
| 2007/08 | 13340.18 | 31842.79 | 41.89 |
| 2008/09 | 8710.69 | 34681.35 | 25.12 |
| Average | | | 38.92 |
| Standard Deviation | | | 7.37 |

*Source: Financial Reports of the Bank*

The table shows the decreasing trend of total investment to total deposit ratio from fiscal year 2004/05 to 2008/09. The ratio for the FY 2004/05 is 47.12%; it decreases to 41.10% in FY 2005/06. The ratio for the FY 2006/07 is 39.35%, slightly increases in fiscal year 2007/08 is 41.89% and again decreases to 25.12% in FY 2008/09. The bank has been able to invest its deposit on various securities but is not fully satisfactory. The average ratio is 38.92% and standard deviation is 7.37%.

**Figure 4.11**

**Total Investment to Total Deposit**



The above chart reveals the total investment and total deposit for the five fiscal years from 2004/05 to 2008/09. Fiscal year is represented by X-axis and amount represented by Y-axis.

**c. Loan and Advance to Fixed Deposit Ratio**

The table shows the loans and advances to fixed deposits ratio of the bank from FY 2004/05 to 2008/09.

**Table 4.13**

**Loan and Advances to Fixed Deposit Ratio**

(Rs. in million)

| Fiscal year | Loan and Advances | Fixed Deposit | Ratio % |
|---|---|---|---|
| 2004/05 | 13451.17 | 6107.43 | 220.24 |
| 2005/06 | 15761.98 | 6350.2 | 248.21 |
| 2006/07 | 17793.72 | 8201.13 | 216.97 |
| 2007/08 | 20179.61 | 6424 | 314.13 |
| 2008/09 | 25519.52 | 6377.13 | 400.17 |
| Average ||| 279.94 |
| Standard Deviation ||| 69.51 |

*Sources: Financial Report of the Bank*

Above table shows the loan and advances to fixed deposit ratio of the bank for five fiscal years. The ratio for the FY 2004/05 is 220.24% , it increases to 248.21% in FY 2005/06, slightly decreases in FY 2006/07 is 216.97% and again increases to 314.13% and 400.17% in FY 2007/08 and 2008/09.The average ratio for the study period is 279.94% and standard deviation is 69.51%.

**Figure 4.12**

**Loan and Advances to Fixed Deposit**
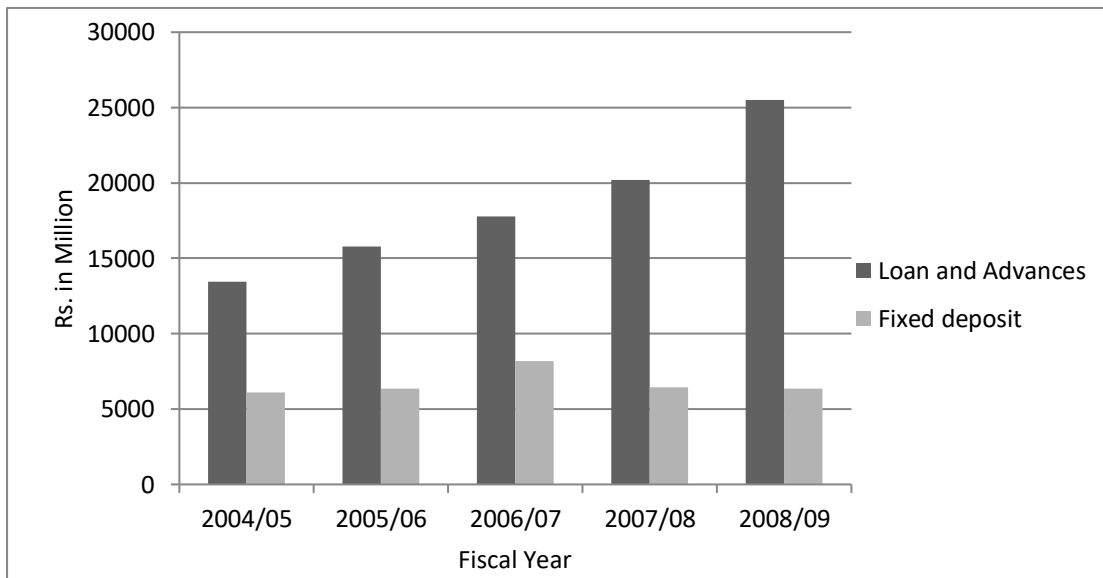
## 4.1.1.4 Debt Management Ratio and Solvency Ratio

## a. Debt to Total Asset Ratio

The ratio of total measures the percentage of the firm's assets financed by creditors. The table below shows debt to total assets ratio

**Table 4.14**
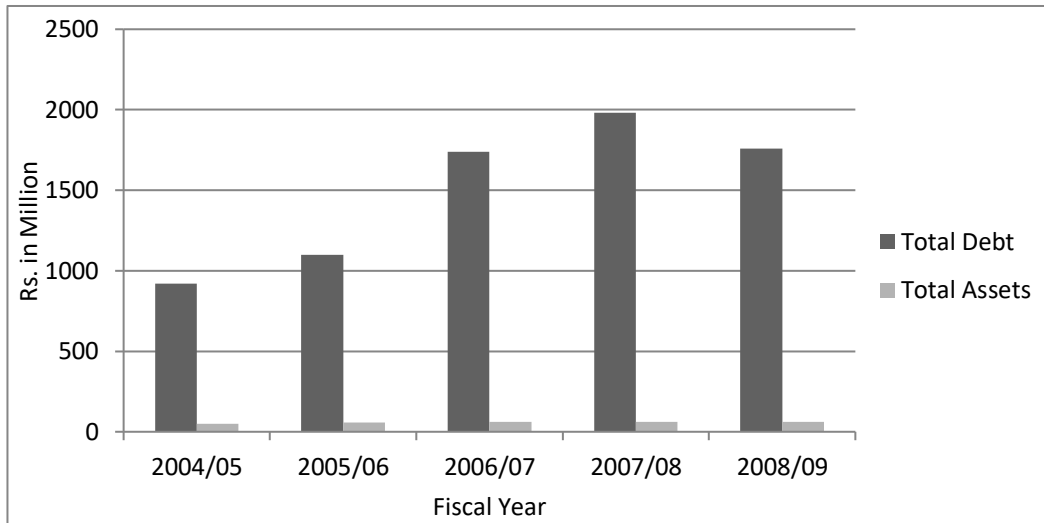
**Total Debt to Total Assets**

(Rs. in million)

| Fiscal Year | Total Debt | Total Assets | Ratio % |
|:---:|:---:|:---:|:---:|
| 2004/05 | 26302.95 | 28871.34 | 91.10 |
| 2005/06 | 27694.22 | 30579.81 | 90.56 |
| 2006/07 | 31372.64 | 34314.87 | 91.43 |
| 2007/08 | 33662.54 | 36857.62 | 91.33 |
| 2008/09 | 36200.44 | 40046.69 | 90.40 |
| Average | | | 90.96 |
| Standard Deviation | | | 0.41 |

*Source: Financial Reports of the Bank*

The ratio is 91.10% in FY 2004/05.There decreases the ratio in FY 2005/06 i.e. 90.56%. The ratio increased to 91.43% in FY 2006/07.The debt ratio is very high so creditors have supplied more than firm's total financing. It has decreased to 91.33% and 90.40% in FY 2007/08 and 2008/09.Lower ratio is preferable for a bank. The average ratio is 90.96% and standard deviation is 0.41%. HBL would find it difficult to borrow additional funds without first raising more equity capital. Creditors would lend more money to the firm and the management would probably subject the firm to the risk of bankruptcy if it sought to increase the debt ratio any further by borrowing additional funds.

**Figure 4.13**

**Total Debt to Total Assets**



It shows that total debt and total assets for the five fiscal years. X and Y-axis represents five fiscal year and amount respectively.

## b. Time Interest Earned (TIE) Ratio

The ratio is earned before interest taxes (EBIT) to interest charged. The table showing the ratio for five fiscal years.

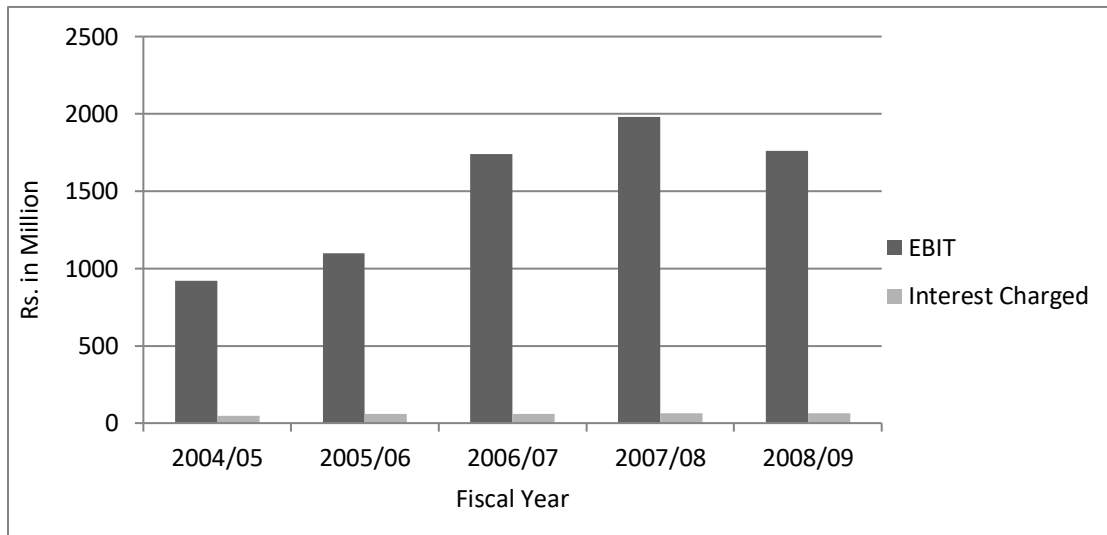**Table 4.15**

**Time Interest Earned (TIE) Ratio**

(Rs. in million)

| Fiscal Year | EBIT | Interest charged | Ratio % |
|:---:|:---:|:---:|:---:|
| 2004/05 | 1084.51 | 561.96 | 1.93 |
| 2005/06 | 1321.24 | 648.84 | 2.04 |
| 2006/07 | 1484.81 | 767.41 | 1.93 |
| 2007/08 | 1772.58 | 823.75 | 2.15 |
| 2008/09 | 2001.38 | 934.78 | 2.14 |
| Average | | | 2.04 |
| Standard Deviation | | | 0.096 |

In the year 2004/05 and 2006/07 the ratio shows of 1.93, which means the bank is covering its interest charges by relatively low margin of safety. Thus, the TIE ratio reinforces the conclusion based on the debt ratio, the bank would face some difficulties if it attempted to borrow additional funds. Similarly, in the year 2005/06, ratio is 2.04.In the year 2007/08 and 2008/09, ratios are 2.15 and 2.14.The average ratio is 2.04 and standard deviation is 0.096.

**Figure 4.14**

**EBIT and Interest Earned**



It shows that EBIT and interest charge. X-axis represents five fiscal years and Y-axis represents amounts.

**c. Debt to Equity Ratio**

The ratio can be found by dividing total liabilities by total owner's equity as below.

**Table 4.16**

**Debt to Equity Ratio**

(Rs. in million)

| Fiscal Year | Total Debt | Total Owner's Equity | Ratio % |
|---|---|---|---|
| 2004/05 | 26302.95 | 1541.75 | 1706.05 |
| 2005/06 | 27694.22 | 1766.18 | 1568.03 |
| 2006/07 | 31372.64 | 2146.5 | 1461.57 |
| 2007/08 | 33662.54 | 2512.99 | 1339.54 |
| 2008/09 | 36200.44 | 3119.88 | 1160.32 |
| Average | | | 1447.1 |
| Standard Deviation | | | 187.46 |

*Source: Financial Reports of the Bank*

The above table shows the debt to equity ratios from 2004/05 to 2008/09.The ratios are 1706.05, 1568.03, 1461.57, 1339.54, 1160.32 respectively. The ratios are decreasing position. The various researchers of the companies relying on their own equity are doing well and establishing a strong legacy. The average ratio is 1447.10% and standard deviation is 187.46% respectively.

**Figure 4.15**

**Total Liabilities and Total Owner's Equity**
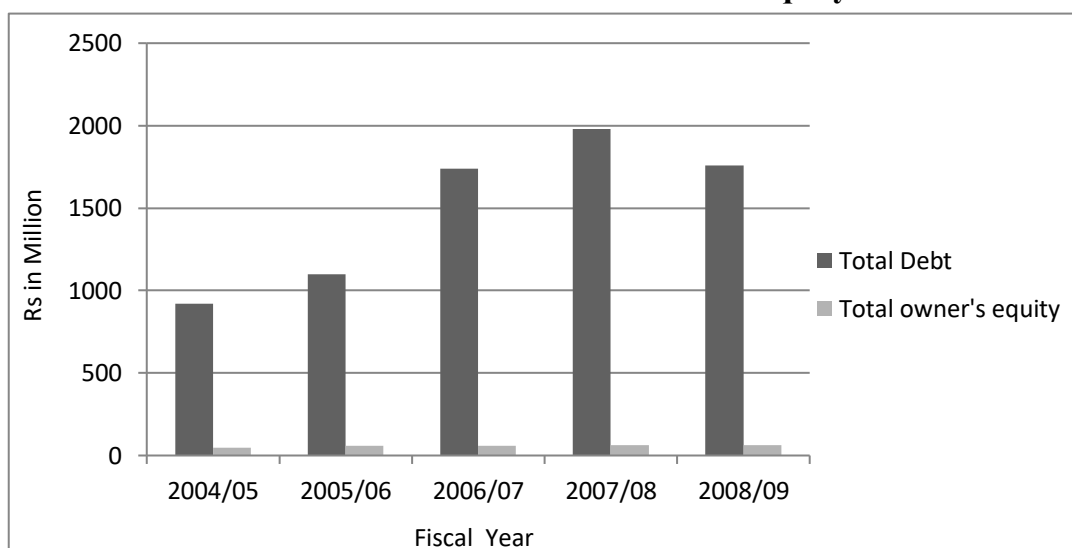
The above chart represents the amount of total liabilities and total owner's equity for five fiscal year.

### 4.1.1.5 Market Value Ratio

Following ratios are calculated under this ratio

### a. Price / Earnings Ratio

The ratio of the Market Price Per Share and Earning Per Share as below

**Table 4.17**

**Price / Earnings Ratio**

(Rs. in million)

| Fiscal year | MVPS | EPS | Ratio % |
|---|---|---|---|
| 2004/05 | 920 | 47.91 | 19.20 |
| 2005/06 | 1100 | 59.24 | 18.57 |
| 2006/07 | 1740 | 60.66 | 28.68 |
| 2007/08 | 1980 | 62.74 | 31.56 |
| 2008/09 | 1760 | 61.9 | 28.43 |
| Average | | | 25.29 |
| Standard Deviation | | | 5.35 |

*Source: Financial Reports of the Bank*

The table shows the Price / Earning ratio of five year period. In the year 2004/05, the P/E ratio shows 19.20%.Similarly, in the year 2005/06, 2006/07, 2007/08, 2008/09, the ratios are 18.57, 28.68, 31.56, and 28.43 respectively. The average of the P/E ratio is 25.29% and standard deviation is 5.35%.

**Figure 4.16**

**Market Value Per Share and Earning Per Share**
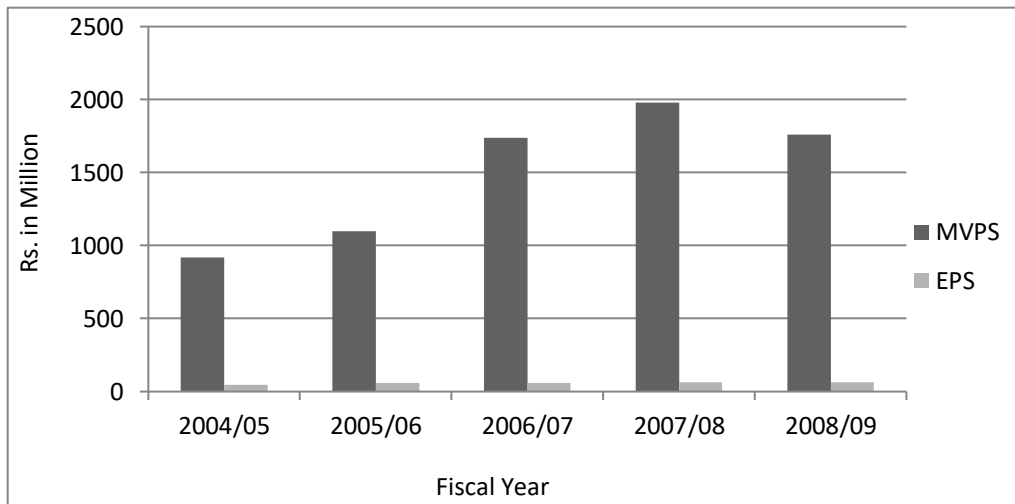


The above table shows the relationship between MVPS and EPS for the year 2004/05 to 2008/09.The MVPS is highest in the year 2007/08 and lowest in the year 2004/05.Similarly, EPS is highest in the year 2007/08 and lowest in the year 2004/05.

**b. Earning Per Share Ratio**

The ratio can be found by dividing earning per share by face value per share (FVPS).The table below shows the EPS ratio.

**Table 4.18**

**Earning Per Share**

| Fiscal Year | FVPS | EPS | Ratio % |
|---|---|---|---|
| 2004/05 | 100 | 47.91 | 47.91 |
| 2005/06 | 100 | 59.24 | 59.24 |
| 2006/07 | 100 | 60.66 | 60.66 |
| 2007/08 | 100 | 62.74 | 62.74 |
| 2008/09 | 100 | 61.9 | 61.90 |
| Average | | | 58.49 |
| Standard Deviation | | | 5.42 |

*Source: Financial Reports of the Bank*

The table shows the EPS ratio for five years. In the year 2004/05, the ratio shows 47.91%.It rises in FY 2007/08 and reaches to 59.24%. Again in FY 2006/07 and 2007/08, the ratio increases to 60.66% and 62.74%.Simlarly, in the year 2008/09, slightly decreases to 61.90% .The average ratio of the EPS is 58.49% and standard deviation is 5.42%.

**Figure 4.17**

**Earning Per Share**
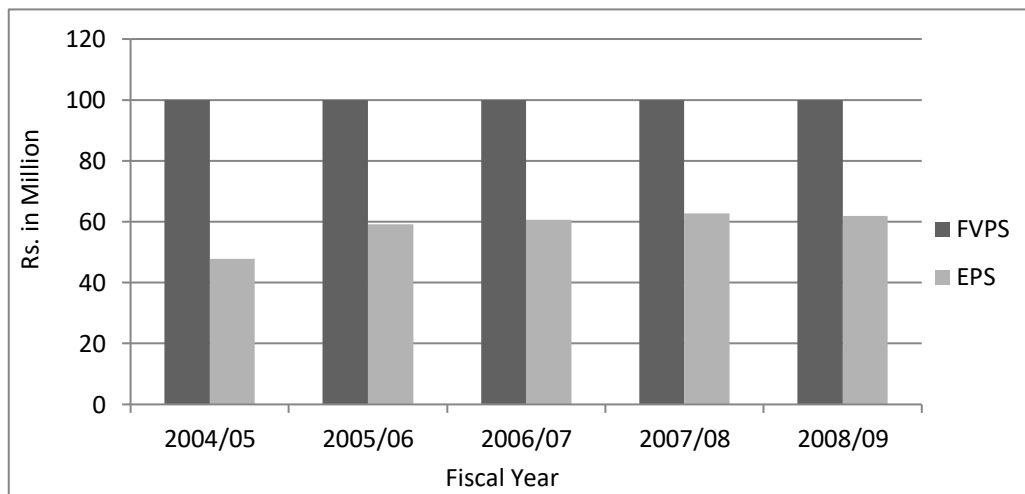


The above table shows the relationship between EPS and FVPS. The EPS is highest in the year 2007/08 and lowest in the year 2004/05.

## 4.2 Statistical Tools

### 4.2.1 Coefficient of Correlation Analysis

Under this chapter, Karl Pearson's Coefficient is used to find out the relationship between Total Investment and Total Deposit, Net profit and Total Deposit and Net profit and Total Assets and also the determination of Coefficient which is square of correlation is used and it is very much useful in interpreting the value of Correlation Coefficient. Similarly, Probability error of the Correlation Coefficient is applicable for the measurement of reliability of the computed value of the Correlation Coefficient 'r'.

The Probability error (P.E.) is defined by

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

Where, $r^2$ = Coefficient of determination

        n = Number of observations

## 4.2.1.1 Correlation Coefficient between Total Investment and Total Deposit

To run a bank successfully, it need to invest in different sectors like government securities, shares and debentures and NRB bond. To invest in these sectors, bank need fund which can be collected from the deposits of the bank, correlation coefficient between total investment and total deposit measures the degree of two variables. In this analysis, total investment (X) is independent variable and total deposit is dependent variable (Y). Its aim is to analyze whether the deposits are invested properly.

**Table 4.19**

**Correlation Coefficient between Total Investment and Total Deposit**

| Evaluation Criteria | Value of HBL |
|---|---|
| Karl Pearson's Coefficient of Correlation (r) | -0.33 |
| Coefficient of Determination ($r^2$) | 0.109 |
| Probable Error(P.E.) | 0.27 |
| 6 P.E | 1.62 |

*Source: Annex - 1*

Above table shows that the Correlation between total investment and total deposit (r) = -0.33, which shows that there is negative correlation between the two variables. In the same way the coefficient of determination is ($r^2$) = 0.109, which reveals dependent variable has been explained by independent variable. Hence, the two variable total investment and total deposits are said to be Negatively Correlated. The calculated value of r is comparing with 6 P.E. i.e. 1.62, the value of r is lower than 6 P.E. which reveals that there is nothing can be concluded the relationship between total investment and total deposit.

**4.1.1.2 Correlation Coefficient between Net profit and Total Deposit**

Net profit play important role in any organization for its survival for long period of time. Profit can be earned by investing the total deposit in the productive sector. So, total deposit is the main source of fund collected of the bank when there is increase in the total deposit. Correlation Coefficient relationship between net profit and total deposit measure the degree of two variables. In this analysis, net profit is independent variable (X) and total deposit is dependent variable (Y). Its aim is to analyze whether the deposits are invested in proper way to earn profit or not.

**Table 4.20**

**Correlation Coefficient between Net Profit and Total Deposit**

| Evaluation Criteria | Value of HBL |
|---------------------|--------------|
| Karl Pearson's Coefficient of Correlation (r) | 0.97 |
| Coefficient of Determination ($r^2$) | 0.94 |
| Probable Error(P.E.) | 0.018 |
| 6 P.E | 0.108 |

*Source: Annex - 2*

Above table shows the coefficient of correlation (r) = 0.97 which shows high degree of positive correlation between these two variables. Thus, deposit and profit is highly correlated with each other, not only that, it also shows that there is optimum utilization of deposit fund in the bank. Similarly, the value of coefficient of determination ($r^2$) is found 0.94 which shows 0.94 percent in the dependent variable has been explained by the independent variable.

The calculated value of r is comparing with 6 P.E., which reveals that there is highly significant relationship between net profit and total deposit.

**4.1.1.3 Correlation Coefficient between Net Profit and Total Assets**

To run a bank successfully, it need to have profit in different sectors. To get profit in these sectors one need to increase the total assets of bank. Correlation Coefficient between net profit and total assets measures the degree of two variables. In this analysis, Net profit (X) is independent variable and total asset (Y) is dependent variable. The main objective of this analysis is to find out whether total assets are invested in proper way to earn profit.

**Table 4.21**

**Correlation Coefficient between Net Profit and Total Assets**

| Evaluation Criteria | Value of HBL |
|---|---|
| Karl Pearson's Coefficient of Correlation (r) | 0.97 |
| Coefficient of Determination ($r^2$) | 0.94 |
| Probable Error(P.E.) | 0.018 |
| 6 P.E | 0.108 |

*Source: Annex - 3*

Above table shows correlation (r) = 0.97, it can be said that the high degree of positive correlation between net profit and total assets. Similarly, coefficient of determination ($r^2$) = 0.94 i.e. 94% which shows the dependent variable has been explained by the independent variable. Here, both values of net profit and total assets is in increasing trend so the relationship between two variables, net profit and total assets is highly and positively correlated.

The calculated value of r is comparing with 6 P.E., which reveals that there is highly significant relationship between net profit and total deposit.

**4.2.2 Trend Analysis**

Trend analysis is a method which is most widely used in practice. Various methods are used for trend analysis, out of which least square method is one of the popular method used in the study. In the present study, the tendency of total

deposit, net profit and EPS are examined during the observation period. And expected future results for three years have been calculated and analyzed. The projections are based on the following assumptions

- The main assumption is that other things will remain constant.
- The bank will run in the present position.
- The economy will remain in the present stage.
- The forecast will be true only when the limitation of least square method is carried out.

### 4.2.2.1 Trend Analysis of Total Deposit

Under this section, an effort has been made to calculate the trend value of deposit for five fiscal years from 2004/05 to 2006/07 and forecasted for next three years. The following table shows the both values.
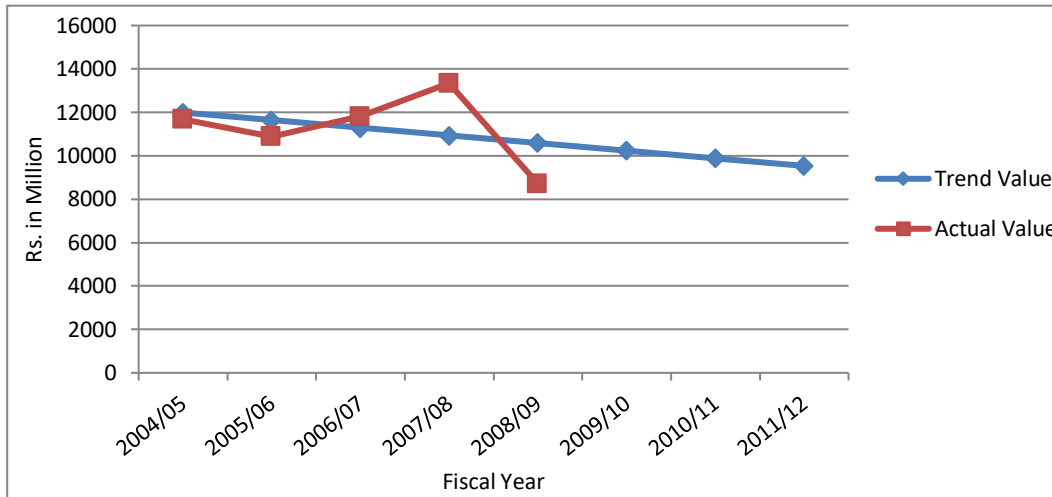
**Table 4.22**

**Trend Value of Total Deposit**

(Rs. in millions)

| Fiscal Year | Trend Value | Actual Value |
|:-----------:|:-----------:|:------------:|
| 2004/05 | 24558.16 | 24814.01 |
| 2005/06 | 27066.82 | 26490.85 |
| 2006/07 | 29575.48 | 30048.42 |
| 2007/08 | 32084.14 | 31842.79 |
| 2008/09 | 34592.8 | 34681.35 |
| 2009/10 | 37101.46 | |
| 2010/11 | 39610.12 | |
| 2011/12 | 42118.78 | |

*Source: Annex- 4*

From the above table, HBL's expected total deposit in FY 2009/10, 2010/11 and 2011/12 are expected to be Rs.37101.46 million. Rs. 39610.12 million and Rs.42118.78 million respectively.

**Figure 4.18**
**Trend Value of Total Deposit**



After analyzing the data, it can be concluded that total deposit of HBL has been increasing every year. The above graph shows that the actual and trend value of HBL is also is in increasing trend. Therefore, HBL must follow some new schemes to increase their deposit and mobilize them in some income generating activities.

### 4.2.2.2 Trend Analysis of Net Profit

Under this section, the trend values of net profit have been calculated for five year from 2004/05 to 2008/09 and forecasted for next three years up to 2011/12.
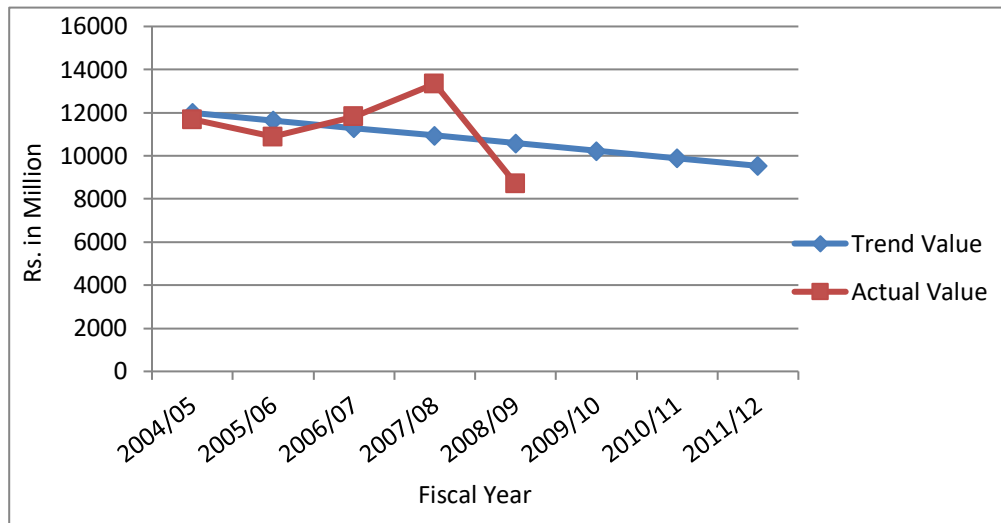
**Table 4.23**
**Trend Value of Net Profit**

(Rs. in million)

| Fiscal Year | Trend Value | Actual Value |
|-------------|-------------|--------------|
| 2004/05 | 315.75 | 308 |
| 2005/06 | 422.5 | 457.46 |
| 2006/07 | 529.25 | 491.82 |
| 2007/08 | 636 | 635.87 |
| 2008/09 | 742.76 | 752.84 |
| 2009/10 | 849.5 | |
| 2010/11 | 956.25 | |
| 2011/12 | 1063 | |

*Source: Annex - 5*

From the above table, HBL's expected net profit is FY 2009/10, 2010/11 and 2011/12 are expected to be Rs. 849.50 million, Rs.956.25 million and Rs.1063 million respectively.

**Figure 4.19**

**Trend Value of Net Profit**



After analyzing the data, it can be concluded that the net profit of HBL has been increasing every year. The above graph shows that the actual and trend value of HBL is also increasing trend. The rate of change of HBL is positive.

### 4.2.2.3 Trend Analysis of Earning Per Share

Under this section, trend values of earning per share have been calculated for five fiscal years from 2004/05 to 2008/09 and forecasted for next three years up to 2011/12.

**Table 4.24**

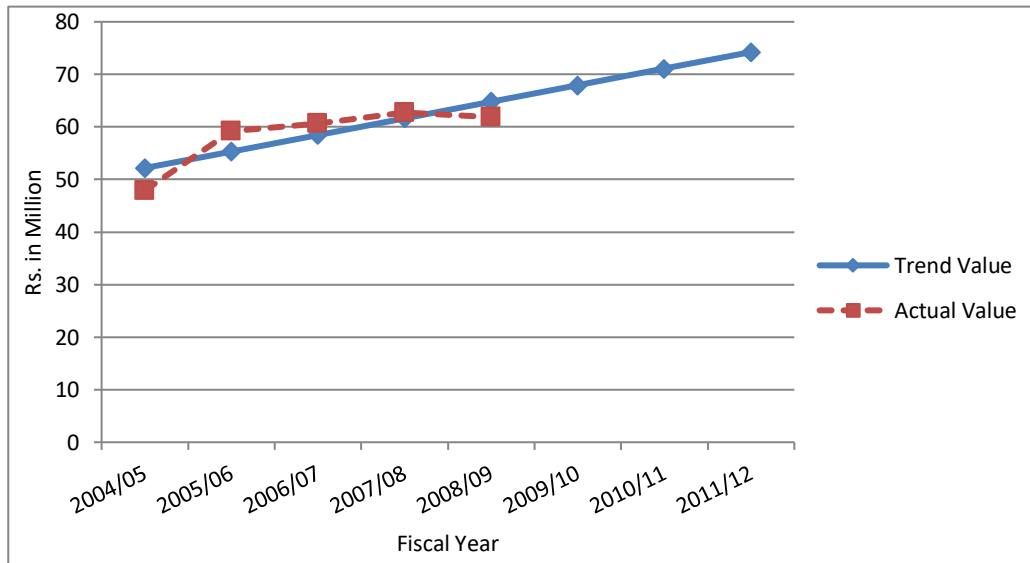**Trend Value of Earning Per Share**

(Rs. in million)

| Fiscal Year | Trend Value | Actual Value |
|:---:|:---:|:---:|
| 2004/05 | 52.19 | 47.91 |
| 2005/06 | 55.34 | 59.24 |
| 2006/07 | 58.49 | 60.66 |
| 2007/08 | 61.64 | 62.74 |
| 2008/09 | 64.79 | 61.9 |
| 2009/10 | 67.94 | |
| 2010/11 | 71.09 | |
| 2011/12 | 74.24 | |

*Source: Annex- 6*

From the above table, HBL's expected EPS in FY 2009/10, 2010/11, 2011/12 are expected to be Rs. 67.94 million, Rs. 71.09 million and 74.24 million respectively.

**Figure 4.20**

**Trend Value of Earning Per Share**



According to the above graph, the increasing trend of earning per share of HBL is observed. Both actual and trend values are increasing each year.

## 4.3 Major Findings of the Study

Based on the analysis of data of HBL, the main findings are:

**Liquidity Ratio**

It is found that the bank is able to maintain liquidity position to meet the daily cash requirement or meet its short-term. It is strong from the liquidity element. It suggest that HBL is sound in this regards. So, it is clear that working capital is in increasing trend.

**Profitability Ratio**

The basic earning power of the bank is in increasing trend which shows the net income of the bank has been increasing in every year. This shows the ratio is in satisfactory level.

The ROA is in increasing trend till 2005/06, but then after slightly decreases in 2006/07 and again increasing trend in every year which shows that HBL is efficient enough in utilizing its assets to more operating profit.

The ROE is in increasing trend till FY 2007/08, but then after it slightly decreases which shows that HBL is not operating efficiency.

Net income to total deposit ratio has been increasing till FY 2005/06, then slightly decreases in FY 2006/07 and again increases in 2007/08 and 2008/09 which shows that HBL is efficient enough mobilize its deposit to more profits

**Turnover Ratio**

Bank has strong position regarding the mobilization of total deposit as loan and advances. Though there is little fluctuation in the ratio, it has increased more in the year 2007/08.Total investment to total deposit ratio has been decreasing in every year.

The bank has been able to make investment on various securities and investments bear less risk as compared to loan and advances. Hence, the bank seems to be successful in making investment in profitable sectors than loan and advances. HBL is more utilizing the investment.

**Debt Management Ratio and Solvency Ratio**

The debt ratio of the bank is very high which is not preferable. Creditors would be reluctant to lend more money; the management would probably be subjecting the firm to the risk of bankruptcy if it sought to increase debt ratio any further by borrowing additional funds. The bank is covering its interest charges by a relatively high margin of safety. Debt to equity ratio is relatively low , which means liabilities are high and the companies relying on their own equity are doing well and established a strong legacy.

These ratios of the bank are not very satisfactory because they are relying mainly on borrowed funds.

**Market Value Ratio**

Price Earning Ratio of the bank is in increasing trend till FY 2007/08, but then after it decreases which shows is not good financial position of HBL.

Earning Per Share of the bank is in increasing trend till FY 2007/08, but then after slightly decreases. There is low fluctuation, which shows position is not better in the market. The bank seems to be successful in the market to increases the value of the firm.

**Statistical Analysis**

Correlation of Coefficient between investment and deposit found that it is negative of bank, which indicates that to invest its deposit on various securities. Correlation

of Coefficient between net profit and total deposit of the bank is also found that it is positive and it is directly related to the deposit.

Correlation of Coefficient between net profit and total assets of HBL is also positive and its directly related to the assets.

# CHAPTER – V

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is very important for the research, because this chapter deals with the previously discussed chapters in brief. It primarily consists of three parts: summary, conclusion and recommendations. Summary includes the summary of all the chapters. In conclusion the results of the whole research is summed up and in recommendation, suggestions and recommendations are made based on the result and experience of the thesis. Recommendations are made for improving the present situations to the concerned parties.

## 5.1 Summary

A bank is a financial institution which deals with money by accepting various types of deposits, loans and rendering other financial services. To the greater extent economic growth rate is based on the banks and other financial institution's performance in an economy. Money researchers have proved that banks and economic conditions are two wheels of the same chariot. Now a days banking activities are spreading all over the world. Up to 2010 there are 29 commercial banks operating in Nepal licensed by NRB. Besides there are few other development banks in the process of operation and few commercial banks are emerging. This has led the country to the intense competition in the banking system. Only those banks providing better services and having a greater profit margin would survive in the long-run.

The primary objective of this study is to highlight the hidden implications of the financial figures portrayed in the balance sheet and other financial data of HBL. This analysis also helps to provide a package of suggestions and possible guidelines to improve the banking operation in order to maximize the value of its share holders based on the findings of the study.

The researchers have identified the research problems of the joint venture bank then the objectives which are determined on the basis of research problem. Related literatures are reviewed on the basis of purposive study. Then the data have been collected from the different available sources and research materials. The analysis of the data had been done according to the available data and the objectives of the study. The analysis and interpretation of data has been done by applying the wide varieties of methodology as stated in earlier chapter. In this study, the objectives, functions and policies of Himalayan Bank have been emphasized and analyzed the financial performance of the bank.

This study is about the financial performance of Himalayan Bank based on its financial data of fiscal years from 2004/05 to 2008/09.By using financial and statistical tool, the overall financial performance of the bank has been tried to analyze. Correlation analysis helps to establish the relationship between two variables which can be useful to know how are variable affect the another variable. Likewise, trend analysis is used to find out the trend of some very important elements like Total Deposit, Net Profit and Earning Per Share.

Himalayan Bank Limited is a joint venture bank that was established after the restoration of multi-party democracy. HBL is playing important role in upgrading the Nepal's economy. This is one of the leading commercial bank of Nepal and it covers a significant market. Himalayan Bank provides a fall range of service throughout the country. The bank has maintained itself a very reputed joint venture commercial bank currently operating in Nepal. At the same time the bank is facing competition with other commercial banks in Nepal. So the bank must have best financial performance in order to maintain its reputation in the future as well.

## 5.2 Conclusion

Liquidity position of the bank is satisfactory. The current ratio of the bank of five fiscal years is 1.08 times in an average. It indicates the margin of safety is going to be maintained in satisfactory. The average of the cash and bank balance to current assets ratio is 5.96 percent which indicates that the cash and bank balance proportion with respect to the current assets is moderate. The ratio of loan and advance to current assets revealed that more than 54.70 percent of current assets have been lent to the customers as loan advances. The average of cash and bank balance to total deposit ratios is 6.76 percent. The ratio of fixed deposit to total deposit is 22.89 percent. The result of the analysis indicates that the share of fixed deposit is quite high in the total deposit which may be termed as factorable one from viewpoint of liquidity. Low liquidity position shows that the current assets utilized in some profit generating sector. The bank must seriously think maintaining enough liquid assets to pay short term obligation.

This basic earning power of the bank is low, the total assets is in increasing trend and the net income is in increasing in every subsequent year which indicates the ability of the firm's assets to generate operating income is growing. The average ratio is 4.44 percent. ROA shows the management's capability to generate profit on using assets and it is in increasing in every year. Return in common equity during the fiscal year is dramatically increased. A higher ROE ratio shows better operating efficiency of a firm.Net income to total deposit ratio is 1.76 percent and it can be analyzed that the bank has not been able to mobilize the deposit to its fullest or generate income from mobilized fund in satisfactory way.

The ratio, loan and advance reveal the percentage of total deposit that has been utilized on loan and advances and it is in increasing trend during the five years of period averaging 61.98 percent and it can be analyzed that the bank is efficiently utilizing the outsider's fund in extending credit for profit generating sectors. The

total investments and total deposit ratio is averaging 38.92 percent, the bank has been able to invest its deposit on various securities. The loan and advance to fixed deposit ratio is averaging 279.94 percent and its in increasing trend.

The total debt ratio is very high which reveals the creditors have invested more in the bank than the others. Creditors have the dominant role in the bank. HBL would find it difficult to borrow additional funds without first raising more equity capital. Creditors would be reluctant to lend the firm to the risk of bankruptcy if it sought to increase the debt ratio any further by borrowing additional funds. The ratio of time interest earned in 2.04.Debt to equity ratios of the bank is not satisfactory because they are relying mainly on borrowed firm. The average of price earning ratio is 25.29. It is the ratio for which rupee amount investors will pay for Rs. 1 current earning.EPS is in increasing trend during the period and reached to 61.90 percent in FY 2008/09.EPS is the total amount earned by a share during a year and higher EPS indicates a firm's better position.

The result of Karl Pearson's Coefficient of correlation shows the negative relationship between total investment and total deposit of the bank. It means there is insignificant relationship of the two variables. There is high degree of positive correlation coefficient between Net profit and total deposit. Likewise, coefficient of correlation show the high positive relationship between Net profit and total assets.

The trend analysis conducted in terms of Total Deposit, Net Profit and Earning per Share. It shows that the growth rate of the bank is relatively high in terms of Total Deposit, Net Profit and EPS.

Eventually, the bank really becoming one of the greatest pillar for ameliorating the country's economy in terms of regulating vast array of money and the country also

give precedence to thrive the different categories of banks especially making the commercial banks cynosure together with the bank itself ensuring profitable exercises.

## 5.3 Recommendations

There are still many things for Himalayan Bank Limited to take into account for its better financial performances and here suggesting some of ideas and notions if bank really want to improve its network.

- Most of the, transactions the bank is performing related to loans which may push to failure if loan can't be recaptured, therefore the preference should go less precarious areas of investments. The good practice for a bank will be managing low interest rate, if it is inclined to provide loan, so that borrower can pay in time.

- The facilities and the way of managing financial activities for a bank are very similar comparing to other commercial banks so the bank, for it distinction is supposed to conduct differently the performances with many fascinating schemes.

- The credits worthiness of debtors must be evaluated well before granting them loans.

- The bank should diversify the sectors of deposit mobilization since it is not in effective way.

- Most of the banks are in urban areas only, so to gain the fidelity of the people living in rural areas, the bank is  supposed to broach up its branches there.

- The bank should try to collect more non-interest bearing deposits.

- Before granting loans and advances to the customers, the bank is required to go for detail analysis of purposes of loan, sources of payment of loans and fixing the duration of paying loan etc.

- The bank is suggested to increase its Return on Assets and Return on Equity.

- Since, earning per share which indicates the financial performances of any bank, for Himalayan Bank is not so good so it is recommended to bring new ideas and strategies to make EPS better so that it can attracts the investors.

- The bank should avoid weakness by applying appropriate financial policy and its co-ordination with NRB and other banks.

# ANNEXURE

## Annex -1

## Correlation between Total Investment and Total Deposit

Rs. in million

| Total Investment (X) | Total Deposit (Y) | dX= X-11822.99 | Dy= Y-30048.42 | dX² | dY² | dXdY |
|---|---|---|---|---|---|---|
| 11692.34 | 24814.01 | -130.65 | -5234.41 | 17069.4225 | 27399048.05 | 683875.6665 |
| 10889.03 | 26490.85 | -933.96 | -3557.57 | 872281.2816 | 12656304.3 | 3322628.077 |
| 11822.99 | 30048.42 | 0 | 0 | 0 | 0 | 0 |
| 13340.18 | 31842.79 | 1517.19 | 1794.37 | 2301865.496 | 3219763.697 | 2722400.22 |
| 8710.69 | 34681.35 | -3112.3 | 4632.93 | 9686411.29 | 21464040.38 | -14419068.04 |
| | | $\sum dX=$ -2659.72 | $\sum dY=$ -2364.68 | $\sum dX^2=$ 12877627.49 | $\sum dY^2=$ 64739156.43 | $\sum dXdY=$ -7690164.07 |

$$r = \frac{N\Sigma dxdy - (\Sigma dx)(\Sigma dy)}{\sqrt{N\Sigma dx^2 - (\Sigma dx^2)}\ \sqrt{N\Sigma dy^2 - (\Sigma dy^2)}}$$

$$= \frac{5\times(-7690164.07)-(-2659.72)(-2364.68)}{\sqrt{5\times12877627.49-(-2659.72)^2}\ \sqrt{5\times64739156.43-(-2364.68)^2}}$$

$$= \frac{-44740207.04}{7570.60\times17835.47}$$

$$= \frac{-44740207.04}{135025209.2} \quad = \text{-0.33}$$

$r^2 = (-0.33)^2$

$\quad = 0.19$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{\mathbb{N}}}$$

$$= 0.6745 \times \frac{1-0.19}{\sqrt{5}}$$

$$= 0.6745 \times 0.40 = 0.27$$

$6 \times \text{P.E.} = 6 \times 0.27$

$$= 1.62$$

**Annex - 2**

**Correlation Coefficient between Net Profit and Total Deposit**

Rs. in million

| Total Investment (X) | Total Deposit (Y) | dX= X-491.82 | Dy= Y-30048.42 | dX² | dY² | dXdY |
|---|---|---|---|---|---|---|
| 308.28 | 24814.01 | -183.54 | -5234.41 | 33686.9316 | 27399048.05 | 960723.6114 |
| 457.46 | 26490.85 | -34.36 | -3557.57 | 1180.6096 | 12656304.3 | 122238.1052 |
| 491.82 | 30048.42 | 0 | 0 | 0 | 0 | 0 |
| 635.87 | 31842.79 | 144.05 | 1794.37 | 20750.4025 | 3219763.697 | 258478.9985 |
| 752.84 | 34681.35 | 261.02 | 4632.93 | 68131.4404 | 21464040.38 | 1209287.389 |
| | | ∑dX= -187.17 | ∑dY= -2364.68 | ∑dX²= 123749.38 | ∑dY²= 64739156.43 | ∑dXdY= -2550728.11 |

$$r = \frac{N\Sigma dxdy - (\Sigma dx)(\Sigma dy)}{\sqrt{\mathbb{N}\Sigma dx^2 - (\Sigma dx^2)}\sqrt{\mathbb{N}\Sigma dy^2 - (\Sigma dy^2)}}$$

$$= \frac{5 \times 2550728.11 - 187.17 \times (-2364.68)}{\sqrt{5 \times 123749.38 - (187.17)^2}\sqrt{5 \times 64739156.43 - (-2364.68)^2}}$$

$$= \frac{13196237.71}{764.01 \times 17835.47}$$

$$= \frac{13196237.71}{13626477.43} = 0.97$$

$$r^2 = (0.97)^2$$

$$= 0.94$$

$$\text{P.E.} = 0.6745 \times \frac{1-r^2}{\sqrt{\mathbb{N}}}$$

$$= 0.6745 \times \frac{1-0.94}{\sqrt{5}}$$

$$= 0.6745 \times 0.0268 = 0.018$$

$$6 \times \text{P.E.} = 6 \times 0.018$$

$$= 0.108$$

**Annex - 3**

**Correlation Coefficient between Net Profit and Total Assets**

Rs. in million

| Total Investment (X) | Total Deposit (Y) | dX= X- 491.82 | Dy= Y- 34314.87 | dX² | dY² | dXdY |
|---|---|---|---|---|---|---|
| 308.28 | 28871.34 | -183.54 | -5443.53 | 33686.9316 | 29632018.86 | 999105.4962 |
| 457.49 | 30579.81 | -34.36 | -3735.06 | 1180.6096 | 13950673.2 | 128336.6616 |
| 491.82 | 34314.87 | 0 | 0 | 0 | 0 | 0 |
| 635.87 | 36857.62 | 144.05 | 2542.75 | 20750.4025 | 6465577.563 | 366283.1375 |
| 752.84 | 40046.69 | 261.02 | 5731.82 | 68131.4404 | 32853760.51 | 1496119.656 |
| | | ∑dX= 187.17 | ∑dY= -904.02 | ∑dX²= 123749.38 | ∑dY²= 82902030.13 | ∑dXdY= 2989844.96 |

$$r = \frac{\mathbb{N}\Sigma dxdy - (\Sigma dx)(\Sigma dy)}{\sqrt{\mathbb{N}\Sigma dx^2 - (\Sigma dx^2)}\sqrt{\mathbb{N}\Sigma dy^2 - (\Sigma dy^2)}}$$

$$= \frac{5 \times 2989844.96 - 187.17 \times (-904.02)}{\sqrt{5 \times 123749.38 - (187.17)^2}\sqrt{5 \times 82902030.13 - (-904.02)^2}}$$

$$= \frac{15118430.22}{764.01 \times 20339.44}$$

$$= \frac{15118430.22}{15539535.55} = 0.97$$

$$r^2 = (0.97)^2$$
$$= 0.94$$

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{\mathbb{N}}}$$

$$= 0.6745 \times \frac{1-0.94}{\sqrt{5}}$$

$$= 0.6745 \times 0.0268 = 0.018$$

$$6 \times P.E. = 6 \times 0.018 = 0.108$$

**Trend value of Total Deposit**

Rs. in million

| Year (X) | Total Deposit (Y) | X= x-2006/07 | $X^2$ | XY | Y= a+bx |
|---|---|---|---|---|---|
| 2004/05 | 24814.01 | -2 | 4 | -49628.02 | 24558.16 |
| 2005/06 | 26490.85 | -1 | 1 | -26490.85 | 27066.82 |
| 2006/07 | 30048.42 | 0 | 0 | 0 | 29575.48 |
| 2007/08 | 31842.79 | 1 | 1 | 31842.79 | 32084.14 |
| 2008/09 | 34681.35 | 2 | 4 | 69362.7 | 34592.8 |
| | $\sum y=147877.42$ | $\sum x=0$ | $\sum x^2=10$ | $\sum Xy=25086.62$ | |

Calculation of a and b value.

We know, the straight line trend is given by the following formula,

Y = a + bx …………………….. (i)

Where, Y = Value of Total Deposit

a = Total Deposit

b = Rate of change of Total Deposit

x = Time in year

$a = \frac{\Sigma y}{n} = \frac{147877.42}{5} = 29575.48$

$b = \frac{\Sigma Xy}{\Sigma X^2} = \frac{25086.62}{10} = 2508.66$

Putting the value of a and b in equation (i)

Y = 29575.48 + 2508.66x

If x = 2004/05 then,

Y = 29575.48 + (2508.66) × (-2)

= 24558.16

If x = 2005/06 then,

Y = 29575.48 + (2508.66) × (-1)

= 27066.82


If x = 2006/07 then,

Y = 29575.48 + 2508.66 × 0

= 29575.48


If x = 2007/08 then,

Y = 29575.48 + 2508.66 × 1

= 32084.14


If x = 2008/09 then,

Y = 29575.48 + 2508.66 × 2

= 34592.8


If x = 2009/10 then,

Y = 29575.48 + 2508.66 × 3

= 37101.46


If x = 2010/11 then,

Y = 29575.48 + 2508.66 × 4

= 39610.12


Finally if x = 2011/12 then,

Y = 29575.48 + 2508.66 × 5

= 42118.78

## Trend value of Net Profit

Rs. in million

| Year (X) | Total Deposit (Y) | X= x-2006/07 | $X^2$ | XY | Y= a+bx |
|----------|-------------------|--------------|-------|------|---------|
| 2004/05 | 308.28 | -2 | 4 | -616.56 | 315.75 |
| 2005/06 | 457.46 | -1 | 1 | -457.46 | 422.5 |
| 2006/07 | 491.82 | 0 | 0 | 0 | 529.25 |
| 2007/08 | 635.87 | 1 | 1 | 635.87 | 636 |
| 2008/09 | 752.84 | 2 | 4 | 1505.68 | 742.76 |
| | $\sum y=2646.27$ | $\sum x=0$ | $\sum x^2=10$ | $\sum Xy=1067.53$ | |

Calculation of a and b value

We know, the straight line trend is given by the following formula

$Y = a + bx$…………………….. (i)

Where, Y = Values of Net Profit

a = Net Profit

b = Rate of change of Net Profit

x = Time in year

$a = \frac{\Sigma y}{n} = \frac{2646.27}{5} = 529.25$

$b = \frac{\Sigma Xy}{\Sigma X^2} = \frac{1067.53}{10} = 106.75$

Put the value of a and b in equation (i)

$Y = 529.25 + 106.75x$

If x = 2005/06 then,

$Y = 529.25 + (-106.75) \times (-1)$

$= 4225$

If x = 2006/07 then,

$$Y = 529.25 + 106.75 \times 0$$

$$= 529.25$$

If x = 2007/08 then,

$$Y = 529.25 + 106.75 \times 1$$

$$= 636$$

If x = 2008/09 then,

$$Y = 529.25 + 106.75 \times 2$$

$$= 742.75$$

If x = 2009/10 then,

$$Y = 529.25 + 106.75 \times 3 =$$

$$= 849.5$$

If x = 2010/11 then,

$$Y = 529.25 + 106.75 \times 4$$

$$= 956.25$$

If x = 2011/12 then,

$$Y = 529.25 + 106.75 \times 5$$

$$= 1063$$

## Annex- 6

## Trend Value of Earning Per Share

Rs. in million

| Year (X) | Total Deposit (Y) | X= x-2006/07 | $X^2$ | XY | Y= a+bx |
|---|---|---|---|---|---|
| 2004/05 | 47.91 | -2 | 4 | -95.82 | 52.19 |
| 2005/06 | 59.24 | -1 | 1 | -59.24 | 55.34 |
| 2006/07 | 60.66 | 0 | 0 | 0 | 58.49 |
| 2007/08 | 62.74 | 1 | 1 | 62.74 | 61.64 |
| 2008/09 | 61.9 | 2 | 4 | 123.8 | 64.79 |
| | $\sum y=292.45$ | $\sum x=0$ | $\sum x^2=10$ | $\sum Xy=31.48$ | |

Calculation of a and b value

We know, the straight line trend is given by the following formula

Y = a + bx………………………….. (i)

Where, Y = Value of EPS

a = EPS

b = Rate of change of EPS

x = Time in year

$a = \dfrac{\Sigma y}{n} = \dfrac{292.45}{5} = 58.49$

$b = \dfrac{\Sigma Xy}{\Sigma X^2} = \dfrac{31.48}{10} = 3.15$

Put the value of a and b in equation (i)

Y = 58.49 + 3.15x

If x = 2005/06 then,

Y = 58.49 + (3.15) × (-1)

= 55.34

If x = 2006/07 then,

$Y = 58.49 + 3.15 \times 0$

$= 58.49$

If x = 2007/08 then,

$Y = 58.49 + 3.15 \times 1$

$= 61.64$

If x = 2008/09 then,

$Y = 58.49 + 3.15 \times 2$

$= 64.79$

If x = 2009/10 then,

$Y = 58.49 + 3.15 \times 3$

$= 67.94$

If x = 2010/11 then,

$Y = 58.49 + 3.15 \times 4$

$= 71.09$

If x = 2011/12 then,

$Y = 58.49 + 3.15 \times 5$

$= 74.24$

# BIBLIOGRAPHY

**Books:**

American Institution of Banking (1972), *"Principles of Banking Operation",* New Delhi: Prentice Hall.

Copland, T.E. & Weston, J.F. (1992), *"Management Finance",* USA: A Hard-Court Brace Jovanovich College Publisher.

Cottler Read & Smith Gill (2006), *"Commercial Banking"*, New Jersey: Prentice Hall Inc. Eaglewood Cliffs.

Foster, G. (2002), *"Financial Statement Analysis",* Singapore: Pearson Education.

Khan & Jain (1999), *"Financial Management",* New Delhi: Prentice Hall.

Kothari, C.R. (1994), *"Research Methodology",* New Delhi: Vikash Prakashan.

Munakarmi, S.P. (2003), *"Management Accounting"*, Kathmandu: Buddha Academics Publisher and Distributor Pvt. Ltd.

Pandey, I.M. (1997), *"Financial Management"*, New Delhi: Vikash Publishing House.

Pradhan, S.M. (2000), *"Basics of Financial Management",* Kathmandu: Educational Enterprise (P) Ltd.

Shrestha, K.N. (2056), *"Statistics and Quantitative Techniques for Management".* Kathmandu: Valley Publisher.

Van Horne, J.C. & Wachowics, J.M. (1997)*, "Fundamental of Financial Management",* New Delhi: Prentice Hall of India Pvt. Ltd.

Van Horne, J.C. (2002), *"Financial Management and Policy",* India: Prentice Hall.

Weston, J.F. & Brigham, E.F. (1999), *"Managerial Finance"*, USA: The Dryden Press. Hard-Court Brace College Publishers.

Weston, J.F., Basley, S. & Brigham, E.F. (1996), *"Essential Managerial Finance",* USA: The Dryden Press. Hard-Court Brace College Publishers.

**Journals and Articles:**

Boyd, J.H. & Nicolo, G.D. (2005), *"The Theory of Bank Risk Taking and Competition Revisited"*, Journal of Finance, New York: Publication of American Finance, Association, 60(3): 1329.

Diamond, D.W. & Rajan, R.G. (2005),*"Liquidity Shortage and Banking Criese"* Journal of Finance, New York: Publication of American Finance Association, 60(2): 615.

Krishna, C.N.V., Ritchken, P.H & Thomson, J.B. (2005), *"Monitoring and Controlling Bank Risk: Does Risky Debt Help?"*. Journal of Finance, New York: Publication of American Finance Association, 60(1): 343.

Poudel, B.S. (1998), *"Banking Challenges Ahead"*. Journal of Finance, Kathmandu: Published in Nepal Rastra Bank, March 31st : 41.

Poudel, N.P. (2063), *"Financial Statement Analysis"*, Journal of Finance, Kathmandu: Published in Nepal Rastra Bank March, 31st : 51.

Pradhan, S.M. (2006), *"Opportunities and Challenges on WTO Accession in Insurance and Banking and Financial Service in Nepal"*, World Trade Organization and Financial Services in Nepal, Kathmandu: Nepal Rastra Bank Publication, March, 31st : 61.


**Reports:**

Himalayan Bank Limited (2004-2009), *"Annual Report"*, Kathmandu.

Nepal Rastra Bank (2009)*, "NRB News"*, Kathmandu: NRB.


**Thesis:**

Adhikari, P. (2008), *"A Comparative Study of Financial Performance of NSBIBL and EBL".* Kathmandu: Shanker Dev Campus, T.U.

Dangi, R.K. (2008), *"A Comparative Study of Financial Performance of SCBNL, NABIL and HBL".* Kathmandu: Shaker Dev Campus, T.U.

Dangol, M. (2004), *"Financial Performance Analysis of Nepal Credit and Commerce Bank Limited".* Kathmandu: Shanker Dev Campus, T.U.

Darshandhari, A. (2005), *"Financial Performance Analysis of EBL".* Kathmandu: Shanker Dev Campus, T.U.

K.C., U. (2006), *"Comparative Study of Financial Performance between Everest Bank Limited and Bank of Kathmandu Limited".* Kathmandu: Shanker Dev Campus, T.U.

Luintel, N.K. (2003), *"A study on Financial Performance of Nepal Bank Limited".* Kathmandu: Shanker Dev Campus, T.U.

Poudel, S.R. (2002), *"Financial Performance Analysis of EBL".* Kathmandu: Shaker Dev Campus, T.U.

Rai, B. (2009), *"A Comparative Study on Financial Performance between the Commercial Banks".* Kathmandu: Shanker Dev Campus, T.U.

Regmi, G.R. (2007), *"A Comparative Study of the Financial Performance of HBL and NBBL".* Kathmandu: Shanker Dev Campus, T.U.

**Website:**

www.himalayanbank.com  (Bhadra, 2067 B.S.)

www.nrb.org.np/Directives (Ashwin, 2067 B.S.)