CHAPTER-I

INTRODUCTION

1.1 Background of the study:-

Nepal is a small country with is of 1, 47,181 square kilometer. Nepal is landlocked country surrounded by mountains. Nepal is a country in Southern Asian, bounded on the North by the Tibetan autonomous region in China & on the East, South & West by India. Nepal covers about 0.03% and 0.3% area of the World and Asia respectively. Nepal is a mountainous country where highest peak of the world is located. Hence it is popularly known as third pole. The Nepal has agriculture oriented economy with around US$300 per capita income developing country it s on the path of economic growth with its various topography and climate, Nepal is rich in biodiversity. It is also the birth place of Lord Buddha.

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

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

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

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

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

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

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

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

After the introduction of liberal economic policy adopted by NRB, of Nepal it has provided an opportunity for the banking institution to grow rapidly. As a result different joint venture bank and financial institutions were established rapidly and "now there are licensed 20 commercial banks in the country as of mid July 2007.

1.2 Origin of banking system:-

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

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

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

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

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

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

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

1.3 Development of banking system in Nepal:-

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

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

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

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

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

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

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

Today, we have got 20 commercial banks in operation in Mid July 2007:

Table No. 1.1

List of Licensed Commercial Banks

S.No	Commercial Banks	Established Date (B.S.)	Operation Date (B.S.)	Head Office
1.	Nepal Bank Ltd.	1994/07/30	1994/07/30	Kathmandu
2.	Rastriya Banijya Bank Ltd.	2022/10/10	2022/10/10	Kathmandu
3.	NABIL Bank Ltd.	2041/03/29	2041/03/29	Kathmandu
4.	Nepal Investment Bank Ltd.	2042/11/16	2042/11/16	Kathmandu
5.	Standard-Chartered Bank Ltd	2043/10/16	2043/10/16	Kathmandu
6.	Himalayan Bank Ltd.	2049/10/05	2049/10/05	Kathmandu
7.	Nepal SBI Bank Ltd.	2050/03/23	2050/03/23	Kathmandu
8.	Nepal Bangladesh Bank Ltd.	2050/02/23	2050/02/23	Kathmandu
9.	Everest Bank Ltd.	2051/07/01	2051/07/01	Kathmandu
10.	Bank of Kathmandu Ltd.	2051/11/28	2051/11/28	Kathmandu
11.	Nepal Credit & Commerce Bank Ltd	2053/06/28	2053/06/28	Siddharthanagar
12.	Lumbini Bank Ltd.	2055/04/01	2055/04/01	Narayangadh
13.	Nepal Industry Commercial Bank Ltd.	2055/04/05	2055/04/05	Biratnagar
14.	Machhapuchhre Bank Ltd.	2057/06/17	2057/06/17	Pokhara
15.	Kumari Bank Ltd.	2056/08/24	2057/12/21	Kathmandu
16.	Laxmi Bank Ltd.	2058/06/11	2058/12/21	Birgunj
17.	Siddhartha Bank Ltd.	2058/06/12	2058/09/9	Kathmandu
18.	Agricultural Devt. Bank Ltd.	2062/12/4		Kathmandu
19.	Global Bank Ltd.	2063/09/18		Kathmandu
20.	Citizen Bank International Ltd.	2064/03/7		Kathmandu

Source: Banking & Financial Statistics, NRB, Mid-July 2007, Table No.34

1.4 Brief Profile of Himalayan Bank Limited (HBL):-

1.4.1 Introduction:-

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

HBL has its Head Office in Thamel, Tridevi Marg and 15 branches all over the country .HBL has been a pioneer in introducing Nepalese domestic Credit card and Visa Card as well as Automated Teller Machine (ATM) in Kathmandu valley, Any Branch Banking Service (ABBS), Telebanking, Short Message Service (SMS) Banking, Internet Banking, Premium Saving Account (PSA), etc are other special services provided by HBL.

Himalayan Bank's policy is to extend quality and personalized service to its customer as promptly as possible. The Bank, as far as possible, offers tailor made facilities to its client based on the unique needs as requirement. To extend more efficient services to its customers, Himalayan bank has been adopting innovative and latest banking technology. This has not only helped the bank to constantly improve its service level but has also kept it prepared for future adaptation and new technology. Himalayan Bank is committed to be as "BANKING WITH A DIFFERENCE. For starter, it was the first bank to launch the card services.

All Branches of HBL are integrated into Globus software (developed by Temenos), the single Banking software where the Bank has made substantial investments and avail comprehensive banking solution. HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Being one of the corporate citizens of the country, HBL has always promoted social activities. Many activities that do a common good to the society have been undertaken by HBL in the past and this happens as HBL on an ongoing basis. Significant portion of the sponsorship budget of the Bank is committed towards activities that assist the society as large.

HBL has an authorized capital of Rs. 1000,000,000 divided into shares for Rs. 100 each. HBL has an Issued capital of Rs. 772200000 and Paid Up capital of Rs.772200000.

In a long run, HBL has opened its branches in many places of Nepal.

Table No.1.2

Branches of Himalayan Bank Ltd.

Branches	**Zone**
Head Office & Main Branch Tridevi Marg ,Thamel ,Kathmandu	Bagmati
New Road Branch, Kathmandu	Bagmati
Maharajgunj Branch, Kathmandu	Bagmati
Credit Card Center, Maharajgunj, Kathmandu	Bagmati
Patan Branch, Lalitpur	Bagmati
Birgunj Branch, Birgunj, Parsa	Narayani
Nagarkot Branch, Bhaktapur	Bagmati
Narayangath Branch, Chitwan	Narayani
Tandi Branch, Chitwan	Narayani
Hetauda Branch, Hetauda	Narayani
Siddarthnagar Branch, Siddharthnagar	Lumbini
Biratnagar Branch, Biratnagar	Mechi
Banepa Branch, Kavre	Bagmati
Pokhara branch, Pokhara	Gandaki
Dharan Branch, Dharan	Mechi

Sources: Banking and financial Statistics and Shareholders Report of HBL, Mid July'007

Table No.1.3

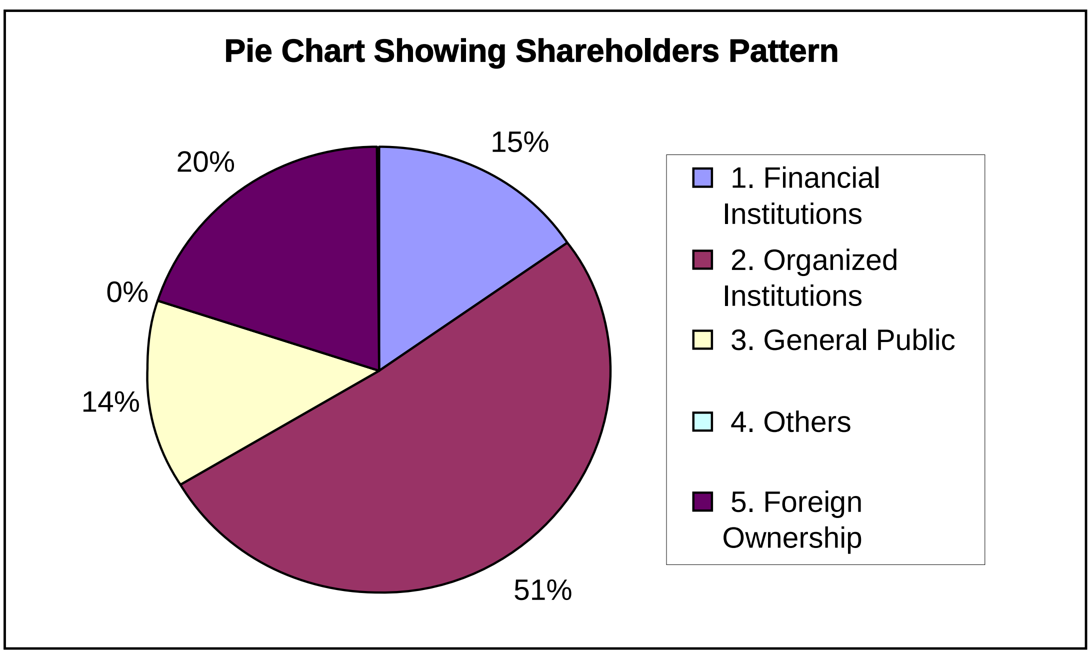
Capital Structure of Himalayan Bank Ltd.

Types of Share Capital	Previous Year	This Year
Authorized Capital	1000,000,000	1000,000,000
Issued Capital	650,000,000	772200000
Paid Up Capital	643,500,000	772200000

Source: Report to Shareholder of HBL, 2006

Share holder Pattern:	**Percent**
1. Financial Institutions	15.41%
2. Organized Institutions	50.93%
3. General Public	13.60%
4. Others	0.06%
5. Foreign Ownership	20%

Figure No 1.1



The above figure no 1 show that pie chart of share holders pattern where financial institution has 15% of share , organized institution has 51% of share ,General Public has 14% of share ,Others has 0% and foreign ownership has 51% of share .

1.4.2 Products and Services Offer by HBL:-

Himalayan bank has been the innovator in introducing many new products:-
Hire loan, Home loan, Small Business Enterprises loan, Credit card loan, Premium saving scheme, Subidha "No jhanjat Loan"

A) Deposit:-

Himalayan Bank offers a wide range of deposit products that caters to your requirement. HBL brings you the convenience of networked branches/ATMs and facility of E-channels like Internet, and SMS Banking. In simple words, HBL brings banking at your doorstep. The bank offer deposits products like Normal Saving Scheme backed by accidental death insurance scheme and specialized deposit products like Premium saving account and Millionaire deposit scheme that have basically revolutionized deposit marketing.HBL serves deposits as Fixed Deposit, Savings Deposit, Current Account, Premium Savings Account (PSA) and Call Deposit The bank offers different types of deposit schemes to the customers like Current account, saving account, short term deposit account (7 days to 90 days) and fixed term deposit account(above 90days).The bank accepts and maintain these types of deposit accounts in these currencies like Nepali rupees Dollar, Pound Sterling, Euro, Japanese Yen and Swiss Franc.

B) International Banking:-

To assist its trading Customers, HBL offers Letter of Credit (LC) facilities. Customers can place their LC application in any of HBL Branches. The fees/charges are one of the lowest amongst the commercial banks of Nepal. The Customers enjoy wide correspondent network of Himalayan Bank in addition to the attractive rates. You may download LC Application form and for further details, please contact any of our Branches.

C) Hours Banking:-

The bank has started offering banking services 24 hours, 365 days which will enable the customers to avail of banking activities at well wakeful hours.

D) Automatic Teller Machine (ATM):-

To avail of this facility, the customer must request an ATM card from any of the bank's branches. The withdrawal can be made from any account in any of the branches. Plans are underway to install more ATM machines and provide this service from all branches

E) Himalayan Bank Credit Card:-

Credit card is a plastic card with a credit limit used to purchase goods and services and to obtain cash advances on credit for which a cardholder is subsequently billed by the issuer for repayment of the credit extended. The financial institution issue it, which are member of Master card international incorporated and/or Visa international. A credit card differs from Debit card or Automatic teller machine (ATM) cards, which allows withdrawals against the deposit only. Similarly, it is different from charge card, which is not issued by financial institutions. With and anchor "Banking with a difference" HBL was the first bank to introduce a Nepalese domestic Credit Card "*Himalayan bank Credit Card*" valid in Nepal. The Bank has also introduced "Himalayan Bank Gold Card" with additional privileges. Himalayan Bank is also a member of *VISA* and Master Card International. The bank issue all range of VISA Cards and has a plan of issuing Master Card

F) Correspondent Network:-

HBL has access to the worldwide correspondent network of HABIB bank for fund transfer, letter of credit or any banking business anywhere in the world. Besides HBL has correspondents arrangement with 178 internationally renowned banks like American Express bank, Citibank and ABN Amro.

G) Tele Banking:-

It is the HBL next widely accepted service because of which HBL has been able to provide prompt and efficient service to its customers. The customers just have to dial a pre-specified telephone number and they will be able to make inquires about balance and statement, order statement and cheque book, request for instant faxing of statement and get information on exchange rate for foreign currency.

H) Any Branch Banking:-

Due to the computerization of the Banking activities, HBL has made the operations like withdrawal and deposit of cash and cheque possible from any of their branches. Customer maintaining and account with a branch can walk in any of the other branches convenient to them for operating of the account. They are not restricted to a particular branch for operating accounts.

I) Money Transfer Service:-

HBL has introduced in Nepal Money Gram, a 10-minute person-to-person money transfer service. According to sources at Himalayan Bank, Money Gram was started in 1988 by integrated payment services which are a division of US-based data processing company first Data Corporation. In 1996, Money Gram payment systems were floated in the Network stork Exchange. Money Gram payment systems, In form the sources, in based in Denver, USA where it has a call center that handles transactions for all non-automated agents and answers customers queries on a 24-Hour basis.

Money Gram is claimed to have a worldwide agent's base of over 30000 agents, enabling customers to transfer funds in over 130 counties in 10 minutes. An extensive network of Money Gram agents are linked by computers and "in just 10 minutes, customer's, money can be in another country waiting to be picked up at one of the agents", say the sources and add that there is no complicated procedures involved and there is no requirement for a bank account or credit card to avail of the services.

J) Himal Remit:-

Now a day the main contribution to the national economy is remittance. Most of the Nepalese young were gone to the other country. They earn money their and sent this money to their relatives in Nepal. Such transaction is one of the important income sources for Nepalese financial institution.

In this context Himalayan bank limited now start the new scheme on the name of Himal Remit. Under this scheme any person can easily sent their earning from foreign country to Nepal. The important features of this scheme are:-

- Payment was made in the fixed exchange rate in foreign.
- Payment would be made within 24 hour to their family.
- Transfer amount can deposit in concern family Account without extra cost.
- Nominal service fee will be charge even the transfer amount is high.
- Payment can be made any branch of HBL and from any other bank also.

1.4.3) The Bank's Mission:-

The banks mission is to become preferred provider of quality financial services in the country. There are two components in the mission of the Bank; Preferred Provider and Quality Financial Services; therefore we at HBL believe that the mission will be accomplished only by satisfying these two important components with the Customer at focus. The Bank always strives positioning itself in the hearts and minds of the customers.

1.4.4) The Bank's Vision:-

Himalayan Bank Limited holds of a vision to become a Leading Bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the Bank.

1.4.5) Goals and Objectives of Himalayan Bank Limited:-

To become the bank of first choice is the main objectives of the bank. HBL holds of a vision to become a Leading Bank of the Country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the bank.

- The bank strives to provide modern and efficient and personalized banking facilities with in the country of its customers and also aspires to develop new and modern banking system and technology to provide market oriented facilities and services to its valued customers.
- The management and staff of the bank are committed to innovate and Introduce new products in the market in order to provide maximum benefits to its valued customers.
- To develop life long relationship with clients and achieve profitability through customer oriented service and customer satisfaction**.**

1.5 Statement of Problem:-

Since the joint ventures banks, financial companies and about dozens of rural banks and corporate society's has been established gradually because of the liberal and market oriented economic policy of the His Majesty Government of Nepal (HMG/N). They have been facing tough competition from other commercial banks.

In short span of time bank has brewed new competitive scenario and has posed a challenge to the monopolistic bank which are making attractive profit. In the change scenario this banks need to explore their strengths and weakness and improve their performance because their success depends upon their ability to boost their productivity and financial performance. Thus this study seeks efficiency and weakness of banks through different tools. In this study basically focus our attention for reveal the struggle and success achieved by HBL.Though JVB's have been successfully operating and contributed significantly to the overall economic development of the country. HBL basic objectives are to uplift the economic activities and strengthen welfare of the general public to facilitate loan in different sector and to provide the banking services to its country and to its people .therefore, this study concentrates on its financial soundness, which enables it to meet its objectives.

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

While assessing the financial health of the company answers to the questions relating to the company's profitability, assets utilization, liquidity financing capabilities may be sought. A Number of questions go beyond the scope of ratio analysis. They however need to be answered while assessing the financial health of the company.

The following issues are to deal for the purpose of this study:

- What are the major factors effecting the financial performance of HBL?
- What is the financial position of the firm in the market?
- How far HBL has been able to meet its current obligation when they become due?
- How far HBL is able to meet its short term as well as long term obligations to its customers?

1.6 Objectives of the Study:-

The basic objective of the study is to examine the financial performance status of HBL. My effort in this study is also lead to find out exact financial performance of the HBL over five years period. The specific objectives of this study are as follows:-

- To study the present position of the HBL.
- To evaluate the financial strength and weakness of HBL.
- To analyze the financial performance of HBL through the use of appropriate financial tools (Ratio Analysis) and Statistical Tools.

1.7 Limitation of the Study:-

Despite sample an effort on the part of the researcher, this study is also not free from limitations. The main limitation of this study will be:

● The study has covered only the latest five fiscal year from 2001/02 to 2005/6.

● The study will be based on publicly available secondary data.

● Along there are many joint ventures banks the study limits to only one bank HBL.

●.The accuracy of the research work will be dependent on data provided by bank.

●.Time factor is major limitation of this study

1.8 Significance of the Study:-

The development of any country cannot be imagined without economic activities and the development of the banking system is one of the grounds of economic development. So we take a bank as a strong means for the economic development .Financial performance analysis of a bank is key method of judging the anticipated result of investment of the bank. Every study has its own importance and significance. In the present competitive position of bank scenario effect on performance and profitability position, provide quality information, ranks accordance to their performance as become more essential for the

Management of Banks, Customers, Shareholders, General public, Lenders and borrower, Policy maker, and other stakeholders of the HBL. The present study is expected to be beneficial for the insider and outsider of HBL i.e. management of the bank, policy makers of the bank, shareholders, customers, other stakeholders and even for the students.

1.9 Organization of the Study

The whole study is divided into five different chapters as prescribed by the university.

The Introduction Chapter that includes Background of the study, Origin of Banking system, Development of Banking Industry in Nepal, Brief Profile of HBL Statement of the Problem, Objectives of the study, Limitation of the study, Significance of the study.

The "Review of Literature" Chapter includes conceptual frame work: commercial banks, Joint ventures Banks and financial statement analysis have been defined. The review of the related study has been done with their objectives and findings. Similarly different articles and books are reviewed.

The Research Methodology Chapter includes research designs, population and samples, data collection procedure, methods of data analysis and method of data presentation

Data Presentation Analysis Chapter is the heart of the study and in this part data have been systematically presented, analyzed and interpreted and major findings are summarized. Various financial and statistical techniques have been used to analyze and interpret the data i.e. Coefficient of correlation of different variables and trend lines.

The Summary, Conclusion and Recommendation Chapter revolve with suggestions for further improvement and conclusions of the study.

CHAPTER-II

REVIEW OF LITERATURE

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

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

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

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

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

2.1 Conceptual Framework:-

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

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

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

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

Since this thesis is related to the commercial bank name Himalayan bank limited and also it is the joint venture bank.

2.1.1. Commercial Bank:-

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

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

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

Thus commercial banks render valuable services to the community. A country with a developed banking system has a secure foundation of industrial and economic progress. It constitutes the very life blood of an advanced economic society. There are 38 Development Banks and 74 Finance Companies in Nepal up to Mid July, 2007.There are some functions of commercial banks which are explained below.

Agency service:-

On this ground commercial banks perform following services:

- Dealing with the transactions of foreign exchanges business.
- Service as agent of correspondent on behalf of the clients.
- Issuing the letter of credit, circulate notes, bank drafts, travel cheques etc.
- Purchase and sales of different types of securities, remittance of funds.
- Collection and payment of cheque, bills, promising notes, coupons, dividends and other types of bonds and keeping valuable articles in safe custody.

Accepting deposits:-

Of the many functions of commercial banks, acceptance of deposit is one of them. The bank allows the three types of account to accept deposit for their customers. They are current, Saving & Fixed account

Loan Service:-

Another Function of CB's is to provide loan .A bank can earn a lot of profit from it. Loan may be: Overdraft, Short term loans, direct loans i.e. with collateral financial advisory service to loan holder.

Information and other services:-

The CB's provide some information and other services to its customers, which is very useful. Some banks produce regular bulletin on trade and economic conditions at home and abroad, and special reports on commodities and market.

2.1.2. Joint Venture Bank in Nepal:-

In global prospective, Joint Ventures (JVs) is meant for trading through the partnership among nations and also as a form of negotiation between various groups of industries and traders to achieve mutual exchange of goods and services for sharing comparative advantages.There has been substantial growth in the numbers of JVBs in Nepal since 1990s the basic reason behind this is the government's deliberate policy of allowing foreign joint ventures banks to operate in Nepal. Government liberalization policy also encourages the traditionally run domestic commercial banks(Nepal Bank Limited and Rastriya Banijya Bank) to enhance their efficiency and to improve services and competitiveness through modernization, mechanization via computerization and prompt customer service by setting them to the exposure of the JVBs

D.P.Gupta has defined the joint ventures as "It is a process of joining of forces between two or more enterprises for the purpose of carrying out of specific operation (Industrial or Commercial, Investment, Production or Trade". (Gupta: 1984:15-24)

In Nepal, Nepal Arab Bank Limited was the first joint venture bank which was established in 2041 B.S. under the Commercial Bank Act 2031 and the Companies Act 2021.It's Joint Ventures partner was Emirates Bank International Limited, Deirm, and Dubai. Now its name is Nabil Bank Limited.

A list of licensed Joint Ventures Banks which have been obtained license from Nepal Rastra Bank are given below

Table No. 2.1

Joint Venture Banks in Nepal

Name of Joint Venture Banks	**Pattern of Ownership**	**Participating Foreign Bank & Finance Inst**
Nepal Arab Bank Ltd (NABIL)	Nepalese-50% Foreign Joint venture-50%	NB International, Ireland
Standard Chartered Bank Nepal Ltd	Nepalese-25% Foreign Joint venture-75%	Standard chartered Group (Australia and UK)
Himalayan Bank Ltd.	Nepalese-80% Foreign Joint venture-20%	Habib Bank Ltd, Pakistan
Nepal SBI Bank Ltd.	Nepalese-50% Foreign Joint venture 50%	State Bank of India, India
Nepal Bangladesh Bank Ltd.	Nepalese- 75% Foreign Joint venture-25%	International Finance Investment and Commerce (IFIC) Bank, Bangladesh
Everest Bank Ltd.	Nepalese-80% Foreign Joint venture-20%	Punjab National Bank, India

Source: Banking and financial statistics of NRB.www.nrb.org.np

In Nepal, the history of the development of financial institution as compared to the other developed and developing countries has been new experiment. Before the introduction of modern banking in Nepal in 1937, Industry, Business & Commerce were in a pity conditions. In order to initiate industrialization His Majesty's government of Nepal has given due emphasis for development of the industrial sector. The government continues to maintain its efforts to follow liberal and market oriented economic policies encouragement to private participation in infrastructure activities such as power, telecommunication and gradual privatization of public sector companies operated under the rules, regulation and guidance of. Nepal Rastra Bank (NRB).

The functions provided by JVBs are as of other commercial banks. It plays important role in attracting foreign investment and have international assistance to improve their quality and extend service. They have been instrumental in collecting capital more efficiently, investing in productive and profitable sector, providing quality and quick services to the customers and introducing new and internationally accepted debit/credit cards, visa card, automated teller machine, etc. Specially, Joint Ventures Banks (JVBs) performs following roles:

Better relation with International market:-

Most of the JVBs are operative in co-operation with international banks. So JVBs constitute better relation ship with international market.

Introducing new methods and technology and services:-

The JVBs have been introducing new methods and technology like Atm, Traveler Cheque, Credit/Debit, Visa card, computerized services in remote parts of the country through their branches. They are providing new services for their customers like arranging foreign currency loans, 24 hours banking services, Merchant banking, Internet banking, SMS banking, and Inter-bank market for money an securities.

Creating a competitive environment:-

Before establishing of JVBs only two commercial banks: Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB) were performing services in lack of advance technology, they have almost set bunches of customer and working areas and services .So after the establishment of JVBs, competitive environment creates and goes benefits to the common people, business and industry and the country as a whole.

2.2: Financial Statement Analysis:-

In the beginning of civilization, the number of business transaction had taken a very small place. Each businessman was able to record and check business transaction himself. After the increment of business transaction, the need of accounting system increased. With the help of financial statement, every businessman could show actual business condition to the different parties.

Financial statement analysis and techniques used by stakeholders like creditors, Shareholders, Potential investors, Management, Government and so on. Since the financial statements reflect a firm overall performance as well as its future growth and solvency, analysis financial statements are crucial.

"Financial statement contents Balance sheet and Profit and Loss Account. Every balance sheet and profit and loss account of a company shall give a true and fair view of the state of affairs of the company and further, the balance sheet shall be in the form set out as near thereto as circumstances admit or in such other form as may be approved by the central government either generally or in any particular case. Banking sector, which is governed by special statures, have different forms prescribed for the profit and loss account and the balance sheet under the respective statutes'. *(Gupta and Radnaswami, 1998:4.264)*

Financial management aspect is considered to be the vital and integral part of over all management of any type of organization ensuring financial strength through adequate cash flow, liquidity and better utilization of assets. The financial management is the main indicator of the success or failure of any organization financial condition of the business firm should be sound from the point of view of shareholders, debenture holders' financial institutions and nation as a whole.

"The financial statements, which represent summarizes of the financial and operating data entered in the accounting records, re stated in monetary units. These monetary units do not generally represent current absolute values'. *(Kennedy, 1974:1)*

Financial statements are the basis of analysis, which include Income Statement, Balance Sheet and additional inertia. This contains summary of the firm's financial affairs the top management undertakes the financial statements. The investors and financial analyst's are the major interested party to ensure the firm's performance through the statement. This analysis is significant in making investment decisions. These statements are published in company's annual report. The annual report is specially prepared for the shareholders, which includes the chairman's speech; the director's report and auditor's report with accounting policies. Though financial statements are prepared are useful in internal management. These statements provide reliable financial information about economic resources and obligations of business enterprises. Thus, we can say that financial statements communicate information to the different parties. It is a source of information relating to a firm.

The present study focuses the financial statement of the annual report which is the combination of: - i) Profit and Loss Account (or Income Statement)

ii) Balance Sheet (or Statement of Financial Position)

2.2.1. Profit and Loss Account:-

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 Profit and Loss account 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 form major of a Bank. Profit and Loss Account (P/L A/c) depicts information regarding income and expenses of the firm

"The Profit and Loss Account starts with the credit from the Trading Account in respect of gross profit (or debit if there is gross loss). Thereafter, all those expenses or losses, which have not been debited to the Trading Account, are debited to the Profit & Loss Account. It there is any income besides the gross profit; it will also be transferred to the credit of the Profit and Loss Account'. *(Shukla and Grewal, 1990:62)*

"The earning capacity and potential of the firm and reflected by the income statement. Income statement presents the summary of revenues, expanses and net income or net loss of a firm for a period of time, which measures the firm's profitability, statement of income, and statements of loss. A profit and loss statement (also known as earnings or a statement of operations) is a statement sharing over a specified and limited period of the life a business. The nature and amounts all its income for the period and the nature and amounts of all its operating costs and expenses'. *(Kereps & Gee, 1974:38)*

In conclusion, we can say that P/L a/c statement shows the net income or net loss resulting form the operation of business during a specific period of time.

2.2.2. Balance Sheet:-

Balance Sheet is one dimension of statement, which assists in measuring the assets, liabilities and capital of a firm at a moment of time. It informs the financial condition of affairs of a firm (Bank) at an accounting period. It depicts the information about resources and obligations of a business entity. The assets, liabilities and capital fall in it.
The assets are measured in monetary terms, which are the future benefits. They are the valuable possessions owned by the firm cash, stock, receivable and other tangible and intangible items. Such assets represents stored purchasing power, money claims. Broadly speaking, assets can be classified in two category current assets and long – term assets. The other column of the balance sheet contains liabilities and capital (equity) liabilities are the economic obligations to pay cash or provide goods and services in future.

The credit bills payable and other dues are the examples of liabilities. While the equity capital is claims of owners. The profit (or losses) doesn't after the amount of liabilities while there will be positive impact of earning (or losses) to owner's equity.

Balance sheet presents the position of company's assets, liabilities and shareholder's equity at a particular date. The liabilities indicate the amounts owned by the firm to its creditors. It represents summary of the financial and operating date entered in the accounting records, which are stated in the monetary units.

2.3: Financial performance analysis (Ratio Analysis):-

Effective planning and control are central to enhancing organization value. Financial plans may take forms, but any good plan must be related to the firms existing strength and weakness .The strengths must be understood if they are used to proper advantage and the weakness must be recognized if correct 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 the type of financial analysis.

"Analysis and interpretation of financial Statements are as attempts to decide the significance and meeting of financial data so that a forecast may be made of the prospectus for future earning, ability to pay the interest, debt maturity, both current as well as long term and probability of a sound dividend policy'. *(Mohan and Goyal:op.cit 1992:392*

Traditional financial ratio analysis has focused on the numbers but the world is becoming more dynamic and subject to rapid changes .It is not enough to analyze operating performance but also take consideration of the strategic and economic development to which the firm must relate for its long run success. Different sources and different analysis use different lists or combination of financial ratios for analysis. Financial statement report both on the firms' position at a time and on its operation over some past period. However, the real value of financial statement lies in the fact that they can be used to help predict the firms' future earnings and dividends. From an investor's stand point, predicting the future is what financial statement analysis is all about, while from management's stand point financial statement analysis is useful both as a way to anticipate future conditions and more important, as a starting point for planning actions that will influence the future course event.

Ratio analysis is designed to determine the relative strength and weakness of business operations. It also provides a framework for financial planning and control. Financial managers need the information provided by analysis both to evaluate the firms' past performance and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of firms operation.

Financial analysis identifies the financial strength and weakness of the firm with the help of basis financial statements. For this purposes a ratio helps the analysts to make qualify judgments about the firm's financial positioned performances Balance sheet, Profit and loss account, Cash flow and the accompanying notes are the most widely aspects of financial statements of the bank. The bank's balance sheet is composed of financial claims as liabilities in the form of deposit and as assets in the form of loans. Fixed assets proportion on total assets is generally low in the case of each bank. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are major components of bank's profit and loss account. The other sources of incomes are fee, commission, discount service charge and etc.

"Financial Statement analysis is largely a statement of relationship among the various financial factors in business as disclosed by the single set of statements and study of the trend of this factor as shown in a series of Statements'. *(Myer, 1974:105)*

2.3.1: Purposes of financial performance Analysis:-

Financial performance analysis is a study of relationship among the various financial factors and pinpointing the strength and weakness of a firm so that forecast may be made of the prospects for future earning. In the recent time financial performance analysis has played an increasing important role as a tool of examining the real worth of going concern, which is one of the important assumptions of fundamental Accounting Assumption.

Financial statements are usually analyzed with the help of financial tools and financial ratios are out of the primary tools. The term ratio refers to the numerical and quantities relationship between two variables. Important ratios can be calculated from the balance sheet and profit and loss account. Ratio analysis is relevant in assessing the performance and position of firms. Various ratios are used for this purpose.

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

Financial performance analysis is helpful in assessing the financial position and profitability of a business concern. The analysis of financial statements thus refers to the treatment of the information contained in the financial statement in a way so as to afford full diagnosis of the profitability and financial position. Financial performance analysis is helpful to the decision maker for finding out favorable situation of a business concern. Therefore financial analyses reflect the financial position of a firm, which is the process of determining the operational and financial characterizes.

Financial analysis is helpful in assessing the financial position and profitability of a concern. This is done through compression by ratio for the same concern over a period of years: or for one concern against another; or for one concern against the industry as a

whole; or for one concern against the predetermined standards; or for one department of a concern against another of the same concern.

In short the main purposes/objectives of analysis of financial statements are to assess-

- The present and future earning capacity or profitability of the concern.
- The operational efficiency of the concern as a whole and of its various parts and departments.
- The short term and long term solvency of the concern for the benefit of the debenture holders and trade creditors.
- The comparative study in regard to one firm with another firm or one department to another department and financial stability of a business concern
- The possibility of the Development in the future by making forecast and preparing budgets

2.3.2: Uses/Importance of financial performance Analysis:-

The information's given in the financial statements is very useful to a number stakeholder's .These are the followings:

- ***Owners:*** The owner provide fund for the operation of the business and they want to know whether their funds are being properly utilized or not. The financial statements prepared from time to time satisfy their curiosity.

- ***Creditors:*** Creditors want to know the financial position of a concern before giving loans or granting credit. The financial statement helps them in judging such position.

- ***Employees:*** Employees are interested in the financial position of the concern they served, particularly when payment of bonus depends upon the size of the profits earned. They would like to know that the bonus being paid to them is correct; so they become interested in the preparation of correct profit and loss account.

- ***Managers:*** Managements is the art of getting things doing through others. This requires that the subordinates are doing work properly. Financial statements are an aid in this respect because they serve the managers in appraising the performance of the subordinates. Actual result achieve by the employees can be measured against the budgeted performance they were expected to achieve and remedial auction can be taken if the performance isn't up to the mark.

- ***Government:*** Central and state governments are interested in the financial statements because they reflected the earning for a particular period for purpose for taxation. Moreover the, these financial statements are used for compiling statistics concerning business which, in turn help min compiling national accounts.

- ***Investors:*** prospective investors, who want to invest money in a firm, would like to make an analysis of the financial statements of that firms know how save the proposed investment will be.

- ***Research Scholars:*** The financial statements, being a mirror of the financial position of the firm, are of immense valued to the research scholar who wants to make study in to financial operation of a particular firm.

2.3.3: Limitation of financial performance Analysis:-

Ratios are constructed from accounting data and these data are subject to different interpretations and ever top manipulation. For example any two firms use different depreciation methods or inventory valuation method, depending on the procedures followed reported profits could be raised are lowered. If the firm use different fiscal years, and if seasonal factors are important, this can influence the comparative ratios. Thus if the ratios of the two firms are to be compared, it is important to analyze the basic accounting data upon which the ratios were based need to reconcile any major differences.

We should also note that while ratio analysis can provide useful information concerning a company's operation and financial condition, it doesn't inherent problems and limitations that necessitate care and judgment .Some potential problems are listed below:

- Financial statement may not be realistic because they are prepared by followings certain concepts and conventions. For example going concern concept gives us an idea that the business will continue and assets are to be recorded at cost but the book value which the assets is showing may not be actually reliable.

- Financial statements are influenced by the personal judgment of the accountant. He may select any method of depreciation, valuation of stock etc. Such judgment if based on integrity and competency of the accountant will definitely affect the preparation of the financial statements.

- Financial statements disclosed only monetary facts. Those transactions which cant be measured in monetary terms such as conflict between production manager and marketing managers may be very important for a business concern but not recorded in the business book

- These statements are drawn after the actual happening of the events. They attempts ton present a view of the past performance and have nothing to do with the accounting for the future. Modern management is forward looking but these statements do not directly help in making future estimates and taking decision for the future.

- These statements do not give a real and correct report about the worth of the assets and their loss of value as these are shown on the historical cost basis. Thus these statements provide artificial view in market or replacement value and the effect of the changes in the price level are completely ignored.

- Financial statement does not depict the exact position and are essentially interim reports. The exact position can be only known if the business is closed.

- These statements are some times prepared according to the needs of the situation. A highly efficient concern may cancel its real profitability by disclosing loss or minimum profit whereas an efficient concern may declare dividend wrongly showing profit in the profit and loss account.

- There are many parties that are interested in the information given in the financial statements but their objective and requirements differ. The financial statements as prepared under the provision of the company act fail to meet the needs of all. These are mainly prepared to safeguard the interest of shareholders.

- Many firms' wants to be better than average, so merely attaining average performance is not necessarily good, as a target for high level performance, it is best to look at the industry leaders' ratio.

- It is difficult to generalize about whether a particular ratio is "good" or bad" a firm may have some ratios which looks good and others bad making it difficult to tell whether the company is on balance or in strong or a weak position .However statistical producers can be used to analyze the net effects of a set of ratios.

2.4 Review of Related Studies

2.4.1 Review of Books:-

In the book of "Analysis of Company Financial Statement" of Agrawala , he had define that the financial managers have to undertake number of activities to highlight the central goal of maximizing the values of the corporation .These financial activities have great impact on all other business activities like marketing, production and personnel activities. Thus any mistake made in financial decision adversely affects the whole operations of the company. These activities should be analyzed and evaluated from time to time." Scientific Analysis and interpretation can give the better picture of progress that the company has made in the past, its present position and future prospects. It is useful to provide feed back information for drawing the attention of management regarding what should be done for strengthen the financial performance .Hence analysis of financial performance is a crucial part of financial decision making process. Finance performance is evaluated from the stand point of profitability, liquidity and solvency.(.Agrawala 1974:65)

Pandey in his book of “Financial Management”, he had defined various functions in financial management in which raising funds, investing them in assets and distributing return earned from assets to shareholders, which are respectively known as financing investing and dividend decision. While performing these funding a firm should balance cash outflow and inflow, which is known as liquidity decision and also he added the list of important decision. (Pandey, 1997:355).

In the book of “Financial Management “of Khan and Jain this is a useful book for the reader of finance. In this book both the writer views that the financial management in broad sense and provides a conceptual and analytical frame work for decision making. They also cover both acquisitions of funds as well as their allocation of funds to various regions. Their major decisions are investment decision, financial decision and the dividend policy decision (Khan and Jain: 1983:628)

James C.Van Horne writer of “Financial Management and Policy” had written in his book about financial analysis in which he had dividend financial ratio into four types Liquidity ratio, Debt ratio, Profitability ratio and Coverage ratio. These ratios are helpful for managerial control and for the better understanding of what outside suppliers of the capital expect in a financial condition and performance. He defines until and unless there is comparison, financial analysis is meaning less so it can be compare with one firm overtime an inter firm. (James C.Van Horne: 1988:799)

2.4.2 Review of Previous Thesis:-

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

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

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

The major findings of the study are:

- Short-term solvency position of both the banks is found below than normal through the study period. In the fiscal year 1998/1999 short term solvency position is seem better in NGBL than in HBL.
- NGBL has better position in utilizing its properties of deposits as compared with HBL. Debt to total assets ratio HBL is better than NGBL.NGBL is more succeed to generate more return on its shareholders fund than that of HBL.
- Both the banks have been able to generate profit from deposits. But the rate profitability is not satisfied from lower rate of return.
- It is better from investor point of view in NGBL. Both the banks EPS is found decreasing trend after 1996/97.NGBL seems much better in term of offering dividends to its shareholders as compared with HBL.
- It is higher percentages earning in HBL as compared to NGBL. Also operating and non-operating income of NGBL has higher than HBL.

- Dividend payout ratio of NGBL has more than HBL from the view of shareholders. NGBL has reflected better scenarios although it has also retained a higher position of earnings on an average.

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

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

(1) To assess the financial performance of NCCB.
(2) To measure liquidity position and investment portfolio.
(3) To study the relationship between deposit, credit on financial strength and net profit.

The major findings of the study are:

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

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

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

(1) To analyze liquidity, leverage, activity, profitability and ownership ratios of the bank.
(2) To study the income and expenditure statement of bank.
(3) To analyze the bankruptcy score of the bank.

Based on the analysis of data his major findings are-

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

The bank has high debt-equity ratio, which means the creditors have invested more in bank than owners. Shareholder's equity to total assets ratio indicates the proportion of the assets, which is financed from ownership capital of the bank. The result of the analysis indicates that 7.26% of the total assets of the bank is financed through equity capital and remaining from debt capital. The creditors have dominated in the bank's financial mix.

The bank is mobilizing its total deposit in loans and advances satisfactorily for income generating purpose .The activity ratio of the SCBNL indicates that the bank has utilized its resources in a best way to maximum its wealth

The result of the analysis indicates that the interest earned in comparison to the assets is quite low. The net profit earned in comparison to the total deposit is fluctuating trend. The net profit earned in comparison to total assets is quite low. The profit earning in relation with the shareholders equity of SCBNL is in better position, which exhibits the better utilization of shareholders' resources. The profitability ratio analysis of SCBNL the overall performance of the bank is effective in generating the profit and hence maximizing its wealth.

The bank is generating maximum profit from the interest earning and foreign exchange. The bank is earning profit from commission and discount by providing efficient and effective services to its clients. The bank's expenditure heads are interest paid, personnel and other operating and non operating expenses. The high rate of expenditure in interest indicates the bank had collected more deposits

The earning per-share of SCBNL is quite good .The dividend per-share of SCBNL is satisfactory and the shareholders are being compensated with good return and the bank's dividend pay out ratio is high.

The bankruptcy score of the bank concludes that the bank has crossed the limit of bankruptcy score of 2.99 and it can be predicted that it is very remote chance of failure of bank.

Ms. Joshi (2003) conducted this study to evaluate “A study of financial performance of Nepal Investment Bank Ltd (NIBL).” with the major objectives as:
to evaluate the overall financial position of NIB Ltd,
to examine liquidity ratio, profitability ratio and ownership ratio and
to study the income and expenditure statements of the bank.

On the basis of various analyses, the researcher came out with the following conclusions:

The Current Ratio(CR) of the bank over the study period is 1.09 times on an average. Therefore the liquidity position of NIBL is in normal standard. The cash and bank balance proportion with respect to the current asset is moderate since the average ratio is 10.17%. The result of the analysis indicates that the share of fixed deposit is high in the total deposit. Saving deposits stand midway between current and fixed deposits. The analysis indicates that the cash reserve at bank is more than required. Hence, in general the liquidity position of the bank is good enough to meet the short-term obligation. The debt –equity ratio of the bank is high, which means the creditors have invested more in the bank than the owners.

Interest earned in comparison to the assets is inadequate. Net profit earned in comparison to the total deposit is relatively low. The result of the analysis indicates that the net profit earned in comparison to the total assets is fluctuating. The profit earning in relation with the shareholder's equity of NIBL is better. In general the profitability ratios of the bank indicate that the overall performance of the bank is effective in maximizing the wealth. The researcher also found that the turnover ratio of the bank indicate that it had utilized its resources in the best possible way to maximize its wealth. Because the bank had succeed to utilize total deposit in profit generating purpose and the bank had mobilized its total deposit in loans and advances satisfactorily.

The researcher found that the EPS(Earning per Share) of the bank is quite good because though the EPS had fluctuated its average stands 54.16 during the study period. The researcher that the proportion of the earnings distributed to the shareholder per share is very low and they are being compensated very slowly. DPR (Dividend payout Ratio) of the bank is decreasing and very low. Overall she had found that the ownership ratio of the bank is not encouraging as it is in a decreasing trend.

Paudel (2002) in his thesis "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 findings 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 the 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 deposit, net profit, loan and advances and EPS shows the increasing trend even thought eh values shows the negative in beginning of study period.

Gautam (1999) on "A study on Dividend Policy in Commercial Banks: A comparative Study on NGLBL, NIBL and NABIL" focuses on the following objectives:

- To identify the type of dividend policy that is being adopted and to find out whether the policy is appropriate
- To examine the impact of dividend on share price.
- To identify the relationship between DPS (Dividend per share) and other financial indictors.
- To know if there is any uniformity among DPS, EPS and DPR of the three sampled commercial banks.
- The findings of this analysis will probably provided workable suggestions that may be helpful to the formulating of optimal dividend policy and maximize the stock price.

The major findings of the study are as follows:

- There is the largest fluctuation in EPS and DPS
- The relationship between DPS and EPS is positive; however it is not significant.
- There may be various other factors beside EPS to affect MVPS
- The growth rate of dividend is inconsistent
- No sampled commercial banks have followed distinctly defined dividend policy.
- Relationship between earning yield and dividend yield is positive in the case of NIBL and negative in the case of the rest two Bank.

2.4.3 Review of Articles:-

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

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

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

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

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

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

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

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

CHAPTER-III

RESEARCH METHODOLOGY

Research means to research the problems again and again to find out something more about the problem. Methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Research methodology is a way to systematically solve research problem The 'Research Methodology', which is used to analyze for collection of data, are mentioned in this chapter. To achieve these objectives; the study requires an appropriate research methodology

Research is a systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well-thought activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to the problem. Thus entire process by which we accept to solve the problems or to search the answer to question is called research" (Wolf and Panta, 2002:4)

An appropriate choice of research methodology is a difficult task, which is, must necessary to support the study in realistic term with sound empirical analysis. So that , the study uses the following research methodology like research design, population and sample, data collection procedure, methods of data analysis, methods of presentation, etc. Detail explanations of the above points are given which seems appropriate to understand methodology in detail. So, it is the methods steps and guidelines which are to be followed in analysis, and it is a way presenting the collected data with meaningful analysis.

3.1 Research Design:-

Research design is the main part of the thesis or any research work. “Research design is the plan structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. The plan is the overall scheme of program me of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the financial analysis of data” (Kothari.C.R, 1990:390)

The research design refers to the conceptual structure within which the research is conducted. A research design will always help in knowing successive stages. It will be a logically sequence and one after the other stages will scientifically the importance of each step in the whole scheme of things. Research design decides the fate of the proposal and its outcome. The study has used two types of research design such as Analytical research design and Descriptive research design. An analytical research design is used to analyze the presented data and facts to be specific. In the context of HBL, the different types of financial and statistical tools and techniques are to be used where as the descriptive research design is used to show the causes of increasing or decreasing the financial variations.

3.2 Population and Sample:-

A population is most studies usually consists of large group because of its large size it is fairly difficult to collect detailed information from each member of population. Rather than collecting information from each member, a sub-group is chosen which is believed to be representative of population. This sub-group is called a sample allows the researcher more choosing this subgroup is done by sampling. The sampling allows the researcher more time to make an intensive study of a research problem. At present, there are 20 commercial banks operating in Nepal. All the commercial bank that are operating in Nepal is considered as the population

Due to limited time period and resource factors, it is not possible to study all the data related with all the JVBs of them regarding the study topic. From all the commercial bank of Nepal one of them joint venture Banks is selected as sample i.e. Himalayan Bank Limited for the present study from the whole population. The present study is undertaken for a period of past 5 years from the year 2001/02 to 2005/06.

3.3 Data Collection Techniques:-

The data used in the study are primary as well as secondary as they have been collected from concern authority. Beside this the researcher has discussed informally with the bank's staffs. For any study, information is the oxygen. Thus, it is the fundamental task to gather the information and data collection. To fulfill the objectives of this study primary data as well as secondary have been used. But most of the data are secondary type.

Primary data will be collected through questionnaire, interviews, observations and survey applied to clearly the material where as the secondary sources of data are the information received from reports books, newspapers, journals etc Secondary data have been taken mainly from, Annual reports, especially from income statement, balance sheet, Cash flow and other publication made by the bank, newsletters and bulletins of HBL and of course from internet site of HBL. Various Articles published in Newspapers, unpublished periodicals Publications published by NRB. Similarly, necessary data are collected from the publication relating to national economy and publication of Ministry of Finance, Documents of ICAN, books, booklets, magazines, articles, and different kinds of legal provision from various Act, etc.

On the other hand, in order to review different books and previous studies, frequent visits have been made Tribhuvan University Library, Shanker Dev Library. Similarly, in order to collect relevant documents, frequent visits are made to HBL head office, Nepal Rastra Bank etc and surfing the websites of HBL.

3.4 Data Processing:-

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information so gathered are to be checked, edited and tabulated in such ways that provide convenience for computation and interpretation.

The relevant data have been inserted in meaningful tables. Only the data that are relevant to the study have been presented in the tabular form in the understandable way and unnecessary data have been excluded. It is attempted to find out the conclusion from the available data, with the help of various financial as well as statistical tools.

3.5 Data Analysis Tools:-

For the research work all the data are the input for research process and systematic processing requires an appropriate analytical tool. Since data are the main raw material for analytical study, for processing these data using different analytical tools, one should first arrange, manage, accumulate and present all the data in appropriate tables and format in the systematic manner.

With the help of various financial and statistical tools we can identify the actual situation of a business concern. The major types of ratios that used in this study are as follows.

3.5.1. Ratio Analysis:-

Ratio analysis is a powerful tool of financial analysis, which helps in identifying financial strengths and weaknesses of business concerns. It refers to the numerical or quantitative relationship between two items or variables. It is the expression of the relationship between two items either from balance sheet or from balance sheet or from income statement or from both statements it is an important way to state meaningful relationships between components of financial statements. The primary purpose of ratios is to point out areas for further investigation.

A ratio is defined as “The indicated quotient of two mathematics expression” and as the relationship between two or more things. *(Spring mass & Merriam, 1975:958)*

Ratio analysis involves basic standards of comparison for a useful interpretation of the financial statements. A single ratio by itself does not indicate favorable or unfavorable condition of a firm unless it is compared to some appropriate standard. Selection of a proper standard of comparison is a most important element in ratio analysis.

Ratio analysis has been a major tool used in the interpretation and evaluation of financial statements since late 1800. *(Lov, 1974:11)*

The operational and financial problems of a business concern can be ascertained by examining the behavior of these ratios. Financial ratios help make qualitative judgment. The objective of the present study is to compute, analyze and interpret financial ratios so as to determine their behavior in financial institution with special reference to HBL As a tool of financial analysis; ratio can be expressed in terms of percentage, fraction or a stated comparison between numbers.

The alternative methods of expressing items, which are related to each other, which are for the purpose of financial analysis, are called ratio analysis. *(Khan and Jain, 1993:80)*

3.5.1.1. Liquidity Ratio.-

Liquidity ratios are used to judge a firm’s ability to meet its short term obligations. Banking industry has its survival in its ability to create credit and its credit creation ability is dependent upon its liquidity ratio. The liquidity ratio of banking industry depends upon the banking habit of people. Where the banking practice is more prevalent, the low current ratio does not necessarily increase its liquidity risk. Therefore, it is necessary to have a proper balance between high liquidity and lack of liquidity. The ratios used in short term liquidity analysis evaluate the adequacy of the firm’s cash resources relative to cash obligations.

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

i. Current Asset to Current Liabilities ratio (Current Ratio)
ii. Working Capital
iii. Cash and Bank Balance to Current Assets Ratio
iv. Loan and Advance to Current Assets Ratio
v. Fixed Deposit to Total Deposit Ratio
vi. Cash & Bank Balance to Total Deposit Ratio

3.5.1.2. Turnover 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 firms needs to invest in both short term and long term. Turnover ratios describe the relationship between the firm's level of operations and the 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:

i. Loan and Advance to Total Deposit
ii. Total Investment to Total Deposit
iii. Loan and Advance to Fixed Deposit

3.5.1.3. Profitability Ratio:-

Any business organization is run primarily for profit. Profitability ratios give some yardsticks to measure profit in relative terms, either with reference to sales or assets or capital employed Profitability is the difference between the revenues and the expenditure over a period. Profitability ratios measure the efficiency of 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. Following ratio is analyzed:

1. Return on total assets (ROA)
2. Basic Earning Power
3. Return on common equity (ROE)
4. Net Profit to Total Deposit Ratio

3.5.1.4. Capital Structure Ratio:-

Capital structure of a business consists of long-term funds, which are not repayable in the short-term funds, which are repayable in the short run. Capital Structure of a business consists of three elements. Shareholders fund, Long term loan fund and Short term loan fund, Current liabilities & provision

Following ratio is analyzed:-

I. Total Debt to Shareholder's Equity Ratio
ii .Total Debt to Total Assets Ratio
iii. Time Interest Ratio (TIE)

3.65.1.5. Market Value Ratio:-

A final group of ratios, market value ratio, relates the firm's stock price to its earnings and book value per share, and thus give management an indication of what investors think of the company's past performance and future prospects. If the firm's liquidity, assets management, debt management and profitability ratios are all good, then its market Value ratios will be high, and its stock will probably be highs can be expected. Following ratios are analyzed:

1. Price earning Ratio(PE)
2. Earning per share Ratio

3.5.2 Statistical Tools:-

Statistical analysis is an important technique to analyze the financial performance of the bank. Statistical methods may be defined as the collection, presentation, analysis and interpretation of numerical data. Statistical analysis is very useful for policy maker. It helps policy maker for formulating policies regarding business and forecasting future trends. Modern business has its roots in the accuracy and precision of the estimates and statistical forecasting regarding the future demand for the service, market trend and so on. Correct estimation and decision making of the policy maker depends upon his experience and proper use of statistical method. Statistical analysis is very useful in solving economic problems of the banking organization. All economic plans of the bank are formulated on the basis of statistical analysis. The successfulness of the plan is also evaluated with the help of statistical analysis.

The numerical data should be comparable as statistics are collected mostly for the purpose of comparisons. The numerical data collected constitutes statistics if they are comparable. In order to make valid comparisons the data should be homogeneous and uniform. Thus we conclude that, “All statistics are numerical. Statements of facts but all numerical statements of facts are not statistics.” *(Sharma & Silwal, 2053:2)*

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, and straight line trend analysis of important variables.

3.5.2.1 Standard Deviation:-

It is quantitative measure of the total risk of assets. It provides more information about the risk of the asset. It is a measure of the total risk of the asset. It measures the dispersion of returns around the mean. Its advantage is that the uncertainty of returns can be summarized into a single easily calculated number.

The standard deviation of a distribution is the square root of the variance of returns around the mean. The following formula is applied to calculate the standard deviation, using historical returns:

$\sigma_j = \sqrt{\frac{\sum(HPR - \overline{HPR})^2}{n}}$, *where:* HPR = holding period rate of return; σ_j = standard deviation of stock 'j'. $\overline{HPR}$ = average holding period rate of return; n = no. of observations;

3.5.2.2 Karl Pearson's Coefficient of Correlation:-

It is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Person Ian correlation coefficient between two variables (series) X and Y, usually denoted by 'r(X,Y)' or 'r_{xy}' or simply 'r' can be obtained as :-

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

, *where:* n = number of observations in series X and Y;

$\sum X$ = sum of observations in series X, $\sum Y$ = sum of observation in series Y;

$\sum X^2$ = sum of squared observations in series X; $\sum Y^2$ = sum of squared observations in series Y; $\sum XY$ = sum of the product of observations in series X and Y The value of correlation coefficient 'r' lies between -1 to 1, i.e. $-1 \le r \le 1$.

If r =1, there is perfect positive relationship. If r = -1, there is perfect negative relationship. If r = 0, there is no correlation at all. *(Gupta, 1999:519-521)*

The closer the value of 'r' is 1 or -1, the closer the relationship between the variables and the closer 'r' is to 0, the less close relationship. [*Shrestha and Manandhar, 1999 (2056): 234]*

3.6: Method of Data Presentation:-

The researcher has accumulated all the necessary data and financial information. Collected data for five year period (i.e. from the Year 2001/02 A.D-2005-06 A.D) (B.S 2058/59 to FY B.S 2062/63) are presented in tabular form. Tables are prepared to show various financial ratios of the same period. These tables are accompanied y corresponding changes, averages and standard deviations .Some important graphical presentation is included as and when necessary. In appendix also the ratio analysis and bar diagram are stated. The appendix also included the computation table of master list of specific value chart for coefficient of correlation, averages and standard deviation. All the financial and statistical values are computed manually. Similarly, all the financial numerical values are determined under million of Nepalese rupees and expressed in a round figure. From the analysis of the financial statement, we find the financial performance and financial position of the firm.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Financial Position Analysis:-

It is the process of identifying the financial strength and weaknesses of a firm by properly establishing the relationship between the items of balance sheet and income statement. Parties interested in financial position analysis of a firm may be a management, creditors, share holders, government and other stakeholders whose interest may vary from different angles.

4.1.1 Ratio Analysis:-

Ratio analysis involves analyzing mathematical relationship between two related items expressed in quantitative form. A ratio may be expressed in proportion, in rate or items, or in percentage. Hence, analysis of financial statement with the help of ratio may be termed as ratio analysis. It implies the process of computing, determining and presenting the relationship of items or groups of items of financial statements (i.e. income statement and balance sheet). It also involves the comparison and interpretation of these ratios and the use of them for future projection. It is the most powerful tool of the financial analysis and it is used in analyzing the financial information to indicate the operating and financial efficiency and growth of the bank.

It is one of the important tools broadly used in financial position analysis of a firm. For this research study also, the ratio analysis has been taken as an important tool. Hence, various types of ratios have been calculated for the financial position analysis. The ratios which can be used for financial position analysis of a bank have been mentioned in brief below.

4.1.1. a Liquidity Ratio:-

Liquidity is a pre-requisite for the very survival of a firm. It is very important for a firm to be able to meet its obligations as they become due. A firm should ensure that it does not suffer from the liquidity crunch, and also that it is not too much highly liquid. The failure of a company to meet its obligation due to lack of sufficient liquidity will result in bad credit image and loss of creditor's confidence. A very high degree of liquidity is also bad; idle or non-performing assets earn nothing. The firm's funds will unnecessarily tied up in the current assets. Therefore, it is necessary to strike a proper balance between liquidity and lack of liquidity. Adequate liquidity is a must in the banking sector also, in order to protect its solvency and to honor its short-term obligations or liabilities. Failing to do so, banks might have to go for liquidation, and hence to protect the creditor's interest, NRB has directed all the banks to maintain adequate Cash Reserve Ratio (CRR) 5.5%of total deposit.. A bank must ensure that it has a sound liquidity position to face the instant claims by its creditors.

Liquidity ratio measures the ability to meet the short-term obligations and reflects the short-term financial strength and solvency of any bank. Since, the depositors of the banks are interested in the short-term solvency or liquidity of the firm; it is regarded as one of the most important ratios. To measure the solvency position of Himalayan Bank Limited, there have been calculated some liquidity ratios which have been thought to be important

4.1.1. a.1 Current Ratio (CR):-

It is a test of liquidity. It measures short run debt paying ability of the firm In other words; it measures the availability of current assets for meeting current liabilities. This ratio is also called working capital ratio. This ratio is calculated by dividing total current assets by total current liabilities. The current assets of a firm represent those assets that can, in the ordinary course of business, be converted into cash within a short period of time, normally not exceeding one year.

The current assets(CA) of a bank include cash and bank balances, money at call and short notice, bills discounted and purchased, short term investment, receivable ,other assets etc. simultaneously, the current liabilities (CL)of a firm represent those liabilities that have short-term maturing obligations to be met, as originally contemplated, within a year. The current liabilities of a bank may include deposit under various account, bills payable, tax payable, dividend and bonus payable, interest payable, short-term loan etc.

Table No. 4.1

Table Showing Current Assets to Current Liabilities Ratio of HBL

(In million)

Fiscal Year	**CA Current Assets**	**CL Current Liabilities**	**Ratio(Times)**
2001/02	20997	19814.3	1.06
2002/03	23968.1	22292.1	1.08
2003/04	25430.1	23437.9	1.09
2004/05	28575.5	26303	1.09
2005/06	30039	27694.2	1.08
Average (X)			**1.08**
Standard Deviation (σ)			**0.011**

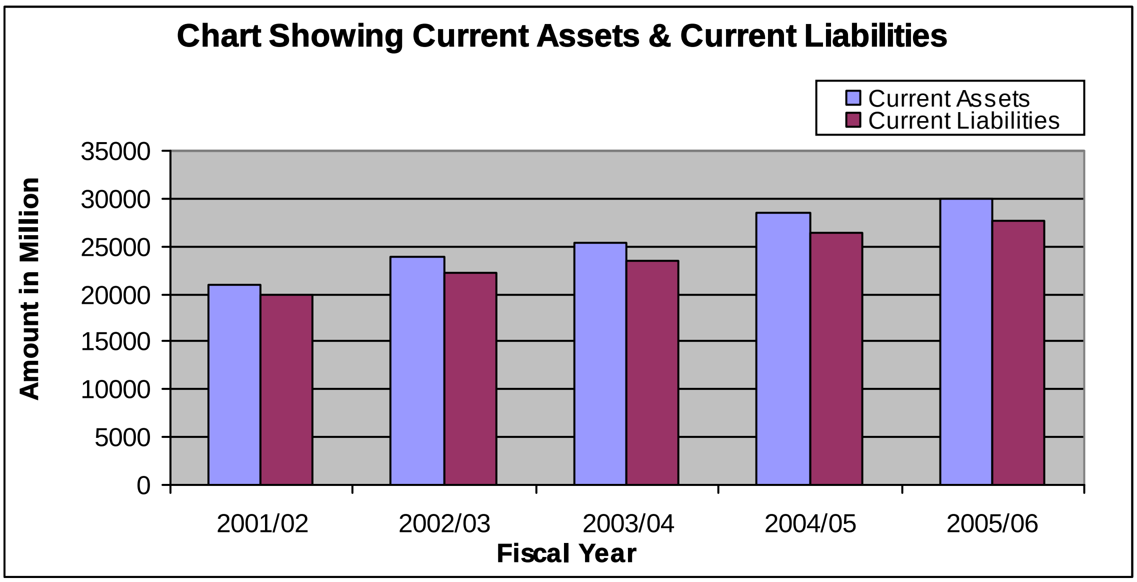
(Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-1)

The table no. 4.1 shows the current assets and the current liabilities of HBL. In the year 2001/02 the CR is 1.06 times. Similarly in the year 2002/03, 2003/04, 2004/5, 2005/06 the CR is 1.08, 1.09, 1.09, 1.08 times. In spite of increment in the amount of current assets and current liabilities as compared to preceding years, there is no significant difference in the ratio from 2001/02 to 2005/06 as both assets and liabilities have increased. The average (avg) ratio is 1.08 which seems quite satisfactory and the standard deviation is 0.011% for the period. The standard ratio is 2:1.

The CR is more or less stable during the period under study Higher and lower the standard ratio current ratios is also not preferable, because higher current ratio firm indicate that the firm is in liquid and ability to pay its current liabilities in times as when they become due. But it may not favorable because of pile up of stock and slow moving stock, idle cash balance, unsatisfactory debt collection. And on the other hand lower the standard ratio represent that the liquidity position of the firm is not good and the firm faces difficulty in payment of current obligation in time. From this analysis it seems that HBL has tried to maintain current assets at justifiable level in view of the practice in the current banking industry of Nepal.

From the table no 4.1 following graphical figure can be done to make it clear to understand.

Figure No. 4.1



(Source Table No. 4.1)

Figure (fig) 4.1, is the source of table no.4.1 which reveals that the current assets and current liabilities of HBL from the year 2001/02 to 2005/06 are shown .X-axis represents the Fiscal Year and Y-axis represents amount in million. Figure 4.1 is the source of table no 4.1.we can conclude that the current assets and current liabilities are in increasing trend and highest in the year 2005/06 in compare to other fiscal years.

CR is also called as working capital ratio .Working capital measures the ability to pay current obligations. Working capital compares the current assets to current liabilities, ands serves as the liquid reserve available to satisfy contingencies and uncertainties .A high working capital balance is mandated if the equity is unable to borrow on short notice. The ratio indicates the short term solvency of business and is in determining if a firm can pay its current liabilities when due. Working Capital (WC) = Current Assets (CA) - Current Liabilities (CL)

Table No.4.2

Calculation of Working Capital for the year 2001/02 to 2005/06

In Million

Fiscal Year	**Current Assets (CA)**	**Current Liabilities (CL)**	**Working Capital (CA-CL)**
2001/02	20997	19814.32	1.18
2002/03	23968.1	22292.09	1.68
2003/04	25430.14	23437.86	1.99
2004/05	28575.46	26302.95	2.27
2005/06	30038.98	27694.21	2.34

(Source: Annual Report HBL from FY 2001/02 – 2005/06)

Table No.4.2 shows the working capital .In each and every year there is increment in the working capital. In the year 2001/02 to 2005/06 the ratios 1.18, 1.68, 1.99, 2.27 and 2.34 times. The current assets and current liabilities are also increased every year is also increased in every year 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 .The working capital of HBL is positive which shows the position of the working capital in the bank is considered satisfactory. A negative working capital (Or close to zero) is non starter for any business angles, banker or financial Analyst.

4.1.a.(2) Cash and Bank Balance to Current Assets Ratio:-

It is the ratio of total cash and bank balance to total of current assets. Cash and bank balance are two major components of current assets. These are ready cash, which can be used anytime and anywhere according to the need of a firm. By nature, almost all the current assets of a firm remain idle or earn very little. So, there is no chance of earning from cash balance held in the business and bank balance refers to that balance which can be converted into cash at any needed time and it also generally remains idle. Hence, the cash and bank balance to current assets ratio shows what portion of total of current assets represents cash or how much from total current assets can be used as ready cash to discharge short term obligations of the bank.

Table No. 4.3

Cash and Bank Balance to Current Assets Ratio

In Million

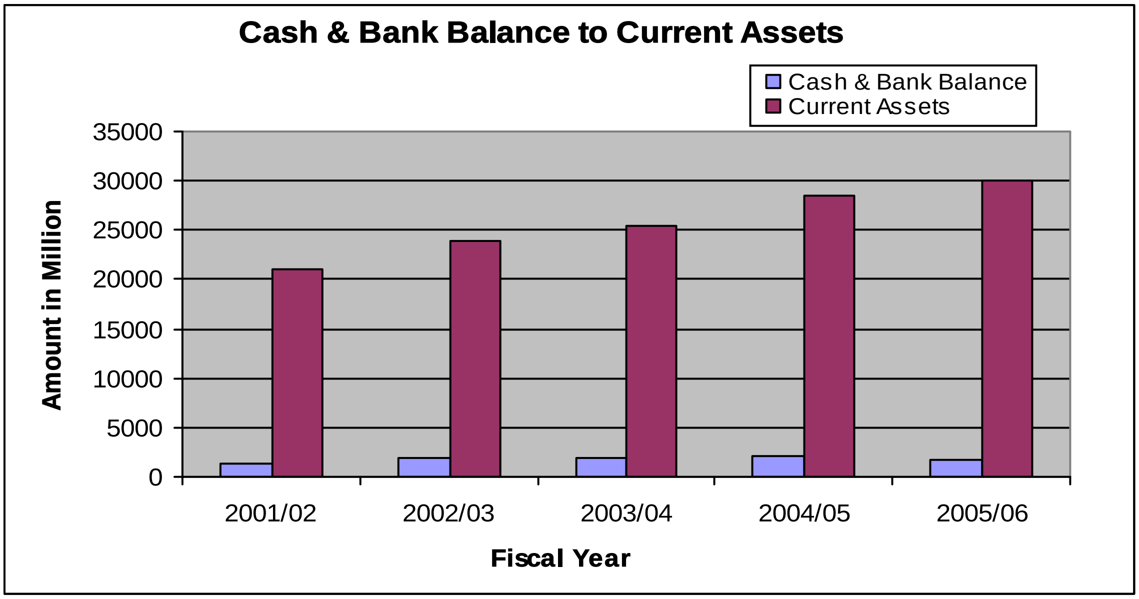
Fiscal Year	Cash & Bank Balance	Current Assets	Ratio (%)
2001/02	1264.67	20997	6.02
2002/03	1979.21	23968.1	8.26
2003/04	2001.18	25430.14	7.87
2004/05	2014.47	28575.46	7.05
2005/06	1717.35	30038.98	5.72
Average (X)			**6.98**
Standard Deviation (σ)			**0.99**

(Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix 2)

The table 4.3 shows the average of the cash and bank balance to current assets ratio is 6.98 percent. It can be said that at an average of 6.98 percent the bank is holding cash and bank balance .To keep more than 6.98 percent as cash is a positive aspect from viewpoint of liquidity but negative aspect from viewpoint of profitability. The ratio has fluctuated dramatically. The study period shows the standard deviation of 0.99%.

Figure No. 4.2

Figure Showing Cash & Bank Balance To Current Assets



(Source Table No. 4.3)

The figure no 4.2 is the source of table no.4.3 which shows that the cash and bank balance and current ratio and the percentage that show how much of current assets of the bank represent cash and bank balance .In the year 2001/02, 6.02% of total assets represent cash .In 2002/03 the percentage increase to 8.26% from 6.02% .In the year 2003/04 it decreases to 7.87 from 8.26%.Similarly in the year 2004/05 again decreases 7.05% and in the year 2005/06 it again decreases to 5.72%.The ratio are in fluctuating trend and become highest in the year 2002/03 i.e. 8.26% which means the percent of current assets are cash and bank balance**.**

4.1.1. a (3) Loan and Advances to Current Assets Ratio:-

It is the ratio of total of loans and advances to total of current assets. The main business of a bank is mobilization of resources. The resources/fund collected from different sources is mobilized in terms of loan and advances and by investing on various types of securities and projects. The major part of the collected fund is invested in the form of loan and advances, i.e. loan is granted to needy persons or needy sectors of the economy which is also a main business of any commercial bank.

Unlike cash and bank balance, loans and advances cannot be converted into cash on the desires of the investors. Loans and advances pay interest at a certain rate. But, it's not always sure that the principal and interest of the loan and advances will be recovered in the stated time. Hence, this ratio indicates the percentage of total current asset which have been lent to the customers with a promise to be paid interest at a certain rate.

Table No. 4.4

Loan & Advances to Current Assets Ratio

In Million

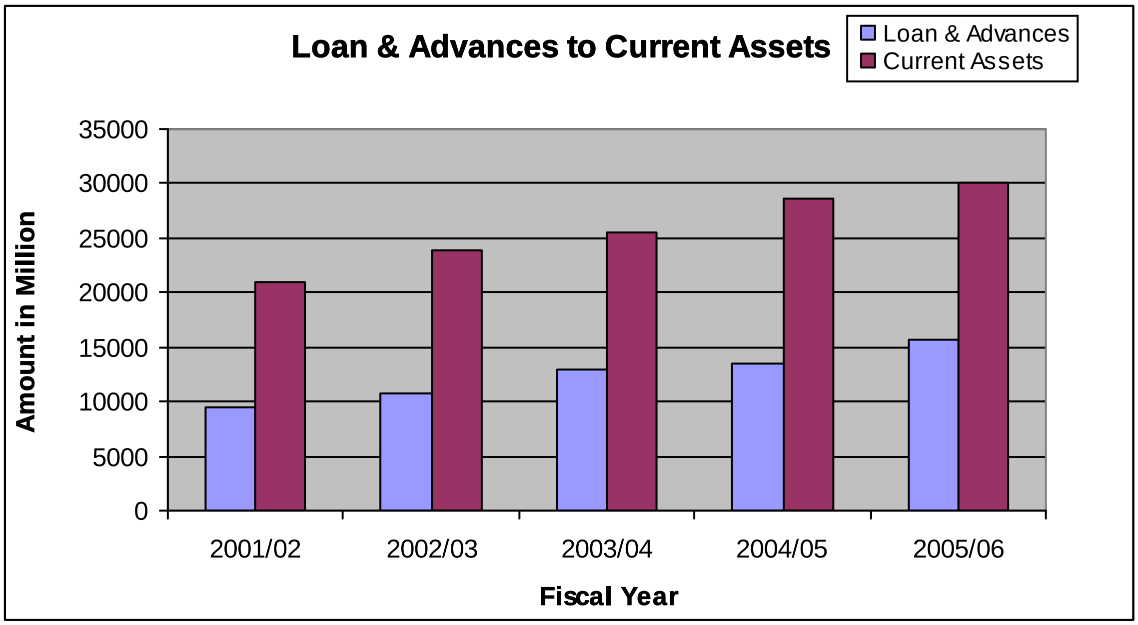
Fiscal Year	Loan & Advances	Current Assets	Ratio (%)
2001/02	9557.14	20997	45.52
2002/03	10844.6	23968.1	45.25
2003/04	12919.63	25430.14	50.8
2004/05	13451.17	28575.46	47.07
2005/06	15761.98	30038.98	52.47
Average (X)			**48.22**
Standard Deviation (σ)			**2.9**

(Source: Annual Report HBL from FY 2001/02 – 2005/06 appendix 3)

The table no 4.4 shows the loan and advances to current assets ratio. In the year 2001/02, 45.52% of the current assets have been lent as loan and advances. In the year 2002/03 the ratio decreases little bit to 45.25%.In the year 2003/04 the ratio increase to 50.80% and then decreases in the year 2004/05 to 47.07% .Again in the year 2005/06 increases to 52.47%.The ratio revealed that more than 48% of the current assets have been lent to the customers as loan and advances. As already stated, loan and advances earn returns at a certain rate and to invest more amounts of resources in the portfolio yielding return at a fixed rate is always a positive aspect from view point of maximizing profit if there is no risk of recovering 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 slow trend of profitability for the bank. From the table no 4.4 it is also clear that the HBL is investing higher amount in loan and advance from the funds collected in other sectors as well as from the current assets. The loan and advance is more than current assets, so we can it to be said that HBL Bank liquidity with regard to current assets is more satisfactory. But somehow it has increased in the year 2005/06.

Figure No.4.3

Fig. Showing Loan & Advances to Current Assets.



(Source Table No. 4.4)

The figure no 4.3 is the source of table no.4.4 which shows the total loan and advances and the current assets of HBL where X –axis represent fiscal year and Y–axis represent amount in million. As mentioned earlier the loan and advances to the current 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. The highest percentage for the period is 2005/06 as 52.47%.

4.1.1.a(4) Fixed Deposit to Total Deposit Ratio:-

It is the ratio which shows the percentage of fixed deposit on total deposit. Fixed deposit is one of the major sources of fund which bears cost at a certain rate and has certain maturity. Though termed as current liabilities, it should not be paid back before maturity.

But, a serious drawback of this type of deposit is, paying of interest on this type of deposit will be an extra burden for the bank till its maturity. Hence, this ratio shows the percentage of total deposit which bears cost at a fixed rate and calculated by dividing fixed deposit by total deposit ratio for the entire period of the study.

Table No.4.5

Table Showing Fixed Deposit to Total Deposit.

In Million

Fiscal Year	**Fixed Deposit**	**Total Deposit**	**Ratio (%)**
2001/02	6044.9	18619.38	32.25
2002/03	5880.7	21007.38	27.99
2003/04	6264	22010.33	28.46
2004/05	6379	24814.01	25.71
2005/06	6392	26490.85	24.13
Average (X)			**27.71**
Standard Deviation (σ)			**2.76**

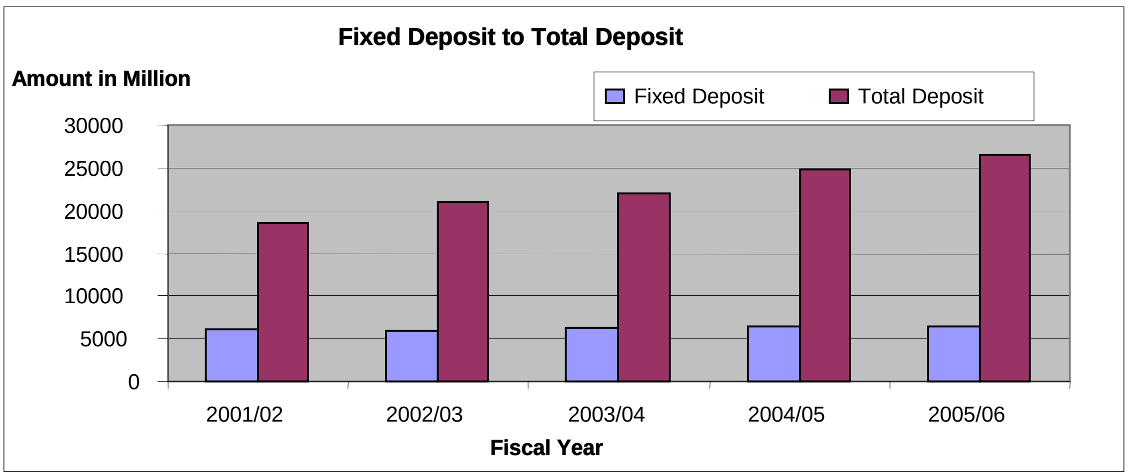
(Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix 4

The table no. 4.5 indicates that HBL fixed deposit to total deposit ratios calculated for five years i.e. from FY 2001/02 to 2005/6. During the FY 2001/02, bank has accumulated Rs. 6044.96 million under fixed deposit account. It is nearly 32.25 %of total deposit of Rs. 18619.38 million. Therefore the ratio is 32.25 %.Similarly, in FY 2002/03 fixed deposit is 27.99 percent (5880.7 million) of total deposit Rs.21007.38 million and its ratio is 27.99 percent. In FY 2003/04, the fixed deposit is 28.46percent (Rs.6264 million) of total deposit Rs. 22010.33 million.

Its ratio is 28.46 percent and in FY 2004/5 the fixed deposit is 25.71 percent (6379 million) of total deposit Rs 24814.01 which has been decreased gradually. In FY 2005/06 the ratio is 24.13% again decreased than previous year? Average of this ratio for the period is 27.71% and standard deviation is 2.76%. It is clear that the bank has been trying to reduce the accumulation of more fixed deposit amount. The deposit accepted under account other than fixed deposit are termed as more current liabilities i.e. they normally have no maturity and should be paid off any time or on the demand of customer. Hence from view point of liquidity greater portion of fixed deposit may be termed as favorable one. However, fixed deposit has higher cost than other deposit and provides relative long term source of fund. HBL has been trying to reduce the overall cost by decreasing the share of fixed deposit in the total deposit.

Figure No.4.4

Chart Showing Fixed Deposit to Total Deposit



(Source: Table No. 4.5)

In the figure no 4.4 the fixed deposit and total deposit are increased simultaneously but total deposit increased more than total deposit axis represent fiscal year and Y-axis represent amount in million. F/y 2001/02 is the highest ratio among the years 32.25%.Then after there is gradually decreased in the ratio.

4.1.1.a (5) Cash and Bank Balance to Total Deposit :-

This ratio shows the percentage of total deposit which can be immediately discharged by the bank from its ready cash. Total of the deposits is the most important source of a bank's fund. This fund should be utilized into various sectors in a profitable manner and cash and bank balances is that part of bank's fund which has not been invested any where with a view to generating income. Excess cash and bank balance, from viewpoint of liquidity, shows a firm's strong position and it is always harmful from viewpoint of profitability to maintain excess cash and bank balance. Following table shows the cash and bank balance to total deposit ratio of the bank for the period of study.

Table No. 4.6

Cash and Bank Balance to Total Deposit Ratio

In million

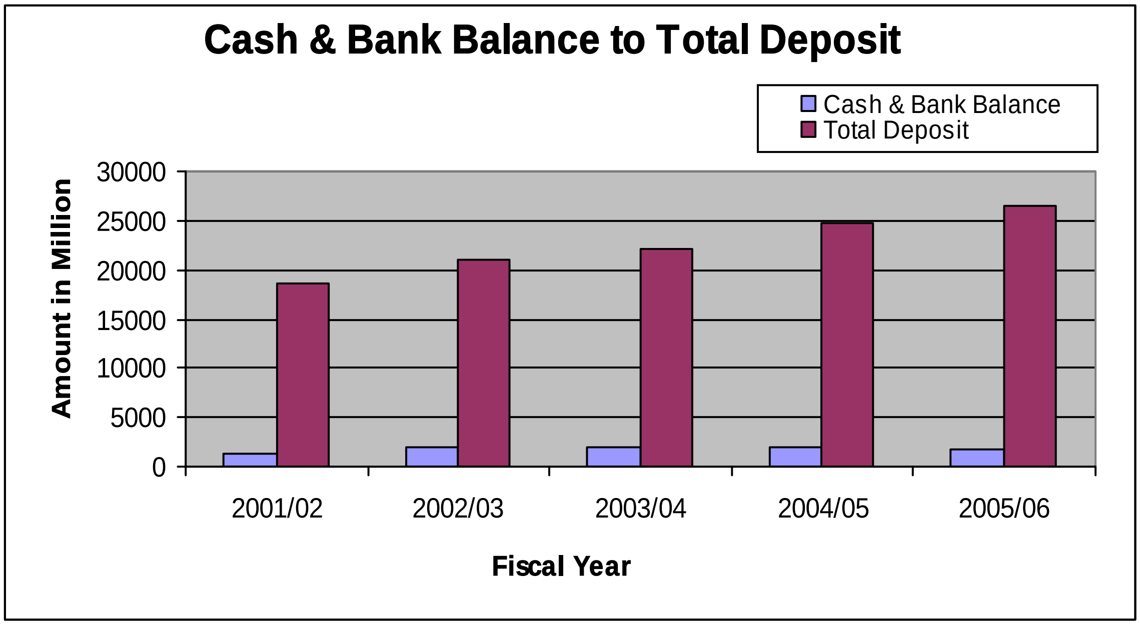
Fiscal Year	**Cash & Bank Balance**	**Total Deposit**	**Ratio (%)**
2001/02	1264.67	18619.38	6.79
2002/03	1979.21	21007.38	9.42
2003/04	2001.18	22010.33	9.09
2004/05	2014.47	24814.01	8.12
2005/06	1717.35	26490.85	6.48
Average (X)			**7.98**
Standard Deviation (σ)			**1.18**

Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-5

For the fiscal year 2001/02 this ratio is 6.79% which implied that 6.79% of bank's deposits are idle, or they earn very little. The table 4.6 shows relatively high fluctuation in the ratios during each year .the average of the ratio is 7.98 % and the standard deviation is 1.18%.As stated earlier the amount of cash held in the office earns nothing and bank balance also remains idle or earns very little. Hence, remaining other things constant, less amount of cash and bank balance shows banks efficiency in mobilizing its resources and vice versa. Now it is clear that the bank is able to use its resources more effectively during the period. Because it's all period ratios is not more difference than average ratio. But cash and bank balance should be maintained properly against anticipated calls of its depositors. Hence, excess cash and bank balance shows a firm's strong position regarding its liquidity and profitability.

Figure No.4.5

Chart showing Cash and Bank Balance to Total Deposit



(Source Table No. 4.6)

In the figure no 4.5 X-axis represent the amount in millions and Y-axis represents the fiscal years. The fig 4.5 is the source of table no.4.6 which reveals that the total cash and bank balance and total deposit. This ratio shows the relationship between cash and bank balance and total deposit i.e. how much of total deposit are cash and bank balance.

4.1.1. b. Profitability Ratio:-

Profit is the main element for financial institution to survive and grow over the long run. But only earning profit is not the ultimate aim of the institution and it should never be earned at the cost of employees, customers and society. However, profitability is a measure of efficiency and search for it provides an incentive to outside efficiency. This ratio indicates the degree of success in achieving desired profit levels of the working funds. These ratios are of two types: those showing profitability in relation to sales and those showing profitability in relation to investment. A firm should earn profits to survive and grow over a long period of time. Profits are indispensable but it would be wrong to assume that every action initiated by management of a firm should be aimed at maximizing profits, irrespective of social magnitude and responsibilities. Even then, profit plays a fundamental role to make a firm stand strong to meet its social responsibilities. Profit is the difference between revenues and expenses over a period of time. Profit is the ultimate output of a firm, and it will have no future if it fails to make sufficient profit. The profitability ratios are calculated to measure the operating efficiency of the firm. The profitability ratio measures the profit of a company makes in relation to assets. A company's value is in its income stream, and its assets are simply a means to achieve this goal. The ideal company would produce income without assets. Besides the management of the firm, creditors and owners are also interested in the profitability of the firm. "Profit must be earned to sustain the operations of the business to be able to obtain funds from investors fro expansion and growth and to contribute towards the social overheads for the welfare of the society."

To measure the profitability of the HBL, a number of ratios have been calculated and analyzed underneath.

4.1.1. b.1 Basic Earning Power(BEP):-

This ratio indicates the ability of the firms' assets to generate operating income. BEP is calculated by dividing Earning before Interest and Tax (EBIT) by Total Assets.

Table No.4.7

Table Showing Basic Earning Power

(In million)

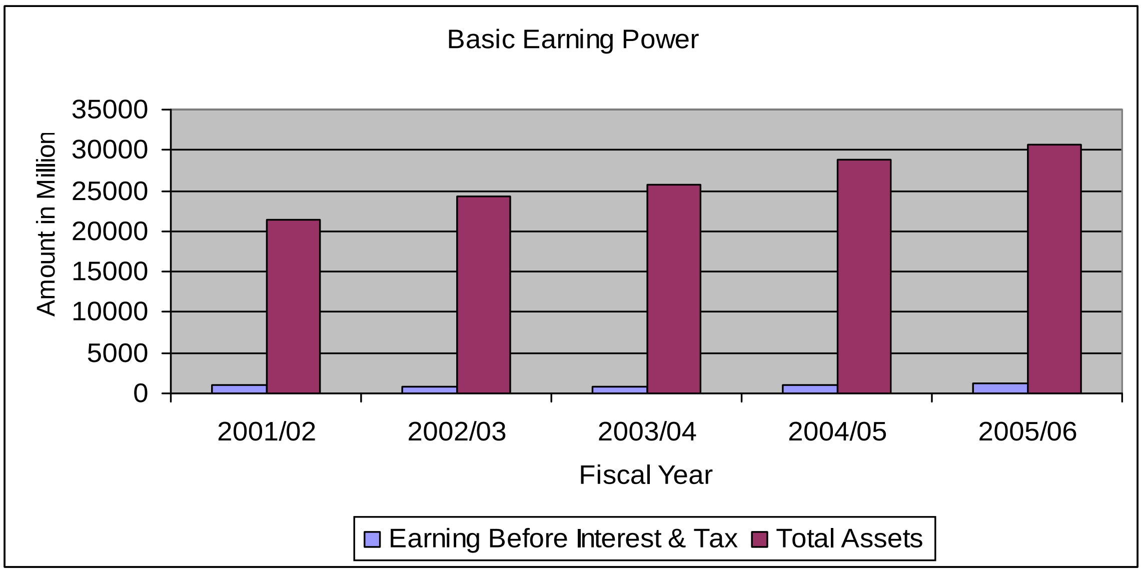
Fiscal Year	EBIT	Total Assets(TA)	Basic Earning power (EBIT/TA) %
2001/02	927.18	21315.85	4.35
2002/03	914.15	24197.97	3.78
2003/04	912.12	25729.79	3.55
2004/05	1084.51	28871.43	3.76
2005/06	1321.24	30579.81	4.32
Average (X)			**3.95**
Standard Deviation (σ)			**0.33**

Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-6)

The table no 4.7 reveals the basic earning power of HBL for the Year 2001/02 to 2005/06.The Basic Earning Power is 4.35, 3.78, 3.55, 3.76, and 4.32 % for the f/y 2001/02 to 2005/06.The average ratio is 3.95 and the standard deviation is 0.33 for the period of five years. Basic earning higher must be positive for the satisfactory level. Basic Earning Power is in decreasing trend .Any Institution should try to increase basic earning power.

Figure No.4.6

Figure showing basic earning power (EBIT to Total Assets)



(Source: Table no 4.7)

The figure no 4.6 shows the Basic Earning Power of the bank is in the decreasing trend, which shows the net income of the bank has been decreasing subsequent year. But in the ear the basic earning ratio is 4.32 which have been increased to compare to the Year 2004/05.

4.1.1. b. 2 Return on Total Assets (ROA):-

This ratio measures how far the management has utilized all the assets of a firm for profit generating activities. This ratio provides the foundation necessary for a company to deliver a good return no equity. Higher ROA ratio indicates higher efficiency in the utilization of total assets and vice-versa. ROA is calculated by dividing Net Income after

Tax by Total Assets.Net profit is the after tax profit of a firm, which can be utilized by the firm for its own purpose or for the benefit of owners. Total assets also termed, as working fund is the total utilization of a firm's fund. Net profit stated other way, is the reward to a firm for efficient utilization of its various assets. The net profit to total assets ratio, therefore, points out how successfully a firm has utilized its total assets. It indicates profit-earning capacity of the assets. A superior net profit to total assets ratio shows firm's better position and wise to maximize this ratio. Following table shows the net profit to total assets ratio of the bank for the period of study.

Table No 4.8

Table Showing Return on Total Assets (ROA)

(In million)

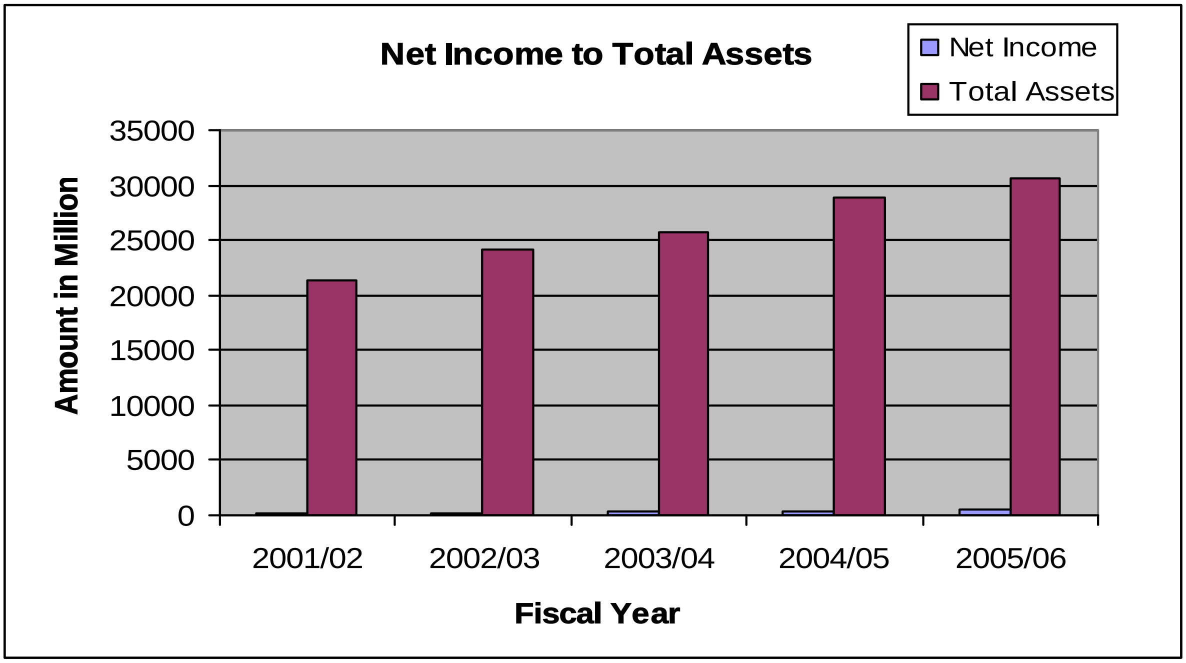
Fiscal Year	**Net Income(Profit)**	**Total Assets**	**ROA (NI/TA) (%)**
2001/02	235.02	21315.85	1.10
2002/03	212.13	24197.97	0.88
2003/04	263.05	25729.79	1.02
2004/05	308.28	28871.43	1.07
2005/06	457.46	30579.81	1.50
Average (X)			**1.11**
Standard Deviation (σ)			**0.21**

*Source: Annual Report HBL from FY 2001/02 – 2005/06*and Appendix-7

The table no 4.8 reveals the ROA of HBL for the Year 2001/02 to 2005/06.The Ratios of ROA is 1.10, 0.88, 1.02, 1.07, and 4.50 % for the year 2001/02 to 2005/06.The average ratio is 1.11 and the standard deviation is 0.21% for the period of five years. Net profit and total assets is increasing every year .The ROA decreases to 0.88 from 1.10 in the year 2002/03 which is not good trend. In the year 2003/04 it increases to 1.02% ,1.07 % increases in the year 2004/05 and again increases to 1.50% in the year 2005/06 .The increase in total assets is good so again the bank should try to increase the ratio. The ROA of the bank is in fluctuating trend and the bank should be trying to keep it at an increasing trend.

Figure No 4.7

Figure Showing Net Income to Total Assets



(Source: Table no 4.8)

The figure no 4.7 shows the profitability of HBL throughout the period of study. The highest net profit to total assets ratio for the whole period is 1.50 percent in Year 2005/06. It means the bank has earned maximum of only 1.50 percent on its total assets during the period of study. The graphical shows that the net profit and the total assets are increasing.

4.1.1.b. 3 Return on Common Equity (ROE):-

The ratio of net income to common equity measures the rate of return on common stockholders' investment. This is the king amongst the ratio. This ratio measures the profit earned by the HBL by utilizing owner's equity there by generating return to satisfy the owners. Higher the ratio indicates sound management and efficiency and wealth maximization of the banks, which in turn is the wealth maximization of the banks. ROE is calculated by dividing Net Income after-Tax (NIAT) by Common Equity.

Here, NIAT refers to net profit after tax from profit and loss a/c and shareholder equity refers to paid up capital, reserve and surplus and undistributed profits.

Table No.4.9

Table showing Return on Equity of HBL

In million

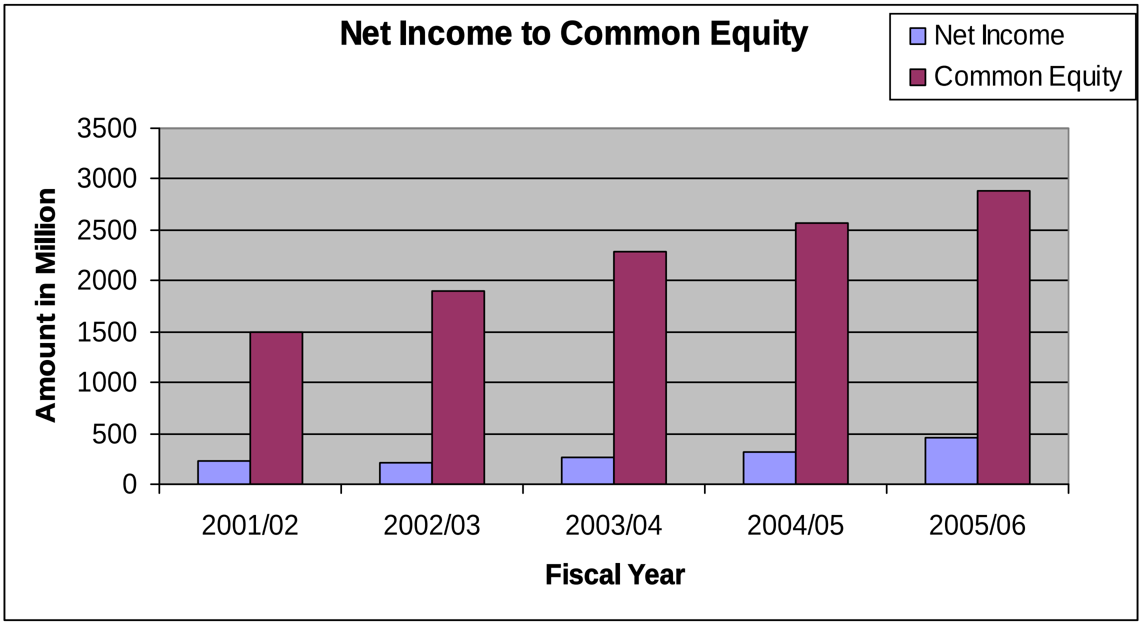
Fiscal Year	Net Profit/Income	Common Equity (SHE)	ROE (NPAT/SHE) (%)
2001/02	235.02	1501.53	15.65
2002/03	212.13	1905.88	11.13
2003/04	263.05	2291.93	11.98
2004/05	308.28	2568.39	11.99
2005/06	457.46	2885.59	15.85
Average (X)			**13.32**
Standard Deviation (σ)			**2.01**

Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-8

Table no 4.9 shows the ROE of the bank for the 5 years. It also reveals that the net income is the highest in the year 2005/06.The ROE ratios have fluctuated dramatically leading to the standard deviation of 2.01% and an average of 13.32%.In the year 2001/02-2005/06 the ratio is 15.65% ,11.13%,11.98%11.99%15.85%.

Figure No.4.8

Figure Showing Net Income to Common Equity



(Source: Table no 4.9)

Figure no 4.8 shows the ROE of the bank for the 5 years. It also reveals that the net income is the highest in the year 2005/06.The ROE ratios have fluctuated dramatically leading to the standard deviation of 2.01% and an average of 13.32.

It can be seen that the ratio for the year 2001/02 is 15.65%.In the year 2002/03 it decreases to 11.13% in the year 2003/04, 2004/05, 2005/06 it increases to 11.98 %, 11.99%, 15.85%.The trend shows that the fluctuating income of the bank has resulted in fluctuation of this ratio. The graphical chart shows that there is increment in the net profit as well as in equity.

4.1.1. b.4. Net Income to Total Deposit:-

The sum of deposits accepted by the bank under various accounts is termed as total deposit. According to the terms and condition of the deposit, the bank should pay interest on these deposits. The deposits so accepted are mobilized by the bank into various sectors in the form of investment, loan and advances from which it generates earnings in the form of interest or other. The difference between the interest received and paid by the bank is its profit. Hence, if defined in other ways, net profit is a reward to the bank for efficient mobilization of its total deposit. So, it would also be reasonable, meaningful and important from every angle to show 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 No. 4.10

Table Showing Net Income to Total Deposit

(In million)

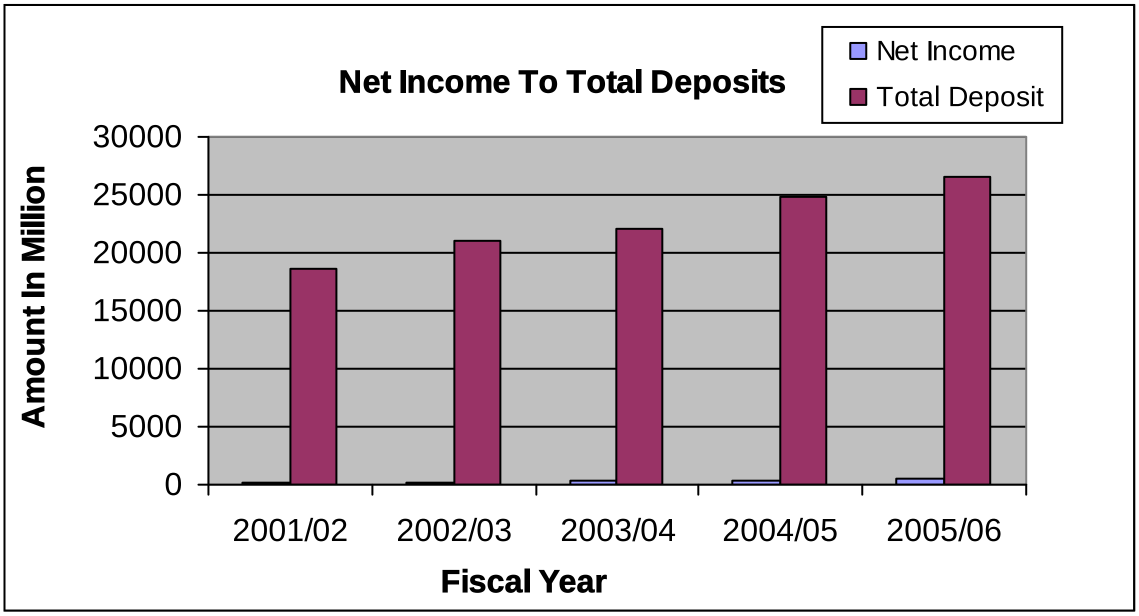
Fiscal Year	Net Income	Total Deposit	Ratio (%)
2001/02	235.02	18619.38	1.26
2002/03	212.13	21007.38	1.01
2003/04	263.05	22010.33	1.19
2004/05	308.28	24814.01	1.24
2005/06	457.46	26490.85	1.73
Average (X)			**1.29**
Standard Deviation (σ)			**0.2390**

Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-9

The table 4.10 indicates Net Income to Total deposit ratio for 5 years. As it is clear that the net income of the bank is in increasing trend but in the year 2002/03 the income of the bank decreased and further that year the bank has increased its NI .The average ratio for the five years period is 1.29% and standard deviation is 0.23%

Figure No.4.9

Chart Showing NI and Total Deposit



(Source: Table no 4.10)

The figure no 4.9 depicts the net income and total deposit for the five years axis represent year and Y axis represent amount. From the above fig we can say that the net income of the bank is much lower that the total deposits. It shows that there is increment in net income as well as total deposits but not in the same ratio.

4.1.1. c Turnover Ratio:-

4.1.1. c. 1. Loan and Advances to Total Deposit (Credit to Deposit -CD Ratio)

Loan and advances is the main item of utilization of a bank's collected fund. Accepting deposits and granting of loans are the main business of any commercial and other type of bank. This ratio shows the percentage of total deposit that has been utilized on loan and advances. The collected fund must be mobilized somewhere else in the form of loans and advances or investment or in any other forms to generate income. The utilization of fund in the form of loan and advances generates income in terms of interest at a fixed rate.

Mobilization of fund in the sector with a fixed rate of interest is always a positive aspect from viewpoint of profitability if there is no risk while recovering them. The Loan & Advances to total deposit ratio can be further explain by the help of the following table

Table No.4.11

Table Showing Loans and Advances to Total Deposit

(In million)

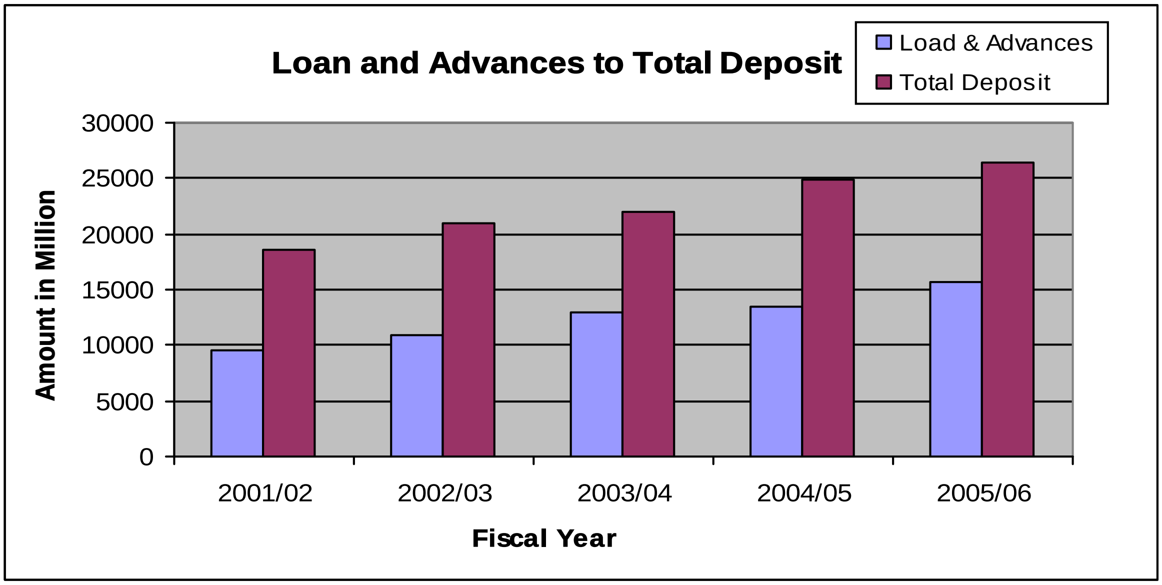
Fiscal Year	**Loans and Advances**	**Total Deposit**	**Ratio (%)**
2001/02	9557.14	18619.38	51.33
2002/03	10844.6	21007.38	51.62
2003/04	12919.63	22010.33	58.70
2004/05	13451.17	24814.01	54.21
2005/06	15761.98	26490.85	59.50
Average			**55.07**
Standard Deviation (σ)			**3.45**

Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-10)

The table no 4.11 shows the loans and advances to total deposit ratios for 5 years (2001/02 to 2005/06). There is a bit fluctuation in ratios. The ratio in FY 2001/02 is 51.33% which is lowest ratio during the period. That shows that 51.33% of the total deposits are lending out as loan to customers. It is clear that loans and advances and Total deposit has increased every year by certain percentage .In FY 2002/03, 2003/04 the ratio are increased continuously to 51.62, and 58.70 percent .But in FY 2004/05 the ratio has decreased to 54.21% than FY 2003/04 .In FY 2005/06 the ratio has increased to 59.50%, which is the highest ratio of the during the period. The loan and advance to total deposit ratio shows that the fund mobilization ratio of the bank. The average of the ratio is 55.07 percent; it means the HBL mobilization of its fund 55.07 % of its total fund. The standard deviation is 3.45%.

Figure No.4.10

Chart Showing Loan & Advances to Total Deposit of HBL



(Source: Table no 4.11)

The figure no 4.10 shows the graphical representation of the table no 4.11 which shows the amount of loan and advances and the total deposits axis & Y-axis represents the five fiscal years and amount in millions from the chart we can conclude that the amount of loan and advances and total deposit are in increasing trend and continuous increasing in every year Accounting records of recent years of HBL shows that large amount of loan and advances are given out.

The idle CD ratio for the bank is 60%. The CD ratio of HBL indicates that it is trying to maintain CD ratio at a moderate level. The CD ratio indicates that the majority of deposit is being invested in money at call and other investment yielding low return to the company as the margin of profit in investment is low as compared to margin on loan.

4.1.1. c. 2. Total Investment to Total Deposit Ratio:-

As stated earlier total deposit is the main source of a bank's fund which is the amount accepted by the bank from its customers under various accounts. The fund so collected should be utilized properly into different sectors of the economy with a view to achieve the objectives of the bank. A wise utilization of such fund results in maximization of profit. By nature, major part of the total deposit of bank's fund, which is invested on the securities, issued by governmental and non-governmental organization and on other various projects. Utilization of fund on investment has possibility of capital gain along with regular risk of not recovering investment from these sectors.

Following table shows the Total Investment to Total Deposit ratio of the bank for various years of study:

Table No. 4.12

Total Investment to Total Deposit Ratio

(In million)

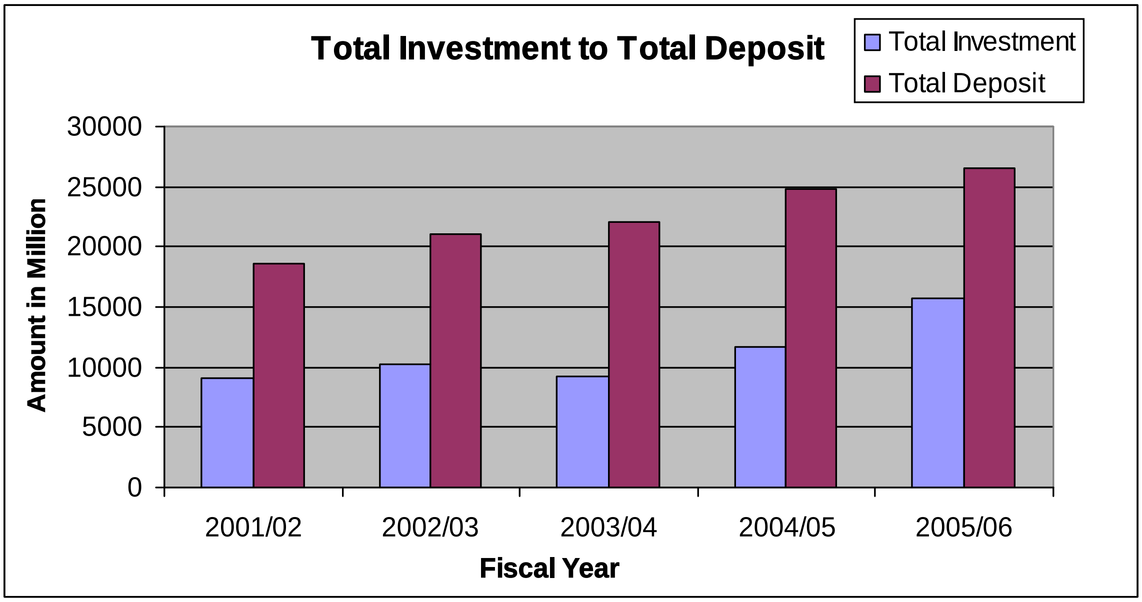
Fiscal Year	Total Investment	Total Deposit	Ratios (%)
2001/02	9157.11	18619.38	49.18
2002/03	10175.44	21007.38	48.44
2003/04	9292.11	22010.33	42.22
2004/05	11692.34	24814.01	47.12
2005/06	15761.98	26490.85	59.50
Average (X)			**49.29**
Standard Deviation (σ)			**5.65**

(Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-11)

The average ratio is 49.29% in the total investment to Total deposit .There is decrement in the ratios from 2001/02 to 2005/06 The highest ratio is 59.50% in the year 2005/06 and 42.22% is the lowest ratio in the year 2003/04.The standard deviation is 5.65%.The average 49.29% shows that out of 100% 49.29% of deposit is invested in other securities.

Figure No.4.11

Chart showing Total Investment to Total Deposit



(Source: Table no 4.12)

It is noticeable in the figure no 4.11 that Total deposit for the five years has increased gradually as a result total investment has also increased. But total investment has the trend of increasing and decreasing continuously from the Year 2001/02 to 2003/04.Total deposit has increased gradually as a result total investment has also increased.

This clearly reveals that the bank has been investing a large amount of its deposit on various securities and projects averaging to 49.29%. But as mentioned already, these investments bear less risk as compared to loan and advances. To decrease the ratio of investment ultimately refers to increase the ratio of loan and advances.

Hence, the bank does not seem to be successful in making investment on profitable sectors other than loan and advances. Due to the recovery problems of loan and advances and year -by -year higher ratios of investment made by the bank the profitability of the bank may be negatively affected as the investment generates low return as compared to loans.

4.1.1. c 3. Loan and Advance to Fixed Deposit (FD) Ratio:-

Loan and advances is that part of bank's investment which generates income at a certain rate and fixed deposit is that part of bank's fund which bears cost at a certain rat. Hence, it is the ratio which indicates the relationship between the investment of bank earning interest at a fixed rate and the liabilities of bank bearing interest at a certain rate. In other words, it shows the ratios of fixed returns generating investment and fixed cost bearing liabilities. The table shows the loan and advances to fixed deposit ratio of the bank from year 2001/02 to 2005/06

Table No. 4.13

Loan and Advances to Fixed Deposit Ratio (%)

(In million)

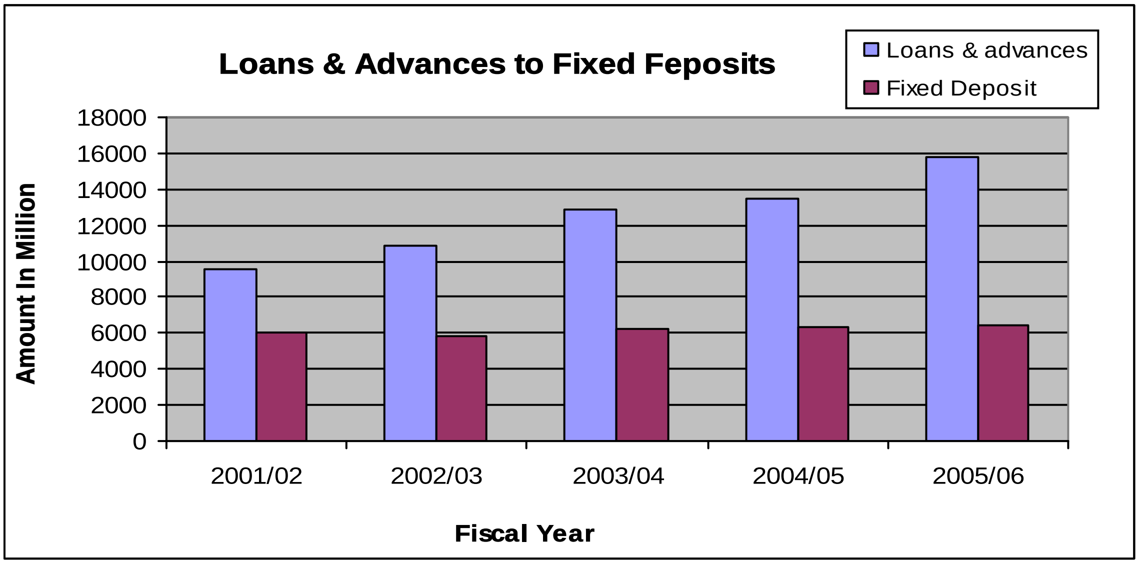
Fiscal Year	**Loans& Advances**	**Fixed Deposit**	**Ratio (%)**
2001/02	9557.14	6044.9	158.10
2002/03	10844.6	5880.7	184.41
2003/04	12919.63	6264	206.25
2004/05	13451.17	6379	210.87
2005/06	15761.98	6392	246.59
Average			**201.24**
Standard Deviation (σ)			**29.39**

(Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-12)

Tableno.4.13 shows the loans and advances to fixed deposit ratios of the bank for 5 years. The ratio is increasing trend over the five years. The ratio during the last five years ranged from 158.10% in 2001/02 to 246.59% in 2005/06. The average ratio for the period is 201.24% and the standard deviation is 29.39% .The average shows that 201.24%% of fixed deposit has been lent out for customers as loans and advances.

Figure No 4.12

Loans & Advances to Fixed Deposits



(Source: Table no 4.13)

Figure no 4.12 shows loans advances to fixed deposit from the year 2001/02 to 2005/06. There is increment in the loans and advances and fixed deposit each year but not in the same ratio. Higher ratio indicated higher use of fixed deposit which is more costly. As s result, higher use of FD to finance loans and advances result in low margin and has effect on profitability. The use of FD to finance medium and long term loan is suitable since the FD has long maturity period as compared to other deposits.

4.1.1. d. Debt Management Ratio and Solvency:-

It is also called leverage or Capital structure Ratio. Debt management ratios measures the extent to which firms is using debt financing or financial leverage and the degree of safety afforded to creditors. A solvency ratio is measures the relationship between debts and owners equity and examine the proportion of debt the company is using. This ratio is calculated to judge the long-term financial position of the firm. This ratio indicates mixture of funds provided by the owners and lenders, as per the general rule. Debt is more risky from firm's point of view. The firm has a legal obligation to pay interest to debt holders, irrespective of the profit or loss incurred by the firm. This ratio of institution highlights the long term financial position, debt servicing capacity and strength and weaknesses of the firm. As institution should have short term liquidity as well as long term solvency as short term creditors are interested to know about the liquidity position and long term creditors are interested to know the term financial position of the firm to determine to whether the firm can pay regular interest or not. The following ratios are examined under these heading.

4.1.1. d. 1. Total Debt to Total Assets Ratio:-

This ratio measures the relationship between financial contribution of outsiders and owners on total assets of the firm or it measures the proportion of debt out of total assets of the firm. It also provides security to outsider to pay their regular interest, dividend and principal within prescribed time. Generally creditor prefers the components to use low debts and owners, on the contrary prefer high debt ratio to earn more return. This ratio is similar as debt to equity ratio. Higher debt ratio indicates higher financial risk as well as increasing claims of outsiders over the total assets and lower ratio indicates lower financial risk as well as decreasing claim of outsiders over the total assets of the firm. Here, total debt refers to short-term loan; long term loans and all kinds of deposits and other liabilities and total assets include all the assets that are in the assets side of balance sheet of the firm.

Table No.4.14

The following table shows Total Debt to Total Assets of HBL.

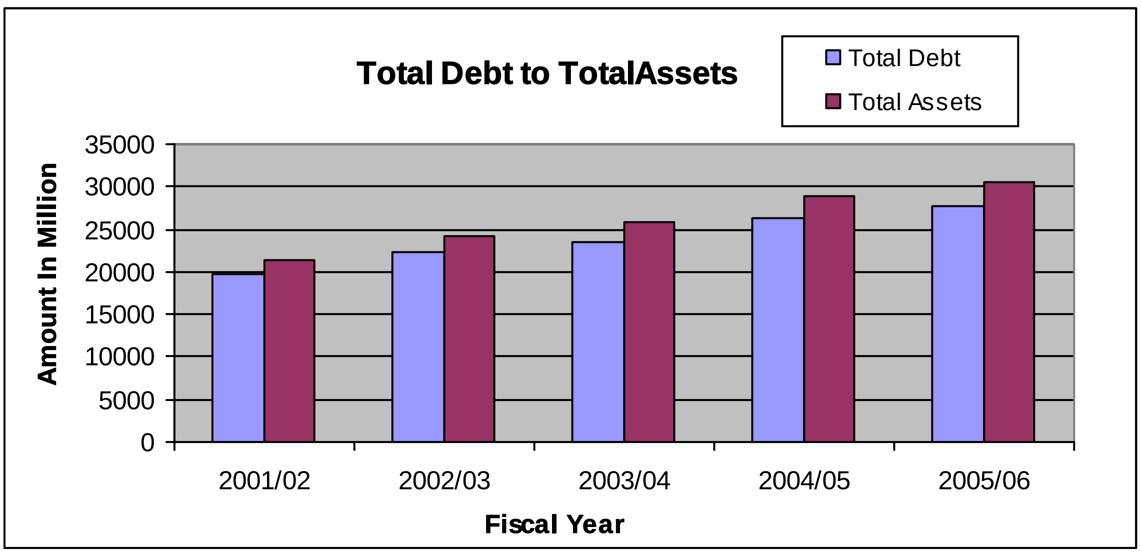
Fiscal Year	**Total Debt**	**Total Assets**	**Ratio (%)**
2001/02	19814.32	21315.85	92.96
2002/03	22292.09	24197.97	92.12
2003/04	23437.09	25729.79	91.09
2004/05	26302.95	28871.43	91.10
2005/06	27694.22	30579.81	90.56
Average (X)			**91.57**
Standard Deviation (σ)			**0.86**

(*Source: Annual Report HBL from FY 2001/02 – 2005/06 and* Appendix-13)

The table no 4.14 shows the total debt to total assets from the year 2001/02 to 2005/06.The ratio for the period for the five years is gradually decreased. The average ratio for the period is 91.57% and the standard deviation is 0.86%.Total Debt and Total Assets has increased each year but not in the same ratio. In the year 2001/02 to 2005/06 the ratio is 92.96%,92.12%,91.09%91.10%90.56%.Highest ratio is in the year 2001/02 i.e. 92.62% and lowest in the year 2005/06.It shows that total assets is financed by Debt.

Figure No.4.13

Chart Showing Total Debt to Total Assets Ratio of HBL



(Source: Table no 4.14)

From the figure no.4.13, we find that the total debt to total assets ration of HBL is more than 90% in all five years. This has shown that the assets of HBL are financed mostly by way of debt capital. The share of equity capital in total assets is low. As the result, we can say that the company is highly levered by debt.

4.1.1. d. 2. Total Debt to Shareholder's Equity Ratio:-

This ratio is calculated by dividing total debt by total equity. This ratio measures the proportion of external liability in the total capital of the firm. This ratio indicates how well creditors are protected in case of the company's insolvency. It is calculated to measure the firm's obligation to creditors in relation to the funds invested by the owners

In this study, total debt refers to all depositors, bills payable, borrowing made from other banks and other liabilities. Similarly, total equity refers to paid up capital, reserve and surplus and undistributed profit. Generally, very high debt to equity ratio is unfavorable to the business firm because debt gives third parties legal claims over the company. Which can be for regular payment of interest plus repayment of principal within the agreed time?

On the other hand, a very low debt to equity ratio is also unfavorable from the shareholder's point of view. They want this ratio to be high so that they can have better return with smaller capital. Investment of debt in the business is considered beneficial when the interest rate is less then the return as increase shareholders wealth. This process is known as trading on equity. Therefore an appropriated mixture of debt and equity capital should be maintained by the firm for maximization of owner's wealth.

Table No.4.15

Table showing the ratio of total debt to total capacity of HBL

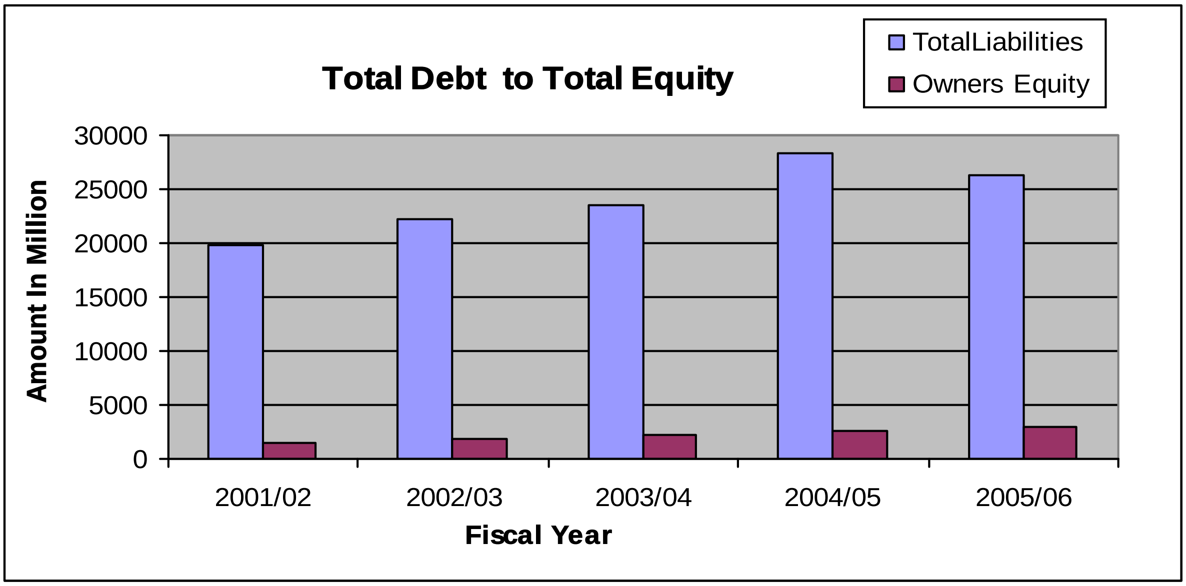
Fiscal Year	Total Liabilities	Common Equity	Ratio (%)
2001/02	19814.32	1501.53	13.2
2002/03	22292.09	1905.88	11.7
2003/04	23437.86	2291.93	10.23
2004/05	28302.95	2568.39	11.02
2005/06	26302.95	2885.59	9.12
Average (X)			**11.05**
Standard Deviation (σ)			**1.37**

(Source: Annual Report HBL from FY 2001/02 – 2005/06) and Appendix-14)

In the table no 4.15 we can find out the ratios between total liabilities to common equity. The avg ratio for the period is 11.05% and the standard deviation is 1.37% there is fluctuation in the ratio from the year 2001/02 to 2005/06.

Figure No.4.14

Chart Showing Total Liability & Total Owner Equity.



(Source: Table no 4.15)

The fig no. 4.14 shows the graphical presentation of total debt to total equity of HBL for the period of five years from 2001/02 to 2005/06. The graphs shows that HBL is largely financed by debt capital.. But the higher debt equity ratio shows that the cost of funds of HBL is higher as debt has high cost than equity. These ratios of the bank are not satisfactory because they are relying mainly on borrowed capital .from the point of view of various researchers the companies relying on their own equity are doing pretty well and established a strong legacy.

4.1.1. d. 3. Time Interest Earned Ratio (TIE):-

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 interest charge.

TIE ratio measures the extent to which operating income can decline before the firm is unable to meet its annual interest costs. Failure to meet this obligation can bring legal action by the firm's creditors, possibly resulting in bankruptcy. Earning before interest is a deductible cost, the ability to pay current interests not affected by taxes.

Table No. 4.16

Times Interest Earned (TIE) Ratio

In Millions

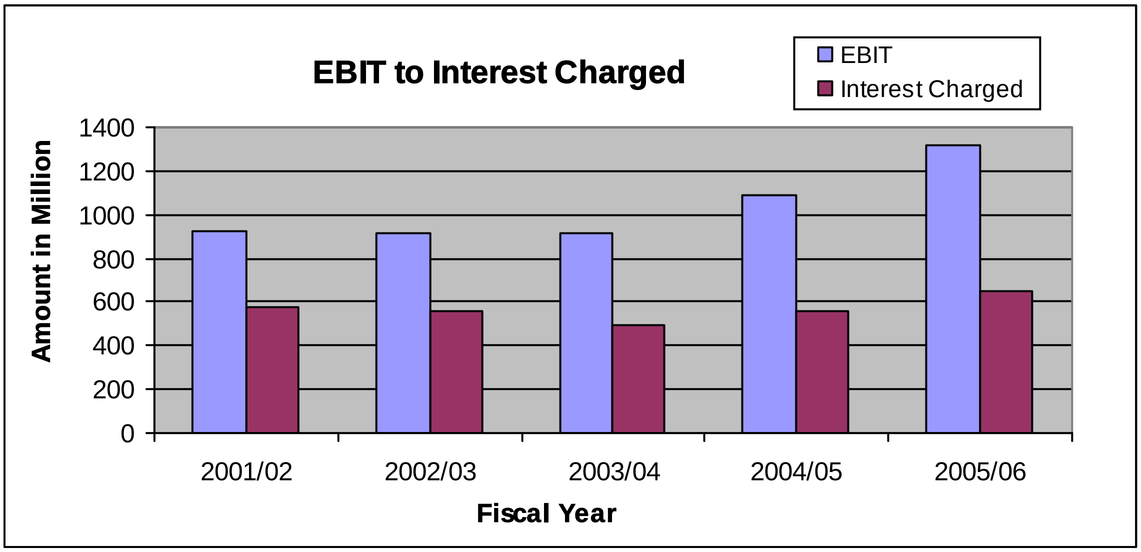
Fiscal Year	EBIT	Interest Charged	Ratio (Times)
2001/02	927.18	578.13	1.60
2002/03	914.15	554.13	1.65
2003/04	912.12	491.54	1.86
2004/05	1084.51	561.96	1.93
2005/06	1321.24	648.84	2.04
Average (X)			**1.82**
Standard Deviation (σ)			**0.17**

(Source: Annual Report HBL from FY 2001/02 – 2005/06) and Appendix-15)

The table no 4.16 shows the calculation of TIE ratio. TIE ratio is increasing each year The average ratio for the period is 1.82 times and the standard deviation is 0.17%.EBIT and Interest charged has fluctuation data. The highest ratio is 2.04 times in the year 2005/06 and the lowest ratio is 1.60 in the year 2001/02.

Figure No. 4.15

Chart Showing EBIT and Interest Earned**.**



(Source: Table no 4.16)

The figure no 4.15 shows that the TIE ratio of HBL is higher than 1 in all the five years. This shows that the bank is able to service interest on its debts properly. Thus TIE Ratio reinforces the conclusion based on the debt ratio-namely; the bank would face some difficulties if it attempted to borrow additional funds. The average ratio of the HBL is 1.82 times and the standard deviation is 0.17%.

4.1.1. e. Market Value Ratios:-

A final group of ratios, market value, related to firm's stock price to its earning and book value per share, and thus give management and indication of what investors think of the company's past performance and future prospectus. If the firms liquidity, assets management, debt management and profitability ratios are all good then its market value ratios will be high, and its stock price will probably be a high as can be expected.

4.1.1. e. 1. Earning Per share (EPS) Ratio:-

The value of a firm increases with the increases 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 earned by a firm during a year by total number of outstanding ordinary shares.

Earning per share is one of the most widely quoted statistics when there is a discussion of company's performance of share value. It is the profit after tax (available after deduction profit, dividend, if any) divided by the number of common shares outstanding. This ratio measures how much earning does the common shareholder get for every share held. This ratio of the banks presented in following 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 remains after paying all compulsory charges on which the share holders have the full claim. As it is the amount earned by a share of total capital, higher EPS indicates a firm's better position and vice versa. The EPS ratio is the percentage of EPS on face value per share.

Following table shows the EPS ratios of the HBL for the entire period of study:

Table No. 4.17

Earning Per Share Ratio

(In million)

Fiscal Year	**Net profit**	**No. of shares**	**EPS (%)**
2001/02	235023000	3900000	60.26
2002/03	212128000	4290000	49.45
2003/04	263052000	5362500	49.05
2004/05	308277000	6435000	47.91
2005/06	457458000	7722000	59.25
Average			53.19
Standard deviation			5.41

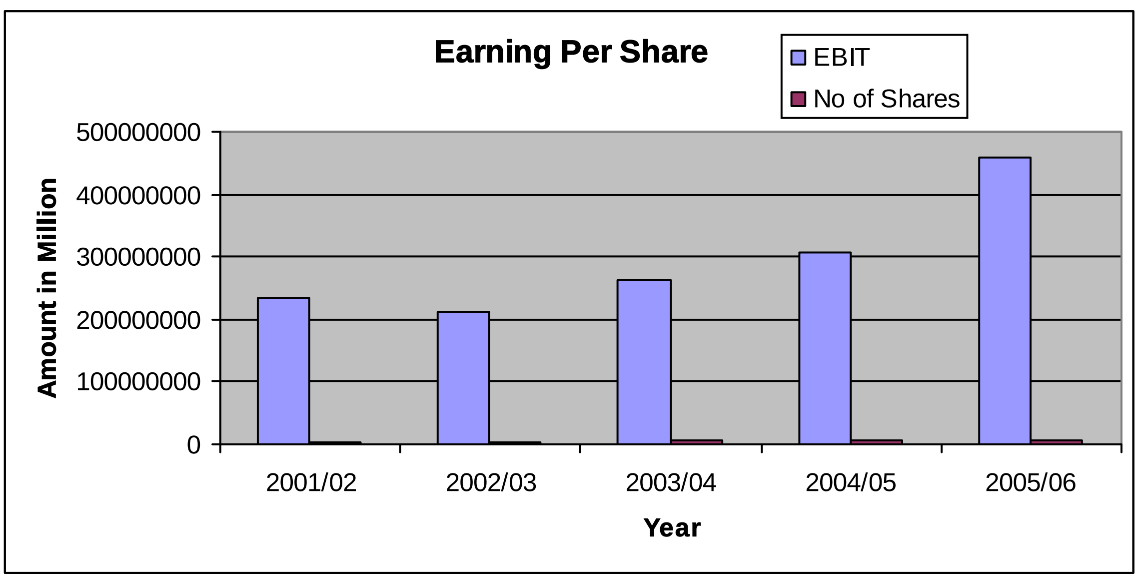
(Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-16)

The tableno.4.17 visualizes the EPS ratios for 5 years. It reveals that, average of the EPS ratio for the period is 53.18% i.e. during the period the bank share have earned at an average of 53.18 % on their face value. The highest of this ratio for the period is 60.26%

In the year 2001/02 and the lowest ratio for the period is 47.91% in the year 2004/05, It can be seen that EPS ratio has been fluctuated .In the year 2002/03 only 49.45% which is decreased from the year 2001/02 i.e. 60.26%.so the trend of decreasing trend is continuous. In the F/Y 2003/04, 2004/05 the ratios are 49.05, 47.91 respectively. In the year 2005/06 the ratio has been increased to 59.25 %from 47.91%.So it can be concluded on the basis of EPS ratio that the profitability of the bank has been affected. There is highly fluctuation in the EPS of the HBL which can be shown in the table and diagram .Both the highest and lowest ratios are quite far from the average of the ratio

Figure No.4.16

Chart showing Earning per Share and Face Value per Share



(Source: Table no 4.17)

The figure no 4.16 shows the relationship between Earning per Share and the net profit .The EPS is highest the year 2001/02 and lowest in the year 2004/05.

4.1.1. e. 2. Price Earning Ratio:-

It is the ratio of the market price per share to earning per share. It shows the rupee amount investors will pay for Rs.1 of the current earnings. It is the type of the market value ratios used to analyze the financial position of the HBL. The ultimate goal of any firm should be, to maximize the market value of the firm or market value per share. MVPS and EPS have deep and direct connection .If the EPS increases the MVPS also increases and vice versa .Hence if the said ratio has increased not due to a heavy decrease in the EPS, it should be taken positively .PE ratio is calculated by dividing Price per Share by Earning per Shares (EPS)

Table No.4.18

Table showing the price earning ratio of the HBL

In Million

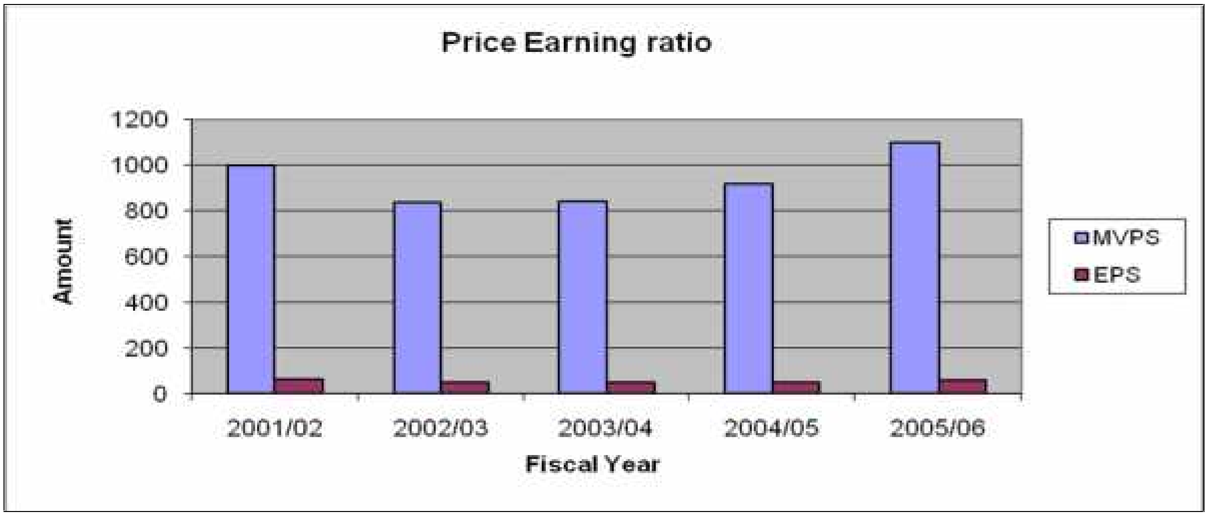
Fiscal Year	**MVPS**	**EPS**	**Ratio (%)**
2001/02	1000	60.26	16.59
2002/03	836	49.45	16.91
2003/04	840	49.05	17.13
2004/05	920	47.91	19.20
2005/06	1100	59.25	18.55
		Average	17.86
		Standard deviation	**1.01**

(Source: Annual Report HBL from FY 2001/02 – 2005/06 and Appendix-17)

The table no 4.18 shows the ratio of five years period. The highest ratio for the period is 19.20% which indicated the FY 2004/05.the average PE ratio is 17.86% and the standard deviation is 1.01% there is the increment in price earning ratio to 17.63 in 2002/03 in comparison to FY 2001/02.

Figure No.4.17

Chart showing Market value per share (MVPS) and Earning per share (EPS).



(Source: Table no 4.18)

The figure no 4.17 shows the relationship between Market value per share and the Earning per share for the year 2001/02 to 2005/06.The diagram depicts that the MVPS is highest in the year 2005/06 and lowest in the year 2002/03 .Similarly EPS is highest in the year 2001/02 and lowest in the year 2004/5.

4.1.2 Statistical Tools:-

Under this heading some statistical tools such as coefficient of correlation analysis between different variables, trend analysis of deposit, loan and advances, net profit and EPS are used to achieve the objective of the study.

4.1.2.1. Coefficient of correlation Analysis:-

Correlation analysis is the statistical tools generally used to describe the degree to which one variable is related to another. In other words correlation is defined as the relationship between the one dependent variable and one or more independent variables. But it does not tell any thing about cause and effect relationship it only shows the relationship between two variables is may be positive or negative. If both variable and increase or decrease in the other variables in the same direction, then the two variables is positive correlated otherwise negative. Under this chapter Karl Pearson's Coefficient of Correlation is used to find out the relation ship between

(i) Deposits and Loan & Advance, (ii) Deposit and Total Investment and
(iii) Net Profit and Total Deposit and also the determination of coefficient which is square 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 = determination of coefficient, n = Number of observation

4.1.2.1.a. Correlation Coefficient between Total Deposit & Loan & Advances.

Deposits have played a very important role in performance of a commercial bank and similarly loan and advances are important to mobile the collected deposits. Coefficient of correlation between deposit and loan and advances measures the degree of relationship between there two variables. In this analysis, deposit is independent variable (X) and Loan & advances is dependent variables (Y). The main objective of computing 'r' between these two variables is to justify whether deposits are significantly used on loan & advances in a proper way or not. The following table shows the value of 'r', r^2 probable Error (P.E.) and 6 P.E. Between deposit and loan & advances for the study period FY 2001/02 to 2005/06

Table No. 4.19

Correlation between Total Deposit and Loan & advances

	Evaluation Criterions		
r	r^2	P.E.(Probability Error)	6 P.E.
0.96	0.9216	0.024	0.144

(The detail of calculation is in appendix -18)

The table no.4.19 shows that coefficient of correlation between deposits and loan & advances is 0.96, which shows higher positive correlation between these two variables. Thus, deposit and loan and advances is highly correlated with each other not only that it also shows the optimum utilization of deposit fund in the bank. Similarly the value of coefficient of determination (r^2) is to be found 0.9216, which shows that 92.16% in the dependent variable has been explained by the independent variable. More over by application of P.E. i.e. 0.024, which means the relation between deposit and loans & advances is significant. In other words HBL is successful to mobilize its fund in proper way in loan & advances.

Loans and advances to total deposit are positively correlated which shows that an increase in total deposit leads to increase in loan and advances and vice versa. Fluctuation trend of loan and advances to total deposit ratio is a study of five years. From 2001/02 to 2005/06 similarly considering the value of (r) i.e. 0.96 and comparing it with 6 P.E., i.e. 0.144, we can say that the value of r is more than 6 P.E., which reveals that there is significant relationship between deposit and loan and advances.

4.1.2.1.b. Coefficient of correlation between total deposit and total investment.

Coefficient of correlation 'r' between Total deposit and total investment measure the degree of relation between these two variables. To run a bank successfully it need to investment in different sectors like government securities, share and debenture and NRB bond. To invest in these sectors bank needs fund which can be collected from the peoples as deposit. Here Investment is independent variable (X) and Total Deposit is dependent variable (Y) the purpose of computing co-efficient of correlations between deposit and total investments to find whether deposit is significant used as the investment or not. The following table no.4.20 shows the variable of r, (r^2), P.E .and 6 P.E. Between deposit and total investment for the study period FY 2001/02 to 2005/06

Table No. 4.20

Correlation between Total Deposit and Total Investment.

	Evaluation Criterions		
r	**r^2**	**Probability Error (P.E)**	**6 P.E.**
0.87	0.76	0.0723	0.4338

(The detail of calculation is in appendix-19)

From the table no.4.20, we find that coefficient of correlation between deposits (dependent) and total investment (independent) value of r is 0.87i.e 87% which shows there is a high degree of positive correlation between two variables. However by application of coefficient of determination the value of (r^2) is 0.76, which indicates that the 76 percent of the variation of the dependent variable (total deposit) has been explained by the independent variable (investment). Moreover by considering the probable error since the value of P.E', i.e. 0.0723which say significant, r i.e.0.87 comparing with 6P.E. i.e. 0.4338 the value of r is more than 6 P.E which reveals that there is significant relationship between total deposit and investment.

4.1.2.1.c. Coefficient of correlation between Net profit and total assets

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 sectors. So total eposit is the main sources of fund collected of the bank when there is increase in the total deposit, there is increase in the current assets of the banks. Coefficient of correlation relationship between net profit and total assets measure the degree of two variables. In this analysis Net profit is independent variable (X) and total assets are dependent variable (Y). The main objective of this analysis is to find out whether the total assets are invested in proper way to earn profit or not.

The table no. 4.21 shows the variable of r, r^2, P.E. and 6P.E. between net profit and total assets for the study period FY 2001/02 to 2005/06

Table no. 4.21

Correlation between Net profit and total assets

Evaluation criterions			
r	**r^2**	**P.E.**	**6P.E.**
0.85	0.7225	0.0837	0.5022

(The detail of calculation in appendix-20)

From the table No.4.21, we find the coefficient of correlation between net profit (independent) and total assets (dependent) value of (r) is 0.85.It shows positive relationship between two variables, however by application of coefficient of determination of value of r^2 is 0.7225, which indicates that dependent variables has been explained by the independent variables. Moreover by considering the probable error since the value of (r) i.e. 0.85 is more than six times of P.E. i.e.0.5022. So we can say that there is significant relationship between Net profit and total assets. Lastly it can be said that the bank has invested the total assets in profitable sectors.

4.1.3 Trend Analysis and projection for next five years.

The measurement used in financial management analysis ay be classified into two groups those who measure in the relation among the items. Insight set of statements, and those who measure the analysis in these items in successive statement. The first is a static analysis measuring position at a point of time of for a period and the second is a dynamic analysis, measuring changes of position. Both types of analysis are necessary for a comprehensive interpretation, since it is important to know not only the proportion as one certain date but also the trends on the enterprise.

Trend analysis is a set of observations taken at specified times usually at equal intervals. Some of the utilities are as follows:

It helps in understanding the past behavior of the variable (or data). By observing past behavior data, one can easily observe in his sales or prices what changes had taken place in the past and what were their causes.

i. It helps to predict or estimate (or forecast) the behavior of the data in future which is very essential for business planning.

ii. It helps to compare changes in the values of different phenomenon at different times or places etc.

iii. It helps to compare the actual current performance of accomplishment with expected ones (on the basis of the past performances) and analysis the causes of such variations.

iv. The segregation and study of various components is of paramount importance to a businessman in the planning of future operation and in the formation of executive and policy decisions.

Here, in this study the trend analysis of the financial condition are presented which is objected to provide the insight of the bank position. In this study, the method of lease square is used for the analysis of the HBL total deposit trend, net profit trend, loan & advances and EPS trend.

The projections are based on the following assumptions:

- The main assumption is that other things being 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 lease square method is carried out.
- NRB will not change its guidelines to commercial banks.

4.1.3.1. Trend Analysis of Total Deposit.

Under this topic, an effort has been made to calculate the trend value of deposit for five years from the year 2001/02 to 2005/06 and forecast for next five years till next FY 2006/7 to 2010/11.

Table No.4.22

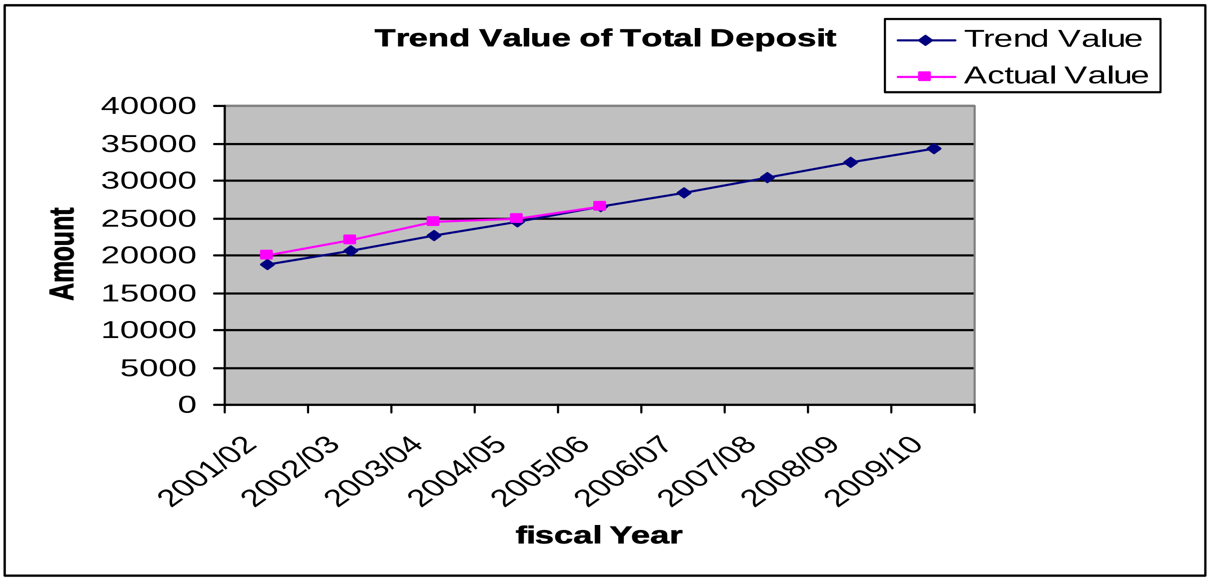
Trend value of Total Deposit of 9 years from 2001/02 to2009/10

(Rs. In million)

Fiscal Year	Trend Value	Actual value
2001/02	18678.4	18619.38
2002/03	20633.43	21007.38
2003/04	22588.39	22010.33
2004/05	24543.35	24814.01
2005/06	26498.31	26490.85
2006/07	28453.27	
2007/08	30408.23	
2008/09	32363.19	
2009/10	34318.15	
2010/11	36273.11	

(The details for the calculation are given in appendix-21)

Figure No.4.18



(Source: Table no 4.22)

(A.V. = Actual Value, T.V. = Trend Value)

From the table no 4.22 and figure no.4.18 we can calculate that the total deposit of HBL has been increasing by 1955.03 million every year. But deposit increasing percent is decreased every year. According to the above trend analysis and from growth rate it can be calculated that the HBL deposit collection position is satisfactory. If the bank utilized its increasing deposit its financial position will be better

4.1.3.2. Trend Analysis of Net Profit:-

Under this topic the trend values of net profit have been calculated for five years from the 2001/02 to 2005/06 and the forecast for next four years up to 2006/7 to 2009/10

Table No.4.23

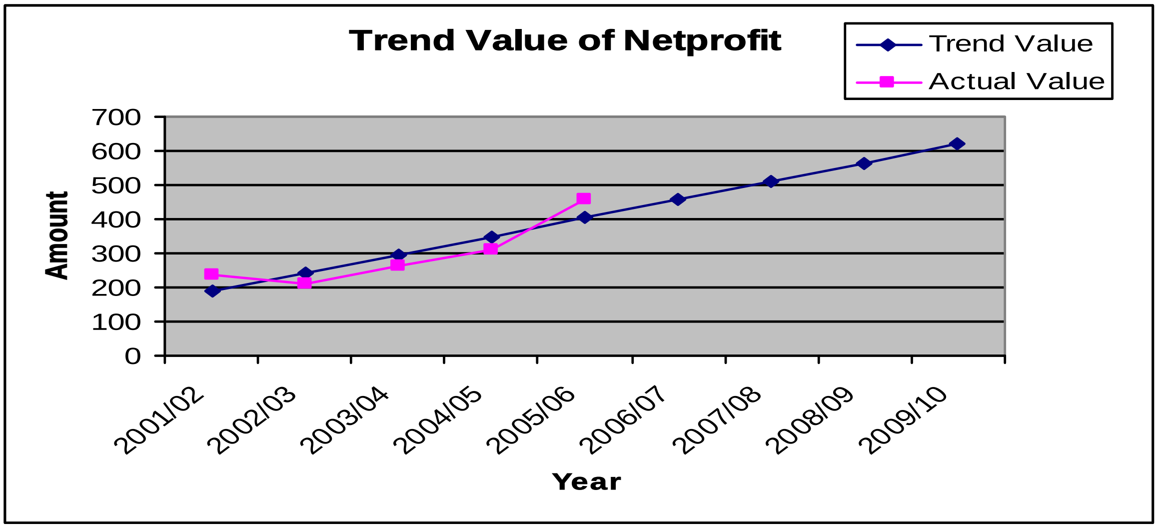
Trend value of Net Profit

(Rs. In million)

Fiscal Year	Trend Value	Actual value
2001/02	186.98	235.02
2002/03	241.08	212.13
2003/04	295.18	263.05
2004/05	349.28	308.28
2005/06	403.38	457.46
2006/07	457.48	
2007/08	511.58	
2008/09	565.68	
2009/10	619.78	
2010/11	673.88	

(The details for the calculation are given in appendix-22)

Figure no.4.19



(Source: Table no 4.23)

(A.V. = Actual Value, T.V. = Trend Value)

From the table no 4.23 figure no.4.19 is derived, we can calculate that the Net profit of HBL has been increasing by 54.1 million. According to the above trend analysis and from growth rate it can be calculated that the bank's Net profit position is not seem to be satisfactory.

4.1.3.3. Trend Analysis of Loan & Advances

Under this topic the trend values of Loan & Advance have been calculated for five years from the 2001/02 to 2005/06 and the forecast for next four years up to 2006/7 to 2009/10

Table No.4.24

Trend value of Loan & Advance

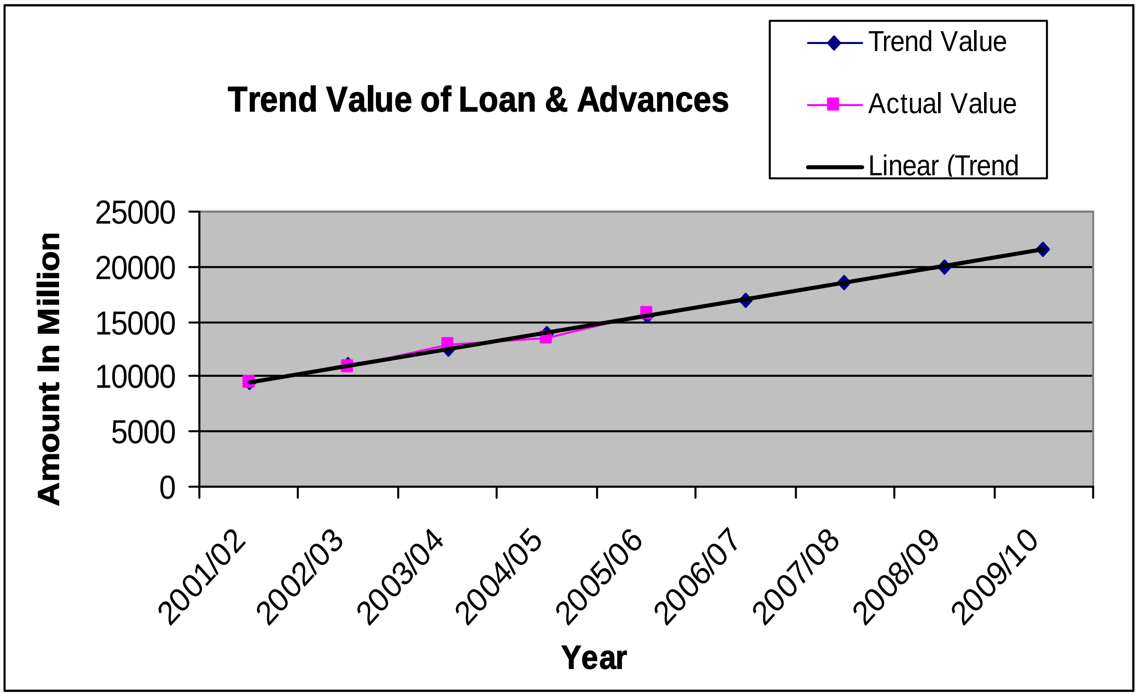
(Rs. In million)

Fiscal Year	Trend Value	Actual value
2001/02	9503.66	9557.14
2002/03	11005.28	10844.60
2003/04	12506.90	12919.63
2004/05	14008.52	13451.17
2005/06	15510.14	15761.98
2006/07	17011.76	
2007/08	18513.38	
2008/09	20015	
2009/10	21516.62	

(The details for the calculation are given in appendix- 23)

Figure No.4.20

Trend Value of Loan & Advances



(A.V. = Actual Value, T.V. = Trend Value)
(Source: Table no 4.24)

Figure no.4.20 is the source of table no 4.24 we can calculate that the loan & advance of HBL has been increasing by 1501.62 million every year. According to above trend analysis and from growth rate it can be said that the bank's loan & advance position is to be satisfactory.

4.1.3.4. Trend Analysis of Earning per Share

Under this topic the trend values of Loan & Advance have been calculated for five years from the 2001/02 to 2005/06 and the forecast for next four years up to 2006/7 to 2009/10

Table No.4.25

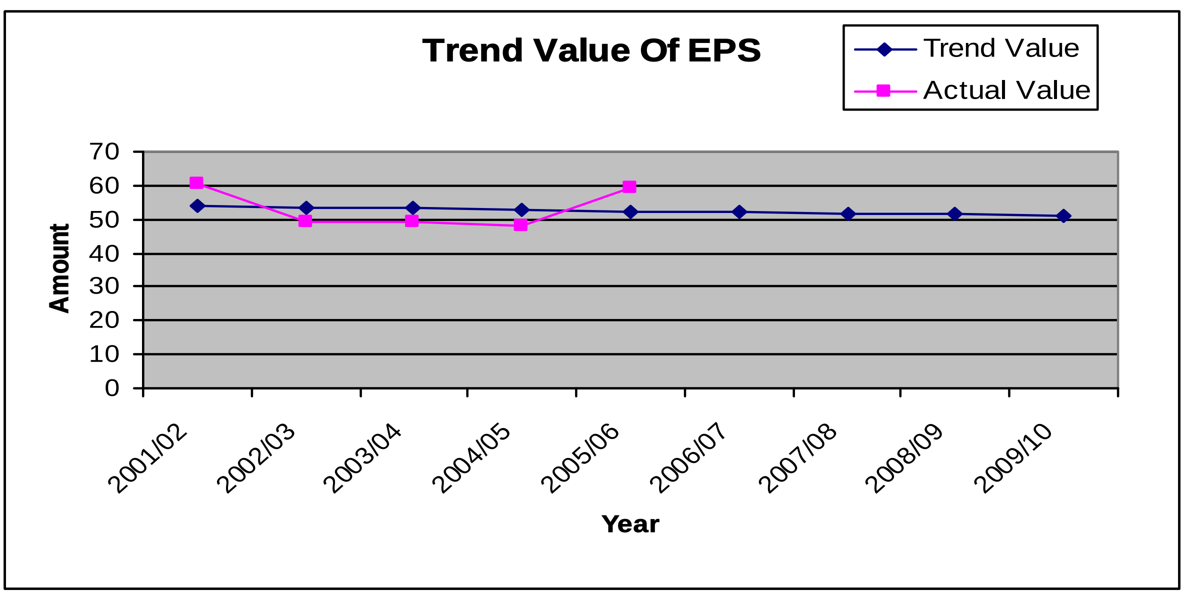
Trend value of Earning per Share

(Rs. In million)

Fiscal Year	Trend Value	Actual value
2001/02	53.886	60.26
2002/03	53.538	49.45
2003/04	53.19	49.05
2004/05	52.84	47.91
2005/06	52.49	59.29
2006/07	52.46	
2007/08	51.79	
2008/09	51.45	
2009/10	51.10	
2010/11	50.75	

(The details for the calculation are given in appendix-24)

Figure No 4.21



(Source: Table no 4.25)

(A.V. = Actual Value, T.V. = Trend Value)

Figure no 4.21 is source of table no 4.25.the figure that the Earning per Share of HBL has been increasing by 0.34 million every year EPS is increasing positively. According to the above trend analysis and from growth rate the bank's EPS position satisfactory.

4.2. Major Findings:-

From the above data analysis based the researcher found that the main findings areas of HBL are as follows:

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 obligations. This means it is strong enough from the liquidity element.

Turnover Ratio: The researcher found that

i. Bank has strong position regarding the mobilization of total deposit as loan and advances.

ii. The bank has not been able to make investment on various securities and profitable projects sectors as this investment bear less risk as compared to loan and advance. Hence, the bank does not seem to be successful in making investment in profitable sectors other than loan and advances.

Profitability Ratio: Regarding the profitability of the bank, the researcher found that

i. The ROA (Return on Assets) is in decreasing trend, which shows the bank’s inefficiency in utilizing its assets to not able to earn satisfactory income. But somehow it has increased in the year 2005/06. total assets, it is found that the Improvement is very necessary in the bank

ii. The basic earning power of the bank is in decreasing trend which shows the net income of the bank has been decreasing in every subsequent year .But somehow it has increased from 2005/06.

iii. From ROE (Return on Equity), it is found that the operating efficiency of the bank is decreasing each year. But somehow it has increased from 2005/06.

iv. Net Income to Total Deposit ratio has decreasing trend .But in the year 2005/06 there is increment into net income as well as total deposit. This means the bank has not been able to utilize deposit properly.

Turn over Ratio:-

Bank has strong position regarding the mobilization of total deposit as loan and advances Because it is more than 25%, the bank has been able to make investment on various securities and projects as these investments bear less risk as compared to loan and advances. Hence, the bank seems to be successful in making in profitable sector than loan and advances. The bank has been able to flow loan and advances to the customer more than it has accumulated deposit at fixed rate, which definitely provide bank with some margin of profit.

Debt Management and Solvency ratio:-

The debt ratio of bank is very high which is not preferable. Creditors would be reluctant to lend the more money: the management would probably be subjecting the firm to the risk of bankruptcy if it sought to increase that ratio any further by borrowing additional borrowing additional funds. The bank is covering its interest charge by a relatively low margin of safety and it would face some difficulties if it attempts to borrow additional funds .Debt to equity ratio is relatively low which means liabilities are high, as various researches has agreed the companies relying on their own equity are doing pretty well and established a strong legacy. These ratios of the bank are not satisfactory because they are relying mainly on borrowed funds.

Market Value ratio:-

Price earning ratio is good enough for the study period. Earning per share of the company is good which means that the bank has better position in the market .Even though it has decreased in the year 2005/06.

Statistical Analysis:-

Correlation of coefficient between deposit and loan and advances found it is positive of the bank, which indicates that increase in deposit will increase in loans and advances .The study also suggests that independent variable that is loan and advances are highly dependent to the deposit.

Correlation coefficient between deposit and investment of the bank is also found that is positive and directly related to the deposit. Correlation between total assets and the net profit of HBL is also positive.

The image of a firm is its outlook or appearance seen by others. In other words it can be said as a good-will of the firm. The image of the bank is measured with profitability ratio, net profit earning position, earning per share and market value of the share. From these facts and figure one can find out that the profitability ratio, net profit earning, EPS and market value of the share indicate the firm's unsatisfactory situation.

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary:-

Many commercial banks have been competing with each other in their business. Commercial Banks are established to improve people's economic welfare and facility, to provide loan to the agriculture, industry and commerce and to offer banking services to the people and the country. They collect fund from by accepting deposit from the public on the condition that they are repayable on demand or on short notice. The modern banking system that we have today has passed the several stages before reaching the present stage. When the government adopted liberal policy, as a result many commercial banks especially joint venture banks increased rapidly i.e. Himalayan Bank Limited, Nepal State Bank of India, Nepal Bangladesh Bank Limited, and Standard Chartered Bank and many others. These banks are mainly concentrated themselves on financing foreign trade, commerce and industry and other sectors. Banking is considered as the platform of money market and capital markets, commercial banks basically help to promote the money market by providing qualitative managerial skills, customers' satisfaction objective so using of advance technology.

The basic objectives of JVBS in Nepal are: to welcome foreign investment in the country in the form of JVB's capital, to develop the capital market and Nepalese banking sectors and to mobilize the idle resources into income generating sources.

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

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

The study suffers different limitations. It covers the financial data of a period 2001/02 to 2005/06. Basically, the data are of secondary nature. Time and resource are other constrains of the study. Therefore, the study may not be generalized in all cases.

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

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

The average current Ratio of HBL is below the standard. The average CR is 1.08 times which shows that the bank has current assets of Rs. 108 to discharge the current liabilities of Rs.100 for the study period. The standard of CR is 2:1, current assets to current liabilities. The Current ratio of 1.06, 1.08, and 1.09 seems quite satisfactory In spite of increment in the amount of current assets and current liabilities as compared to preceding years, there is no significant differences in the ratio from 2001/02 to 2005/06 as both assets and liabilities have increased.

The working capital of HBL is also positive which shows satisfactory There is increment in the in the working capital in each year. Working capital 2.34 is highest in the year 2005/06.

Cash and Bank balance to Current Asset Ratio has fluctuation. The highest ratio of all during the study period is 8.26% in the Year 2002/03 and lowest is 5.72 % in year 2005/06. The average of the ratio is 6.98 % It can be said that at an average of 6.98 % bank is holding cash and bank balance. To keep more than 6.98% as cash is a positive aspect from view point of liquidity but negative aspects from view point of profitability.

Loans and Advance to Current Assets ratio has a bit fluctuation. The average of the ratio is 48.22 %and the highest ratio is 52.47% in FY 2005/06.It shows that 48.22% of current assets is given loans and advances. The loan and advances is more than current assets so it can be said that HBL liquidity with regards to current assets is more satisfactory.

Fixed Deposit to Total Deposit ratio is in decreasing trend. The highest of all is 32.25 % of fixed deposit of total Rs.18619.38 million in the Year 2001/02 and the lowest of all is 24.13 % in the Year 2005/06. The average ratio for the period is 27.71%.It shows that long term fund is increasing which shows satisfactory.

The average of Cash and Bank Balance to Total Deposit is 7.98% and the standard deviation is 1.18% which is considered as satisfactory level for liquidity position of bank.

The average of the basic earning power ratio is 3.95% and the standard deviation is 0.33 % for the period of five years .Bank. Basic earning higher must be positive for the satisfactory level.

The return on assets decreased to 0.88% from 1.10% in the year 2002/03 which is not a good trend. But there is increment in the proceeding year 2003-04 to 2005-06 as 1.02%, 1.07% and 1.50%.The average 1.11% is considered as satisfactory it should not be zero or negative.

Return on Equity for the Year 2001/02 is 15.65% in the year 2002/03 it decreases to 11.13% .Onwards the year 2002-03 there is increment in the proceeding years 2003/04,2004/05,2005/06 as 11.98%,11.99% and 15.85% respectively. The average is 13.32% is satisfactory for the shareholders.

The average of net income to total deposit ratio for the period of 5 years is 1.29%and the standard deviation is 0.239%. The ratios are fluctuated for the period. The average ratio 1.29% is considered as satisfactory.

As Loan and advances to the customers. The ratio has increased in the year 2002/03 to 51.62%, 58.7% and 54.21% respectively. In the year 2005/06 it increased more to 59.5%. The average of 55.07% of the total deposit has been mobilized as loans and advances. As to banking industry 55% to 60% is considered as satisfactory.

The investment to total deposit for the year 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 is 49.18%, 48.44%, 42.22%, 47.12%, and 59.5% respectively. The ratio for the five year is in decreasing trend. But in the year 2004/05, 2005/06. The ratio has increased. The lowest ratio is in the year 2003/04 is 42.22% and highest is in the year 2005/06 is 59.50%.So it is considered as satisfactory.

Loans and advances to fixed deposit ratio has increased every year comparing to the base year i.e. year 2001/02(158.1%) the highest ratio in the period of five years is 246.59% which is in the year 2005/06. the average of the ratio and the standard deviation for the period of five years is 201.24% and 29.39%

The total debt to total assets debt ratio is high in the year 2001/ 02 is 92.96% and low in the year is 2005/06 is 90.56%. The debt ratio is very high in the HBL though the ratio has been decreasing to the base year i.e. 2001/02. The average of the ratio is 91.57% and the standard deviation is 0.86.

Total Debt to Shareholders Equity is not considered as satisfactory because HBL is largely financed by Debt capital. Total debt to Equity ratio is in decreasing trend. The average is 11.05% and the standard deviation is 1.37%.the average shows that only 11.05% is the equity out of 100%.

HBL’s interest is covered 2.4% in the year 2005/06 which is also the highest in the study period of five years. The lowest of the ratio is 1.60% in the year 2001/02. The average ratio of HBL 1.82 times and the standard deviation is 0.17% The bank is able to service interest on its debts properly and considered as satisfactory..

The average of the P/E ratio is 17.68% and the standard deviation is 1.01%.The highest ratio for the period is 19.2% in the year 2004/05 and lowest in the year 16.59% in the year 2001/02.It should be positive and considered as satisfactory.

The average of the EPS ratio for the period is 53.19% i.e. during the period the bank’s share have earned at an average of 53.19% on their face value. The highest of their face value of this ratio for the period is 60.26% in the year 2001/02 and lowest in the year 2004/05 is 47.91%.EPS must be high for the satisfactory level. Every shareholders wants to increment in the price of share.

5.2 Conclusions:-

The CR of the bank over the five years is 1.08 times on an average. It indicates that the margin for safety for customers has not been maintained properly. But the average ratio is reached nearly at the standard, so it is in satisfactory position.

The working capital of HBL is also positive which shows satisfactory There is increment in the in the working capital in each year. Working capital 2.34 is highest in the year 2005/06.

The average of the cash and bank balance to current assets ratio is 6.98% which indicates that the cash and bank balance proportion with respect to the current assets is moderate position. It indicates that the bank is holding 6.98% cash and bank balance to idle.

The average ratio for loan & advance to current assets ratio revealed that 48.22% of current assets have been lent to the customers as loan & advances. It indicates that the bank's fund mobilization position is more satisfactory. 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 viewpoint of liquidity.

The average ratio for fixed deposit to total deposit ratio revealed that 27.71% of total deposit is fixed deposit .Long term fund is increased which indicates the satisfactory.

The average ratio of cash and bank balance to total deposit is 7.98%, which indicates that cash and bank balance has been maintaining properly against anticipated calls of its depositors. Hence in general the liquidity position of the bank is good enough to meet the short term obligations.

ROA ratio have fluctuated leading to the standard deviation is 0.21% an average of 1.11%.Any organization should try to have positive return on assets which indicates the satisfactory.

The basic earning power of the bank is in decreasing trend which shows the net income of the bank has been decreasing in every subsequent year. The average of the ratio is 3.95%.the decrease in total assets is not good even though it has increased a little bit in the year 2005/06.So the bank should try to increase the ratio, the return on assets

ROE ratio have fluctuated dramatically leading to the standard deviation is 2.01% an average of 13.32%Any institution should try to have positive return on equity i.e. 20% and more. It analyzed that the bank has not been able to mobilize the deposit to its fullest or generate income from mobilized fund satisfactory.

The average of net income to total deposit ratio for the period of 5 years is 1.29%and the standard deviation is 0.239%. In the year 2001-02, 51.33% of deposits have been lent out which is considered as satisfactory.

Large amount of average 55.07% loans and advances are given to customers out of total deposits. The ratio has increased in the year 2002/03 to 51.62%, 58.7% and 54.21% respectively. In the year 2005/06 it increased more to 59.5%. The average of 55.07% of the total deposit has been mobilized as loans and advances which indicates that to maintain satisfactory level.

The fund mobilization of the bank has increased and it able to invest its deposit on various securities and projects averaging to 49.29% which may be called satisfactory as these investment bears less risk compared to loans and advances. The investment to total deposit for the year 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 is 49.18%, 48.44%, 42.22%, 47.12%, and 59.5% respectively. The ratio for the five year is in decreasing trend. But in the year 2005/06 is increasing trend.

The average of the loans and advances to fixed deposit ratio is 27.71%.the bank has invested is 27.71 which generates interest at a fixed rate for the liabilities of Rs.100 bearing costs at a fixed rate.

The total debt to total assets debt ratio is high in the year 2001/ 02 is 92.96% and low in the year is 2005/06 is 90.56%. The debt ratio is very high in the HBL though the ratio has been decreasing to the base year i.e. 2001/02. The average of the ratio is 91.57% and the standard deviation is 0.86%.The assets of HBL are mostly financed by debt capital and share of equity capital in assets is low so we can say that company is highly levered by debt.

Total Debt to Shareholders Equity is not considered as satisfactory because HBL is relying mainly on borrowed fund. The average is 11.05% and the standard deviation is 1.37%.the average shows that only 11.05% is the equity out of 100%. The debt ratio is high in HBL and it is difficult to borrow additional funds without raising more equity capital. From the view of various researchers the companies relying on their own equity capital are doing pretty well and established a strong legacy.

The bank is covering its interest changes by a relatively low margin of safety. The bank would face more difficulties; it attempts to borrow additional funds, the TIE ratio of HBL is 1.82 times and standard deviation is 0.17%.

The average of the P/E ratio is 17.68% and the standard deviation is 1.01%.The highest ratio for the period is 19.2% in the year 2004/05 and lowest in the year 16.59% in the year 2001/02.It should be positive and considered as satisfactory.

The average of the EPS ratio for the period is 53.19% i.e. during the period the bank's share have earned at an average of 53.19% on their face value. The highest of their face value. The highest of this ratio for the period is 60.26% in the year 2001/02 and lowest in the year 2004/05 is 47.91%.EPS must be high for the satisfactory level. Every shareholders wants to increment in the price of share.

At Last from the analysis of the financial position of the HBL from the fiscal year 2001/02 to the fiscal year 2005/06 the collection of deposits and loan investment are increasing satisfactorily and there are also slightly improvement in the operating profit.

5.3 Recommendation:-

Every organization needs profit to survive for long period which is the fact. So HBL is also one of them, it also needs profit for different purposes which is only possible when there is effective and efficient management as well as the total team commitment, it would be better for the bank if there is excellent management and the excellent services, cooperation with all the customers of the bank and excellent team work with in the organization which is the key elements for the survival of the bank and as well as for its own goodwill. Besides these there are various factors which HBL needs to be improved. They are mentioned below:

1. The services provided by HBL are similar to those provided by other Commercial Banks. Therefore, it is recommended to HBL to formulate new schemes and techniques in order to attract more and more people towards the bank. The bank needs to provide more facilities like, easy to withdraw, easy to deposit, fast services, cooperation, friendly towards customers.

2. The credit worthiness of debtors must be extensively evaluated before granting them loans.

3. The Bank should diversify the sectors of deposit mobilization because it is not satisfactory in that sector,

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

5. HBL has invested a maximum amount of its funds on risky assets i.e. loan, thus, the bank is always threatened by the fear of default. It will be better if the bank diverts some amount of its funds from lending and invest it in less Risky investment alternatives which help the bank diversify the risk. HBL should provide the facility

6. to interest rate rebate to borrower who repays the loan before stipulated time; this may help to increase the number of early payers that will reduce default risk.

7. Loan and Advance is the main source of investment of total deposit from which more profit can be earned and it is also risky to cover in time. So, while granting loan and advance to the customers bank must do detail study of purposes of taking loans, sources of payments of loan and fixing the duration of paying loan etc. Before granting loan bank also needs to take sufficient collateral so that there will be no problem of collecting loan. To take benefit from the interest earned from loan and advance bank should take care of above points and many more to survive in the competitive market for long time.

8. Return on Assets and Return on Equity is relatively low, therefore it is recommended that the bank should increases these ratio as to achieve its targets.

9. There is decreasing trend in EPS, so the bank should use its new strategies to make it increase towards boom. The bank has to try its best to build its good image in its customers. Professionalism and market oriented services should be enhanced in future

10. Expansion of more branches is necessary to collect more deposit. If the services are expanded in most part of the nation, it can collect deposits from different area and can invest the funds in productive sector for generating income. So HBL should also expand its branches in rural and urban areas as it is doing so that it can provide its services to the people of the different part of the country as well as it is benefit for the bank also.

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Appendix -1

Calculation of Mean and Standard Deviation of CA to CL ratios.

Fiscal year	Ratio(X)	$(x-\bar{x})$	$(x-\bar{x})^2$
2001/02	1.06	0.02	.0004
2002/03	1.08	0	0
2003/04	1.09	0.01	.0001
2004/05	1.09	0.01	.0001
2005/06	1.08	0	0
	$\Sigma X = 5.40$		$\Sigma (x-\bar{x})^2 = 0.0006$

We know,

Mean ($\bar{X}$) = $\frac{\Sigma x}{n} = \frac{5.40}{5}$ = 1.08 Times

…The average current assets to current liabilities ratio=1.08 times

Where, X =current assets to current liabilities ratios
N=number of the years

$X = \frac{\text{Current assets in a year}}{\text{Current liabilities in a year}}$

Standard deviation **(σ)** = $\sqrt{\frac{\Sigma (x-\bar{x})^2}{n}} = \sqrt{\frac{0.0006}{5}}$ = 0.011%

… Standard deviation **(σ) =** 0.011 %

Appendix - 2

Cal of Mean and Standard Deviation of Cash and Bank Balance to CA Ratio

Fiscal year	Ratio(X)	$(x-\bar{x})$	$(x-\bar{x})^2$
2001/02	6.02	0.96	0.92
2002/03	8.26	1.28	1.64
2003/04	7.87	0.89	0.79
2004/05	7.05	0.07	0.0049
2005/06	5.72	1.26	1.59
	$\Sigma X = 34.92$		**$\Sigma (x-\bar{x})^2 = 4.94$**

We know,

Mean ($\overline{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{34.92}{5}$ = 6.98%

… The average of cash and bank balance to CA= 6.98%

Where, X=Cash and bank balance to current assets ratio
N= Number of the years

X= Cash and bank balance in a year
Current assets in a year

Standard deviation **(σ)** = $\sqrt{\frac{\phi ƒx\, Z\, \bar{x}Å^{2}}{n}}$ = $\sqrt{\frac{4.94}{5}}$ =0.99%

Appendix -3

Cal of Mean and Standard Deviation of Loan & Advance to CA ratios:-

Fiscal year	**Ratio(X)**	**(x–$\bar{x}$)**	**(x–$\bar{x}$)^2**
2001/02	45.52	2.7	7.29
2002/03	45.25	2.97	8.82
2003/04	50.8	2.58	6.66
2004/05	47.07	1.15	1.32
2005/06	52.47	4.25	18.06
	ϕ **X= 241.11**		ϕ **(x –$\bar{x}$)^2=42.15**

We know

Mean ($\overline{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{241.11}{5}$ = 48.22 times

…The average loan and advance to current assets ratio=2.27 times

Where X= Loan and advance to current assets ratio
N= number of the years

X= Loan and advance
Current assets

Standard deviation **(σ)** = $\sqrt{\frac{\phi ƒx\, Z\, \bar{x}Å^{2}}{n}}$ = $\sqrt{\frac{42.15}{5}}$ = 2.9%

…Standard deviation **(σ) =** 2.9%

Appendix -4

Cal of mean & standard deviation of Fixed Deposit to Total Deposit ratio

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	32.25	20.61
2002/03	27.99	0.08
2003/04	28.46	0.56
2004/05	25.71	4.0
2005/06	24.13	12.82
	ϕ X= 138.54	$\phi\ (x\ -\bar{x})^2$= 38.07

We know,

Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{138.54}{5}$ = 27.71%

…The average of cash and bank balance to total deposit ratio= 27.71%

Where, X= Fixed deposit to Total Deposit ratio
N= Number of the years

X = $\frac{\text{Fixed Deposit}}{\text{Total Deposit}}$

Standard deviation **(σ)** = $\sqrt{\frac{\phi f x\ Z \bar{x} Å}{n}}$ = $\sqrt{\frac{38.07}{5}}$ =2.76

…Standard deviation **(σ) =** 2.76%

Appendix - 5

Cal of mean & standard deviation of Cash &Bank to Total Deposit ratios

Fiscal year	Ratio(X)	$(x-\bar{x})$	$(x-\bar{x})^2$
2001/02	6.79	1.19	1.42
2002/03	9.42	1.44	2.07
2003/04	9.09	1.11	1.23
2004/05	8.12	0.14	0.02
2005/06	6.48	1.50	2.25
	ϕ X= 39.90		$\phi\ (x\ -\bar{x})^2$= 6.99

We know, Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{39.90}{5}$ =7.98%

…Average fixed deposit to total assets ratio= 7.98%

Where, X= Cash and bank balance to total deposit ratio
N= number of the years

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

Standard deviation (**σ) =** $\sqrt{\frac{\sum (X-\bar{X})^2}{N}} = \sqrt{\frac{6.99}{5}} = 1.18$

…Standard deviation (**σ) =** 1.18%

Appendix -6

Calculation of Mean and Standard deviation of Basic Earning Power Ratio

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	4.35	0.016
2002/03	3.78	0.03
2003/04	3.55	0.16
2004/05	3.76	0.04
2005/06	4.32	0.14
	$\sum X = 19.76$	$\sum (x-\bar{x})^2 = 0.53$

We know,
Mean ($\bar{X}$) = $\frac{\sum X}{N} = \frac{19.76}{5}$ = 3.95%
…The average Basic Earning Power= 3.95%

Where, X= EBIT to Total Assets
N= number of the years

X= $\frac{\text{Earning Before Interest Tax}}{\text{Total Assets}}$

Standard deviation **(σ)** = $\sqrt{\frac{\sum (x-\bar{x})^2}{n}} = \sqrt{\frac{0.53}{5}} = 0.33$

…Standard deviation **(σ) = 0.33**%

Appendix -7

Calculation of Mean and Standard deviation of Return on Assets (ROA)

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	1.10	.0001
2002/03	0.88	.0529
2003/04	1.02	.0081
2004/05	1.07	.0016
2005/06	1.50	.1521
	ϕ X=5.57	$\phi\ (x - \bar{x})^2$=.2148

We know

Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho} = \frac{5.57}{5}$ = 1.11%

…The average Return on Assets = 1.11%

Where, X= Net profit to Total Assets

N= number of the years

X= $\frac{\text{Net Profit/Income}}{\text{Total Assets}}$

Standard deviation **(σ)** = $\sqrt{\frac{\phi \int x \, Z \, \bar{x} \, Å^{2}}{n}} = \sqrt{\frac{.2148}{5}}$ = 00.21%

…Standard deviation **(σ) = 0.21**%

Appendix -8

Calculation of Mean and Standard deviation of Return on Equity (ROE)

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	15.65	5.43
2002/03	11.13	4.80
2003/04	11.98	1.80
2004/05	11.99	1.77
2005/06	15.85	6.40
	ϕ X=66.60	$\phi\ (x - \bar{x})^2$=20.20

We know, Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho} = \frac{6.60}{5}$ = 13.32%

…The average Return on Equity = 13.32%

Where, X= Net profit to Equity
N= number of the years

X= $\frac{\text{Net Profit/Income}}{\text{Common Equity}}$

Standard deviation **(σ)** = $\sqrt{\frac{\phi\, ƒx\, Z\bar{x}Å^{2}}{n}}$ $= \sqrt{\frac{20.20}{5}}$ = 2.01%

…Standard deviation **(σ) =** 2.01%

Appendix -9

Cal of Mean and Standard deviation of Net Income to Total Deposit

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	1.26	.0009
2002/03	1.01	.0784
2003/04	1.19	.0100
2004/05	1.24	.0025
2005/06	1.73	.1936
	φ X=6.43	φ $(x - \bar{x})^2$=0.2854

We know

Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{6.43}{5}$ = 1.29%

…The average of Net Income to Total deposit = 1.29%

Where, X= Net profit/Income to Total deposit
N= number of the years

X= $\frac{\text{Net Profit/Income}}{\text{Total Deposit}}$

Standard deviation **(σ)** = $\sqrt{\frac{\phi\, ƒx\, Z\bar{x}Å^{2}}{n}}$ $= \sqrt{\frac{0.2854}{5}}$ = 0.2390%

…Standard deviation **(σ) =** 0.2390%

Appendix -10

Cal of mean and standard deviation of Loans & Advances to Total Deposit

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	51.33	13.99
2002/03	51.62	11.90
2003/04	58.70	13.18
2004/05	54.21	0.74
2005/06	59.50	19.62
	ϕ (X) = 275.36	$\phi\ (x - \bar{x})^2$= 59.43

We know,

Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{275.36}{5}$ = 55.07%

…The average of Loans & Advances to Total Deposit ratio= 55.07%

Where, X= Loans & Advances to total deposit ratio
N= number of the years

X= $\frac{\text{Loans \& Advances}}{\text{Total Deposit}}$

Standard deviation **(σ)** = $\sqrt{\frac{\phi \int x \, Z \bar{x} Å}{n}}$ = $\sqrt{\frac{59.43}{5}}$ = 3.45

…Standard deviation **(σ) = 3.45**%

Appendix -11

Cal of mean and standard deviation of Total Investment to Total Deposit

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	49.18	.0121
2002/03	48.44	.7225
2003/04	42.22	49.98
2004/05	47.12	4.71
2005/06	59.50	104.24
	ϕ (X) = 246.46	$\phi\ (x - \bar{x})^2$=159.66

We know, Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{246.46}{5}$ = 49.29%

∴The average Total Investment to Total Deposit ratio= 49.29%

Where,

X=Total Investment to Total Deposit
N= number of the years

$X = \frac{\text{Total Investment}}{\text{Total Deposit}}$

Standard deviation **(σ)** = $\sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{159.66}{5}} = 5.65\%$

∴Standard deviation **(σ) = 5.65**%

Appendix -12

Cal of mean and standard deviation of Loans & Advances to Fixed Deposit

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	158.10	1861.06
2002/03	184.41	283.25
2003/04	206.25	25.10
2004/05	210.87	92.74
2005/06	246.59	2056.62
	$\sum(X) = 1006.22$	$\sum(x-\bar{x})^2 = 4318.77$

We know

Mean ($\bar{X}$) = $\frac{\sum X}{N} = \frac{1006.22}{5} = 201.24\%$

∴The average of Loans & Advances to Fixed Deposit ratio= 201.24%

Where, X= Loans & Advances to total deposit ratio
N= number of the years

$X = \frac{\text{Loans \& Advances}}{\text{Fixed Deposit}}$

Standard deviation **(σ)** = $\sqrt{\frac{\sum(x-\bar{x})^2}{n}} = \sqrt{\frac{4318.77}{5}} = 29.39\%$

∴Standard deviation **(σ) = 29.39**%

Appendix -13

Cal of mean and standard deviation of Total Debt to Total Assets

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	92.96	1.93
2002/03	92.12	0.30
2003/04	91.09	0.23
2004/05	91.10	0.22
2005/06	90.56	1.02
	ϕ (X) = 457.83	$\phi\ (x-\bar{x})^2$=3.70

We know

Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{457.83}{5}$ = 91.57%

…The average of Total Debt to Total Assets= 91.57%

Where, X= Total Debt to Total Assets
N= number of the years

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

Standard deviation **(σ)** = $\sqrt{\frac{\phi ƒx\,Z\bar{x}Å^2}{n}}$ = $\sqrt{\frac{3.70}{5}}$ = 0.86%

…Standard deviation (σ) = 0.86%

Appendix -14

Cal of mean and standard deviation of Total Debt to Common Equity

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	13.20	4.62
2002/03	11.70	0.42
2003/04	10.23	0.67
2004/05	11.02	0.0009
2005/06	9.12	3.72
	ϕ (X) = 55.27	$\phi\ (x-\bar{x})^2$=9.44

We know, Mean ($\bar{X}$) = $\frac{\phi\varepsilon}{\rho}$ = $\frac{55.27}{5}$ = 11.05%

∴The average of Total Debt to Common Equity= 11.05%

Where, X= Total Debt to Total Equity
N= number of the years

$$X = \frac{\text{Total Debt}}{\text{Common Equity}}$$

Standard deviation **(σ)** = $\sqrt{\frac{\sum (x-\bar{x})^2}{n}} = \sqrt{\frac{9.44}{5}}$ = 1.37%

∴Standard deviation **(σ) =** 1.37%

Appendix -15

Cal of mean and standard deviation of EBIT to Interest Charged

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	1.60	0.0484
2002/03	1.65	0.0289
2003/04	1.86	0.0016
2004/05	1.93	0.0121
2005/06	2.04	0.0484
	$\sum (X) = 9.08$	$\sum (x-\bar{x})^2=0.1394$

We know

Mean ($\bar{X}$) = $\frac{\sum x}{n} = \frac{9.08}{5}$ = 1.82 Times

∴The average of Total Debt to Common Equity= 1.82 Times

Where, X= EBIT to Interest Charged
N= number of the years

$$X = \frac{EBIT}{InterestCharged}$$

Standard deviation **(σ)** = $\sqrt{\frac{\sum (x-\bar{x})^2}{n}} = \sqrt{\frac{0.1394}{5}}$ = 0.17%

∴Standard deviation **(σ) =** 0.17%

Appendix -16

Cal of mean and standard deviation of Earning Per Share

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	60.26	49.98
2002/03	49.45	13.99
2003/04	49.05	17.14
2004/05	47.91	27.88
2005/06	59.29	37.21
	$\sum (X) = 265.96$	$\sum (x-\bar{x})^2 = 146.20$

We know,

Mean $(\bar{X}) = \frac{\sum X}{N}$

$= \frac{265.96}{5}$

= 53.19%

…The average of EPS= 53.19%

Where,

X= Net profit to No. of Shares
N= number of the years

$X = \frac{Netprofit}{No.ofShares}$

Standard deviation **(σ)** = $\sqrt{\frac{\sum (x-\bar{x})^2}{n}}$

$= \sqrt{\frac{146.20}{5}}$

= 5.41%

…Standard deviation **(σ) =** 5.41%

Appendix -17

Cal of mean and standard deviation of Price Earning Ratio

Fiscal year	Ratio(X)	$(x-\bar{x})^2$
2001/02	16.59	1.19
2002/03	16.91	0.59
2003/04	17.13	0.30
2004/05	19.20	2.31
2005/06	18.55	0.76
	ϕ (X) =88.38	$\phi (x - \bar{x})^2$=5.15

We know,

Mean ($\bar{X}$) =

$$= \frac{88.38}{5}$$

= 17.68%

…The average of PE ratio= 17.68%

Where,

X= MVPS to EPS

N= number of the years

$$X = \frac{MVPS}{EPS}$$

Standard deviation **(σ)** = $\sqrt{\frac{\phi (x - \bar{x})^2}{n}}$

$$= \sqrt{\frac{5.15}{5}}$$

= 1.01%

…Standard deviation **(σ) =** 1.01%

Appendix-18

Cal of correlation coefficient between Total Deposit & Loan & Advances (In million)

Fiscal year	(X) Total Deposit	(Y) Loans& Advances	dx=X-22010	dy=Y-12919	$(dx)^2$	$(dy)^2$	dxdy
01/02	18619	9557	-3391	-3362	11498881	11303044	11400542
02/03	21007	10845	-1003	-2074	1006009	4301476	2080222
03/04	22010	12919	0	0	0	0	0
04/05	24814	13451	2804	532	7862416	283024	1491728
05/06	26490	15762	4480	2843	20070400	8082649	12736640
			$\phi d\varepsilon$ = 2890	ϕdY = -2061	$\phi d\varepsilon^2$ = 40437706	$\phi d\psi^2$ = 23970193	$\phi d\varepsilon\, d\psi$ = 27709132

We know,

$$r = \frac{\rho\,\phi dxdy\; Z\phi dx\phi dy}{\sqrt{\rho\,\phi dx^2\; Z f\phi dx Å^2}\sqrt{\rho\,\phi dy^2\; Z f\phi dy Å^2}}$$

$$= \frac{5*27709132\; Z 2890 * Z2061}{\sqrt{5*40437706\; Z(2890)^2}\sqrt{5*23970193\; Z(2061)^2}}$$

$$= \frac{138545660\; Z(Z5956290)}{\sqrt{202188530\; Z8352100}\sqrt{119850965\; Z4247721}}$$

$$= \frac{144501950}{\sqrt{193836430}\sqrt{115603244}} \qquad = \frac{144501950}{149694884} \qquad = 0.96$$

$r^2 = (0.96)^2 = 0.9216$

Where,
X = Total deposit in a year, SE=Standard of Error
Y = Total loan and advance in a year
N = Number of the years, P.E. = Probability error
… The correlation coefficient of total deposit and total loan & advance (r) = 0.96

r | 0 i.e. 0.96 | 0 the relationship between two variables total deposit and loan & advance are positive correlated.

Calculation of probability error
P.E.= 0.6745 * SE(r)

$$= 0.6745\ X\frac{1\,Z(0.96)^2}{\sqrt{5}} \qquad = 0.6745\ X – 0.03506 = 0.024$$

…The probability error is =0.024

6P.E. = 6X0.024 = 0.144

Appendix-19

Correlation coefficient between Total Investment and Total Deposit

(In million)

Fiscal year	(X) Investment	(Y) Deposit	dx=X-9292	dy=Y-22010	$(dx)^2$	$(dy)^2$	dxdy
01/02	18619	9157	-3391	-135	11498881	18225	457785
02/03	21007	10175	-1003	883	1006009	779689	-885649
03/04	22010	9292	0	0	0	0	0
04/05	24814	11692	2804	2400	7862416	5760000	6729600
05/06	26491	15762	4481	6470	20079361	41860900	28992070
			$\phi d\varepsilon$ = 2891	ϕdY = 9618	$\phi d\varepsilon^2$ = 40446667	$\phi d\psi^2$ = 48418814	$\phi d\varepsilon\, d\psi$ = 35293806

We know,

$$r = \frac{\rho\,\phi dxdy\ Z\phi dx\phi dy}{\sqrt{\rho\,\phi dx^2\ Z f\phi dx \AA^2}\sqrt{\rho\,\phi dy^2\ Z f\phi dy \AA^2}}$$

$$= \frac{5 * 35293806\ Z 2891 * 9618}{\sqrt{5X\,4044667\ Z(2891)^2}\sqrt{5X\,48418814\ Z(9618)^2}}$$

$$= \frac{176469030\ Z 27805638}{\sqrt{20223335\ Z 8357881}\sqrt{242094070\ Z 92505924}}$$

$$= \frac{148663392}{\sqrt{193875454}\sqrt{149588146}} \qquad = \frac{148663392}{170298313.7} \quad = 0.87$$

r^2= (0.87) ^{2} =0.76

Where,

X = Total Investment in a year, Y = Total deposit year

N = Number of the years, P.E. = Probability error

… The correlation coefficient of total deposit and total loan & advance (r) =0.87
r | 0 i.e. 0.87 | 0 the relationship between two variables net profit and total assets are positive correlated.

Calculation of probability error

P.E. = 0.6745 *SE(r)

$$= 0.6745\ X \frac{1 Z (0.87)^2}{\sqrt{5}}$$

= 0.6745 X0.1073

= 0.08371

…The probability error is =0.07237

6P.E. = 6X0.07237 = 0.4342

Appendix-20

Calculation of correlation coefficient between Net profit and Total Assets
(In Million)

Fiscal year	(X) Net Income	(Y) Total Assets	dx=X-263	dy=Y-25730	$(dx)^2$	$(dy)^2$	dxdy
01/02	235	21316	-28	-4414	784	19483396	123592
02/03	212	24198	-51	-1532	2601	2347024	78132
03/04	263	25730	0	0	0	0	0
04/05	309	28871	46	3141	2116	9865881	144486
05/06	457	30580	194	4850	37636	23522500	940900
			$\phi d\varepsilon$ = 161	ϕdY = 2045	$\phi d\varepsilon^2$ = 43137	$\phi d\psi^2$ = 55218801	$\phi d\varepsilon\, d\psi$ = 1287110

We know,

$$r = \frac{\rho\,\phi dxdy\ Z\phi dx\phi dy}{\sqrt{\rho\,\phi dx^2\ Z f\!\phi dx\text{Å}^2}\sqrt{\rho\,\phi dy^2\ Z f\!\phi dy\text{Å}^2}}$$

$$= \frac{5X1287110\ Z161X2045}{\sqrt{5X\,43137\ Z(161)^2}\sqrt{5X\,55218801\ Z(2045)^2}}$$

$$= \frac{6435550\ Z329245}{\sqrt{215685\ Z25921}\sqrt{276094005\ Z4182025}}$$

$$= \frac{6106305}{\sqrt{189764}\sqrt{271911980}} \qquad = \frac{6106305}{7183265} \qquad = 0.85$$

$r^2 = (0.85)^2 = 0.7225$

Where,
X = Total Net Income = Total Assets in a year
N = Number of the years, P.E. = Probability error, SE=Standard of Error

… The correlation coefficient of Net income and Total Assets (r) =0.85.r | 0 i.e. 0.85 | 0 the relationship between Net profit and Total Assets are +vely correlated.
Calculation of probability error

P.E. = 0.6745 * SE(r) = 0.6745 X $\frac{1\,Z(0.85)^2}{\sqrt{5}}$ = 0.6745 X0.1241 = 0.08371

…The probability error is =0.08371

6P.E. = 6X0.08371 = 0.5022

Appendix – 21

Trend Value of Total Deposit by Least Square Method

Let straight line trend between dependent variables (Total Deposit) y and independent variable (time) x be;

The equation of straight line trend is
yc = a+bX.......................................(i)
By solving following equations we get the value of (a) and (b),
$\phi\psi = Na + b\phi\varepsilon$ .... (ii)
$\phi\varepsilon\,\psi = a\phi\varepsilon + b\phi\varepsilon^2$ .... (iii)

Calculation of Trend Line

Fiscal year	Time(t)	X= (t-$\overline{T}$)	Total deposit(Y)	X^2	XY	Yc =a+bX yc= 22588.39+1954.96X
2001/02	1	-2	18619.38	4	-37238.76	18678.47
2002/03	2	-1	21007.38	1	-21007.38	20633.43
2003/04	3	0	22010.33	0	0	22588.39
2004/05	4	1	24814.01	1	24814.01	24543.35
2005/06	5	2	26490.85	4	52981.70	26490.85
N=5	ϕt = 15	$\phi\varepsilon$ =0	$\phi\psi$ X112 941.95	$\phi\varepsilon^2$ = 10	$\phi\varepsilon\,\psi$ X19 549.57	

We have,

$$\overline{T} = \frac{\phi t}{\rho} = \frac{15}{5} = 3$$

Putting the value of $\phi\varepsilon$, $\phi\psi$, $\phi\varepsilon^2$ and $\phi\varepsilon\,\psi$ in the equation no.(ii) and (iii) it will give the value of (a) and (b).

Since we have $\phi\varepsilon = 0$, We get

$$(a) = \frac{\phi\psi}{\rho} = \frac{112941.95}{5} = 22588.39 \text{ million}$$

$$(b) = \frac{\phi\varepsilon\,\psi}{\phi\varepsilon^2} = \frac{19549.57}{10} = 1954.96 \text{ million.}$$

Now, Projected Trend line of Total Deposit for the year 2006/07 to 2010/11

Fiscal year	Time (t)	X= (t-$\overline{T}$)	yc = a + bX yc = 22588.39+1954.96X
2006/07	6	3	28453.27
2007/08	7	4	30408.23
2008/09	8	5	32363.19
2009/10	9	6	34318.15
2010/11	10	7	36273.11

Appendix – 22

Trend Value of Net profit by Least Square Method

Let straight line trend between dependent variables (Net profit) y and independent variable (time) x be;

The equation of straight line trend is
yc = a+bX.......................................(i)

By solving following equations we get the value of (a) and (b),

$\phi\psi = Na + b\phi\varepsilon$ .... (ii)
$\phi\varepsilon\,\psi = a\phi\varepsilon + b\phi\varepsilon^{2}$ .... (iii)

Calculation of Trend line

Year	Time(t)	X= (t-$\bar{T}$)	Total net profit (Y)	X^2	XY	Yc =a+bX yc= 295.18+54.10X
2001/02	1	-2	235.02	4	-470.04	186.98
2002/03	2	-1	212.13	1	-212.13	241.08
2003/04	3	0	263.05	0	0	295.18
2004/05	4	1	308.28	1	308.28	349.28
2005/06	5	2	457.46	4	914.92	403.38
N=5	ϕt = 15	$\phi\varepsilon$ =0	$\phi\psi$ X 1475.94	$\phi\varepsilon^{2}$ = 10	$\phi\varepsilon\,\psi$ X 541.03	1475.90

We have,

$$\bar{T} = \frac{\phi t}{\rho} = \frac{15}{5} = 3$$

Putting the value of $\phi\varepsilon$, $\phi\psi$, $\phi\varepsilon^{2}$ and $\phi\varepsilon\,\psi$ in the equation no.(ii) and (iii) it will give the value of (a) and (b).

Since we have $\phi\varepsilon = 0$, so we get

$$\text{(a)} = \frac{\phi\psi}{\rho} = \frac{1475.94}{5} = 295.18 \text{ million}$$

$$\text{b)} = \frac{\phi\varepsilon\,\psi}{\phi\varepsilon^{2}} = \frac{541.03}{10} = 54.10 \text{ million.}$$

Now, Projected Trend line of Net profit for the year 2006/07 to 2010/11

Fiscal year	Time (t)	X= (t-$\bar{T}$)	yc = Yc =a+bX yc= 295.18+54.10X
2006/07	6	3	457.48
2007/08	7	4	511.58
2008/09	8	5	565.68
2009/10	9	6	619.78
2010/11	10	7	673.88

Appendix – 23

Trend Value of Loan & Advances by Least Square Method

Let straight line trend between dependent variables (Loan & Advances) y and independent variable (time) x be. The equation of straight line trend is

yc = a+bX......................................(i)

By solving following equations we get the value of (a) and (b),

$\phi\psi$ = Na + b $\phi\varepsilon$ .... (ii)
$\phi\varepsilon\ \psi$ = a $\phi\varepsilon$ + b $\phi\varepsilon^{2}$ .... (iii)

Calculation of Trend line

Year	Time(t)	X= (t-$\overline{T}$)	Loan&Advances (Y)	X^2	XY	Yc =a+bX yc= 12506.90+1501.62X
2001/02	1	-2	9557.14	4	-19114.28	9503.66
2002/03	2	-1	10844.60	1	-10844.60	11005.28
2003/04	3	0	12919.63	0	0	12506.90
2004/05	4	1	13451.17	1	13451.17	14008.52
2005/06	5	2	15761.98	4	31523.96	15510.14
N=5	ϕt = 15	$\phi\varepsilon$ =0	$\phi\psi$ X625 34.52	$\phi\varepsilon^{2}$ = 10	$\phi\varepsilon\ \psi$ X 15016.25	

We have,

$$\overline{T} = \frac{\phi t}{\rho} = \frac{15}{5} = 3$$

Putting the value of $\phi\varepsilon$, $\phi\psi$, $\phi\varepsilon^{2}$ and $\phi\varepsilon\ \psi$ in the equation no.(ii) and (iii) it will give the value of (a) and (b).

Since we have $\phi\varepsilon$ = 0, so we get

$$(a) = \frac{\phi\psi}{\rho} = \frac{62534.52}{5} = 12506.90 \text{ million}$$

$$b) = \frac{\phi\varepsilon\ \psi}{\phi\varepsilon^{2}} = \frac{15016.25}{10} = 1501.62 \text{ million.}$$

Now, Projected Trend line of Loan & Advances for the year 2006/07 to 2010/11

Fiscal year	Time (t)	X= (t-$\overline{T}$)	yc = Yc =a+bX yc= 12506.90+1501.62X
2006/07	6	3	17011.76
2007/08	7	4	18513.38
2008/09	8	5	20015
2009/10	9	6	21516.62
2010/11	10	7	23018.24

Appendix – 24

Trend Value of EPS by Least Square Method

Let straight line trend between dependent variables EPS (y) and independent variable (time) x be. The equation of straight line trend is

yc = a+bX.......................................(i)

By solving following equations we get the value of (a) and (b),

$\phi\psi$ = Na + b$\phi\varepsilon$ .... (ii)

$\phi\varepsilon\ \psi$ = a$\phi\varepsilon$ + b$\phi\varepsilon^{2}$....................... (iii)

Calculation of Trend line

Year	Time(t)	X= (t-$\overline{T}$)	EPS(Y)	X^2	XY	Yc =a+bX yc= 53.19+(-0.348)X
2001/02	1	-2	60.26	4	-120.52	53.886
2002/03	2	-1	49.45	1	-49.45	53.538
2003/04	3	0	49.05	0	0	53.19
2004/05	4	1	47.91	1	47.91	52.84
2005/06	5	2	59.29	4	118.58	52.49
N=5	ϕt = 15	$\phi\varepsilon$ =0	$\phi\psi$ X265.96	$\phi\varepsilon^{2}$ = 10	$\phi\varepsilon\ \psi$ X -3.48	

We have,

$$\overline{T} = \frac{\phi t}{\rho} = \frac{15}{5} = 3$$

Putting the value of $\phi\varepsilon$, $\phi\psi$, $\phi\varepsilon^{2}$ and $\phi\varepsilon\ \psi$ in the equation no.(ii) and (iii) it will give the value of (a) and (b).

Since we have $\phi\varepsilon$ = 0, so we get

$$(a) = \frac{\phi\psi}{\rho} = \frac{265.96}{5} = 53.19 \text{ million}$$

$$b) = \frac{\phi\varepsilon\ \psi}{\phi\varepsilon^{2}} = \frac{Z3.48}{10} = -0.348 \text{ million.}$$

Now, Projected Trend line of Loan & Advances for the year 2006/07 to 2010/11

Fiscal year	Time (t)	X= (t-$\overline{T}$)	yc = Yc =a+bX yc= 53.19+(-0.348)X
2006/07	6	3	52.46
2007/08	7	4	51.79
2008/09	8	5	51.45
2009/10	9	6	51.10
2010/11	10	7	50.75