CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Capital plays a vital role in the economic development of a country. The major concern of many countries of the world has been to accelerate their development process and increase the welfare of their people. This can be done only through sound investment. And for mobilization of inventible resources from one sector to another, banks plays very important role of bridging of the deficit units and surplus units. They are vital to long term growth and prosperity of economy since they provide the channel through which needed fund can be raised. It is a mechanism through which public savings are channelized to industrial and enterprise.

The growth of financial institution in a country depends upon the amount of savings available, proper organization of intermediary, to bring the investors and business ability together for mutual interest. The capital required for a corporation is not possible without the help of the financial institution, or the capital market is such powerful machinery which gives opportunity to the investors to invest their savings in ordinary shares, debentures and government securities.

After the era of human classification, development of civilization spread among all of group of human being. A nation is a type of group of human in spite of changeable characteristic of its boundaries. A south-Asian landlocked country, Nepal, can't develop beside it has lot of natural resources. Nepal enlisted among least developed country and among the poorest nation of the world is trying to chase the way of economic development by economic growth rate and developing all sectors of economy. It has a lot of problems as well as prospects too. Lacks of industry, Unemployment are seemed to be the major problem of the country. Most of the Nepalese are engaged in traditional type of agricultural. Our economic development process depends upon various factors, however economists are now convinced that capital formation and its proper utilization plays a supreme role for rapid economic development. Hence, investment portfolio is one such tool that helps for proper utilization of resources.

Private sector and public sector both can play the vital role for the growth of the economy of any country. Integrated and speedily development of the country is possible only when competitive banking service reaches nook and corners of the country. Commercial banks occupy an important place in the framework of every economy because they provide capital for the development of industry, trade, business and other resources deficit sectors by investing the saving collected as deposits. All the economic activities of each and every country are greatly influenced by the commercial banking business of the country.

The relationship between Bank and Business activities are inter-dependence. The necessary part of the business activities are banks which are established to safeguard people's money and thereby using the money in making loans and investments. There are several commercial banks operating inside and outside the valley. Every bank invests its money in some profitable financial sector, which may result in profitable business in the long range. An investment is the commitment of money that is expected to generate additional money. Human nature doesn't satisfy for whatever he/she has at present tends to have more than whatever he/she has. So expecting the additional return he/she tends to sacrifice the current resources. Whenever we talk about the return risk too must not be avoided, because in every step and type of return, risk is involved. So we can say "no" risk can gain "no" return.

The network of a well-organized financial system of the country has great bearing in capital formation. It collects scattered financial resources from the masses and invests them among those engaged in commercial and economic activities of the country. It has been well established that the economic activities of any country can hardly be carried forward without the assistance and support of financial institutions. Financial institutions have catalytic role in the process of economic development. Thus, commercial banks have become the heart of financial system. A key factor in the development in the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective, CBs formulate sound investment policies, which help maximize quality of investment and eventually contribute to the economic growth of a country.

Nepalese banking sector has faced drastic change. From few government banks providing limited services, Nepalese banking sector has come a long way with large numbers of banks and financial institutions offering wide range of services. At present, the industry is witnessing a phase of intense competition. Consumers have seen a quantum leap in the quality of service offered by commercial banks. The role of commercial bank in every nation of world is in pursuit of attaining the goal of rapid economic development.

The market share of commercial banks clearly shows that the government banks are the largest commercial bank in term of capital fund, deposit mobilization and loan and advances. However, the private sectors banks are more profitable than the government owned banks.

The American institute of Banking defines Commercial bank “as a corporation that accepts demand deposit subject to check and makes short term loans to business enterprise regardless of the scope of its other service.

In the Nepalese context, the Nepal Commercial Banks act 2031 B.S defines a commercial bank as one that exchange money, accepts deposit, grants loans and performs commercial banking function.

The main function of commercial banks is accepting deposits and advancing loans. Bank is a financial institution that deals s with monetary transactions. It acts as intermediates between those who have surplus money and those who need it. Banks attracts the inoperative savings of the public in the form of deposit. The deposits are maintained by banks as current account, saving accounts or fixed account according to the desire of the customers. Bank further invests their deposits or lends it to business man and traders for interest earning. Due to the function, bank is contribution a lot in boosting the economy of the nation in various activities of agricultural, commercial and industrial sector.

Nowadays, banks have also been observed providing the credit in consumption spending through a number of electronic cards such as credit cards, debit cards, and the smart cards. Out of these three electronic cards, credit cards seem to be the most popular form of installment credit available to consumers. Through the encoded piece of plastic, the consumer has instant access to credit for any purchase up to a pre-specified limit. In the financial language, the credit card has removed the liquidity constraint that restricted the spending power of thousands of consumers, democratizing access to credit and spending power. These cards are used for very different purposes today, depending on the income and life style of the user. Customers who use credit cards merely as a substitute for cash are referred as convince users. These people tend to be in upper and stable income brackets and do not necessarily seek stores accepting their cards. Customers who maintain large outstanding credit card balances are referred to as installment users because they pay only a portion of their outstanding balance each month. These individuals frequently are in lower and middle income brackets and tend to be the most profitable credit card customers for card issuing banks.

1.1.1 An Introduction of Sample Banks

Himalayan Bank Limited

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan, Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software-Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

The equity capital of HBL is given below

Authorized Capital Rs.2, 000,000,000

Issued Capital Rs.1, 013,512,500

Paid up Capital Rs.1, 013,512,500

(Source: http://www.himalayanbank.com)

1.1.2 Nabil Bank Limited

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. Nabil, as a pioneer in introducing many innovative products and marketing concepts in the domestic banking sector, represents a milestone in the banking history of Nepal as it started an era of modern banking with customer satisfaction measured as a focal objective while doing business operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology, which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Tele banking system.

With a network that has 28 points of representation spread across the kingdom; complimented by a network of ATMs and now NabilNet and NabilTele the ease of access of accounts and information for customers has never been more convenient. Nabil is a full service bank providing an entire range of products and services, starting with deposit accounts in local and foreign currency, Visa and MasterCard denominated in rupees and dollars, Visa Electron debit cards, Personal Lending products for Auto, Home and Personal loans, Trade Finance products, Treasury services and Corporate Financing.

The Bank has head office at Kamaladi, Kathmandu and 6 branch offices at Kathmandu Valley in the following locations: Kantipath, Kamaladi, New Road, Jorpati, Kupondole, and Maharajgunj.   In addition, the bank has other branches at outside Kathmandu Valley at the following locations: Birgunj, Parsa, Biratnagar, Itahari, Butwal, Pokhara, Bhairahawa, Nepalgunj, Lakeside (Pokhara), Dharan, Mahendranagar, Dhangadi, Dang, Rupandehi and Tulsipur. Similarly, it also operates an Exchange Counter at Tribhuvan International Airport, Kathmandu.

The equity capital of Nabil is given below:
Authorized Capital Rs.1,600,000,000
Issued Capital Rs.689,216,000
Paid up Capital Rs. 689,216,000
(Source: http://www.nabilbank.com)

The bank has utilized advanced computerized technique in its operation. The software in the user is 'bancs-2000' developed by info sis technology, India. The branches within the valley perform their routine works from Sunday to Friday i.e. six days a week.

Apart from the conventional facilities, other facilities made available by the bank are listed below.

- It provides loan and advances by means of term loan as well as working capital.
- It provides its customers with letter of credit and guarantees.
- It provides remittance facility to various parts of the world.
- It is going to introduce 'Swift Transfer' System in near future.
- It provides merchant banking facilities like underwriting of public issues and standing instructions.

Performance review of the bank depicts that the total deposits of the bank grew from 3744.50 million rupees in the fiscal year 2003/04 to 4380 million rupees in 2007/08, recording a moderate growth of 16.97%. During the same period, total loans and advance reached the level of 2963 million rupees from 2363 million rupees recording a growth of 25.36% over the previous year. Accordingly total negative growth of 70.28% the level of investment in government securities. Net profit, during the period declined to 16.70million rupees from 58.90 million rupees showing the negative growth of 71.58%.

1.2 Statement of the Problem

Financial sector is affected due to lots of factors i.e. lack of transparency in the financial statements, permissive banking practices such as multiple banking contributing to diversion of funds, flight of capital, over financing etc., absence of risk based pricing methodologies, customer risk rating models, absence of credit rating agencies, independent credit information bureau, credit risk transfer instruments, lack of transparency among the banks and FIs in exchange of information on the business entities etc. These contributed for higher level of impaired debt specifically in the banking sector.

The number of joint venture banks is being increased in response to the economic liberalization polices of the government besides joint venture banks, commercial banks are also being registered by Nepalese promoters other institutions offering similar nature of services like finance companies, co-operative societies and development banks are growing in large number these institutions have the tendency to centralize in major cities focusing the activities among the industrialists, traders and entrepreneurs.

As per the economic survey Nepalese economy witnessed mixed trend. Total credit and investment of the bank grew by lower rate than that of the previous year. The rate of resource utilization by commercial banks declined in the year as compared to the previous year. Sluggish securities market could not show any conspicuous sign of revival in the manufacturing sector banks have been facing the considerable pressure to lower the commercial banks are competing for limited opportunities narrow clientele base and barring investment in treasury bills. There are hardly any other opportunities available for short-term investment. Because of continued slackness in the economic activities in the country, the demand for credit has not picked up besides, competition in the banking sector has turned more and leading opportunities in good projects are very limited.

With the prevailing economic condition of the country, the investment in agriculture, manufacturing and industrial sectors has not grown satisfactory. Hence, the joint venture banks are also not succeeding perfectly to shift the deposit in profitable sectors competition being the burning issues at present their eyes for the better productive and growth (Basyal, 2005:67).

The problem of the study lies on the issues related to the Himalayan Bank and Nabil Bank answer to the following question.

- How far have Himalayan Bank and Nabil Bank been able to shift the monetary resources from savers to users?
- How sound is the operational result in relation to their profitability?
- Have they been able to reach unbanked sector of the country?
- What is the comparative position of two banks in terms of liquidity, leverage capital adequacy and profitability?

1.3 Objective of the Study

Main objective of this research is to examine and evaluate the financial performance to two banks namely Himalayan Bank Ltd and Nabil Bank Ltd. The specific objectives of this research are as follow.

- To examine the financial position of sample banks.
- To examine the trend of total deposit, total investment, loan and advance, net worth, net profit, earning per share and market value.
- To analyze the financial strengths and weaknesses of the concerned banks and offer suggestion for the improvement in performance.

1.4 Significance of the Study

At present the joint venture bank are going a wide popularity through the efficient management and professional service and playing an eminent role in the economy. Regarding the economic structure of the country, the banks do not have sufficient investment opportunities. Rapidly increasing financial instruction are creating threats to the joint venture banks. In this context, the financial analysis would not analyze strengths, weaknesses, opportunities and threats of selected joint venture banks. The result of the research will be helpful for JVBs especially for sample to formulate strategies to face the increasing competitions. The study no doubt will also have multidimensional importance for various areas. These are mentioned below:

- Importance to shareholders
- Importance to policy formulators and academically professional.
- Importance to management bodies of these banks for the evaluation of the performance of their banks and in comparison which others banks.
- Importance to government bodies and policymaker such as Central bank.
- Interested outside parties such as investors, customers (depositors, loan takers as well others types of clients.), competitors, personnel of the banks stock brokers, dealers and market makers etc.
- Significance to student and various groups those having interested in banking sectors as well as the management bookies of these banks for the evaluation of performance of their banks and in comparison which other bank.
- This study helps these banks to identify its hidden weakness regarding financial administration and necessity of the present study is justified.

1.5 Limitation of the Study

This reach will try it's almost care to cover most of the importance sector; it is still subject to the following limitations in brief. Being a student, lack of the sufficient time and resources are the major limitation therefore the study has been conducted as partial fulfillment of the requirement for therefore the study has been conducted as partial fulfillment of the requirement for the degree of Masters in Business Studies, the study covers judgmentally selected two small samples i.e. Himalayan Bank Limited and Nabil Bank Ltd. which is based on secondary data therefore the reliability of the study depends upon the accuracy of the provided published audited general report documents such as balance sheet, profit and loss account, statement which are circulated of the

Some of the basic limitations of the study could be illustrated as follows:

a. Accuracy of Data

Main source of the data collection is from the banks publications which may not be always reliable because they may publish the reports according to their profit policy and market situation. And the personal interviews and interactions may not be factual. Due to wide range of data deficiencies only simple technique have been used for the analysis of the data.

b. Availability of Data:

There are some difficulties to get the sufficient information as banks hesitate to provide data easily. The study covers a few years of transaction period of selected banks.

c. Time Limitation

The study period will cover only five fiscal year i.e. from 2004/05 to 2008/09. The basic purpose of the study is to fulfill the requirement for the Masters in Business Studies the study lacks sufficient time to collect information and analyze them. The study deals with only two government owned commercial banks and other commercial banks have not been accounted.

1.6 Organization of the Study

The study is mainly based on secondary data. Along this, Primary data and other data related with financial performance of Himalayan bank and Nabil bank is obtained directly from the Bank Officials with direct interview and Questionnaire with the concerned persons and necessary suggestions are taken from various experts as well as different personalities whenever required. The supplementary data and information are obtained from published records of the Bank, bulletin, booklets, and books etc. Various financial and statistical tools are used to examine

the off balance sheet activities of the bank. In this study financial tool, like ratio analysis, financial statements analysis and SWOT analysis have been done.
The structure of the study is divided into five parts.

Chapter I: This chapter includes the general introduction of the research work along with statement of the problem, objective of the research, significance and limitations of the research.

Chapter II: This chapter contains review of different journals and literature which deals with a theoretical framework and review of related studies.

Chapter III: This chapter contains research design, population and sample along with the nature and sources of data and statistical and financial tools to analyze those data.

Chapter IV: The acquired data are analyzed and presented through the way of designed methodology in this chapter to accomplish the research objective and major findings of the study.

Chapter V: The last chapter provides the summary, recommendation and conclusion of the overall study. At the end an extensive bibliography and appendices are also included as a part of this research work

CHAPTER - II

REVIEW OF LITERATURE

The concern of the study primarily is to focus on Comparative study on Financial Performance of Himalayan Bank and Nabil bank. To explore the relevant and true facts for the research purpose, this chapter highlights the literature available related to the study. An attempt has been made to look into bank publications, periodicals and central bank's rules and regulations. In addition, informal interviews with bank personnel and a few customers/borrowers have been aimed to receive. Further, interaction programs related with the financial issues transmitted by the various television channels will be taken as a supportive concept.

2.1 Conceptual Framework

2.1.1 Concept of Financial Performance

Financial performance can be defined as the heart of financial decision. The growth and development of an enterprise is fully affected by financial performance and financial performance of an enterprise is correct when true facts and figures are sort out.

“Financial performance means financial activities of the company directed towards achieving its value maximizing objective. For the better financial activities, effective and efficient decisions are necessary and those better financial activities contribute to excellent financial performance which in turn in results to growth of the organization” (Ezra, 1996: 67).

“Financial performance as a part of the financial management is the main indicator of success and failure of the firm. Its decision plays a vital role to increase the profitability by analyzing past performance and efficiency of the firm from accounting data and financial statements. The volume of profit earned by the firm is one of the major indicators of good financial performance of the firm. Profit is essential for a firm to survive, grow in long run as well as to maintain capital adequacy through retained earnings. However profit cannot be solely predicting the financial performance of the firm" (Paul, 1996: 78).

Since, financial performance as a part of management, there are different institutions that affect or are affected by the decision of the firm. Financial condition of business, firm should be sound from point of view of shareholders, debenture holders, financial institution and nation as whole.

Though, the types of analysis varies according to the specific interest of the party involve, shareholders of the firm are concerned principally with the present and expected future earnings, the stability of the earnings as well as their variations with the earning of other enterprises. This indicates that they concentrate their analysis on the profitability of the firm.

"Management of the firm is interested in all aspects of financial analysis is to adopt good financial management system for the internal control of the enterprise. Similarly, trade creditors are primarily interested in the cash flow ability of enterprise to service debt over long run. Similarly, all the concerned groups are directly or indirectly interested about the financial performance of the firm" (Ronald, 1951: 19).

The absolute accounting figures are reported in the financial statement - balance sheet, profit and loss account and other statements do not provide a meaningful understanding of the performance and financial position of the firm. An accounting figure conveys meaning when it is related to some other relevant information. "A qualitative judgment about the firm's financial position and performance should be made from the point view of a firm's investment. Thus financial analysis is the main qualitative judgment process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account" (Crosse, 1963: 91).

Joint venture banks in Nepal are profit making business institutions. So the profit earned by a joint venture commercial bank in Nepal is the main financial performance indicator of the bank. However, it cannot be exclusively forecast the performance of the bank by analyzing the profitability status only. Every aspect of the financial analysis is to be considered for financial performance of the bank. An analysis of income and bankruptcy score of the bank is also the important indicator of the bank's performance.

In the financial world, a bank's performance has mainly focused on financial performance decision. A commercial bank's performance is to be examined for various reasons. Bank regulators identifying banks that are experiencing severe problems so that they can give remedy to them.

2.1.2 Financial Analysis

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

"Analysis of interpretation of financial statements is an attempt to determine the financial performance of any organization so that a forecast may be made of the prospects of future earning, ability to pay interest, debt maturity and probability of sound dividend policy" (Weston and Copeland, 1991: 49).

In the world of Myers, “financial statement analysis is largely a study relationship among the various financial factors in a business a disclosed by a single set of statement and study of trends of these factors as shown in a series of statements.” (Myers, 1961, 14).“It is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account” (Pandey, 1994: 96).

“It is also the analytical and judgmental process that helps answer question that have posed. Therefore, it is means to end apart from the specific analytical answers, the solutions to financial problems and issues depend significantly on the views of the parties involved in the related issues and on the nature and reliability of the information available” (Helfert, 1992: 22).

Besides, it can be taken as the starting point of making plans, before using any sophisticated forecasting and planning procedures, financial data can be used to analyzed a firms past performance and assets its present financial strength. Management of the firm would be particularly interested in knowing the financial strengths to make their best use and to spot out the financial weaknesses to take corrective actions.

“The analysis makes an attempt to dissect the financial statements into their components on the basis of the purpose on one hand and between individual components and total of these items on the other. In course of studying and evaluating the financial position of the organization, a study of trends of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization” (Srivastav, 1993: 56).

“Financial statement analysis involves a comparison of a firm’s performance with that of other firm's in the same line of business, which is often, identified by the firm’s industry classification” (Weston, Besley and Brigham, 1996: 78). “Financial analysis is process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet which represents analysis snapshot of the firm's financial position analysis at analysis moment in time and text, income statement that depots analysis summary of the firm’s profitability overtime” (Van Horne & Wachowicz, 1997: 120).

“With respect to the problems identified from the analysis, pertinent care should be made to distinguish between the cause and symptom of problem.” (Hampton, 1998: 99) “Thorough the application of analytical tools, profitability and financial health of concerns is evaluated in a proper, critical and scientific manner.” (Jain, 1996: 36) The analysis of transactions determines the solvency of business and the measure of efficiency of operations as compared to similar concerns. The analysis reveals now far the dream and ambition of the top management have been converted into reality during each financial Year. The analysis, being techniques of x raying the financial position as well as progress of concern it enables mangers and investors take decision that will affect the company's future.

“Most of users of financial statements are interested in assessing the bank's overall performance. Following factors affect the evaluation of bank's overall performance” (Read & Smith, 2006: 67).

- The structure of balance sheet and profit & loss account.
- Operating efficiency and internal management system.
- Managerial decisions taken by the top management regarding interest rate, lending policies, exchange rates etc.
- Environmental changes such as changes in technology, government, competition, economy etc.

There are various methods or techniques used in analyzing the financial statements. One of them is the ratio analysis which is regarded as most powerful tool of financial analysis to make quantitative judgment about the financial position and performance of the banks. Financial ratios themselves do not indicate position of the institution, a standard or norm is needed to judge them. Mostly used criterion is analyzing trend in performance and making comparison over time with similar banks by computing trends, industry average and a peer group ratings.

2.1.3 Commercial Bank

2.1.3.1 Meaning of Commercial Bank

Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks pool scattered fund and channels it to productive use. Commercial banks can be of various forms such as Deposit Banks, Saving Bank, Industrial Banks, Mixed Banks, etc. Commercial banks it would have been impossible to meet the financial needs of the country. Commercial Bank Act 1974 defines a commercial bank 'A commercial bank means bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions"

“Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services.” (Gitman, 1988: 127) “A commercial banker is dealer in money such as a Cheque and bills of exchanges. He also provides a variety of financial services” (Kohn, 1999: 271).

Commercial banks are the heart of the financial system; they hold the deposits of many persons, government establishment and business unit. They make funds available through their lending and investing activities to borrowers, individual's business firms and government establishment units. Therefore, commercial banks are those banks that pool together the savings of community and arrange for their productive use. They supply the financial needs of modern business by various means. “Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to financing the short term needs of trade and industry. They cannot finance in fixed assets. Apart from financing, they also lender services like collection of bills, and cheques, safe depositing of valuables, financial advising, etc. to their customers” (Vaidhya, 2002: 24).

“A commercial bank is one which exchanges money, accepts deposits, grant loan and performs commercial banks functions and which is not a meant for co-operation, agriculture, Industries, or specific purpose.” (Nepal commercial Bank Act 2031 B.S.) Under Nepal commercial Bank Act 2031 B.S., some sales and functions of commercial Bank have been defined and emphasized commercial Bank provides short term trade and commerce. They accept deposits from public, and grants loans in different forms. They purchase and discount bills of exchange, promissory notes, exchange foreign currency etc. However, Central bank is the main bank of the any nation that directs and controls all the banks whose existence is the country in Nepal, Nepal Rastra Bank is the Central bank of the country. The entire commercial banks perform their functions under rules, regulations and the directions provided by Nepal Rastra Bank.

The major functions of commercial bank are explained in brief:

I. Accepting Deposit

According to Sir John Paget, “It is a fair deduction that no person of body, corporate or otherwise, can be bankers who does not 1) take deposit account, 2) take current account, 3) issue and pay cheques and 4) collect cheques for his customers.” All are related to the acceptance of deposit. Therefore, accepting the deposits by the banks is the oldest function.

II. Creating Money

One of the major functions of commercial banks that separate it from other financial institution is the ability to create money and to destroy money, which is accomplished by the lending and investing activities. The power of commercial banking system to create money is of great economic significance. It results in the elastic credit system that is necessary for economic progress at a relatively steady rate of growth.

III. Payment Mechanism

Providing for payment mechanism or the transfer of fund is one of the important functions performed by commercial banks and it is increasing in importance, as greater reliance is placed on the use cheques and credit cards. Moreover, banks credit cards can be used to withdraw cash from a depositors account make deposits and loan payment and transfer funds between a depositor's saving and checking account.

IV. Pooling of National Saving

Commercial banks perform vital services to all sector of economy by providing facilities for the pooling national saving and making them available for economically and socially desirable purpose. The saver is rewarded by the payment of interest on his saving. These pooled funds are made available to businessmen, who use them for the expansion of their productivity capacity and customers for such items as housing and customer goods.

V. Extension of Credit

The major function of commercial bank is the extension of credit to worth borrower bank lending is very important to the economy for it makes possible the financing of the agriculture, commercial and industrial activities of the country. Moreover, the provision of bank credit provides for the smooth operation of government such as capital improvements for building of school and hospitals and purchasing of fire trucks, construction of highway and dams, and the nation's defense.

VI. Facilities of the Financing of Foreign Trade

The other primary function of commercial bank is to make necessary arrangement for the amount of foreign exchange needed by business organizations to pay in the foreign country. Bank provides more satisfactory guarantee to an individual or firms bought the issuance of a commercial letter of credit, drafts, telegraphic transfer (T.T) and accepting traveler’s letter of credit or traveler’s cheques.

VII. Trust Service

Increased income have made possible, the accumulation of wealth, which in turn has contributed to the growth of trust services of commercial banks. Trust development serve as trustees in connection with bond issues and as transfer agents and register for co-operation. They may also administer sinking funds and perform other related activities associates with the issuance and redemption of bonds and stocks.

VIII. Safe Keeping of Valuables

The safe keeping of valuables is one of the ablest services provided by commercial banks. The protection of valuables fall into two areas: department of banks, safe deposit boxes and safekeeping. Safe deposit boxes are made available to customer on rental basis that may be useful and provides a place for securities, deeds, insurance policies and personal items of valuable only to owner. In other hand safekeeping differs from safe deposits box services in that the bank has custody of the valuables and acts as an agent for the customer.

IX. Agency Services

A bank also performs number of services on behalf of its customers. Commercial bank undertakes the payment of subscriptions, insurance premium, rent etc. and collection of cheques, bills, salaries, pensions, dividends, interest etc. on behalf of the customers. The bank charges a small amount as commission of the above mentioned services. In addition, he undertakes to buy and sell securities on behalf of the customers. The commercial bank also arranges to remit money from one place to another by means of cheques, drafts, wire transfer etc. The commercial bank also acts as representative or correspondent for his customers, of other banks and financial institutions. Moreover, a banker acts as a trustee, executer, administrator and attorney.

2.1.3.2 Role of Commercial Banks in the Economic Development

The economic development of a country vastly depends upon the commercial banks of the country. The role of commercial banks directly relates with the economic development of the country. Commercial banks receives surplus money of people in the various form of deposits and lends those deposits to different business houses and corporate bodies who are in need of money in different form on loans and advances.

Thus, it provides a link between surplus and deficit amount of the economy. Earning profit to his shareholders is also the major aiming of the commercial banks as many other houses.

"Commercial banks have succeeded in becoming a heart of financial system as they hold deposits of government agencies, business firms, millions of people of the nation and make them available through their lending and investing activities to other government agencies, business firms, millions of people of the nation. Like many other developing countries including Nepal lack capital formation and proper mobilization of funds. This also stands the major problem in the economic development of a nation. Commercial banks grant long-term loans to industries, which result in increase in the productivity capacity of an industry. The loans given to agriculture sectors enhance the agricultural production. Similarly the loans advanced to different people and corporate bodies help them to increase their incomes and profits" (Bhandari, 2003: 53).

So finally we can conclude that the future of the country is greatly determined by the active role played by the commercial banks. Similarly, in the context of Nepal too, different commercial banks such as Himalayan Bank Limited are supporting in the economic development of the country.

2.1.4 Concept of Joint Venture Bank

"Joint Venture Bank is an innovation in finance & it is on growing stage, mostly in developing countries. In developing countries, foreign investment plays a significant role for economic development by flowing capital, technology, skills, management efficiency & others" (Dahal & Dahal, 1999: 23).

Joint venture means, a business contract of management effort between two persons, companies or organizations involving risk & benefit sharing. When two or more independent firms mutually decide to participate in a business venture, contribute to the total equity more or less capital & establish a new organization, it is known as joint venture.

"A joint venture is forming of two forces between two or more enterprises for the purpose of carrying out a specific operation like: industrial or commercial investment, production trade" (Gupta, 1984: 122). "Joint venture banks are the commercial banks firmed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries or traders to achieve mutual exchange of goods and services” (Bhandari, 2003: 20).

For the enlistment of economic growth & to rival upon poverty problem of under developed country like Nepal they need strong banking system. Since, earlier established CB's (i.e. NBL & RBB) are not proficient to contribute efficiently, "HMG/N deliberate policy of allowing foreign JVB's to operate in Nepal with a view to encourage local traditionally run CBs to enhance their bankable capacity through competition, efficiency improvements, modernization via computerization & prompt service."

“Joint venture banks have been contributing a lot towards the promotion and expansions of both export and import trade. They provide both pre-shipment and post-shipment finance to exporters. Since, these banks are new, urban based and managed by foreign management they started their operation with automated system which could easily attract the elite group of business community due to their prompt service and modern management. In this way, JVBs are successful to bring healthy competition among banks, increase in foreign investment, promote and expand import and export trade, introduce new techniques and technologies. All this reveal the vital role and need of JVBs in banking sector or finance industry” (Garg, 1968: 231).

A healthy and tidy commercial banking system in European countries is one of the causes of their rapid economic development and this is a lesson to the nations of third world. The concept of joint venture bank is a new innovation in finance and it is on growing stage, mostly in developing countries.

“The primary objective of this joint venture is always to earn profit by investing or granting loan and advances to people associated with trade, business and industry etc. that mean they are required to mobilize their resources properly to acquire profit. How well a bank manages its investment has a great deal to do with the economic health of the country because the bank loans support the growth of new business and trade empowering the economic activities of the country" (Sharma, 2001: 38).

In the developing countries, foreign investment plays a significant role for the economic development by flowing the capital, technology, skills, managerial efficiency and others. So, local foreign joint investments have been considered more important. Joint venture banks in Nepal are of this type of investment.

2.1.4.1 Role of Joint Venture Banks in Nepal

In our context, joint venture bank is an association between Nepalese investors (financial and non-financial institution as well as private sectors) and the foreign (parent) banks, having experience in highly mechanized and efficient modern banking service in many parts of the world, for professional and competitive operation that is made highly beneficial through the combined efforts.

"Joint venture banks are important for the economic development of mixed economy's follower like Nepal. Nepalese economic situation and investment necessity provide a significant weight to joint venture banks which bring foreign capital, experience, technology, skill and art. Broadly, Government of Nepal adopted a policy for allowing foreign joint venture commercial banks to operate in Nepal. This policy has also targeted to encourage the traditionally run local commercial banks to enhance their capacity building, competitiveness, efficiency and modernize their functions to give prompt customer services. As a result of the new commercial bank's act and liberalization policy of 1980, joint venture banks operating in Nepal with view to encourage efficient banking services to increase foreign investment in the country and to bring healthy competition in the banking sector" (Sharma, 2001: 45).

The main objective of JVBs are to provide modern banking facilities to the general public, businessmen, industrialists and other professional to grant loans and advances on agriculture, commerce and industrial sectors. "The establishment of JVBs gave new horizon to the financial sector of the country. The objectives of JVBs in Nepal can be enumerated as below:" (Sharma, 2001: 47)

- Introducing advanced banking techniques and services.
- Introducing foreign investment in Nepal.
- Providing more resources or generating more capital for investment.
- Increasing international network of bank branches.
- Bringing healthy competition environment in financial system.

The role of JVBs in Nepal can be discussed as follows:

I. Information to Foreign Investors

"The role of joint venture bank is significant for the collection of fund for mega-projects. The various type of publications to be acquainted with Nepalese rules, regulations and practices of concerned sector. Before the establishment of JVBs, some large projects could be established through two or three local banks but mega-projects could not be established. Because of the political instability, after the restoration of multi-party democracy also the foreign investors have still been hesitating to invest in Nepal. In such a situation the publications of JVBs have been playing a vital role to the foreign investors" (Sharma, 2001: 50).

II. Creation of Competitive Environment

"Clients will be beneficial either by higher rate of interest in their deposition or by lower rate of interest on credit. It is possible only under competitive environment. After the arrival JVBs, old banks are also been competitive. Fair competition among banks, not only beneficial for bank themselves and economy. Fair personal management, efficient financial performance, quality in services and research and development is possible only in competitive environment" (Sharma, 2001: 50).

III. Contribution to National Economy

"Joint venture banks, comparatively are adopting new banking systems. They are already establishment in financial, garments, agriculture and housing needs and playing a significant role to contribute in national economy from own sector. Thus, through such bank's managerial and banking techniques, new ideas and philosophy, foreign investment and capital, healthy, competitive atmosphere and diversified market concepts transfer to other companies. But there is a remarkable point that the joint investment should be directed by the economic need and perspectives and not by political interest. Financial and legal rules, regulations and practices should be clear and convenient to foreign investors" (Sharma, 2001: 51).

IV. Modern Management and Banking Techniques

"Modern managerial principles and practices in banking sector have been introducing by joint venture banks in Nepal. New banking techniques such as hypothecation and syndication are also introduced under NRB guidance. Various techniques followed by international banks in deposition, lending, exchange and other have been introducing by these banks in Nepal.

After the establishment of these banks, other new and old banks have begun computerizing their system. So, new banks have adopted new techniques such as tele-banking, credit card and master card system in urban areas. Now these banks are oriented to follow up some developing techniques in international banking sector" (Sharma, 2001: 52).

V. Offering Better Links with International Market

"The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to their credibility in and easier access to international market. It means our potential projects are globally recognized so that opportunity of financial and technical assistant will be high." (Sharma, 2001: 53)

2.2 Review of Related Studies

2.2.1 Review of Books

Western and Brigham (1996) in their book "*Financial management: Theory and Practice*", Stresses on Risk- Return trade off as one of the major financial functions. They believe that the maximization of the value of the firm can be achieved through maximizations of returns in on hand and minimization of risk in the other. The relationship between the expected future state of the economy and the performance of individual firms enables a relation to be set forth between the state of the economy and the returns from investment in firms.

- Investment in assets new products;
- Determining the best mix of financing and dividends in relation to a company's overall valuation.

According to him" Investment of funds in assets determines the size of the firm, its profit from the operations, its business risk and its liquidity. Obtaining the best of mix of financing and dividends determines the firm's financial charges and its financial risk; it also affects its valuation. "He further incorporates other core financial are such as:

- Creation of value;
- Investment decision;
- Financing decision;
- Financial management

Van Horne (1997) in his book “Financial analysis is process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet, which represents analysis snapshots of the firm’s financial position analysis at analysis moment in time and next, income statement, that deposits analysis summary of the firm’s profitability overtime”.

Khan and Jain (1998) view in the book *'Financial Management'*, "The type of relationship to be investigated depends upon the objective and purpose of evaluation. The purpose of evaluation of financial statements diggers among various groups (creditors, shareholders, potential investors, management, government, labor leaders and so on) interested in the results and relationships reported in the financial statements. For example, short-term creditors are primarily interested in judging the firm's ability to pay its currently- maturing obligation".

Again, the same author opine that " While it is true that general economic conditions and industry practices have a strong impact on the level of receivables, a firm's investments in these type of current assets is also greatly affected by its internal policy and its performance depends on it."

Hampton (1998) in his book, “*Financial decision making*” defines, “Financial analysis is used primarily to gain insight into operating and financial problems concerning the firma with respect to these problems concerning the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statement in to their components on the basis of purpose in the hand and establish relationship between these components on the one hand as between individual components and totals of these items on the other .Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization”.

Pradhan (2000) in his book “*Basic of Financial Management*” says "Financial analysis is to analyze the achieved statement to see if the results meet the objectives of the firm, to identify problems, if any, in the past or present and /or likely to be in the future, and to provide recommendation to solve the problems".

Pandey (2001) in his book “*Financial Management*”, writes, “Financial analysis is the process of determining financial strengths and weakness of Analysis Company by establishing strategic relationship between the components of analysis balance sheet and other operative date.” In his book he identifies two kinds of finance functions:

a) Routine
b) Managerial finance functions.

The routine finance function do not require a great managerial ability to carry them out and they are chiefly in nature. Managerial finance functions on the other hand are so called because they require skillful planning, control and execution of financial activities.

There are, according to him four important managerial finance functions:

- Investment or long-term asset mix decision.
- Financing or capital –mix decision
- Dividend or profit allocation decision
- Liquidity or short- term asset- mix decision (Pandey, 2001: 57)

2.2.2 Review of Journals and Articles

Bhetwal (2007) in his article "*Financial Liberalization and Financial Development in Nepal*" writes, an efficient financial system can effectively mobilize and allocate resources leading to robust economic growth. Financial liberalization improves the functioning of financial system by increasing the availability of funds and allowing risk diversification and increased investment. The indices of financial liberalization and financial development, generated by the principal component analysis, depict a gradual process of financial liberalization and a continuous financial sector development. The paper finds the presence of bi-directional causal relationship between the liberalization of financial sector and level of financial development in Nepal.(NRB, 2007, 23)

Maskay and Subedi (2009) in their article "*Development of the Nepalese Financial System*" write that, A healthy financial sector is essential to facilitate sustainable economic growth. Theoretically, the channel by which financial development supports economic growth is via enhancing financial intermediation, for example, moving funds from savers to investors in a cost-effective manner which motivates individuals towards more efficient resource allocation decisions .In the literature, there are four channels by which financial development affects economic growth:

- by improving the screening of funds-seeking investors and their subsequent monitoring, and thereby channeling the allocation of resources for its most profitable investments;
- by encouraging the mobilization of savings by means of providing diverse instruments that match the differing preferences of savers;
- by lowering the transaction, screening, and monitoring costs through economies of scale;
- by enhancing various options of risk and liquidity management. Each of these four financial functions influences savings and investment decisions of

economic agents and ultimately results in higher economic growth (NRB, 2009: 31).

Gautam (2008) writes in an article**,** *"WTO and Challenges of Financial Services Liberalization in Nepal"* has put his opinion in the context of financial service liberalization and financial reform in Nepal. According to him "the process of financial services liberalization in Nepal is very recent phenomenon. It has been gathering pace gradually, the process of liberalization was started with the financial sector reform in mid eighties. It was surged up after the initiation of structural Adjustment Program and Enhanced Structural Adjustment Program with respective loan and assistance of the World Bank and International Monetary Fund. Financial sector reform was implemented on a phase wise basis. It was designed to address the institutional deficiencies and closed and controlled financial system. Various macroeconomic policies were modified and adjusted during the period to facilitate the liberalization process. The procedural relaxation on the entry of joint venture banks (with collaboration), determination of interest rate (first, in 1986 with certain limit and then in 1989 without any limit) and operation of various financial transactions are mainly attributable for the reform (NRB, 2008: 62).

Poudel (2063) in the journal entitled," *Financial statement analysis: An approach to Evaluate bank's performance*" writes, balance sheet, profit and loss a/c and the accompanying notes are the most useful aspects of the banks. It needs to understand the major characteristics of banks balance sheet and profit & loss a/c. The bank's balance sheet is composed of financial claim as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations which are generally contingent in nature are considered as off balance sheet items.

Principle objectives to analyze financial July 5, 2011 atements ate to identify liquidity, profitability and solvency. Most propose of the financial statements are interests in assessing the banks overall performance which is affected by the following factors:

- The structure of balance sheet and profit an s loss a/c
- Operating efficiency and internal management system
- Managerial decision taken by top management regarding interest rate, exchange rate, lending policies etc.

2.2.3 Review of Previous Thesis

Various thesis works have been done in different aspects of commercial banks such as lending policy, investment policy, financial performance analysis, resource mobilization and capital structure. The review of some previous study, which is relating to the Nepalese banking sector, is the most relevant sources and assistants for this research.

Regmi (2007) thesis *"A comparative study of the financial performance of HBL and NBBL"* suggested NBBL to increase its current assets because the bank is not maintaining adequate liquidity position in comparison with HBL. As capital structures of both the bank are highly levered both the banks are recommended to maintain and improve mix at debt and owner's equity by increasing equity share. He further suggests to HBL to improve the efficiency in utilizing the deposits in loan and advance for generating the profit NBBL should try to maintain present position on this regards. Profitability position of HBL is comparatively better than the same of NBBL. So, NBBL is recommended to utilize its resources more efficiently for generating more profit margins. If resources held idle, bank faces high cost and causes the low profit margin. An ideal dividend payout ratio is based upon shareholders expectations and the growth requirement of the banks. NBBL is suggested to increase its dividend payout ratio.

The two banks should extend their resources to rural areas and promote the development of poor and disadvantaged group. In order to do so banks should open their branches in the remote areas with objectives of providing cheaper banking services especially HBL should initiated in this regard because it has few branches in comparison to NBBL.

Because of the start competition between banking, sectors both the banks are suggest to formulate and implement some sound and effective financial and non-financial strategies to minimize operational expenses to meet required level of profitability. The banks are further suggested to adopt modern banking technologies to enhance their better and wide market.

Das (2008), in his thesis entitled *"A Comparative Study on Financial Performance of NGBL and NSBI",* has pointed out following objectives.

- To evaluate liquidity position of both the banks.
- To analyze comparative financial performance of both the bank
- T o study the comparative position of both the banks
- To offer a package of suggestion to improve the financial performance.

Major Findings of this study are as follows:

- Liquidity position, in terms of cash and bank balance to total deposit, of NGBL is found to be higher than that of NSBI
- The loan and advance ratio of NSBI is higher than NGBL which implies that NSBI is successful in utilizing the outsider’s fund.
- Long term debt to total assets of NGBBL is slightly higher than NSBI which implies more use of long term debt.

- Earning per share mid -dividend per share ratio of NSBI is very low in comparison to NGBL.

Karki (2008) in his thesis entitled *"A Comparative Analysis of Financial Performance of NABIL and SCBNL",* has pointed out following objectives.

- To evaluate liquidity position of both banks.
- To analyze comparative financial performance of both banks.
- To study the comparative position of both banks.
- To offer a package of suggestion to improve the financial performance
- To identity the relationship between interests earned and operating profit.

Major Finding of this study are as follows

- SCBNL has efficiently operated its long-term fund, deposit and assets to generate more profits.
- Liquidity position of NABIL bank is favorable in many cases it seems excessive. The proposed recommendation for these banks are to reduce its excessive non-performing assets (Cash and bank balance) and invest on the income generating current assets (Treasury bills), while SCBNL must strength the liquidity position.
- Comparatively SCBNL's profit ability position is better than that of NABIL.

Pradhan (2008) has conducted thesis titled *"A study of Non-Performing Assets of Commercial Banks of Nepal"* with reference to Nepal Bank Limited, Rastriya Banijya Bank, Nepal Bangladesh Bank, Everest Bank and Standard Chartered Bank Nepal Limited. The main objectives of his study are to find out the proportion of non-performing loan and the level of NPAs in total assets total deposit and total lending ,evaluate the relationship between loan and loan loss provision ,present the trend line of the non-performing assets, loan and advances, loan loss provision of selected commercial bank.

He also writes that, Improper credit policy and credit appraisal system, lack of supervision and monitoring, economic slowdown, overvaluation of collateral, borrower's misconduct, political pressure to lend for un-creditworthy parties, etc are the major causes of occurring NPAs.

He has concluded that that "Nepalese banks have to remain focused in their efforts to recover their spiraling bad loans, or non-performing assets, to sustain the positive trend of improving asset quality. Better risk management techniques, compliance with the core principles for effective banking supervision, skill building and training and transparency in transaction could be the solution. Removal of non-performing loans from the banking system even through government or quasi government funds at times, is essential. But official assistance should be so structures as to avoid moral hazard. To conclude with, till recent past, corporate borrowers even after defaulting continuously never had any real fear of bank taking any action to recover their dues despite the fact that their entire assets were hypothecated to the banks. This is because there was no legal Act framed to safeguard the real interest of banks. While NPA cannot be eliminated, but can only be contained, it has to be done not a heavy cost of provisioning and increasing the portfolio of credit. Along with recovery fresh inflow of NPA should be brought down at a level much less than the quantum of its exit. If this specific goal is reached, there is an eventual solution for this problem. Good governance is essential for the success in NPA management".

He has recommended that, Proper financial analysis should be done before lending to the borrowers, banks should take enough collateral, so that the at least can able to recover its principle and interest amount in case of being unable to repay by the borrower, to Hire Asset Management Company (AMC) to reduce the non-performing assets, to search new investment areas and all banks should provide appropriate training regarding loan management, risk management, credit appraisal etc to the employees.

Major Findings of this study are as follows:

- Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders.
- Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

Ghimire (2008) study entitled *"A comparative study of financial performance of JVBs in Nepal especially on NABIL and HBL"* concludes that the liquidity position of both the banks is below normal standard of 2:1(i.e. unsatisfied), comparatively this ratio if NABIL is better on an average. Both the banks are found to be efficient in utilized most of their total assets. Based on the findings of analysis, the research suggest finding out the root cause of weak liquidity position to improve the liquidity of both banks. Similarly, both the banks are suggested to maintains improved capital structure in increasingly equity base to extend loan advance to utilize more of the total deposits to minimize operational expenses or to mobilize resources and efficiently and to extend their banking facilities even in rural areas.

Joshi (2009) through his thesis entitled "*A Study on Financial Performance of Commercial Banks*" concluded that the liquidity position of commercial bank is satisfactory local commercial bank have been found relatively highly leveraged compared to the joint venture banks. Loans and advances have been their main form of the investment. Two third assets have been used for earning purpose. Profitability position of NABIL is stronger than others.

Sharma (2009) prepared a thesis with the objective of highlighting the priority sector Investment and repayment state of commercial banks in Nepal through intensive banking program and to show the repayment position of the sector has made a conclusion, "All the three commercial banks covered in this study have contributed to the credit to priority sector. But the efforts made by different banks are not in the same proportion. Nabil has contributed highest amount of credit to agriculture and cottage industry. Nepal Bank Ltd. has contributed highest amount to service sector. So for the loan repayment from priority sector is concerned Nabil has very satisfactory performance whereas NBL has very low performance or loss repayment overdue loans have been observed more in agriculture".

It was further suggested that, "Commercial Banks should improve the repayment loans by generating the income of rural farmers. Reinvestment and right utilization of bank loans are the cost of the commercial banks. Since there is a need to increase in assets by better arrangement of institutions and organization, the manager and loan staff of the branches should be provided with adequate training so that they could identify right borrowers, right project and ensure correct project appraisal. Reinvestment is the available sources to increase in paying capacity of the borrowers".

Pandey (2009) entitled "*Financial Performance of Commercial Banks in Nepal*" concludes that the economic development of a country cannot be imagined without the development of commerce and industry. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle savings from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earning to the labors and materials suppliers to such industries and traders.

Commercial banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability.

Pradhan (2009) wrote a thesis entitled "*Financial Performance Analysis of Nepal Bank Limited*". The main objectives of this thesis is to analyze the liquidity position go the bank, to evaluate activity and operation with reference to fund collection & mobilization, To evaluate the earning and profitability position, To identify the relationship between total deposit and total investment and To observe return over the period.

The following conclusions are derived from the study: Nepal Bank Limited has not maintained a balanced ratio among its deposit liabilities. Consequently, the bank does not seem to be able to utilize its high cost resources in high yielding investment portfolio. The investment portfolio of the bank has not been managed so efficiently as to maximize the returns. There is lack of demarcation of between operational and non-operational activities of the bank. The result shows that the bank is more inclined towards non-operational activities.

The operational efficiency of the bank is found unsatisfactory because of the series of operational loss over first three years. The allocation of loans and advances by the bank does not seem as meaningful as the productive sector portfolio. As compare to social and other loans, agriculture sector and service sector loans are quite negligible. As a result, the profitability of the bank is in negative trend in first three FY. The lower return on investment of the bank and prevailing payout ratio is not justified at all. Lower market value is a reflection of a weaker financial performance of the bank. The growth rate of total investment is not proportionate. The trend ratio of the total assets and total investment is increasing and their ratio is fluctuating.

2.2.4 Research Gap

Large numbers of research are available bearing the same topic, “A Comparative Analysis of Financial Performance of Commercial Banks”. The present researcher tries to draw insights from them. However, the researcher will sustain gap by covering the relevant data and information from the year 2003/04 to 2007/08. Moreover, the researcher has selected two commercial banks of Nepal as sample banks viz. Nabil Bank Ltd. and Himalayan Bank Nepal Ltd. These banks are leading commercial banks by which we can find for the perfect comparison between highly growing commercial bank rather than rapidly growing new commercial banks. Financial analysis is the major function of every commercial bank for evaluating the financial performance. Therefore, it is the major concern of stakeholders to know the financial situation of the bank.

Nabil and HBL are the leading commercial banks of the country having the huge market share and its investment activities and these banks has significant impact on developing the economy of the country. Every year the financial performances are changing according to the environment of the country. Hence, this study fulfills the prevailing research gap about the in depth analysis of the financial performance which is the major concern of the shareholders and stakeholders. This research work will help to acquire knowledge regarding tools and technique used and extra knowledge for the further researchers who are going to study in the topics related to the financial performance of commercial banks.

CHAPTER - III

RESEARCH METHODOLOGY

The rationale behind the study is to evaluate and assess the financial position or performance of Himalayan Bank Limited and Nabil Bank Limited. Thus, this chapter includes those methods and techniques used for finding out a fore said purpose.

Research methodology refers to the various sequential steps (along with the rationale of each step) to he adopted by a researcher in studying a problem with certain objective in view. It is a way to systematic solve the research problem it may be understood as a science of studying how search is done scientifically. Includes the various steps that are generally adopted by a researcher studying his/ her research problem along with the logic behind them, it would be appropriate to mention here that research project are not meaningful to any one unless they are in sequential order which will be determined by the particular problem at hand therefore, this study aims at analyzing and interpreting the purpose of comparative financial performance or appraisal of two banks. This chapter focuses and deals with the following aspects or methodology.

- Research design
- Population and Sample
- Source of data
- Data collection procedure
- Method of Date analysis

3.1 Research Design

Research design is the task of defining the research problem. In other words, "A research design is the arrangement of conditions, for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure within which the research is conduct.

General objective; of this research study is to examine and evaluate the financial performance of banks especially that of HBL and NABIL in order to achieve the objective, both descriptive and analytical research design has been followed. The study focuses on the examination of relationship between those variables that influence- financial decisions of the sampled batiks hence; it is an ex-post factor research.

3.2 Populations and Sample

The population for this study comprises nine joint venture banks currently rating in the country. All the joint venture banks perform the functions of commercial banks under rules, regulations and directives of Nepal Rastra Bank. The sample consists of two judgmentally selected banks- Himalayan Bank and Nabil Bank. These units represent 22.22% of the total population and are comparable to each other in various aspects.

An attempt will be made to look into the four to five years of commercial banks' transactions.

3.3 Sources of Data

Although present study is based on secondary data, necessary suggestions are also taken from various experts both inside the bank whenever required the necessary data is obtained from the head office of the banks such as, published balance sheet, profit and loss account and other related statement of accounts as well as the annual reports of the respectively banks. Likewise, other related arid necessary information are also obtained from the publication of security exchange centre, Nepal Rasta Bank and other publications used for the purpose are book & booklets magazine journals, newspaper school of thought etc.

3.3.1 Data Collection Procedure

The problem of the study lies on the issues related to the comparative strengths and weaknesses of the banks. Because of liberal policy adopted by the government, financial institution has been emerging in the country. The sampled banks have been facing threats from such institutions. Therefore, the study has been ducted to examine and evaluate the financial performance of the sampled units. This study is also intended to fine the weaknesses and strengths so that appropriate suggestion can be provided to enhance the performance of the banks in coming days.

For the purpose, various data are required. With the view of obtaining the data, researcher made several visits of the sampled banks, in first visit, the researcher consulted the concerned authority of the bank and explained about the above stated problems and objectives of the study. He also explained why he is interested in these two banks and what he wishes to analysis after keeping forth the view of researcher. The authorities got convinced and appraised the effort. They assured that they would have far as possible. Regarding the information needed, they said that they would make them available up to the extended that does not affect the privacy and secrecy of the bank. Researcher got pleased with the response shown by them arid started the work.

For the reference materials, the researcher visited Nepal Commerce Campus, Shanker Dev Campus and Central Department of Management, T.U. Many visits in management department and various sections of central library, TU led the researcher lobe successful in conducting this study.

3.4 Data Processing

Data obtained from the, various sources cannot be directly used in their original form further they need to be verified and simplified for the purpose of analysis. Data information, figure and facts so obtained need to be checked, rechecked edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, which have been shown in annexes. Homogenous data have been sorted in one table and similarly various tables have been prepared in understandable manner odd data excluded from the table. Using financial and statistical tools data have been analyzed and interpreted.

3.5 Method of Data Analysis

Financial statement can provide information useful for the parties directly or indirectly involved in the business. For the purpose of study, the data collected and obtained are scanner and tabulated under various heads. The researcher has used two sorts of tools has been used to achieve the results. Here is the brief discussion of both the tools, which are used to analyze and interpret the financial performance of two banks i.e. Himalayan Bank LTD. and Nabil Bank LTD.

- Financial Tools
- Statistical Tools

3.5.1 Financial tools

Financial tools are those, which are used for the analysis and interpretation of financial data. These tools can be used to get the precise knowledge of a business, winch in turn, are fruitful in exploring the strengths and weaknesses of the financial policies and strategies. Various financial tools have been used in order to meet the purpose of the study.

3.5.1.1Ratio Analysis

Ratio analysis helps to summarize the large quantities of financial data and to make quantitative judgments about the firm's financial performance. Ratio is the expression of one figure in terms of another. It is the expression of relationship between the mutually independent figures, in financial analysis; ratio is use to as an index of yardstick for evaluating the financial position and performance of firm. Ratio analysis is very much powerful & widely used tool of financial analysis. It is define as the systematic use of ratio to interpret the financial statements so that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. It helps the analysis to make qualitative judgment in about the financial position and performance of the firm. Therefore, it is helps to establish relationship among various ratios and interpret there on specially, based on comparison between two or more firms or inters firm comparison and comparison between present and past ratios for the same firm give enormous and fruitful results to examine the financial performance.

The obsolete accounting figure reported in the financial statement does not provide a meaningful understanding of the performance and financial position of the firm. An accounting figure conveys meaning when it is related to some other relevant information. Therefore, the ratio is the relationship between two accounting figures expressed mathematically. It helps to summarize large quantitative relationship helps to form a quality judgment. However, " A single ratio itself does not is indicate favorable or unfavorable conditions. It should be compared with some standard.

A ratio is simply a number expressed in terms of another number and it expresses the quantitative relation between any two variables. Ratio can be calculated between any two items of financial statements. It means there may be as many ratios as there are the numbers of items. However, under the ratio analysis technique, it is not practical to work out all the ratios. Hence, only the required ratios have been worked out.

There are numerous ratios to analyze and interpret the financial form once of the enterprise or firm. However, for our purpose, only important and relevant ratios are used to check the financial health of two banks in Nepal, which are as below;

3.5.1.1.1 Liquidity Ratios

Liquidity ratios are used to judge the firm's ability to meet short-term obligation. These ratios give insights into the present cash solvency of the firms and its ability to remain solvent in the event of adversities. It is the comparison between short-term obligation and the short –term resources available to meet these obligations. These ratios are calculated to find the ability of banks to meet their short-term obligation, which are likely to mature in the short period. The following ratios are developed and used for our purpose to find the liquidity positions of the two banks.

a) Current Ratio

This ratio indicated the current short-term solvency position of a current ratio is the relationship between current assets and current liabilities. It is calculated by dividing the current liabilities by current assets, which is expressed as follows:

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

Current assets refer in those assets, which are convertible in cash within a year or so. They includes, cash and Bank Balance, investment in treasury bills, money at short call, or placement, loans and advances, bills purchased and discounted, overdrafts, other short-term loans, foreign currency loans, bills for collection, customer's acceptance liabilities, pre-payment expenses, and other receivable. Similarly, current- liabilities refer to those obligations maturing within a year. It includes, current account deposits, saving account deposits, margin deposits, call deposits, intra-bank reconciliation A/c, bills payable, bank over-draft, provisions, accrued expenses, bill for collection, and customer's acceptance liabilities etc.

A higher ratio indicates better liquidity position. However, very high ratio of current assets to current liabilities may be indicative of slack management practice, as it might signals excessive inventories for the current requirement and poor credit management in terms of over-expanded account receivable.

Current ratio is a measure of firm's solvency. It indicates the availability of the current assets in rupees for every one rupee of current liability. As a conventional rule, a current ratio of 2 to 1 in considered satisfactory. However, these rules should not be blindly followed, as it is the test of quantity not quality. In spite of its shortcoming, it is a crude-and quick measure of the firm's liquidity.

b) Cash and Bank Balance to Total Deposit Ratio

The ratio is calculated using following formula,

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

Total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short notice and other deposits. The ratio shows the proportion of total deposits held as most liquid assets. High ratio shows the strong liquidity position of the bank. Too high ratio is not favorable for the bank because it produces adverse effect on profitability due to idleness of high-interest bearing fund.

3.5.1.1.2 Capital Adequacy Ratio

Capital adequacy ratio measures whether the firm has maintained sufficient capital or not. In other words, it helps to decide whether the existing capital is adequate or there is the not need or reforms. The ratio is tested to ensure the safety and stability of the firm in long run.

Over capitalization and under capitalization both have adverse effect on profitability of the firm. If the capital is excess, it remains idle, if the capital is insufficient, the firm may not be able to grasp the opportunity from potential profitable sectors. Therefore, the commercial banks have been directed to retain sufficient ratio by the central bank. As per the directive this ratio should be 10 % of their total risk, weighted assets and total off-balance sheet transitions, Here, capital fund refers to the core capital and supplementary capital commercial banks cannot declare and distribute dividend until they meet capital adequacy ratio under this group, following ratios are tested.

- Net worth to total deposit ratio
- Net worth to total assets ratio
- Net worth to total credit ratio

a) Net Worth to Total Deposit Ratio

The ratio is calculated by dividing net worth by total deposits.

Net worth to total deposit ratio = $\dfrac{\text{Net Worth}}{\text{Total Deposits}}$

The ratio measures the percentage of net worth in relation to the total deposits collection in the bank. The ratio is a yardstick to see whether the bank has maintained the capital fund according to the direction of Nepal Rastra Bank.

b) Net Worth to Total Assets Ratio

The ratio is calculated by dividing the net worth by total assets of the bank.

$$\text{Net Worth to Total Assets Ratio} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

The ratio measure what is the percentage of shareholders' fund is relation to the total assets owned by the bank. High ratio means greater contribution of investors fund and strong capital adequacy position.

c) Net Worth to Total Credit Ratio

The ratio is obtained when not worth is divided by the total credit of the bank.

$$\text{Net Worth to Total Credit Ratio} = \frac{\text{Net Worth}}{\text{Total Credit}}$$

Total credit refers to the total of loans and advances granted, cash credit overdrafts, bill purchased and discounted. It measures the relative proportion of the shareholders fund with respect to the credit. High ratio shows that the firm has adequate capital, which is the index of safety. Moreover, a bank with higher ratio is less affect by the instability of the financial market.

3.5.1.1.3 Assets Quality Ratio

Assets quality ratio measures the performance efficiency of an organization from various angles of its operations. These ratios indicate the efficiency of activity of an enterprise to utilize available funds, particularly short term funds. These ratios are used to determine the efficiency, quality and the contribution of loans and advances in the total profitability. The following activity ratios measure the performance efficiency of the bank to utilize its funds.

- Loan loss provision to total loans and advances ratio
- Nonperforming loans to total loans and advances ratio
- Provision for bad debt to total loan and advance ratio

a. Loan Loss Provision to Total Loans and Advances Ratio

The ratio is obtained when not worth is divided by the total credit of the bank.

Loan Loss Provision to Total Loans and Advances Ratio

$$= \frac{\text{Loan Loss Provision}}{\text{Total Loan and Advance}}$$

According to the NRB directives Each and every bank has made provisions for future losses

The Loan Loss Provisioning, on the basis of the outstanding loans and advances and bills purchased as above should be provided as follows:

Classification of Loan	**Loan Loss Provision**
Pass	1%
Sub-Standard	25%
Doubtful	50%
Loss	100%

Loan loss provision set aside for performing loans is defined as General Loan Loss Provision and loan loss provision set aside for non-performing loan is defined as Specific Loan Loss Provision.

b. Non Performing Loan to Total Loan and Advance

The ratio is obtained when not worth is divided by the total credit of the bank

$$= \frac{\text{Non Performing Loan}}{\text{Total Loan and Advance}}$$

Loans and advances falling in the category of sub-standard, doubtful and loss are defined as non-performing loan.

Here, if it is appropriate in the views of the bank management, there is not restriction in classifying the loan and advance from new risk category to high-risk category. For instance, loans falling under sub- standard category may be classified in to doubtful or loss and loans falling under doubtful may be classified into loss category.

e. Provision for Bad Debt to Total Loan and Advance Ratio

The ratio is obtained when not worth is divided by the total credit of the bank.

Loans and advances falling in the category loss are defined as bad loan or bad debts.

3.5.1.1.4 Turnover Ratio

Turnover ratios, also known as utilization ratios or activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. They measure how effectively the firm uses investment and economic resources at its command. Investments are made in order to produce profitable sales. Unlike other manufacturing concerns, the bank produces loans, advance and other innovation. So it sells the same High ratio depicts the managerial efficiency in utilizing the resources they show the sound profitability position off the bank low ratio is the result of insufficient utilization of resources. However, too high ratio is also not good enough as it may be due to the insufficient liquidity.

Depending upon special nature of assets and sales made by the bank, following ratios are tested;

- Loans and advances total deposits ratio
- Investment to total deposit ratio
- Performing assets to total assets ratio
- Nonperforming assets to total assets ratio
- Performing assets to non performing assets ratio

a) Loan and Advanced to Total Deposit Ratio

The ratio is computed by dividing total loans and advances by total deposit liabilities. Loan and advanced consist of loans, advances, cash credit overdraft, foreign bills purchased and discounted. The ratio indicates the proportion of total deposits invested in loans and advances. High ratio means the greater use of deposits for investing in loans and advances. However, very high ratio shows poor liquidity position and risk in loans on the contrary; too low ratio may be the causes of idle cash or use of fund in less productive sector.

b) Investment to Total Deposit Ratio

The ratio obtained by dividing investment by total deposits collection in the bank. Investment comprises investment its government treasury bills development bonds, company shares and other type of investment. The ratio shows how efficiently the major resources of the bank have been mobilized. High ratio indicates managerial efficiency regarding the utilization of deposits. Low ratio is the result of less efficiency in use of funds.

c) Performing Assets to Total Assets Ratio

It is calculated by dividing performing assets by total assets.

Performing assets to total assets include those assets, which are invested for income generating purpose. These consist of loans, advances; bills purchased and discounted investment and money at call or short notice.

d) **Non Performing Assets to Total Assets Ratio**

The ratio measures what percentage of the assets has been funded for income generation. High ratio indicates greater utilization of assets and hence sound profitability position.

3.5.1.1.4 Profitability Ratio

Profitability ratios are designed to highlight the end-result of the business activities, which in the imperfect world of ours, is the sole criterion of cover all efficiency of business unit. A company should earn profit to survive and grow over a long period. It is a fact that sufficient profit must be earned to sustain the operations of the business, to able to obtain funds from investors for expansion and growth; and to contribute towards the social overheads for the welfare of society. The profitability ratios are calculated to measure the operating efficiency of the company. Management of the company, creditors and owners are interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a reasonable return from their investment.

To meet the objective of study, following ratios are calculated in this group;

a) Return on total assets
b) Return on total deposit
c) Total interest expenses to total interest income ratio

a) Return on Total Asset

The ratio is calculated by dividing net profit after tax by total on asset on the bank. Net profit refers to the profit deduction of interest and tax. A total asset means the assets that appear in asset of balance sheet. It measures the efficiency of bank in utilization of the overall assets. High ratio indicates the success of management in overall operation. Lower ratio means insufficient operation of the bank.

b) Return on Total Deposit

The ratio is computed by dividing net profit after tax by total deposit.
The ratio shows the relation of net profit earned by the bank with the total deposit accumulated. High ratio is the index of strong profitability position.

c) Total Interest Expenses to Total Interest Income Ratio

The ratio is obtained by dividing total interest expenses by total interest income.
Total interest expenses consist of interest expense incurred for deposit, borrowing and loans taken by the bank. Total interest income includes interest income received from loans, advance, cash credit, overdrafts and government securities, interbank and other investment. The ratio shows the percentage of interest expenses incurred in relation to the interest income realized. Lower ratio is favorable from profitability point of view.

3.5.2 Statistical Tools

Various statistical tools can be used to analyze the data available to the researcher. These tools are used in research in order to draw the reliable conclusion through the analysis of financial data.

Following tools are used for are purpose.

- Arithmetic mean
- Standard deviation
- Karl Pearson's coefficient correlation
- Probable error of correlation coefficient

3.5.2.1Arithmetic Mean

An average is a single value selected from a group of values to represent them in same way, which is supposed to stand for whole group of which it is a pare, as typical of all the values in the group (Waugh A.E.), Out of various measures of the central tendency, arithmetic mean is one of the useful tools applicable here, it is easy to calculate and understand and based on all observations.

Arithmetic mean of a given set of observations is their sum divided by the number of observation. In general, if x_1, x_2, x_3..............x_n are the given observations, then arithmetic mean usually denoted by X is given by,

$$X X \frac{X \Gamma X_2 \Gamma X_3 \Gamma \ldots\ldots\ldots\ldots \Gamma X_n}{n}$$

Where,

x= variables

Σx = Arithmetic mean

n = number of observation

The arithmetic mean is a single value of selection, which represents them in average. Out of the various central tendencies a mean is one of the useful tools to find out the average value of the given data. Furthermore it is very much useful with respect of financial analysis and it is also easy to calculate.

3.5.2.2 Standard Deviation

Standard deviation is also one of the tools to analyze the data. This tool helps to find out the fluctuation and consistency of the specified variables. Actually it measures the level of variation from the mean of variables. If this variation is above the level of 5%, it will be interpreted as high level of variation.

3.5.2.3 Karl Pearson’s Coefficient Correlation

Correlation analysis is a statistical tool, which studies the relationship between two variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable.

Out of several mathematical method of measuring correlation the Karl Pearson popularity known as Pearson's coefficient of correlation widely used in practice to measure the degree of relationship between two variables. Two variables are said to have correlation when the value of one variable is accompanied by the change in the value of the other. So, it is measured by following formula using two variables (Bajracharya, 2056: 250).

$$r\,X\frac{xy}{\sqrt{\quad x^2}\sqrt{\quad y^2}}$$

Where,

r= coefficient of correlation

Σxy = Sum of product of deviation in two series.

Σx^2 = Sum of squared deviation in X series

Σy^2 = Sum of squared deviation in Y series

The value of this coefficient can never be more than +1 or less than -1. Thus +1 and -1 are the limit of this coefficient. The r = +1 implies that correlation between variables is positive and vice versa. And zero denoted no correlation.

3.5.2.4 Probable Error of Coefficient of Correlation (P E)

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

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

Where,

P.E = Probable error

r = Pearson's correlation coefficient

n = Number of observations

If correlation (r) < P E, it is insignificant. So perhaps there is no evidence of correlation.

If correlation (r) > P E, it is significant.

If the absolute value of Pearson's correlation coefficient is greater than 6 times probable error, then the Pearson's correlation coefficient is taken to be significant. If the absolute value of Pearson's correlation coefficient is less than 6 times probable error, then the correlation coefficient will be insignificant.

CHAPTER - IV

ANALYSIS AND INTERPRETATION OF DATA

This chapter deals with the analysis and interpretation of data following the researcher methodology dealt in the chapter. In the course of analysis, data gathered from the various sources have been inserted in the tabular form according to 'heir' homogenous nature. The various tables prepared for the analysis purpose have been shown in Tables. Using financial and statistical tools, the data have been analyzed the result of the analysis has been interpreted keeping in mind the conventional standard with respect to ratio analysis, directives of NRB and other factors while using other tools. Moreover, financial performance of the sampled banks has especially been analyzed in cross-sectional manner.

4.1 Credit Related Ratio of Nabil Bank

4.1.1 Liquidity Ratios

Liquidity ratios have been employed to test the ability of the banks to pay immediate liabilities. These include current ratio, cash and bank balance to total deposit ratio.

4.1.1.1 Current Ratio

Current Ratio $X \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

Table 4.1

Current Ratio on Current Assets & Current Liabilities

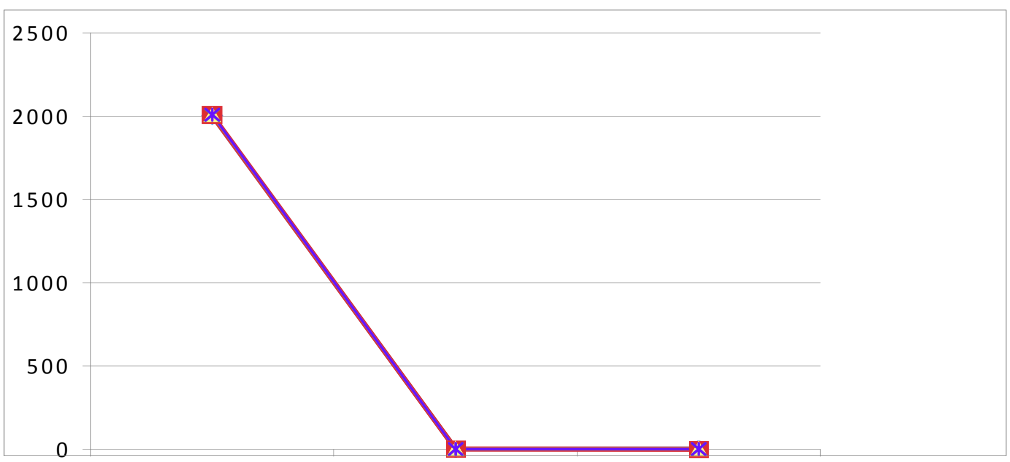
(Amount in Millions)

Fiscal Year	Nabil			HBL		
	CA	CL	CR	CA	CL	CR
2004/05	17058.8	16314.6	1.0456	27273.7	27022.0	1.009
2005/06	21600.7	18966.0	1.1389	17054.82	22657.5	0.7527
2006/07	26599.9	21664.8	1.2277	22107.02	23727.7	0.9316
2007/08	36104.7	27207.2	1.3270	32165.7	27869.4	1.1541
2008/09	42297.5	33569.9	1.2599	38750.4	30650.0	1.2642
SD			**1.0962**			**0.19811**
Mean			**1.1998**			**1.02243**

Source: Annual Reports *Annex-1*

Figure 4.1

Current Ratio



The Table 4.1 measures the current ratio of Nabil Bank Limited and Himalayan Bank Limited. The current ratio of the Nabil Bank Limited is in fluctuating trend, the ratio shows that current ratio of Nabil for the study period remained 1.04, 1.13:1, 1.22:1, 1.32:1 and 1.25: 1 respectively form the year 2004/05 to 2009/09. Mean of the ratios is 1.19:1 and S.D is 10.96%.

Similarly, the ratio in Himalayan Bank Nepal Limited (HBL) has followed fluctuating trend in the last five years. The ratio shows that current ratio of HBL for the study period remained 1.009, 0.75:1, 0.93:1, 1.15:1 and 1.26: 1 respectively form the year 2005 to 2009. Mean of the ratios is 1.02:1 and S.D is 1.98%.

Having a glance at the nature of assets and liabilities of the commercial banks, the ratio below the stated standard may be accepted as satisfactory, but it signifies that the bank have the poor liquidity position banks may face the problem of working capital if they need to pay the current liabilities at demand. Delay in payment of the liabilities may lead the banks to lose their goodwill. They will have the problem in winning the confidence of current depositors and short-term lenders.

4.1.1.2 Cash and Bank Balance to Total Deposit Ratio

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

Table 4.2

Cash and Bank Balance to Total Deposit Ratio

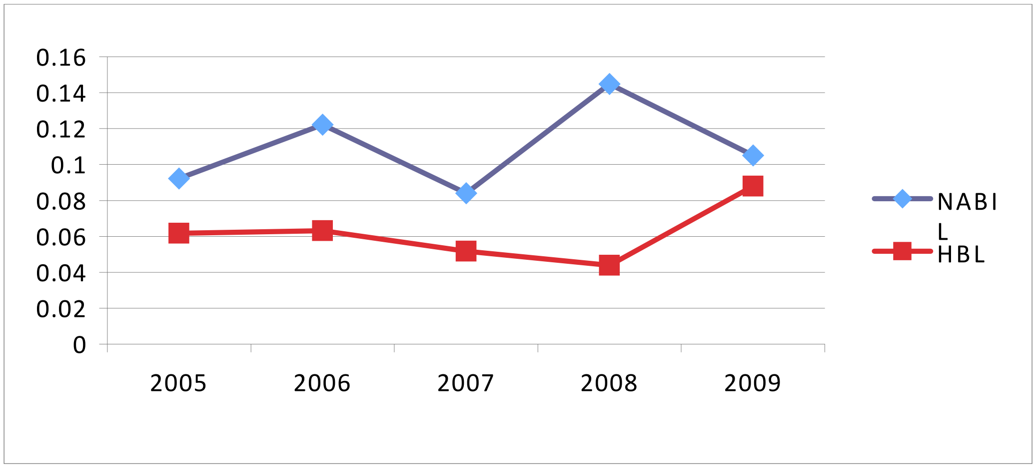
(Amount in million Rs.)

Fiscal Year	Nabil			HBL		
	C&BB	**Tot. Dep**	**Ratio**	**C&BB**	**Tot. Dep**	**Ratio**
2004/05	1345.2	14586.8	0.0922	1533.2	24831.1	0.06174
2005/06	2365.2	19348.4	0.12224	1672.3	26256.2	0.6321
2006/07	1963.1	23342.4	0.0841	1549.6	29905.8	0.051816
2007/08	4623.5	31915.0	0.144869	1396.7	31805.3	0.043914
2008/09	3924.4	37348.3	0.105103	3048.6	34681.0	0.087904
SD			**0.02437**			**0.016605**
Mean			**0.1097**			**0.061718**

Source: Annual Reports *Annex-2*

Figure 4.2

Cash and Bank Balance to Total Deposit Ratio



The Table 4.2 showed the cash and bank balance to total deposit ratio of two sampled banks. The table showed that the ratio in Nabil Bank Ltd followed fluctuating trend in the five years period taken for research. The ratio were 9.22%, 12.22%, 8.41%, 14.48 and 10.51 in NABIL in the respective years of study period. Mean and S.D of the ratios came 10.97% and 2.43% respectively.

Likewise, the cash and bank balance to total deposit ratio of HBL fluctuated during the five years period. The ratios were 6.17%, 6.23%, 5.18%, 4.39% 8.79 in HBL in the respective years of study period. Mean and S.D of the ratios came 6.17% and 1.66% respectively.

Comparing two banks on the basis of cash and bank balance to total deposit ratio, it can be considered that HBL has the policy of keeping lower cash reserve, whereas Nabil Bank Ltd has the policy of keeping higher cash reserve to meet the daily obligation. Hence, Nabil Bank Ltd has good liquidity position than HBL.

4.1.2 Capital Adequacy Ratio

Capital adequacy ratios of the banks have been tested to find whether they are successful to reassure the depositors and creditors about their soundness; and also to maintain general confidence in the banking system. These include net worth to total deposit ratio, net worth to total asset ratio and net worth to total credit ratio.

4.1.2.1 Net Worth to Total Deposit Ratio

Net Worth to Total Deposit Ratio $X \frac{\text{Net Worth}}{\text{TotalDeposit}}$

Table 4.3

Net Worth to Total Deposit Ratio

(Amount in Millions)

Fiscal Year	**Nabil**			**HBL**		
	Net. W	**Tot Dep**	**Ratio**	**Net. W**	**Tot Dep**	**Ratio**
2004/05	1658	14586.8	0.1136	2568.39	24831.1	0.10345
2005/06	1875	19348.4	0.096907	2885.59	26456.2	0.10907
2006/07	2057	23342.4	0.088123	2942.23	29905.8	0.098383
2007/08	2437.2	31915	0.076365	3195.42	31805.3	0.100468
2008/09	3130.2	37348.3	0.083811	3119.88	34681	0.089959
SD			**0.014315**			**0.007024**
Mean			**0.091774**			**0.100263**

Source: Annual Reports *Annex-3*

Figure 4.3

Net Worth to Total Deposit Ratio

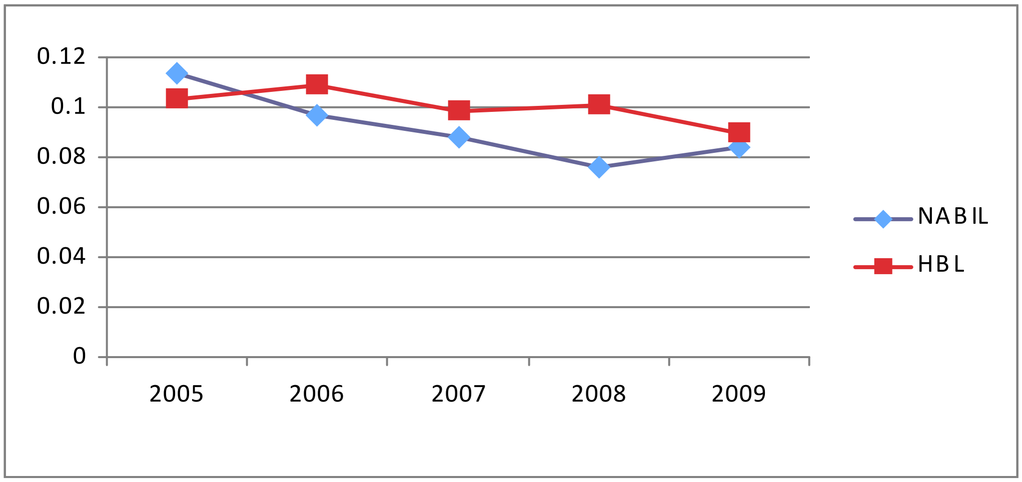


Table 4.3 reveals that the ratios of NABIL Bank Ltd and HBL. The Net Worth to Total Deposit ratio of Nabil Bank Ltd were 11.36, 9.69%, 8.81%, 7.63%, and 8.38% in the respective years of study period. Mean of the ratios appeared 9.17% and S.D appeared 0.14%. The ratio is declined in the year 2006/07 and 2007/08 and higher in the year 2005/06 and 2008/09. Average ratio of NABIL is 9.17%, which means NABIL is better with respect to the capital adequacy position. Lower S.D of the ratios in NABIL shows consistency in maintaining net worth with respect to deposits.

Where as the ratios of HBL were 10.34%, 10.90%, 9.83%, 10.04%, and 8.99% in the respective years of study period. Mean of the ratios is 10.02% and S.D is 0.70%. The ratio of HBL showed decline in the year 2007 and 2009 and higher in the year 2005, 2006 and 2008, it slightly grew from the level of proceeding year. Average ratio of HBL is 9.97%, which means HBL is better with respect to the capital adequacy position. Lower S.D of the ratios in HBL shows consistency in maintaining net worth with respect to deposits.

4.1.2.2 Net Worth to Total Asset Ratio

$$\text{Net Worth to Total Asset Ratio} \; X \frac{\text{Net Worth}}{\text{Total Assets}}$$

Table 4.4

Net Worth to Total Asset Ratio

(Amount in Millions)

Fiscal Year	Nabil			HBL		
	Net. W	Tot Asst	Ratio	Net. W	Tot Asst	Ratio
2004/05	1658	17186.33	0.0964	2568.39	27844.69	0.09224
2005/06	1875	12922.54	0.1451	2885.59	29460.28	0.0979485
2006/07	2057	15545.77	0.13232	2942.23	33519.14	0.0877776
2007/08	2437.2	21365.05	0.11407	3195.42	36175.53	0.088331
2008/09	3130.2	27589.93	0.11345	3119.88	39320.32	0.0793452
SD			**0.018793**			**0.006813**
Mean			**0.120283**			**0.089128**

Source: Annual Reports *Annex-4*

Figure 4.4

Net Worth to Total Asset Ratio

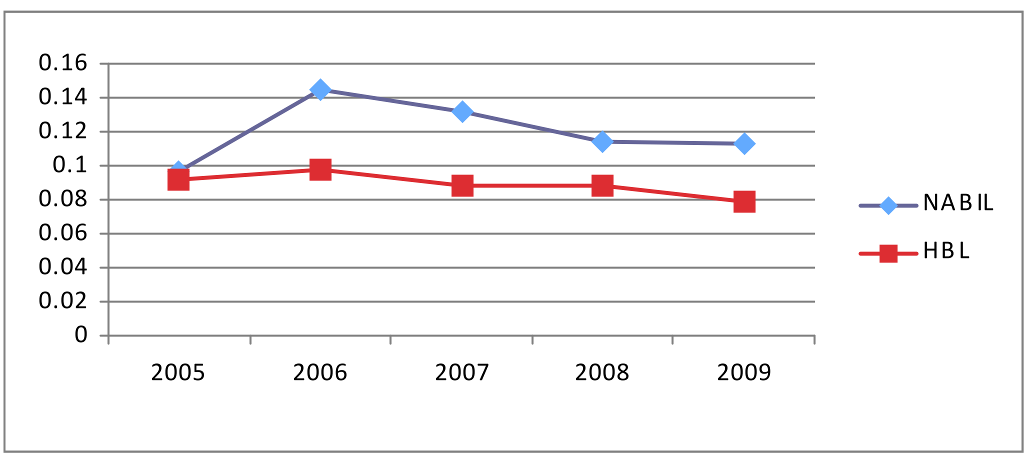


Table 4.4 demonstrates that the ratios in Nabil Bank Ltd remained 9.64%, 14.51%, 13.23%, 11.40% and 11.34% in the year 2005/06 to 2008/09 respectively. Mean and S.D of the ratios are 12.02% and 1.87% respectively.

Where as HBL remained 9.22%, 9.79%, 8.77, 8.83%, 7.93% from year 2006 to 2009 respectively. Mean and S.D of the ratios are 8.91% and 0.68% respectively. The ratio in of both Banks remained highest in the year 2006 and it decreased gradually up to the fourth year. Mean ratio seemed higher which indicates that net worth in it has covered comparatively greater portion of total assets in other words,it is in good position to check the possible risk that might arise due to high leverage.

4.1.2.3 Net Worth to Total Credit Ratio

Net Worth to Total Credit Ratio $X \frac{\text{Net Worth}}{\text{TotalDeposit}}$

Table 4.5

Net Worth to Total Credit Ratio

(Amount in Millions)

Fiscal Year	Nabil			HBL		
	Net. W	**Tot Cr**	**Ratio**	**Net. W**	**Tot Cr**	**Ratio**
2004/05	1658	11078.0	0.1496	2568.39	18714.7	0.13723
2005/06	1875	12922.54	0.1451	2885.59	15515.7	0.1859787
2006/07	2057	15545.77	0.13232	2942.23	17672	0.1664911
2007/08	2437.2	21365.05	0.11407	3195.42	19985.2	0.1598893
2008/09	3130.2	27589.93	0.11345	3119.88	25292.1	0.1233539
SD			**0.016905**			**0.024656**
Mean			**0.130922**			**0.15459**

Source: Annual Reports *Annex-5*

Figure 4.5

Net Worth to Total Credit Ratio

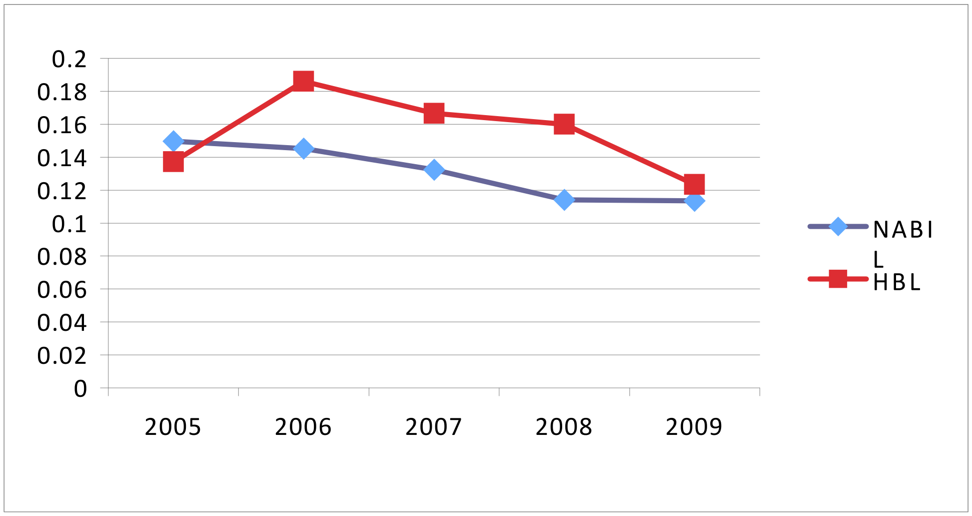


Table 4.5 demonstrates Net Worth to Total Credit ratios of Nabil Bank Ltd and HBL where Nabil Bank Ltd remained 14.96, 14.51%, 13.23%, 11.40%, and 11.34% in the respective year of study period. Mean and S.D of the ratios appeared 1.69% and 1.53% respectively. The ratios of NABIL revealed decreasing trend throughout the review period it declined to 11.34% in last year from 14.96% in the base year. Mean ratio of NABIL appeared 13.09% .

Likewise HBL remained 13.72%, 18.59%, 16.64%, 15.98%, and 12.33% in the respective year of study period. Mean and S.D of the ratios appeared 15.45% and 2.46% respectively. The ratios of HBL revealed decreasing trend throughout the review period it declined to 12.33% in last year from 13.72% in the base year, Mean ratio of HBL appeared 15.49% which signifies that the capital adequacy position of both banks were better than that of provision indicate by NRB.

In totality, capital adequacy position of HBL and Nabil appeared stronger. In tins sense, Both of them are more successful to reassure creditors and depositor about its soundness.

4.1.3 Turnover Ratio

Turnover ratios have been used to evaluate the efficiency with have managed and utilized their assets. These, include loans and advances to total deposit ratio, loans and advances to fixed deposit ratio, loans and advances saving deposit ratio, investment total deposit ratio, performing assets to total ratio and performing assets to total debt ratio.

4.1.3.1 Loans and Advances to Total Deposit Ratio

Loans and Advances to Total Deposit Ratio $X \frac{\text{Loan and Advances}}{\text{Total Deposit}}$

Table 4.6

Loans and Advances to Total Deposit Ratio

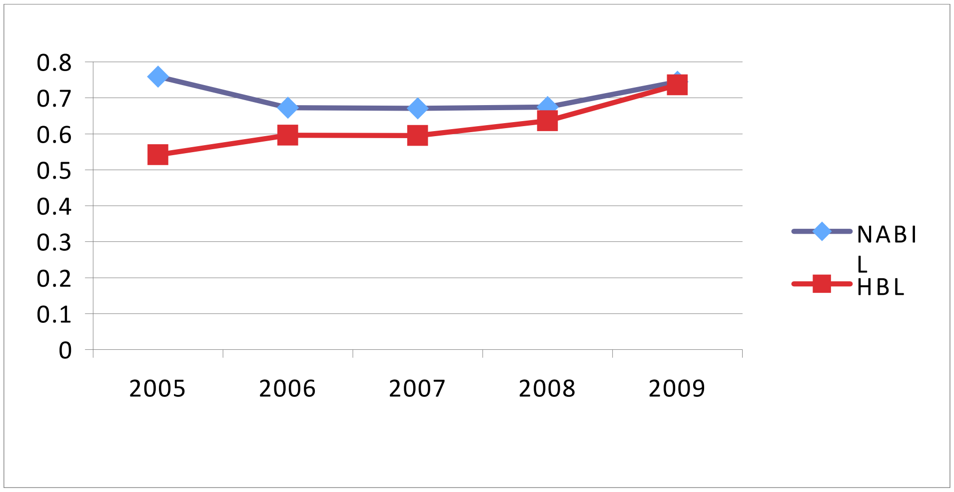
(Amount in Millions)

Fiscal Year	Nabil			HBL		
	L&Adv	**Tot Dep**	**Ratio**	**L&Adv**	**Tot Dep**	**Ratio**
2004/05	11078.0	14586.8	0.7594	13451.17	24831.1	0.5417
2005/06	13021.3	19348.4	0.672991	15761.97	26456.2	0.595776
2006/07	15657.1	23342.4	0.670758	17793.7	29905.8	0.594992
2007/08	21514.6	31915.0	0.674122	20233.9	31805.3	0.63618
2008/09	27816.6	37348.3	0.744789	25519.14	34681.0	0.735825
SD			**0.043867**			**0.072483**
Mean			**0.704423**			**0.620896**

Source: Annual Reports *Annex-6*

Figure 4.6

Loans and Advances to Total Deposit Ratio



The table 4.6 demonstrated the loan and advances to total deposit of the selected banks, viz. Nabil Bank Ltd and HBL. The table showed that the ratio of loan and advances to total deposit of was Nabil Bank Ltd found to be in increasing trend except in the fiscal year 2005/06 and 2008/09. The ratio was 75.94% in the fiscal year 2004/05 and increased to 67.41% in the fiscal year 2007/08. In average, 70.44% of the total deposit of Nabil Bank Ltd was utilized in providing loans and advances.

Similarly the ratio of HBL remained 54.17%, 59.55%, 59.49%, 63.61% and 73.58% in the respective years of study period. Mean and S.D of the ratios appeared 62.08% and 7.24% in that order. The ratio in HBL is in increasing order. It increases to 73.58% in the last year from 54.17% in the base year. Mean ratio of HBL appeared considerably higher which signifies that HBL is more successful in utilizing the resources in profitable sectors.

This ratio measures the banks' ability to mobilize the depositor's found to earn profit by providing loans and advances. Loan and advances refer to total sum of loan, advances, credit, overdraft, local and foreign bills purchased and discounted. Total deposits include total outsiders' fund or all kinds of deposits. A high ratio indicates higher efficiency to utilize depositor's fund and low ratio indicates bank's inability to efficiently utilize the depositor's fund.

4.1.3.2 Investment to Total Deposit Ratio

Investment to Total Deposit Ratio $X\frac{\text{Investment}}{\text{TotalDeposit}}$

Table 4.7

Investment to Total Deposit Ratio

(Amount in Millions)

Fiscal Year	Nabil			HBL		
	Invest..	**Tot Dep**	**Ratio**	**Invest..**	**Tot Dep**	**Ratio**
2004/05	2826.8	14586.8	0.1937	11692.34	24831.1	0.4711
2005/06	2372.3	19348.4	0.12261	5144.4	26456.2	0.1944497
2006/07	5359.2	23342.4	0.22959	6454.8	29905.8	0.2158377
2007/08	4889.6	31915.0	0.15321	7471.7	31805.3	0.23492
2008/09	3978.7	37348.3	0.10653	4213.3	34681.0	0.1214873
SD			**0.50699**			**0.132189**
Mean			**0.161146**			**0.247579**

Source: Annual Reports *Annex-7*

Figure 4.7

Investment to Total Deposit Ratio

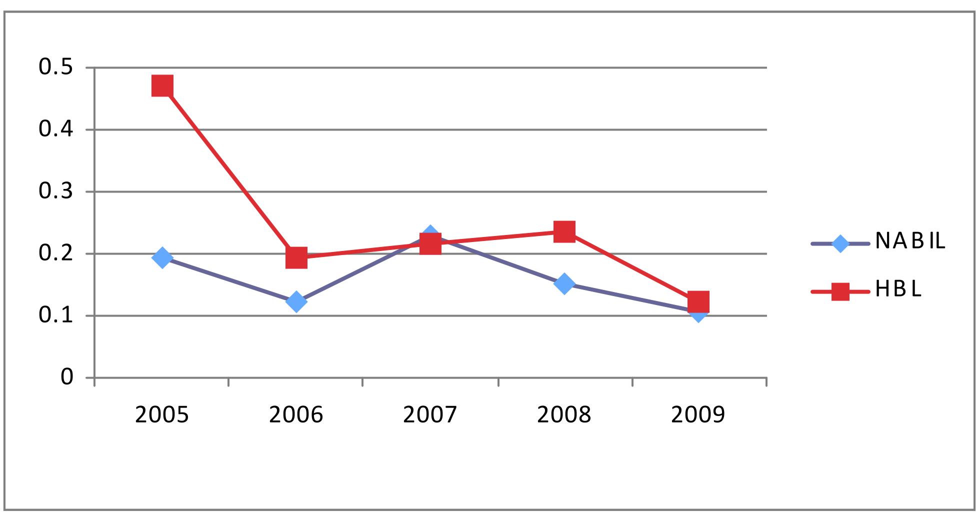


Table 4.7 exhibits that the ratio of NABIL remained 19.37, 12.26%, 22.95%, 15.32% and 10.65% respectively. Mean of the ratios appeared 16.11%, and S.D appeared 5.06%. The ratio showed fluctuating pattern in NABIL. It decreases to 10.65% in 2009 from 15.32% in 2008. It signifies that NABIL has more successfully allocated its deposit in investment portfolio. S.D of the ratios appeared 5.46% in NABIL, which indicates lesser uniformity in its ratios.

Likewise, HBL's ratios are 47.11%, 19.44%, 21.58%, 23.49% and 12.14% respectively. Mean of the ratios appeared 19.16%, and S.D appealed 4.96%.

The ratio showed fluctuating pattern in HBL. It decreases to 12.14% in 2009 from 23.49% in 2008. Mean ratio came average of 24.75%, which signifies that HBL has not allocated its deposit in investment portfolio. S.D of the ratio is 12.21% in HBL.

4.1.3.3 Performing Assets to Total Assets Ratio

$$\text{Performing Assets to Total Assets Ratio} = \frac{\text{Performing Asset}}{\text{Total Assets}}$$

Table 4.8

Performing Assets to Total Assets Ratio

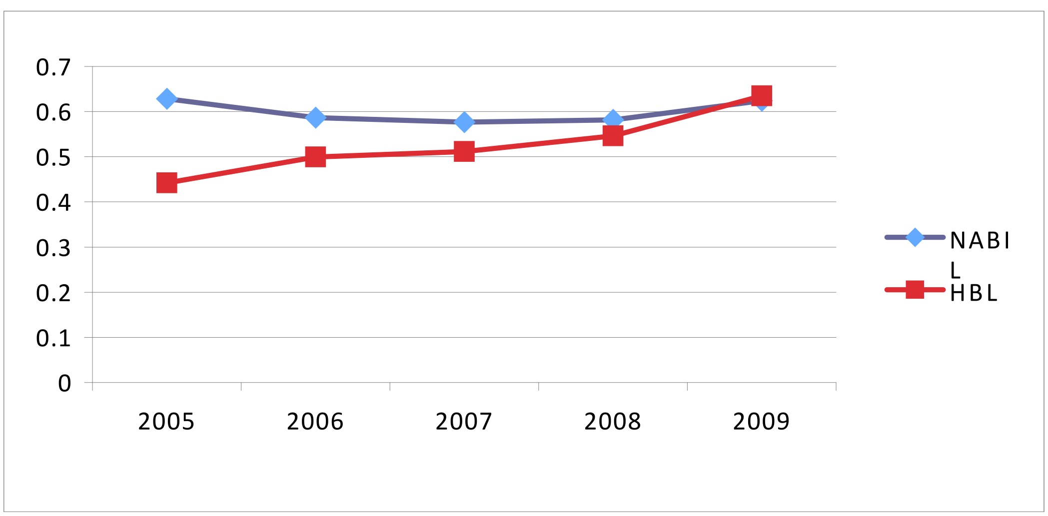
(Amount in Millions)

Fiscal Year	Nabil			HBL		
	Per.Asst	**Tot Asst**	**Ratio**	**Per. Asst**	**Tot Asst**	**Ratio**
2004/05	10802.23	17186.33	0.6285	12310.61	27844.69	0.442116
2005/06	13096.8	22329.97	0.586512	14721.22	29460.28	0.499697
2006/07	15724.7	27253.39	0.576981	17152.1	33519.14	0.511711
2007/08	21598.4	37132.75	0.581654	19758.1	36175.53	0.546173
2008/09	27369.21	43867.39	0.623908	24967.93	39320.32	0.634988
SD			**0.024663**			**0.07109**
Mean			**0.599518**			**0.52694**

Source: Annual Reports *Annex-8*

Figure 4.8

Performing Assets to Total Assets Ratio



This ratio reflects the coverage of performing assets in comparison to the total assets. The higher the ratio indicates higher liquidity availability to meet the long term debt of the company. The performing assets to total assets ratio of Nabil Bank Ltd and HBL are presented:

Table 4.8 exhibits that the ratio of Nabil remained 62.58%, 58.65%, 57.69%, 58.16% and 62.39% respectively. Mean of the ratios appeared 59.95%, and S.D appealed 2.46%.

Whereas the ratio of HBL remained 49.96%, 51.17%, 54.61% and 63.49% respectively. Mean of the ratios appeared 54.81%, and S.D appealed 6.11%.

The ratio in HBL increased significantly each year as compared to the base year. High level of performing assets increases high level of profit to the bank. The average return from performing assets in 54.81% which means it has used more proportion of the assets for income generating purpose. Throughout the study period, HBL utilized its assets in terms of loans and advances, investment and bill discounting and purchasing more effectively. S.D of the ratios in HBL is 6.11 which clarifies that the ratios remained less consistent in the former.

4.1.3.4 Nonperforming Assets to Total Assets Ratio

Nonperforming Assets to Total Assets Ratio $X \frac{\text{Non Performing Assets}}{\text{Total Assets}}$

Table 4.9

Nonperforming Assets to Total Assets Ratio

(Amount in million Rs.)

Fiscal Year	Nabil			HBL		
	N.P.Asst	Tot Asst	Ratio	N.P.Asst	Tot Asst	Ratio
2004/05	144.51	17186.33	0.00840	995.36	27844.69	0.035747
2005/06	182.6	22329.97	0.00988	1040.75	29460.28	0.0353272
2006/07	178.3	27253.39	0.00654	641.6	33519.14	0.0191413
2007/08	171.4	37132.75	0.00462	475.8	36175.53	0.0131525
2008/09	220.72	43867.39	0.00503	551.21	39320.32	0.0140185
SD			**0.001743**			**0.011245**
Mean			**0.006555**			**0.023477**

Source: Annual Reports *Annex-9*

Figure 4.9

Non-Performing Assets to Total Assets Ratio

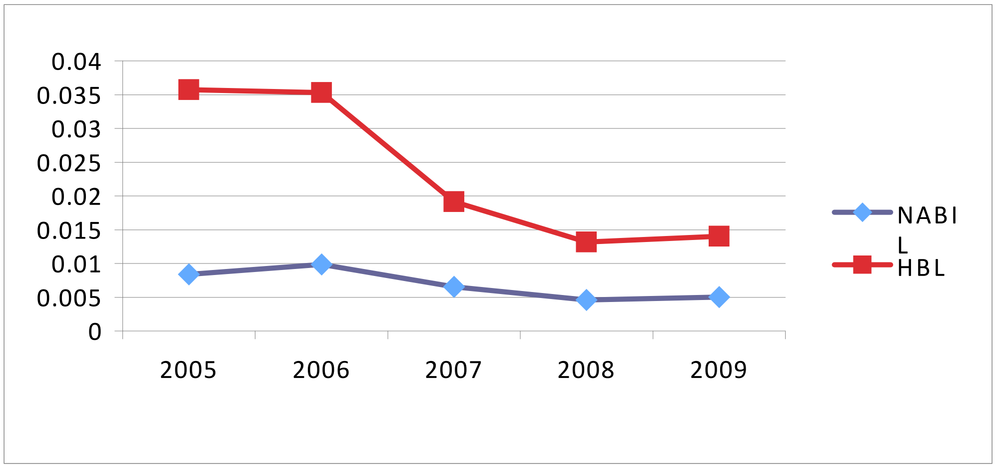


Table 4.9 depicts that the ratios to Nabil remained 0.84%, 0.98%, 0.65%, 0.46% and 0.50% in the respective years of study period. Mean and S.D of the ratios appeared 0.6% and 0.1% respectively. And HBL remained 3.57%, 3.53%, 1.91%, 1.31% and 1.40% in the respective years of study period. Mean and S.D of the ratios appeared 2.34% and 1.12% respectively.

According to the NRB directives the ratio of non-performing to total assets should be below 10%. Average of 2.04 and 0.6 are which indicates that HBL and Nabil Bank Ltd were remained more successful regarding the use debt in profitable sectors.

4.1.4 Asset Quality Ratios

Asset quality ratios intend to measure the quality of assets owned by the banks. These include loan loss coverage ratio, loan loss provision to total income ratio, loan provision to total deposit ratio and accrued interest to total interest income ratio.

4.1.4.1 Non Performing Loan to Total Loan and Advance

Non-Performing Loan to Total Loan and Advance $X \dfrac{\text{Non Performing Loan}}{\text{Loan and Advance}}$

Table 4.10

Nonperforming Loan to Total Loan and Advance

(Amount in Millions)

Fiscal Year	Nabil			HBL		
	N.P.Loan	L &Adv	Ratio	N.P.Loan	L &Adv	Ratio
2004/05	144.51	11078.0	0.01304	995.36	13451.17	0.075326
2005/06	182.6	13021.3	0.01402	1040.75	15761.97	0.065284
2006/07	178.3	15657.1	0.01139	641.6	17793.7	0.042717
2007/08	171.4	21514.6	0.00797	475.8	20233.9	0.033558
2008/09	220.72	27816.6	0.00793	551.21	25519.14	0.02776
SD			**0.002828**			**0.020116**
Mean			**0.010871**			**0.048663**

Source: Annual Reports *Annex-10*

Figure 4.10

Non Performing Loan to Total Loan and Advance

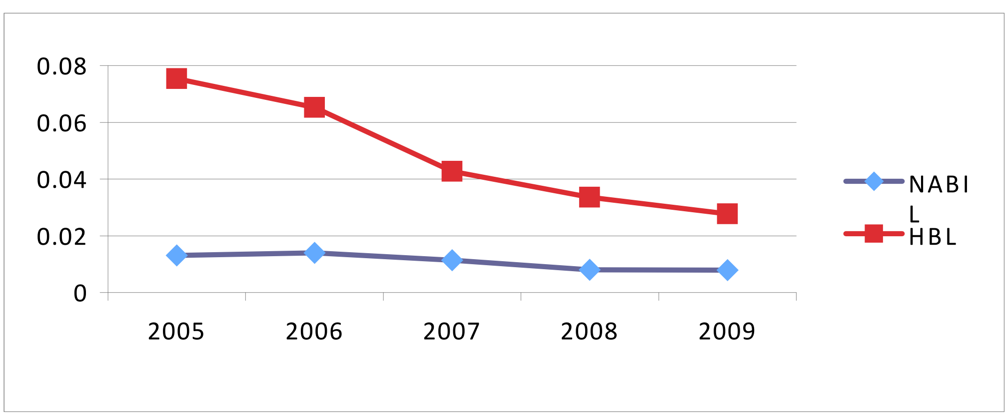


Table 4.10, highlight that the ratios of Nabil were 1.30%, 1.40%, 1.13%, 0.7%, and 0.7% in the respective years of review period. Mean ratio appeared in the average of 1.08 and S.D of the ratio come 0.2% respectively.

NPL of Nabil is in decreasing order it declined to 0.70% in the year 2009 from 1.30% in the base year. Average ratio in Nabil in oilier words, Nabil has lent greater portion of the loans in good sector. Lower S.D of the ratios in Nabil means that the consistency in the loan loss provision with respect to the loan and advance is higher in Nabil.

The ratios of HBL were 7.33%, 6.66%, 3.60%, 2.23%, and 2.15% in the respective years of review period. Mean ratio appeared in the average of 4.42 and S.D of the ratio come 2.43% respectively.

Nonperforming loan always create a problem for commercial banks. NPL of HBL is in decreasing order it declined to 2.15% in the year 2009 from 7.33% in the base year. Average ratio means HBL has lent greater portion of the loans in good sector. Lower S.D of the ratios means that the consistency in the loan loss provision with respect to the loan and advance.

4.1.4.2 Loan Loss Provision to Total Loan and Advance

Loan Loss Provision to Total Loan and Advance $X \frac{\text{Loan Loss Provision}}{\text{Loan and Advance}}$

Table 4.11

Loan Loss Provision to Total Loan and Advance

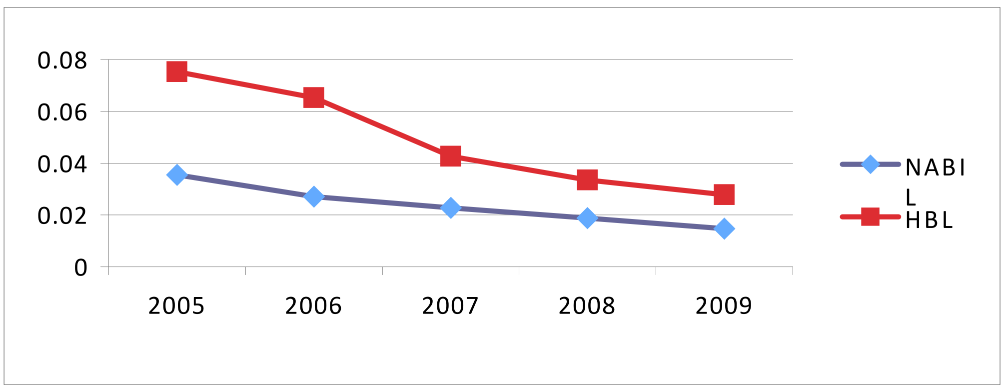
(Amount in Millions)

Fiscal Year	Nabil			HBL		
	L.L.Pro	L &Adv	Ratio	L.L.Pro	L &Adv	Ratio
2004/05	392.0	11078.0	0.03548	1016.22	13451.17	0.075326
2005/06	352.9	13021.3	0.027102	1029.0	15761.97	0.065284
2006/07	356.3	15657.1	0.022756	760.1	17793.7	0.042717
2007/08	404.6	21514.6	0.018806	679.0	20233.9	0.33558
2008/09	409.1	27816.6	0.014707	708.4	25519.14	0.02776
SD			**0.007966**			**0.020116**
Mean			**0.23751**			**0.048663**

Source: Annual Reports *Annex-11*

Figure 4.11

Loan Loss Provision to Total Loan and Advance



The mean Loan Loss Provision to Loan and Advances ratio of NABIL and HBL are computed as 0.7%, and 2.01% respectively. HBL's Loan loss provision with respect to its Total Loan and Advances seems to be higher than that of NABIL. Likewise from the perspective of consistency, ratios of NABIL have the highest consistency among the banks.

Table 4.11, highlight that the ratios of NABIL were 3.54%, 2.71%, 2.27%, 1.88%, and 1.47% in the respective years of review period. Mean ratio appeared in the average of 2.37 and S.D of the ratio come 0.79% respectively.

Loan loss provision of both NABIL and HBL is in decreasing order. It declined to 1.47% in the year 2009 from 3.54% in the base year for NABIL. Where as it declined to 2.77% in the year 2009 from 7.39% in the base year for HBL. NABIL has lent greater portion of the loans in more profitable sector. Lower S.D ratios in NABIL means that the consistency in the loan loss provision.

HBL were 7.39%, 6.65%, 4.27%, 3.35%, and 2.77% in the respective years of review period. Mean ratio appeared in the average of 4.86 and S.D of the ratio come 2.01% respectively.

HBL might have given more preference to loans and advances because they yield higher return. Due to the greater default in payment of loans by borrowers, the bank needed to hold higher portion of its income in form of loan loss provision. Therefore, loans and advances of the bank were not effectively operated.

4.1.4.3 Provision for Bad Debts to Total Loan and Advance

Provision for Bad Debts to Total Loan and Advance $X \dfrac{\text{Provision for Bad Debts}}{\text{Loan and Advance}}$

Table 4.12

Provision for Bad Debts to Total Loan and Advance

(Amount in Millions)

Fiscal	**Nabil**			**HBL**		
Year	**P B Deb**	**L &Adv**	**Ratio**	**P B Deb**	**L &Adv**	**Ratio**
2004/05	193.30	11078.0	0.01744	995.36	13451.17	0.07339
2005/06	116.93	13021.3	0.00898	1040.75	15761.97	0.0660292
2006/07	85.46	15657.1	0.00546	641.6	17793.7	0.0360577
2007/08	37.37	21514.6	0.00174	475.8	20233.9	0.023515
2008/09	43.59	27816.6	0.00157	551.21	25519.14	0.0215999
SD			**0.006571**			**0.02433**
Mean			**0.007038**			**0.04424**

Source: Annual Reports *Annex-12*

Table 4.12, highlight that the ratios of bad debts to total loan and advance of NABIL. This is 1.7%, 0.8%, 0.5%, 0.7%, and 0.1% in the respective years of review period. Mean ratio appeared in the average of 0.7 and S.D of the ratio come 0.6% respectively. This indicates that bad debts of NABIL are in decreasing order.

Similarly the ratios of bad debts to total loan and advance of HBL which is 5.50%, 4.48%, 2.09%, 1.03%, and 0.73% in the respective years of review period. Mean ratio appeared in the average of 2.68 and S.D of the ratio come 1.98% respectively.

4.1.5 Profitability Ratios

Profitability ratios have been employed to measure the operating efficiency of the sampled banks. For the purpose return on asset, return on net worth return on total deposit total interest expenses to total interest income ratio interest earned to total asset ratio, staff expenses to total income ratio and office operation expenses to total income ratio have been analyzed and interpreted.

4.1.5.1 Return on Total Asset

Return on Total Asset $X \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$

Table 4.13

Return on Total Asset

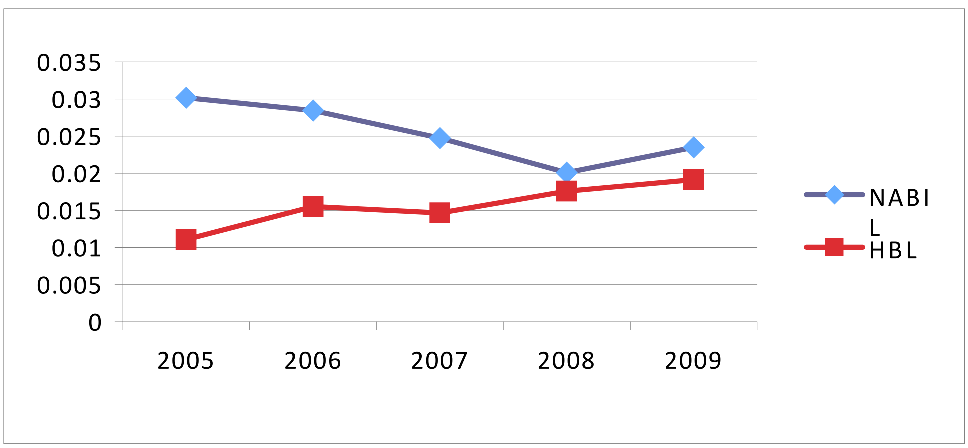
(Amount in Millions)

Fiscal Year	Nabil			HBL		
	NPAT	Tot Asst	Ratio	NPAT	Tot Asst	Ratio
2004/05	519.0	17186.33	0.03019	308.28	27844.69	0.01107
2005/06	635.3	22329.97	0.028451	457.46	29460.28	0.015528
2006/07	674	27253.39	0.024731	491.82	33519.14	0.014673
2007/08	746.5	37132.75	0.020104	635.87	36175.53	0.017577
2008/09	1031.05	43867.39	0.023504	752.83	39320.32	0.019146
SD			**0.004013**			**0.003076**
Mean			**0.025397**			**0.015599**

Source: Annual Reports *Annex-13*

Figure 4.12

Return on Total Asset



The return on Total Assets (ROA) measures the relationship between the total assets and net profit after tax. It measures the productivity of the assets and determines how effectively the total assets have been used by the company.

Table 4.13 revealed that the return on total assets of net profit which remained 3.01%, 2.88%, 2.47% and 2.01% and 2.35% in the respective years of review period. Mean and S.D of the ratios appeared 2.53% and 0.40% respectively. In NABIL, the ratio showed increasing trend. It rose astonishingly which means profitability position of NABIL remained quite good in each year.

Also the return on total assets of HBL remained 1.10%, 1.55%, 1.46% and 1.75% and 1.67% in the respective years of review period. Mean and S.D of the ratios appeared 1.55% and 0.30% respectively. In HBL, the ratio showed increasing trend.

Comparing Nabil with HBL, it can be concluded that Nabil was more success than HBL in mobilizing total assets to generate net profit, as the return on total assets (ROA) of Nabil was greater than that of HBL. Also, the ratio of Nabil was more consistent than that of HBL.

4.1.5.2 Return on Total Deposit

Return on Total Deposit $X \frac{\text{Net Profit After Tax (NPAT)}}{\text{Total Deposit}}$

Table 4.14

Return on Total Deposit

(Amount in Millions)

Fiscal Year	Nabil			HBL		
	NPAT	**T Depo**	**Ratio**	**NPAT**	**T Depo**	**Ratio**
2004/05	519.0	11078.0	0.04865	308.28	24814.01	0.01242
2005/06	635.3	19348.4	0.03283	457.46	26456.2	0.0172912
2006/07	674	23342.4	0.02887	491.82	29905.8	0.0164456
2007/08	746.5	31915	0.02339	635.87	31805.3	0.0199926
2008/09	1031.05	37348.3	0.02761	752.83	34681	0.0217073
SD			**0.009005**			**0.003564**
Mean			**0.031911**			**0.017572**

Source: Annual Reports *Annex-14*

Return on total deposit ratio measures how efficiently the deposit has been mobilized. This ratio is a mirror of bank's overall financing performance; deposits are outsiders' capital fund that entails paying fixed interest, this affects NPAT ultimately. Shareholders' depositors and management are concerned with this ratio.

Table 4.14 exhibits that the ratios in NABIL remained 4.86%, 3.28%, 2.88%, 2.33% and 2.71% for the respective years of research period. Mean and S.D of the ratios appeared 3.19% and 0.9% respectively.The ratios in NABIL followed steady trend. It signifies that the profitability ratio of NABIL is satisfactory. Future more, NABIL has made noticeable improvement in its position in the last two years.

Likewise, HBL remained 1.24%, 1.72%, 1.16%, 1.99% and 2.17% for the respective years of research period. Mean and S.D of the ratios appeared 1.77% and 0.3% respectively.

Comparing two sampled banks on the ground of return on total deposit, it can be concluded that the capacity of turning total deposit into net profit of NABIL was much more admirable than that of HBL. Hence, it can also be considered that the investment sector of the total deposit amount of NABIL was more fruitful than that of HBL.

4.1.5.3 Total Interest Expenses to Total Interest Income Ratio

Total Interest Expenses to Total Interest Income Ratio $X \frac{\text{Total Interest Express}}{\text{Total Interest Income}}$

Table 4.15

Total Interest Expenses to Total Interest Income Ratio

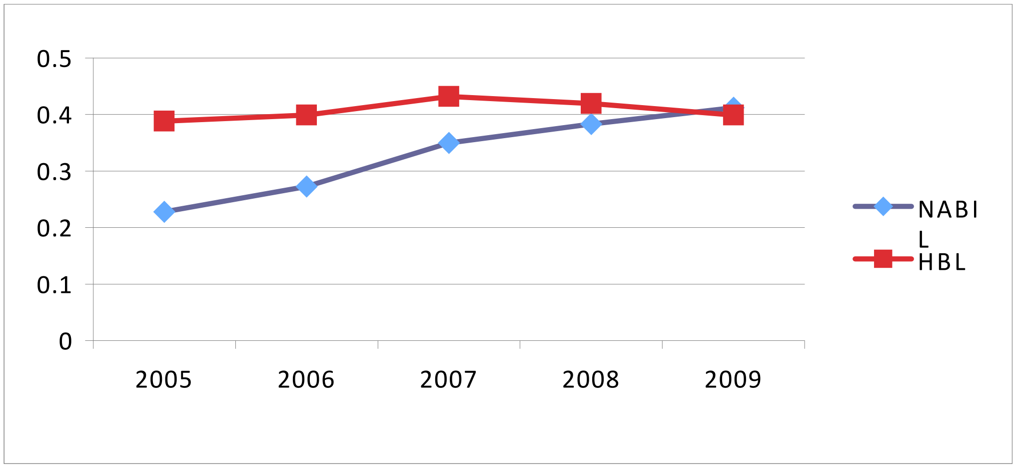
(Amount in Millions)

Fiscal Year	Nabil			HBL		
	T.Int.Exp	T.Int.Inc	Ratio	T.Int.Exp	T.Int.Inc	Ratio
2004/05	243.54	1068.74	0.2278	561.96	1446.46	0.3885
2005/06	357.2	1310	0.272672	648.84	1626.47	0.398925
2006/07	555.7	1587.8	0.349981	767.41	1775.58	0.432202
2007/08	758.4	1978.7	0.383282	823.74	1963.64	0.419496
2008/09	1153.28	2798.46	0.412112	934.77	2342.19	0.399101
SD			**0.076963**			**0.01774**
Mean			**0.329185**			**0.407646**

Source: Annual Reports *Annex-15*

Figure 4.13

Total Interest Expenses to Total Interest Income Ratio



Interest expenses to interest income ratio reveals the proportionate relationship between interest paid on different liabilities and interest income from different sources. In this present study, 'Total interest expenses' includes interest paid on deposits and borrowings. And 'interest income' includes the interest form loan and advance, cash-credit and overdraft, government securities, inter bank and other investments.

The above table 4.15 showed that the interest paid to interest income ratio of NABIL was highest, 41.21%, in the fiscal year 2008/09 and lowest, 22.78%, in the fiscal year 2004/05. In average, 32.92% of the total interest income was spent by NABIL as interest expenses.

Likewise, the ratio in HBL was highest, 43.22%, in the fiscal year 2006/07 and lowest, 38.85%, in the fiscal year 2004/05. In average, HBL incurred only 40.76% of the total interest income as interest expenses. The ratios in HBL followed increasing trend. It signifies that the profitability ratio of HBL is satisfactory. Future more, HBL has made noticeable improvement in its position in the last two years.

Comparing the sampled banks, it can be concluded that NABIL has the higher control on interest expenses than HBL, as the interest paid to interest income of NABIL was lower than that of HBL.

4.2 Correlation Analysis

It is a useful statistical for measuring the intensity of the magnitude of linear relationship between two series. Karl Pearson's coefficient of correlation is most common and useful tool to measure the relationship between two variables in the bank.

Under the correlation analysis, the intensity of linear relation between the following variables has been measured.

- Total deposit and net profit
- Performing assets and net profit
- Net worth and net profit
- Total deposit and investment
- Total deposit and loans and advance

4.2.1 Correlation Analysis between Deposit and Net Profit

Table 4.16

Correlation Analysis between Deposit and Net Profit

(Amount in millions)

Fiscal Year	**Nabil**		**HBL**	
	Total Deposit	**Net Profit**	**Total Deposit**	**Net Profit**
2004/05	14586.8	518.63	24831.1	308.28
2005/06	19348.4	635.3	26456.2	457.46
2006/07	23342.4	674	29905.8	491.82
2007/08	31915	746.5	31805.3	635.87
2008/09	37348.3	1031.05	34681	752.83
Correlation(r)		**0.9391**		**0.97026**
P.E		**0.0355**		**0.0176**

Source: Annual Reports *Annex-16 &21*

Table 4.17 shows that the coefficient of correlation and P.E ratio between total deposit and net profit in NABIL 0.9391 and 0.0355 in the review period respectively correlation coefficient is more than six times the probable error i.e. 0.9391>6 x 0.0355. It deposit and net profit of the bank are positively correlated. The correlation is highly significant. Increase in total deposits leads to the increase in total profit.

Likewise, the coefficient of correlation and probability distribution of correlation coefficient between total deposit and net profit in HBL 0.98026 and 0.0176in the review period respectively correlation coefficient less than six times the probable error4 i.e. 0.97026>6 x 0.0176. It deposit and net profit of the bank are positively correlated. The correlation implies that the total deposit and net profit in the bank are highly and positively correlated in other word, net profit of the bank increases with increase in the amount of deposit.

4.2.2 Correlation between Performing Assets and Net Profit

Table 4.17

Correlation between Performing Assets and Net Profit

(Amount in millions)

Fiscal Year	Nabil		HBL	
	Perform. Assets	**Net Profit**	**Perform. Assets**	**Net Profit**
2004/05	10802.23	518.63	12310.61	308.28
2005/06	13096.8	635.3	14721.22	457.46
2006/07	15724.7	674	17152.1	491.82
2007/08	21598.4	746.5	19758.1	635.87
2008/09	27369.21	1031.05	24967.93	752.83
Correlation(r)		**0.9636**		**0.98056**
P.E		**0.02152**		**0.01156**

Source: Annual Reports *Annex-17 &22*

Figure 4.14
Correlation between Performing Assets and Net Profit

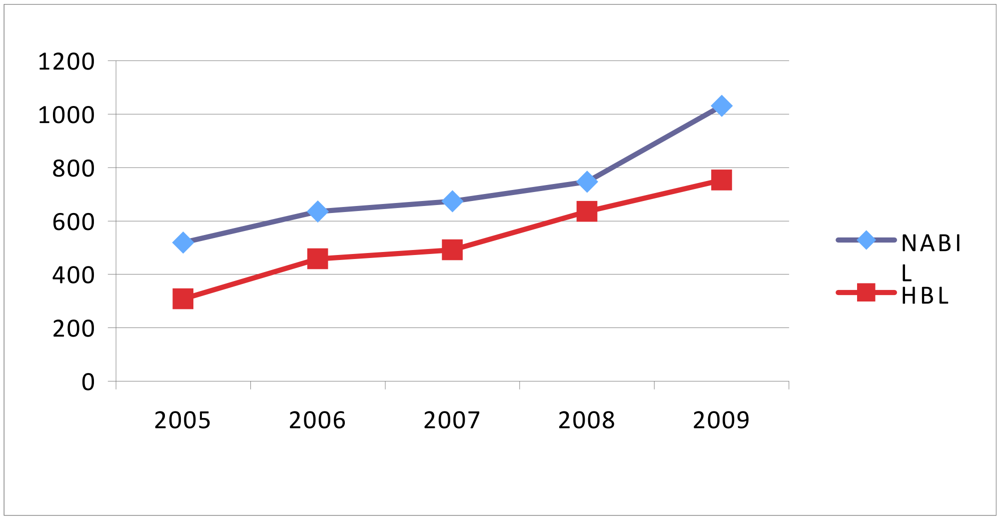


Table 4.18 highlights that the coefficient of correlation and probable error of the coefficient between performing assets and net profit in NABIL remained 0.9636 and 0.02152 respectively correlation coefficient came less than six times the probable error i.e. 0.9636>0.02152It signifies that the net profit and performing assets of the bank are positively related. Bank can raise its net profit by investing the fund in performing assets but the increase in the profit will mot is proportionate to the increase in the performing assets.

Where, HBL's 0.98056 and 0.01156respectively correlation coefficient came less than six times the probable error i.e. 0.98056>0.01156. It signifies that the net profit and performing assets of the bank are positively related, however, the correlation is not much significant. Bank can raise its net profit by investing the fund in performing assets

4.2.3 Correlation between Net Worth and Net Profit

Table 4.18

Correlation between Net Worth and Net Profit

(Amount in millions)

Fiscal Year	Nabil		HBL	
	Net Worth	**Net Profit**	**Net Worth**	**Net Profit**
2004/05	1658	518.63	2568.39	308.28
2005/06	1875	635.3	2885.59	457.46
2006/07	2057	674	2942.23	491.82
2007/08	2437.2	746.5	3195.42	635.87
2008/09	3130.2	1031.05	3119.88	752.83
Correlation(r)		**0.9888**		**0.919014**
P.E		**0.0067**		**0.0468**

Source: Annual Reports *Annex-18 &23*

Table 4.19 shows that the correlation coefficient and probable error of correlation coefficient between net worth and net profit in NABIL remained 0.9888 and 0.0067respectively. Correlation coefficient appeared more than 6 times the probable error. Hence it implies that the relation between net worth and net profit the bank is significant. Net profit in the bank seems to rise as rise in the net worth. Nabil is successful to utilize the investors fund more prudently and effectively to realize the return.

Likewise, HBL remained 0.919014 and 0.0468 respectively. Correlation coefficient appeared less than six times the probable error. Hence it implies that the relation between net worth and net profit the bank is not significant i.e. there does not seem specific relationship.

4.2.4 Correlation between Total Deposit and Investment

Table 4.19

Correlation between Total Deposit and Investment

(Amount in millions)

Fiscal Year	Nabil		HBL	
	Total Deposit	**Investment**	**Total Deposit**	**Investment**
2004/05	14586.8	2826.8	24814	11692.34
2005/06	19348.4	2372.3	26456.2	5144.4
2006/07	23342.4	5359.2	29905.8	6454.8
2007/08	31915	4889.6	31805.3	7471.7
2008/09	37348.3	3978.7	34681.0	4213.3
Correlation(r)		**0.53052**		**-0.64594**
P.E		**0.2164**		**0.1755**

Source: Annual Reports *Annex-19 &24*

Table 4.20 depicts that the coefficient of correlation and probable error of correlation coefficient between total deposit and investment in NABIL remained 0.53052 and 0. 0.2164 in the study period. Correlation coefficient came less than six times the probable error i.e.0.53052< 6 x 0.2164. It signifies that a positive relation occurs between the two components but the degree of relation is not much significant. In contrast, it seems that investment of NABIL increased or decreased in slow pace with respect to the increase or decrease in the deposit.

Similarly, the coefficient of correlation and probable error of correlation coefficient between total deposit and investment in HBL remained -0.64594 and 0.1755in the study period. Correlation coefficient came less than six times the probable error i.e.-0.64594‹ 6 x 0.1755. It signifies that a positive relation occurs between the two components but the degree of relation is not much significant.

4.2.5 Correlation between Total Deposit and Loans and Advances

Table 4.20

Correlation between Total Deposit and Loans and Advances

(Amount in millions)

Fiscal Year	Nabil		HBL	
	Total Deposit	Loan & Adv	Total Deposit	Loan & Adv
2004/05	14586.8	11078.0	24814	12088.70
2005/06	19348.4	13021.3	26456.2	15761.97
2006/07	23342.4	15657	29905.8	17793.7
2007/08	31915	21514.6	31805.3	20233.9
2008/09	37348.3	27816.6	34681.0	25519.14
Correlation(r)		**0.9875**		**0.979143**
P.E		**0.0074**		**0.0124**

Source: Annual Reports *Annex-20 &25*

This measures the banks' ability to mobilize the depositor's found to earn profit by providing loans and advances. Loan and advances refer to total sum of loan, advances, credit, overdraft, local and foreign bills purchased and discounted. Total deposits include total outsiders' fund or all kinds of deposits. A high ratio indicates higher efficiency to utilize depositor's fund and low ratio indicates bank's inability to efficiently utilize the depositor's fund.

Table 4.21 depicts that the coefficient of correlation between the total deposits and loans and advances in NABIL remained 0.9875 whereas the probable error of coefficient remained 0.0074. Correlation coefficient appeared greater than six times the probable error i.e. 0.9875> 6 x 0.0074. It implies that the correlation between deposit and loans and advances of the bank is highly positively. Loans and advance seem to rise with the rise with the rise in the volume of total deposit.

HBL remained 0.9628 whereas the probable error of coefficient remained 0.0124.Correlation coefficient appeared greater than six times the probable error i.e. 0.9791> 6 x 0.0124. It implies that the correlation between deposit and loans and advances of the bank is highly positively.

4.3 Trend Value Analysis of Net Profit

Under this topic the net profit of NABIL and HBL has been analyzed for five years from mid-July 2005 to 2009 and forecast for five years from 2009 to 2014. The following table shows the trend value of Net Profit for 10 years period of time from mid-July 2005 to 2014 of NABIL and HBL. {For details see Appendix X (1) and X (2)}.

Table No. 4.21

Trend Value of Net Profit of NABIL & HBL (2005-2014)

(Rs. In Millions)

Year	Trend Value of NABIL	T.Value HBL
2005	494.11	315.75
2006	607.64	422.5
2007	721.17	529.25
2008	834.7	636
2009	948.23	742.75
2010	1061.76	849.51
2011	1175.29	956.26
2012	1288.82	1063.01
2013	1402.35	1169.76
2014	1515.88	1276.51

Source: Annual report of NABIL and HBL.

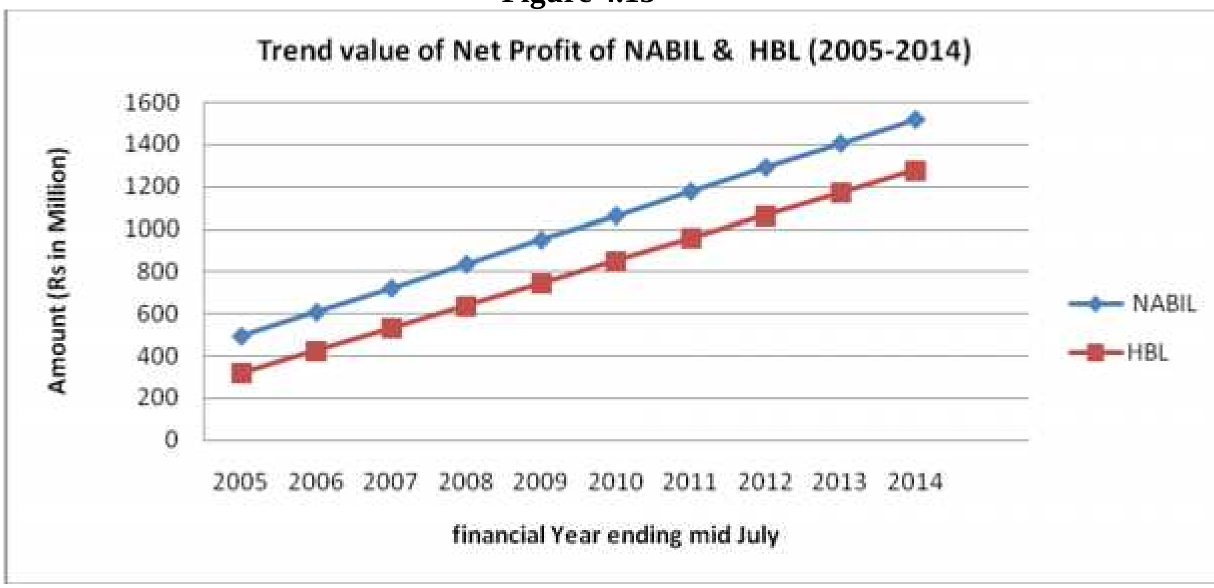
The above table shows that Net Profit of NABIL and HBL are in increasing trend. If other thing remains the same the Net Profit of NABIL and HBL for mid-July

2014 has been forecasted to be Rs. 1515.88 million and Rs.1276.51 million respectively.

The above figures depicts that NABIL's rate of generating net profit is highest compare to HBL although HBL is in generating net profit.

The calculated trend values of Net Profit of NABIL and HBL are fitted in the trend lines given as follows:

Figure 4.15



4.4 Major Findings

The following findings have been derived from the analysis and interpretation of date.

- Current ratio of both of the banks showed slightly fluctuating trend. Both of the banks could not maintain the conventional standard of 2.1. However, the average of the ratios appeared higher in NABIL, which signifies that NABIL is more capable of meeting immediate liabilities in contrast to HBL. The ratio shows increasing trend in HBL.
- Average cash and bank balance to current and saving deposits ratios of NABIL appeared greater than that HBL. It indicates that of NABIL is better for daily cash transactions than that of HBL. Conversely, NABIL seems less successful to utilize the fund raised from the current and saving deposits that may ultimately affect the profitability adversely.
- Average cash and bank balance to total deposit ratio remained higher in NABIL which reveals that the greater portion of the deposit was held for immediate payment in NABIL.
- Average net worth to total deposit ratio was below 10% in both of the sample banks. The ratio showed loss consistency. According to the NRB directives capital adequacy ratio must be 10%.
- Net worth to total asset ratio was greater in NABIL than in HBL. It means that NABIL is more successful to build up confidence among creditors. The ratio remained more consistent in NABIL.
- Net worth to total credit ratio appeared much higher in HBL than NABIL, which signifies that HBL, has used significantly larger extent of net worth for credit creation but ratio widely dispersed in HBL as compared to that in NABIL.
- Turnover of the fund raised form the outsider's appears less satisfactory in HBL. So, HBL has a challenge to allocate the deposit in income generation

sectors in comparison to NABIL bank. It will be better for both of the banks, especially for HBL to lend more to find more for profitable opportunities.

- As investment point of view both bank has less than satisfactory result. NABIL lend at average of 15% in investment portfolio in comparison to 19% in HBL. HBL utilize the resources more efficiently and prudently for income generation. Investment portfolio of both sample banks is in decreasing order. Both of the banks are suggested to review their investment portfolio to see if there is any better mix than the present one.
- Performing assets to total assets ratio of NABIL exceeded in comparison to HBL on the average. From this, it can be concluded that NABIL allocated the cost-bearing fund more successfully than HBL. The ratio of this utilization remained more uniform in NABIL.
- As per nonperforming assets to total assets ratio NABIL has less than 1% of nonperforming assets in comparison to 2% in HBL. Nonperforming assets is always a problem for commercial banks. As per directives of NRB nonperforming assets should be less than 10% of total assets. Both banks has successfully manages the ratio but NABIL banks has more performing assets than HBL. Nonperforming assets came to be less in NABIL and hence it can be concluded that loan and advances granted by the bank are income making.
- Loan loss coverage ratio of NABIL over the period remained lesser which indicates that asset financed by the bank are superior in contrast to HBL which provide better consistency in maintaining the quality of asset. NABIL seems more aware in quality while advancing loans as the ratio is less in the bank.
- As per bad debts loss provision still NABIL has lesser than HBL. NABIL has less than 1% of bad loan loss provision where HBL has more than 1 % of bad loan loss provision. HBL has better provision for bad loan loss than NABIL bank.

- Average return on assets in HBL was much less than in NABIL. It implies that the profitability position of NABIL in the study period proved to be higher in last year. Net profit in compared to total assets of NABIL bank is higher than that of HBL. NABIL is able to earn more profit by investing on more profitable sector than HBL. NABIL made quite a jump in the year 2009 in comparison to HBL where as HBL has a steady pace of growing.
- Return as total deposit was considerably higher in NABIL, which signifies that NABIL is more successful to utilize deposit for making profit. In HBL, earning compared to the total deposit accumulated could not grow proportionately. Therefore, HBL is suggested to invest in other assets rather than in the low yielding asset. On which interest has significantly declined at present. If the liquidity position does not appear weaker, it will be better for the bank to increase the investment in long- term loans after analyzing risk. NABIL has effectively utilized its deposits to earning sectors.
- Although, Profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected service form the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the banks are suggested to diversify their loans in priority and deprived sectors as per the directive of NRB. Structure of HBL seemed more leveled i.e. more risky. The ratio remained more consistent in HBL.
- Income analysis shows that interest income remained dominant in both of the banks. More than three-fourth of the income was occupied by interest. HBL spends more of its interest income in comparison to NABIL whereas other income occupied this portion in HBL.
- Interest expenses to interest income ratio, on an average was lower in NABIL. This reveals that NABIL invested the fund rouse from more successfully to earn the interest rather paying the interest for the debt. In both

of the banks, interest expenses remained dominant. Greater portion of the income has been spent for staff and office operation in HBL. Through the use of capacity building programs, seminars, conferences, training etc. staff's can be made more efficient. It is also suggested to minimize the office operation expenses by searching the loopholes.

- As per sector wise investment is concerned both banks have more investment in manufacturing and warehouse sectors.
- Total deposit and net profit, performing assets and net profit, net worth and net profit, total deposit and investment, total deposit and loans and advances and DPS and EPS seemed positively correlated at significant level in NBL throughout the study period.
- Total deposit and loans and advances were found positively correlated at significant level in HBL but poor degree of correlation existed between following variable in the bank total deposit and net profit, non performing assets and net profit, total deposits and investment.
- Total deposit loan and advances, investment, net worth, net profit, showed the increasing trend in both of the banks over the study period.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The economic development of a country cannot be imagined without the development of commerce and industry. The role of commercial banks in the economic growth of nation can be estimated to be prominent. The very challenging job of commercial banks is to collect the scattered idle savings from the small savers. Actually, commercial banks pool the fund in the sizable volume in order to feed the fund requirement of productive sector promote trade and industrialization in the country there by raising the employment opportunity and earning to the labors and materials suppliers to such industries and traders.

Commercial banks of course contribute a lot to the development of the economy of the country. Thus, to remain in the front line of the great contributor of the economy, the banks have sustainable existence and growth themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability . Joint venture banks have played significant role in the economic development of country. They have introduced new technology in the banking system mobilized the saving of community. They have focused their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the bank. Therefore the study has been conducted to evaluate the performance of joint venture banks especially, that of Nabil Bank and Himalayan Bank in order to find out their strengths and weakness.

Under this study, the researcher has tried to cover the various aspects of selected commercial banks covering the period of five years from 2004/05, 2005/06, 2006/07, 2007/2008 and 2007/2009.

In the first introductory chapter, the study represent has tried to give background of study history and introduction of banking and its relation to the economy, historical development of banking system in Nepal general concept of banking system in Nepal general concept of commercial Banks function of commercial banks, concept of and function of Joint venture banks, brief profile of the concerned banks , general concept of statement and problems, objectives of the study, significance of study and its limitation.

During the research work, extensive review of various literature books, past thesis, journals have been studied and consulted as per requirement materials from relevant sources. These links are complied in the second chapter titled “Review of literature” of this report..

For this study the researcher has gathered the required data basically from annual reports published by the concerned joint venture banks for the last five years. And also internet website of Nepal Stock Exchange is used for necessary data to analyze the financial performance of selected banks (1) Financial ratios to calculate various ratios (2) Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient, coefficient of determination and probable error etc are followed for this research work in third chapter titled “Research Methodology”.

Data relating to activities of the banks have been collected and presented in figures and tabular as far as possible and tried to be interpreted in the study represent in logical ways. Data are analyzed applying various financial and statistical tools and finding of the study have been listed in a systematic manner.

5.2 Conclusion

To avoid the chances of duplication in the study and confirm whether the study is in accordance with the principles and doctrines, supportive text and the previous dissertation have been reviewed. For analyzing the financial data of the sampled banks the financial tools- ratio analysis, income and expenditure analysis and the statically tool-mean, standard deviation, and correlation analysis have been used. From the analysis and interpretation of the data, the investor arrives at following conclusion.

Liquidity position of both of the banks seems satisfactory. Overall liquidity position of NABIL appears slightly stronger that of HBL. It shows that NABIL can meet its current liabilities more efficiently that HBL. However, more funds in form of current assets in also not wise because it has negative impact on profitability. Both of the banks have used higher proportion of debt in their capital structure. Overall capital structure of HBL appears more levered that of NABIL. Hence, HBL follows this strategy can yield fair return to shareholders. Capital adequacy position of NABIL appears stronger than that of HBL. HBL is found more successful to utilize its deposit in profitable sector. Turnover of deposits, debt and assets in performing assets seems better in NABIL. On analyzing the assets owned by the banks. NABIL is found superior because assets possessed are less risky than that of HBL.

Income and expenses is how rising trend in both of the banks. Interest seems to occupy major part of the both income and expenses. Comparatively, interest remained more dominant in the total income and expenses of HBL than that of NABIL.

Correlation analysis reveals that the coefficient of correlation between total deposit and net profit; performing assets and net profit; net worth and net profit, total deposit and investment; total deposits and loans and advances remained highly significant in NABIL. It signifies that NABIL is successful to utilize its resources more efficiently than HBL as strong positive relation did not appeal between above stated components in HBL. But the growth rate of net profit seems faster in NABIL, which made net profit of NABIL will better than that of HBL.

5.3 Recommendation

On the basis of major findings some important suggestions have been forwarded so that they will help the sampled banks to strengthen weaker aspects of financial activities.

- Both of the banks have maintained NRB balance to deposit ratio remarkably higher than the standard prescribed by NRB. The fund tied up in NRB balance cannot yield good return. So, both of the banks are suggested to lower this ratio and invest the surplus fund in other current assets such as loans and advances, bills purchase and discount, money at call and short notice.
- It is suggestive that these banks should hold the fund in form of cash or cash equivalent items only to the extent of requirement. Though it is difficult to know the exactly suitable liquidity ratio, estimation can be done on the basis of past experience, nature of depositors, situation of financial market and nature of competition.
- The banks have employed considerably greater portion of debt in their capital therefore, they should be aware of the possible risk that may arise due to slackness in the business activities. In this regard, HBL should adopt more precaution so as to check the risk factors.
- Turnover of the fund raised form the outsiders appears less satisfactory in HBL. So, NABIL has a challenge to allocate the deposit in income

generating sectors. It will be better for both of the banks, especially for HBL to open the branches in other cities and rural areas in order to find the profitable opportunities.

- The quality of assets owned by HBL seems poorer in comparison to NABIL. Therefore, HBL is suggested to advance the loans only after the proper analysis of customers.
- Greater portion of the income has been spent for staff and office operation in both Banks. Through the use of capacity building programmers, seminars, conference, training etc. staffs can be made more efficient. It is also suggested to minimize the office operation expenses by searching the loopholes.
- In HBL, earning, compared to the total deposit accumulated could not grow proportionately. Therefore, HBL is suggested to invest in other current assets rather than in the low yielding Treasury bill on which interest has significantly declined at present. If the liquidity position does not appear weaker, it will be better for the bank to increase the investment in long-term loans after analyzing risk.
- Both of the banks are suggested to review their investment ponies to see if there is any better mix than the present one.
- Although, profit needs to be earned for survival and growth of any institution, it should not be the one and only one goal. The country has expected services from the financial sectors in such a way that it encompasses the balanced development. Economic level of the country can be raised only when the level of the people depending upon the agriculture increases. So the banks are suggested to diversify their loans in priority and deprived sectors as per the directive of NRB.

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ANNEXURE

Annex-1

Current Ratio

	HBL		NABIL	
Fiscal Year	**X**	$(X - \bar{X})^2$	**X**	$(X - \bar{X})^2$
2004/05	1.0090	0.0002	1.0456	0.0238
2005/06	0.7527	0.0727	1.1389	0.0037
2006/07	0.9316	0.0082	1.2277	0.0008
2007/08	1.1541	0.0174	1.3270	0.0162
2008/09	1.2642	0.0585	1.2599	0.0036
Total	**5.1116**	**0.1570**	**5.9991**	**0.0481**

Where,

N = 5 Years

$$\bar{X} = \frac{\sum x}{n} \qquad (\sigma) = \sqrt{1/n-1 \ \sum (X - \bar{X})^2}$$

$$HBL = \frac{5.1116}{5} = \sqrt{\frac{1}{4} \times 0.1570}$$

$$= 1.02232 \qquad = 0.19810$$

$$NABIL = \frac{5.9991}{5} = \sqrt{\frac{1}{4} \times 0.0481}$$

$$= 1.19982 \qquad = 0.10961$$

Annex-2

Cash and Bank Balance to Deposit Ratio

	HBL		NABIL	
Fiscal Year	**X**	$(X - \bar{X})^2$	**X**	$(X - \bar{X})^2$
003/04	0.06174	0.0000	0.0922	0.0003
2004/05	0.06321	0.0000	0.12224	0.0002
2005/06	0.051816	0.0001	0.0841	0.0007
2006/07	0.043914	0.0003	0.144869	0.0012
2007/08	0.087904	0.0007	0.105103	0.0000
Total	**0.3086**	**0.0011**	**0.5485**	**0.0024**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ (σ) = $\sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$

HBL = $\frac{0.3086}{5}$ = $\sqrt{\frac{1}{4} \times 0.0011}$

= 0.061718 = 0.016605

NABIL= $\frac{0.5485}{5}$ = $\sqrt{\frac{1}{4} \times 0.0024}$

= 0.1097 = 0.02449

Annex-3

Net Worth to Total Deposit:

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	**X**	$(X - \bar{X})^2$
2004/05	0.10345	0.0000	0.1136	0.0005
2005/06	0.10907	0.0001	0.096907	0.0000
2006/07	0.098383	0.0000	0.088123	0.0000
2007/08	0.100468	0.0000	0.076365	0.0002
2008/09	0.089959	0.0001	0.083811	0.0001
Total	**0.5013**	**0.0002**	**0.4588**	**0.0008**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ $(\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$

HBL $= \frac{0.5013}{5}$ $= \sqrt{\frac{1}{4} \times 0.0002}$

$= 0.10026$ $= 0.0007024$

NABIL$= \frac{0.4588}{5}$ $= \sqrt{\frac{1}{4} \times 0.0008}$

$= 0.09177$ $=0.014315$

Annex-4

Net Worth to Total Asset Ratio

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2004/05	0.09224	0.0000	0.0964	0.0006
2005/06	0.0979485	0.0001	0.1451	0.0006
2006/07	0.0877776	0.0000	0.13232	0.0001
2007/08	0.088331	0.0000	0.11407	0.0000
2008/09	0.0793452	0.0001	0.11345	0.0000
Total	**0.4456**	**0.0002**	**0.6013**	**0.0014**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ (σ) = $\sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$

HBL = $\frac{0.4456}{5}$ = $\sqrt{\frac{1}{4} \times 0.0002}$

= 0.089128 = 0.00682

NABIL= $\frac{0.6013}{5}$ = $\sqrt{\frac{1}{4} \times 0.0014}$

= 0.12028 = 0.018793

Annex-5

Net Worth to Total Credit Ratio

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2004/05	0.13723	0.0003	0.1496	0.0003
2005/06	0.1859787	0.0010	0.1451	0.0002
2006/07	0.1664911	0.0001	0.13232	0.0000
2007/08	0.1598893	0.0000	0.11407	0.0003
2008/09	0.1233539	0.0010	0.11345	0.0003
Total	**0.7729**	**0.0024**	**0.6545**	**0.0011**

Where,

N = 5 Years

$$\bar{X} = \frac{\sum x}{n} \qquad (\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$$

$$\text{HBL} = \frac{0.7729}{5} \qquad = \sqrt{\frac{1}{4} \times 0.0024}$$

$$= 0.15459 \qquad = 0.02465$$

$$\text{NABIL} = \frac{0.6545}{5} \qquad = \sqrt{\frac{1}{4} \times 0.0011}$$

$$= 0.13092 \qquad = 0.0116905$$

Annex-6

Loans and Advances to Total Deposit Ratio

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2004/05	0.5417	0.0063	0.7594	0.0030
2005/06	0.595776	0.0006	0.672991	0.0010
2006/07	0.594992	0.0007	0.670758	0.0011
2007/08	0.63618	0.0002	0.674122	0.0009
2008/09	0.735825	0.0132	0.744789	0.0016
Total	**3.1045**	**0.0210**	**3.5221**	**0.0077**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ $\quad (\sigma) = \sqrt{1/n-1 \sum (X - \bar{X})^2}$

HBL $= \frac{3.1045}{5}$ $\quad = \sqrt{\frac{1}{4} \times 0.0210}$

$= 0.62089$ $\quad = 0.072483$

NABIL$= \frac{3.5221}{5}$ $\quad = \sqrt{\frac{1}{4} \times 0.0077}$

$= 0.704423$ $\quad = 0.043867$

Annex-7

Investment to Total Deposit Ratio

Fiscal Year	HBL		NABIL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2004/05	0.4711	0.0500	0.1937	0.0011
2005/06	0.1944497	0.0028	0.12261	0.0015
2006/07	0.2158377	0.0010	0.22959	0.0047
2007/08	0.23492	0.0002	0.15321	0.0001
2008/09	0.1214873	0.0159	0.10653	0.0030
Total	**1.2378**	**0.0699**	**0.8056**	**0.0103**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ $\qquad (\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$

HBL $= \frac{1.2378}{5}$ $\qquad = \sqrt{\frac{1}{4} \times 0.0699}$

$= 0.2457$ $\qquad = 0.132189$

NABIL$= \frac{0.8056}{5}$ $\qquad = \sqrt{\frac{1}{4} \times 0.0103}$

$= 0.161146$ $\qquad = 0.050699$

Annex-8

Performing Assets to Total Assets Ratio

Fiscal Year	HBL		NABIL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2004/05	0.442116	0.0072	0.6285	0.0008
2005/06	0.499697	0.0007	0.586512	0.0002
2006/07	0.511711	0.0002	0.576981	0.0005
2007/08	0.546173	0.0004	0.581654	0.0003
2008/09	0.634988	0.0117	0.623908	0.0006
Total	**2.6347**	**0.0202**	**2.9976**	**0.0024**

Where,

N = 5 Years

$$\bar{X} = \frac{\sum x}{n} \qquad (\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$$

$$\text{HBL} = \frac{2.6347}{5} \qquad = \sqrt{\frac{1}{4} \times 0.0202}$$

$$= 0.52694 \qquad = 0.07109$$

$$\text{NABIL} = \frac{2.9976}{5} \qquad = \sqrt{\frac{1}{4} \times 0.0024}$$

$$= 0.5995 \qquad = 0.024663$$

Annex-9

Non Performing Assets to Total Assets Ratio

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2004/05	0.035747	0.0002	0.0084	0.0000
2005/06	0.0353272	0.0001	0.00988	0.0000
2006/07	0.0191413	0.0000	0.00654	0.0000
2007/08	0.0131525	0.0001	0.00462	0.0000
2008/09	0.0140185	0.0001	0.00503	0.0000
Total	**0.1174**	**0.0005**	**0.0345**	**0.0000**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ $\quad (\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$

HBL $= \frac{0.1174}{5} \quad = \sqrt{\frac{1}{4} \times 0.0005}$

$= 0.023477 \quad = 0.011245$

NABIL$= \frac{0.0345}{5} \quad = \sqrt{\frac{1}{4} \times 0.0000}$

$= 0.006555 \quad = 0.001743$

Annex10

Nonperforming Loan to Total Loan and Advance

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2004/05	0.07339	0.0009	0.01304	0.0000
2005/06	0.0660292	0.0005	0.01402	0.0000
2006/07	0.0360577	0.0001	0.01139	0.0000
2007/08	0.023515	0.0004	0.00797	0.0000
2008/09	0.0215999	0.0005	0.00793	0.0000
Total	**0.2206**	**0.0023**	**0.0544**	**0.0000**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ $\quad (\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$

HBL $= \frac{0.2206}{5} \quad = \sqrt{\frac{1}{4} \times 0.0023}$

$= 0.04424 \quad = 0.02433$

NABIL$= \frac{0.0544}{5} \quad = \sqrt{\frac{1}{4} \times 0.0000}$

$= 0.010871 \quad = 0.002828$

Annex-11

Loan Loss Provision to Total Loan and Advance

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2004/05	0.075326	0.0007	0.03548	0.0001
2005/06	0.065284	0.0003	0.027102	0.0000
2006/07	0.042717	0.0000	0.022756	0.0000
2007/08	0.033558	0.0002	0.018806	0.0000
2008/09	0.02776	0.0004	0.014707	0.0001
Total	**0.2446**	**0.0017**	**0.1189**	**0.0003**

Where,

N = 5 Years

$$\bar{X} = \frac{\sum x}{n} \qquad (\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$$

$$HBL = \frac{0.2446}{5} \qquad = \sqrt{\frac{1}{4} \times 0.0017}$$

$$= 0.0486 \qquad = 0.02016$$

$$NABIL = \frac{0.1189}{5} \qquad = \sqrt{\frac{1}{4} \times 0.0003}$$

$$= 0.023751 \qquad = 0.007466$$

Annex-12

Provision for Bad Debts to Total Loan and Advance

Fiscal Year	HBL		NABIL	
	X	$(X-\bar{X})^2$	X	$(X-\bar{X})^2$
2004/05	0.05059	0.0006	0.01744	0.0001
2005/06	0.0448478	0.0003	0.00898	0.0000
2006/07	0.0209394	0.0000	0.00546	0.0000
2007/08	0.0103164	0.0003	0.00174	0.0000
2008/09	0.0073623	0.0004	0.00157	0.0000
Total	**0.1341**	**0.0016**	**0.0352**	**0.0002**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ $\quad (\sigma) = \sqrt{1/n-1 \sum (X - \bar{X})^2}$

HBL $= \frac{0.1341}{5}$ $\quad = \sqrt{\frac{1}{4} \times 0.0016}$

$= 0.026811$ $\quad = 0.019847$

NABIL$= \frac{0.0352}{5}$ $\quad = \sqrt{\frac{1}{4} \times 0.0002}$

$= 0.07047$ $\quad = 0.00657$

Annex-13

Return on Total Asset

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	**X**	$(X - \bar{X})^2$
2004/05	0.01107	0.0000	0.03019	0.0000
2005/06	0.015528	0.0000	0.028451	0.0000
2006/07	0.014673	0.0000	0.024731	0.0000
2007/08	0.017577	0.0000	0.020104	0.0000
2008/09	0.019146	0.0000	0.023504	0.0000
Total	**0.0780**	**0.0000**	**0.1270**	**0.0001**

Where,

N = 5 Years

$\bar{X} = \dfrac{\sum x}{n}$ $\qquad (\sigma) = \sqrt{1/n-1 \sum (X - \bar{X})^2}$

HBL $= \dfrac{0.0780}{5} \qquad = \sqrt{\dfrac{1}{4} \times 0.0000}$

$= 0.01559 \qquad = 0.0030$

NABIL$= \dfrac{0.1270}{5} \qquad = \sqrt{\dfrac{1}{4} \times 0.0001}$

$= 0.025397 \qquad = 0.004013$

Annex-14

Return on Total Deposit

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2004/05	0.01242	0.0000	0.04865	0.0003
2005/06	0.0172912	0.0000	0.03283	0.0000
2006/07	0.0164456	0.0000	0.02887	0.0000
2007/08	0.0199926	0.0000	0.02339	0.0001
2008/09	0.0217073	0.0000	0.02761	0.0000
Total	**0.0879**	**0.0001**	**0.1614**	**0.0004**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ $\qquad (\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$

HBL $= \frac{0.0879}{5}$ $\qquad = \sqrt{\frac{1}{4} \times 0.0001}$

$= 0.017572$ $\qquad = 0.003564$

NABIL$= \frac{0.1614}{5}$ $\qquad = \sqrt{\frac{1}{4} \times 0.0004}$

$= 0.329185$ $\qquad = 0.009005$

Annex-15

Total Interest Expenses to Total Interest Income Ratio

Fiscal Year	HBL		NABIL	
	X	$(X - \bar{X})^2$	X	$(X - \bar{X})^2$
2004/05	0.3885	0.0004	0.2278	0.0103
2005/06	0.398925	0.0001	0.272672	0.0032
2006/07	0.432202	0.0006	0.349981	0.0004
2007/08	0.419496	0.0001	0.383282	0.0029
2008/09	0.399101	0.0001	0.412112	0.0069
Total	**2.0382**	**0.0013**	**1.6458**	**0.0237**

Where,

N = 5 Years

$\bar{X} = \frac{\sum x}{n}$ $(\sigma) = \sqrt{1/n\text{-}1 \sum (X - \bar{X})^2}$

HBL $= \frac{2.0382}{5}$ $= \sqrt{\frac{1}{4} \times 0.0013}$

$= 0.04076$ $= 0.01774$

NABIL$= \frac{1.6458}{5}$ $= \sqrt{\frac{1}{4} \times 0.0237}$

$= 0.329185$ $= 0.007696$

Annex-16

Correlation Analysis and Probable Error (PE) of Nabil Bank:

Coefficient of Correlation between Deposit and Net Profit

Year	X	Y	X^2	Y^2	XY
2004/5	14586.8	518.63	212774734.2	268977.0769	7565152.084
2005/6	19348.4	635.3	374360582.6	403606.09	12292038.52
2006/7	23342.4	674	544867637.8	454276	15732777.6
2007/8	31915	746.5	1018567225	557262.25	23824547.5
2008/9	37348.3	1031.05	1394895513	1063064.103	38507964.72
Total	**126540.9**	**3605.48**	**3545465692**	**2747185.519**	**97922480.42**

N=5 years, $\sum X$=126540.9, $\sum X^2$ = 3545465692, $\sum Y$= 3605.48,

$\sum Y^2$= 2747185.519, $\sum XY$= 97922480.42

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

$$r = \frac{5 \times 97922480.42 - 126540.9 \times 3605.48,}{\sqrt{5 \times 3545465692 - (126540.9)^2}\sqrt{5 \times 2747185.519 - (3605.48)^2}}$$

$$= 0.9391$$

Probable Error (PE):

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

Here, r = 0.9391, N = 5 years

We have,

$$P.Er = 0.6745 \times \frac{1 - (0.9301)^2}{\sqrt{5}}$$

$= \quad 0.0355$

Annex-17

Correlation between Performing Assets and Net Profit

Year	X	Y	X^2	Y^2	XY
2004/5	10802.23	518.63	116688173	268977.0769	5602360.545
2005/6	13096.8	635.3	171526170.2	403606.09	8320397.04
2006/7	15724.7	674	247266190.1	454276	10598447.8
2007/8	21598.4	746.5	466490882.6	557262.25	16123205.6
2008/9	27369.21	1031.05	749073656	1063064.103	28219023.97
Total	**88591.34**	**3605.48**	**1751045072**	**2747185.519**	**68863434.96**

N=5 years, $\sum X$=88591.34, $\sum X^2$ = 1751045072, $\sum Y$= 3605.48,

$\sum Y^2$= 2747185.519, $\sum XY$= 68863434.96

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

$$r = \frac{5 \times 68863434.96 - 126540.9 \times 3605.48}{\sqrt{5 \times 1751045072 - (88591.34)^2}\sqrt{5 \times 2747185.519 - (3605.48)^2}}$$

$$= 0.9636$$

Probable Error (PE):

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

Here,

r = 0.9636, N = 5 years

We have,

$$P.Er = 0.6745 \times \frac{1 - (0.9636)^2}{\sqrt{5}}$$

$= 0.02152$

Annex-18

Correlation between Net Worth and Net Profit

Fiscal Year	X	Y	X^2	Y^2	XY
2003/2004	1658	518.63	2748964.0000	268977.0769	859888.5400
2004/2005	1875	635.3	3515625.0000	403606.0900	1191187.5000
2005/2006	2057	674	4231249.0000	454276.0000	1386418.0000
2006/2007	2437.2	746.5	5939943.8400	557262.2500	1819369.8000
2007/2008	3130.2	1031.05	9798152.0400	1063064.1025	3227392.7100
Total	**11157.4**	**3605.4800**	**26233933.8800**	**2747185.5194**	**8484256.5500**

N=5 years, $\sum X$=11157.4, $\sum X^2$ = 26233933.8800, $\sum Y$= 3605.48,

$\sum Y^2$= 2747185.519, $\sum XY$= 8484256.5500

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

$$r = \frac{5 \times 8484256.5500 - 11157.4 \times 3605.48}{\sqrt{5 \times 26233933.8800 - (11157.4)^2}\sqrt{5 \times 2747185.519 - (3605.48)^2}}$$

$$= 0.9888$$

Probable Error (PE):

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

Here, r = 0.9888, N = 5 years

We have,

$$P.Er = 0.6745 \times \frac{1 - (0.9888)^2}{\sqrt{5}}$$

= 0.0067

Annex-19

Correlation between Total Deposit and Investment

Fiscal Year	X	Y	X^2	Y^2	XY
2003/2004	14586.8	2826.8	212774734.2400	7990798.2400	41233966.2400
2004/2005	19348.4	2372.3	374360582.5600	5627807.2900	45900209.3200
2005/2006	23342.4	5359.2	544867637.7600	28721024.6400	125096590.0800
2006/2007	31915	4889.6	1018567225.0000	23908188.1600	156051584.0000
2007/2008	37348.3	3978.7	1394895512.8900	15830053.6900	148597681.2100
Total	**126540.9**	**19426.6000**	**3545465692.4500**	**82077872.0200**	**516880030.8500**

N=5 years, $\sum X$=126540.9, $\sum X^2$ = 3545465692.4500, $\sum Y$= 19426.6000,

$\sum Y^2$= 82077872.0200, $\sum XY$= 516880030.8500

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

$$r = \frac{5 \times 516880030.8500 - 126540.9\times 19426.6000}{\sqrt{5 \times 3545465692.4500 - (126540.9)^2}\sqrt{5\times 82077872.0200 - (19426.60)^2}}$$

= 0.5303

Probable Error (PE):

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

Here, r = 0.5303, N = 5 years

We have,

$$P.Er = 0.6745\times\frac{1-(0.5303)^2}{\sqrt{5}}$$

= 0.2164

Annex-20

Correlation between Total Deposit and Loans and Advances

Fiscal Year	X	Y	X^2	Y^2	XY
2003/2004	14586.8	11078	212774734.2400	122722084.0000	161592570.4000
2004/2005	19348.4	13021.3	374360582.5600	169554253.6900	251941320.9200
2005/2006	23342.4	15657	544867637.7600	245141649.0000	365471956.8000
2006/2007	31915	21514.6	1018567225.0000	462878013.1600	686638459.0000
2007/2008	37348.3	27816.6	1394895512.8900	773763235.5600	1038902721.7800
Total	**126540.9**	**89087.5000**	**3545465692.4500**	**1774059235.4100**	**2504547028.9000**

N=5 years, $\sum X$=126540.9, $\sum X^2$ = 3545465692.4500, $\sum Y$= 89087.50,

$\sum Y^2$= 1774059235.4100, $\sum XY$= 2504547028.9000

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

$$r = \frac{5 \times 2504547028.9000 - 126540.9 \times 89087.50}{\sqrt{5 \times 3545465692.4500 - (126540.9)^2}\sqrt{5 \times 1774059235.41 - (89087.50)^2}}$$

$$= 0.9875$$

Probable Error (PE):

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

Here, r = 0.9875, N = 5 years

We have,

$$P.Er = 0.6745 \times \frac{1-(0.9875)^2}{\sqrt{5}}$$

$$= 0.0074$$

Annex-21

Correlation Analysis and Probable Error (PE) of Himalayan Bank:

Correlation Analysis between Deposit and Net Profit

Fiscal Year	X	Y	X^2	Y^2	XY
2003/2004	24831.1	308.28	616583527.2100	95036.5584	7654931.5080
2004/2005	26456.2	457.46	699930518.4400	209269.6516	12102653.2520
2005/2006	29905.8	491.82	894356873.6400	241886.9124	14708270.5560
2006/2007	31805.3	635.87	1011577108.0900	404330.6569	20224036.1110
2007/2008	34681	752.83	1202771761.0000	566753.0089	26108897.2300
Total	**147679.4**	**2646.2600**	**4425219788.3800**	**1517276.7882**	**80798788.6570**

N=5 years, $\sum X$=147679.4, $\sum X^2$ = 4425219788.3800, $\sum Y$= 2646.2600,

$\sum Y^2$= 1517276.7882, $\sum XY$= 80798788.6570

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

$$r = \frac{5 \times 80798788.6570 - 147679.4 \times 2646.2600}{\sqrt{5 \times 4425219788.380 - (147679.4)^2}\sqrt{5 \times 1517276.7882 - (2646.26)^2}}$$

$$= 0.9703$$

Probable Error (PE):

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

Here, r = 0.9703, N = 5 years

We have,

$$P.Er = 0.6745 \times \frac{1 - (0.9703)^2}{\sqrt{5}}$$

$= \quad 0.01762$

Annex-22

Correlation between Performing Assets and Net Profit

Fiscal Year	**X**	**Y**	**X^2**	**Y^2**	**XY**
2003/2004	12310.61	308.28	151551118.5721	95036.5584	3795114.8508
2004/2005	14721.22	457.46	216714318.2884	209269.6516	6734369.3012
2005/2006	17152.1	491.82	294194534.4100	241886.9124	8435745.8220
2006/2007	19758.1	635.87	390382515.6100	404330.6569	12563583.0470
2007/2008	24967.93	752.83	623397528.4849	566753.0089	18796606.7419
Total	**88909.96**	**2646.2600**	**1676240015.3654**	**1517276.7882**	**50325419.7629**

N=5 years, $\sum X$=88909.96 $\sum X^2$ = 1676240015.3654 $\sum Y$= 2646.2600,

$\sum Y^2$= 1517276.7882, $\sum XY$= 50325419.7629

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

$$r = \frac{5 \times 50325419.7629 - 88909.96 \times 2646.2600}{\sqrt{5 \times 1676240015.3654 - (88909.96)^2}\sqrt{5 \times 1517276.7882 - (2646.26)^2}}$$

$= \quad 0.9806$

Probable Error (PE):

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

Here, r = 0.9806, N = 5 years

We have,

$$P.Er = 0.6745 \times \frac{1 - (0.9806)^2}{\sqrt{5}}$$

$= \quad 0.01156$

Annex-23

Correlation between Net Worth and Net Profit

Fiscal Year	X	Y	X^2	Y^2	XY
2003/2004	2568.39	308.28	6596627.1921	95036.5584	791783.2692
2004/2005	2885.59	457.46	8326629.6481	209269.6516	1320042.0014
2005/2006	2942.23	491.82	8656717.3729	241886.9124	1447047.5586
2006/2007	3195.42	635.87	10210708.9764	404330.6569	2031871.7154
2007/2008	3119.88	752.83	9733651.2144	566753.0089	2348739.2604
Total	**14711.51**	**2646.2600**	**43524334.4039**	**1517276.7882**	**7939483.8050**

N=5 years, $\sum X$=14711.51 $\sum X^2$ = 43524334.4039 $\sum Y$= 2646.2600,

$\sum Y^2$= 1517276.7882, $\sum XY$= 7939483.8050

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

$$r = \frac{5 \times 7939483.8050 - 14711.51 \times 2646.2600}{\sqrt{5 \times 43524334.4039 - (14711.51)^2}\sqrt{5 \times 1517276.7882 - (2646.26)^2}}$$

$$= 0.9190$$

Probable Error (PE):

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

Here, r = 0.9190, N = 5 years

We have,

$$P.Er = 0.6745 \times \frac{1 - (0.9190)^2}{\sqrt{5}}$$

P.E = 0.0468

Annex-24

Correlation between Total Deposit and Investment

Fiscal Year	**X**	**Y**	**X^2**	**Y^2**	**XY**
2003/2004	24814	11692.34	615734596.0000	136710814.6756	290133724.7600
2004/2005	26456.2	5144.4	699930518.4400	26464851.3600	136101275.2800
2005/2006	29905.8	6454.8	894356873.6400	41664443.0400	193035957.8400
2006/2007	31805.3	7471.7	1011577108.0900	55826300.8900	237639660.0100
2007/2008	34681	4213.3	1202771761.0000	17751896.8900	146121457.3000
Total	**147662.3**	**34976.5400**	**4424370857.1700**	**278418306.8556**	**1003032075.1900**

N=5 years, $\sum X$=147662.3 $\sum X^2$ = 4424370857.1700 $\sum Y$= 34976.54,

$\sum Y^2$= 278418306.8556, $\sum XY$= 1003032075.19

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

$$r = \frac{5 \times 1003032075.19 - 147662.3\times 34976.54}{\sqrt{5 \times 4424370857.1700 - (147662.3)^2}\sqrt{5\times 278418306.8556 - (34976.54)^2}}$$

$= -0.6459$

Probable Error (PE):

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

Here, r =-0.6459 , N = 5 years

We have,

$$P.Er = 0.6745\times\frac{1-(-0.6459)^2}{\sqrt{5}}$$

P.E = 0.1755

Annex-25

Correlation between Total Deposit and Loans and Advances

Fiscal Year	X	Y	X^2	Y^2	XY
2003/2004	24814	12088.7	615734596.0000	146136667.6900	299969001.8000
2004/2005	26456.2	15761.97	699930518.4400	248439698.2809	417001830.7140
2005/2006	29905.8	17793.7	894356873.6400	316615759.6900	532134833.4600
2006/2007	31805.3	20233.9	1011577108.0900	409410709.2100	643545259.6700
2007/2008	34681	25519.14	1202771761.0000	651226506.3396	885029294.3400
Total	147662.3	91397.4100	4424370857.1700	1771829341.2105	2777680219.9840

N=5 years, $\sum X$=147662.3 $\sum X^2$ = 4424370857.1700 $\sum Y$= 91397.41,

$\sum Y^2$= 1771829341.2105, $\sum XY$= 2777680219.9840

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

$$r = \frac{5 \times 2777680219.9840 - 147662.3\times 91397.41}{\sqrt{5 \times 4424370857.1700 - (147662.3)^2}\sqrt{5\times 1771829341.2105 - (91397.41)^2}}$$

$$= 0.9791$$

Probable Error (PE):

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

Here, r =-0.9791, N = 5 years

We have,

$$P.Er = 0.6745\times\frac{1-(0.9791)^2}{\sqrt{5}}$$

P.E = 0.0124

Annex-26

Principal Indicator of Nabil Bank Ltd.

		Financial Year					
SN	Particulars	Unit	2004/05	2005/06	2006/07	2007/08	2008/09
1	Net Profit/Gross Income	Percent	34.33	35.32	32.16	29.68	30.56
2	Earning per Share	Rs	105.49	129.21	137.08	108.31	106.76
3	Market Value per Share	Rs	1505	2240	5050	5275	4899
4	Price Earning Ratio	Times	14.27	17.34	36.84	48.7	45.89
5	Dividend on Share capital (including bonus)	%	70	85	140	100	85
6	Cash Dividend on share capital	%	70	85	100	60	35
7	Interest Income/ Loans and advances	%	8.7	8.29	8.14	8.04	8.82
8	Employee Expenses/ Total Operating Expenses	%	31.5	28.93	24.41	21.7	23.96
9	Interest Expense on total deposit and borrowing	%	1.68	2.09	2.54	3.96	3.22
10	Exchange Gain/ Total Income	%	12.24	10.31	10.02	7.81	7.47
11	Staff Bonus/ Total Employee Expenses	%	42.2	40.86	41.43	41.42	43.5
12	Net Profit/ Loans and Advances	%	5.32	5.24	4.62	3.96	4.02
13	Net Profit/ Total Assets	%	3.06	3.23	2.72	2.32	2.55
14	Total Credit/ Deposit	%	75.05	68.63	68.13	68.18	73.87
15	Total Operating Expenses/Total Assets	%	3.73	3.86	3.97	3.86	4.34
16	Adequacy of Capital Fund on Risk Weighted Assets						
	a. Core Capital	%	11.35	10.78	10.4	8.75	8.74
	b. Supplementary Capital	%	1.09	1.52	1.64	2.35	1.96
	c. Total Capital Fund	%	12.44	12.31	12.04	11.1	10.7
17	Liquidity (CRR)	%	3.83	3.26	6	8.37	9.03
18	Non- Performing Loans/ Total Loans	%	1.32	1.38	1.12	0.74	0.8
19	Weighted Average Interest Rate Spread	%	5.01	4.9	4.15	3.94	4.16
20	Book Net worth per share	Rs	337	381	418	354	324
21	Total Shares	Number	4916544	4916544	4916544	6892160	9657470
22	Total Permanent Employees	Number	426	441	427	416	505

Annex- 27

Principal Indicator of Himalayan Bank Ltd.

Sn	Particulars	Financial Year					
		Unit	2004/05	2005/06	2006/07	2007/08	2008/09
1	Net Profit/Gross Income	Percent	32.98	35.16	34.9	41.58	39.96
2	Earning per Share	Rs	47.91	59.24	60.66	62.74	61.9
3	Market Value per Share	Rs	920	1100	1740	1980	1760
4	Price Earning Ratio	Times	19.2	18.57	28.69	31.56	28.83
5	Dividend on Share capital (including bonus)	%	31.58	35	40	45	43.56
6	Cash Dividend on share capital	%	11.58	30	15	25	12
7	Interest Income/ Loans and advances	%	10.75	10.32	9.98	9.73	9.18
8	Employee Expenses/ Total Operating Expenses	%	41.95	41.57	47.4	45.91	47.5
9	Interest Expense on total deposit and borrowing	%	2.26	2.45	2.55	2.59	2.7
10	Exchange Gain/ Total Income	%	7.8	9.42	6.71	8.27	8.51
11	Staff Bonus/ Total Employee Expenses	%	24.53	22.28	19.78	24.51	22.81
12	Net Profit/ Loans and Advances	%	2.48	3.12	2.89	3.26	3.04
13	Net Profit/ Total Assets	%	1.11	1.55	1.47	1.76	1.91
14	Total Credit/ Deposit	%	50.07	55.27	56.57	61.23	71.49
15	Total Operating Expenses/Total Assets	%	29.19	30.02	30.32	29.14	29.49
16	Adequacy of Capital Fund on Risk Weighted Assets						
	a. Core Capital	%	8.33	8.65	9.61	9.36	8.81
	b. Supplementary Capital	%	2.68	2.62	1.51	3.06	2.21
	c. Total Capital Fund	%	11.01	11.26	11.13	12.42	11.02
17	Liquidity (CRR)	%	7.86	5.92	5.92	5.13	6.76
18	Non- Performing Loans/ Total Loans	%	7.44	6.6	3.61	2.36	2.16
19	Weighted Average Interest Rate Spread	%	3.19	3.8	3.57	3.66	3.66
20	Book Net worth per share	Rs	239.59	228.72	264.74	247.95	256.52
21	Total Shares	Number	6435000	7722000	8108100	10135125	12162150
22	Total Permanent Employees	Number	501	561	584	591	591

APPENDIX – X(1)

Trend Analysis of Net Profit

Trend value of Net Profit of NABIL (2005-2009)					
Year (X)	Net Profit (Y)	x = (X-2007)	x^2	xY	y=a+bx y= 721.17+113.53x
2005	519.00	-2	4	-1038	494.11
2006	635.30	-1	1	-635.3	607.64
2007	674.00	0	0	0	721.17
2008	746.50	1	1	746.5	834.7
2009	1031.05	2	4	2062.1	948.23
	3605.85		10	**1135.3**	494.11

Now,

$$a = \frac{\sum Y}{N} \qquad b = \frac{\sum xY}{\sum x^2}$$

$$a = \frac{3605.85}{5} \qquad b = \frac{1135.3}{10}$$

$$a = 721.17 \qquad b = 113.53$$

Trend value of Net Profit of NABIL (2010-2014)		
Year (X)	x= (X-2007)	Trend Value y= a+ bx
2010	3	1061.76
2011	4	1175.29
2012	5	1288.82
2013	6	1402.35
2014	7	1515.88

APPENDIX – X(2)

Trend Analysis of Net Profit

Trend value of Net Profit of HBL (2005-2009)					
Year (X)	Net Profit (Y)	x = (X-2007)	x^2	Xy	y=a+bx y= 529.25+106.75x
2005	308.28	-2	4	-616.56	315.75
2006	457.46	-1	1	-457.46	422.501
2007	491.82	0	0	0	529.252
2008	635.87	1	1	635.87	636.003
2009	752.83	2	4	1505.66	742.754
	2646.26		10	**1067.51**	315.75

Now,

$$a = \frac{\sum Y}{N} \qquad b = \frac{\sum xY}{\sum x^2}$$

$$a = \frac{2646.26}{5} \qquad b = \frac{1067.51}{10}$$

a = 529.25 b = 106.75

Trend value of Net Profit of HBL (2010-2014)		
Year (X)	x= (X-2007)	Trend Value y= a+ bx
2010	3	849.51
2011	4	956.26
2012	5	1063.01
2013	6	1169.76
2014	7	1276.51