

# CHAPTER - I

## INTRODUCTION

### 1.1. Background of the Study

Nepal is one of the countries in the world in terms of rich and unique in natural resources and attributes like it's bio-diversity, socio-cultural, cultural heritage, manifested in its architecture, temples, sculptures, monuments etc. Beside from this, it is also richly gifted with natural resources like world's toppest mountain Everest, green forests, many perennial rivers and source of minerals. Actually slow pace of developing of Nepal is due to illiteracy, lack, of finance, landlocked position, poor resources mobilization and its utilization, weak infrastructure development, institutional weaknesses, poor economic policy and unstable eco-political environment. For this to overcome, the process of capital accumulation among other perquisites should be enhanced. The economic development of nation is on initial stage. Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade and transit policy.

Development require economic growth occurs when people and their government respond to economic incentives .Sustainable development also takes hold when good governance is found with a dynamic private sector, A vibrant private sector gives free reign to human creativity, fostering innovation and improving the living standard of everyday people. Increased economic growth and individual prosperity through economic freedom must be the core goals of development. Open market and economic liberalization provide the fattest and most reliable path to increased growth and prosperity, with the worldwide move towards open and market oriented system, it has led to growth and expansion and of banking and financial systems too.

Banks play a significant role in the development of a country. Bank is a financial institution, which maintains the self-confidence of various segments of society and

extends credit to the people. The financial institution is an indispensable part for the upliftment of a country. The financial institution is a vast field comprising of banks, financial companies, insurance companies, co-operatives, stock exchange and foreign exchange markets, mutual fund, etc. These institutions collect idle and scattered money from the general public and finally invest in different enterprises that consequently help in reducing poverty, increase in life style of people, increase employment opportunities, and thereby developing society and the country as a whole. Thus, today the financial institutions have become the base for measuring the level of economic development of a country.

Banking institutions are inevitable for the resource mobilization and all-round development of the country. It is the resource for economic development; it maintains economic confidence of various segments and extends credit to people. The legal definitions of banking, and the permitted activities of banks, vary across countries. Nevertheless, the essential characteristics of banks are the same. They issue liquid, nominally valued liabilities, many of which are payable on demand at par, and they mainly acquire assets that are illiquid, relatively difficult to value, and of longer maturity than their liabilities.

Commercial banks are major financial institution, which occupy quite an important place in the framework of every economy because they provide capital for the development of industry, trade and business and other resources deficit sectors by investing the saving collected as deposit. Beside the, commercial banks render numerous services to their customers in view of facilitating their economic and social life. Commercial banks, by playing active roles, have changed the economic structure of the world. Thus commercial bank became the heart of financial system. The role of commercial banks in economy is obviously prime requisite in the formulation of bank's policy. A key factor in the development of the country is the mobilization of domestic resources and their investment for productive use to the various sectors. To make it more effective commercial banks formulate sound investment policies, which eventually contribute to the economy of a country. The sound investment policies help commercial banks to

maximize quality and quantity of investment and thereby, achieve the own objectives of profit maximization and social welfare. The banking sector has to play development role to boost the economy by adopting the growth oriented investment policy and building up the financial structure for future economic development. Formulation of sound investment policies and coordinated and planned effort forward the forces of economic development because it ensures efficient allocation of funds to achieve the material and economic well being of the society as a whole. In this regard, commercial banks investment policy is also a push drive to achieve priority of industries in the context of Nepal's economic development. Investment policy is one fact of the overall spectrum of policies that guide banks investment operation. A healthy development of any bank depends upon its investment policy.

A good investment can be effective on for the economy to attain the economic objective directed towards the acceleration of the pace of development. A good investment pattern attracts both borrowers and lenders, which helps to increase the volume and quality of deposit, loan and investment. The load provided by commercial bank is guided by several principles such as length of time, their purpose, profitability, safety etc. These fundamental principles of commercial banks investment are considered while making investment policy. Nepalese commercial banks lag far behind fulfilling the responsibilities to invest in the crucial sector of the economy for the enlistment of the national economy. Thus the problem has become very serious one in developing countries like Nepal, which can be solved through formulation of sound investment policy. Sound investment policy can minimize interest rate spread and non-performing assets, which cause the tank failure. Good investment policy ensures maximum amount of investment to all sectors with proper utilization. Formulation amount of investment policies and co-ordinate and planned efforts depends upon the growth of not only a particular bank but also of a society.

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Analyzing financial statements is a process of

evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance. Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to reach conclusion about the recent and current status of a corporation. The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning.

## **1.2. Profile of Sample Banks**

### **A Nepal Investment Bank Ltd. (NIBL)**

Nepal Investment Bank Ltd. (NIBL), (previously known as Nepal Indosuez Bank Ltd.) was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one largest banking group in the world. With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure. Rastriya Banijya Bank holds 15%, Rastriya Beema Sansthan holds 15%, General Public holds 20%, and the Nepalese promoters hold 50%.

NIBL managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. Besides commercial banking services, the bank also offers industrial and merchant banking services. The bank has six branches in Kathmandu Valley at the following locations: Putalisadak, New Road, Pulchowk (Lalitpur), Thamel, Kalimati, and Seepadol (Bhaktapur). In addition, the bank also has eleven other branches outside Kathmandu Valley in Banepa, Narayangarh, Birgunj, Janakpur, Jeetpur, Bhairawa, Biratnagar, Pokhara, Nepaljung, Butwal and Birtamod. Bank will be aggressively opening new branches at different parts of the Kingdom to serve its customers better. Recently bank has opened its new branch outside the valley in

the Birtamod. Investment Bank Limited has always been committed to providing a quality service to its valued customers, being truly a Nepali Bank. All customers are treated with utmost courtesy as valued clients. The bank, wherever possible, offers tailor made facilities to its clients, based on the unique needs and requirements of different clients. To further extend the reliable and efficient services to its valued customers, Investment Bank Limited has adopted the latest banking technology. This has not only helped the bank to constantly improve its service level but has also prepared the bank for future adaptation to new technology. The Bank already offers unique services such as the pre-paid mobile recharging system through its ATM, SMS Banking and Internet Banking to customers and will be introducing more services like these in the near future.

### **B. Himalayan Bank Limited (HBL)**

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. It is the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Besides commercial activities, the Bank also offers industrial and merchant banking.

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

Himalayan Bank's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients.

The Bank, as far as possible, offers tailor made facilities to its clients, based on the unique needs and requirements. To extend more efficient services to its customers, Himalayan Bank has been adopting innovative and latest banking technology. This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adaptation of new technology.

### **1.3. Statement of Problems**

The problem of the study will find out the reason behind the differences in their financial performance. The mushrooming of banking, finance companies, rural banks, and co-operative societies in a short span of time has brewed new competitive scenario and has passed a challenge to the previously dominant banks, which have been making attractive profits. In the changed scenario, these banks need to explore their strengths and weaknesses, and improve their performance because their success depends upon their ability to boost their productivity and financial performance.

Today 32 commercial banks are operating in Nepal. Thus, the major problems of bank and finance companies are their profitability, operating expenses and the investment policies, which have been found inconsistent and differing according to them. So, what are the reasons behind these variations? To identify these reasons an analysis of financial position should be clearly done. The study explores the efficiency and weakness of NIBL and HBL. Thus, this study attempts to answer the following research questions:

- ) What is the overall financial position of NIBL and HBL banks?
- ) What is the comparative position of two banks in term of liquidity, asset management, profitability, risk portion bank?
- ) Is there any difference in financial performance between NIBL and HBL?
- ) What are the financial strength and weakness of the banks?
- ) What are the relationship and trend of ratio of NIBL and HBL?

### **1.4. Objectives of the Study**

The basic objective of this study is the comparative analysis financial performance analysis of NIBL and HBL. The specific objectives of this study are as follows:

- ) To present the existing financial position of NIBL and HBL.
- ) To examine the relative financial performance of NIBL and HBL in terms of different kinds of ratios.
- ) To find out the relationship and trend of deposit, investment, loans and advances and net profit
- ) To provide suggestions and possible guideline according to finding of the study.

### **1.5. Significant of the study**

The significance of the study can be highlighted through the following points;

- ) The study enlightens the shareholders about the financial performance of their respective banks. This allows them to have a comparative retrospect whether their fund was better utilized or not.
- ) The study also compels the management of respective banks for self-assessment of what they have done in the past and guides them in their future plans and programs.
- ) The financial agencies, stock exchanges and stock traders are also interested in the performance of the banks as well as the customers, depositors, and debtors, who can objectively identify the better bank to deal in terms of profitability, safety, and liquidity.
- ) Policy makers at the macro level, i.e. the government and NRB will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

### **1.6. Limitation of the Study**

This study is about the financial performance analysis of NIBL and HBL. Every research has its own limitation, which are as follows: this research done for Partial Fulfillment of the Requirements for the Degree of Masters of Business Studies (M. B. S). The main limitations are as follows

- ) The study is mainly based on primary and secondary data collected from the banks. Research based on primary and secondary data may be far from accuracy due to inherent character.

- ) A whole study is based on the data of five years period i.e. from fiscal year 2007/08 to 2011/12 and hence the conclusion drawn confines only to the above period.
- ) Only two banks are taken for the study i.e. NIBL and HBL.
- ) This study concentrates on Deposit, Loan and Advances, Investment on Securities, Total Assets, Equity Capital, Net Profit and Market Price per Share related to investment.

### **1.7. Organization of the Study**

The present study is organized in such way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

#### **Chapter-I: Introduction**

This chapter describes the basic concept and background of the study, commercial bank in Nepal, introduction of sample bank. Similarly, various problems of the study, objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

#### **Chapter-II: Review of Literature**

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It includes review of books, review of related articles and studies and previous thesis as well.

#### **Chapter-III: Research Methodology**

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various source of data related with study and various tools and techniques employed for presenting the data.

**Chapter-IV: Presentation and Analysis of data**

This chapter analysis the data related with study and presents the finding of the study and also comments briefly on them.

**Chapter-V: Summary, Conclusion and Recommendation**

On the basis of the results from data analysis, the researcher concluded about the performance of the concerned organization for better improvement.

Bibliography and other appendixes used in statistical results have been attached at the end of the study.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

The review of literature basically highlights the existing literature and research work related to the present research being conducted with the view of finding out what had been already explained by the authors and researchers and how the current research adds further benefits to the field of research. This review of literature had been classified into three subgroups as follow.

Conceptual Review

Review of related studies

Reviews of journal and articles

Review of Thesis

#### **2.1 Conceptual Review**

##### **2.1.1 Bank**

Banking, transactions carried on by any individual or firm engaged in providing financial services to consumers, businesses, or government enterprises. In the broadest sense, banking consists of safeguarding and transfer of funds, lending or facilitating loans, guaranteeing creditworthiness, and exchange of money. These services are provided by such institutions as commercial banks, savings banks, trust companies, finance companies, and merchant banks or other institutions engaged in investment banking. A narrower and more common definition of banking is the acceptance, transfer, and, most important, creation of deposits. This includes such depository institutions as commercial banks, savings and loan associations (more common in the United States), building societies, and mutual savings banks. All countries subject banking to government regulation and supervision, normally implemented by central banking authorities. For further information on central banks and investment banking, see the relevant articles.

##### **2.1.2 Concept of Commercial Bank**

Commercial banks are the heart of the financial system. They hold the deposits of many persons, government establishment and business units. They make fund available through

their lending and investing activities to borrowers, individual business firms and services from the producers to customers and the financial activities of the government. They provide a large portion of the medium of exchange and they are media through monetary policy is affected. These facts show that the commercial banking system of the nations is important for the functioning of the economy.

Banks are business firm; like Frisbee Manufacturer, fast food chains and textbook publishers, bankers buy inputs, message them a bit, burn a little incense, say the magic words, and out pop some output from the oven. If there lick holds, they sell the finished product for more than it costs to buy the raw materials in the first place. For bankers, the raw materials are money.

Evaluation of financial performance is a study of overall financial position of any organization. It is closely related to the decision making. In the modern context, it gives vital support for the investment decisions, financing decisions and dividend decisions. Financial performance analysis is undergone with the help of periodically made financial statements of the firm.

### **2.1.3 Financial Statements**

“The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements. The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available there in” ( Panday; 2004: 31).

Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income

statements and balance sheet usually prepared at the end of each financial year show the firm's position.

### **A) Balance Sheet**

“Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time usually end of the financial year. It can be visualized as a snapshot of the financial status of a company” (Khan and Jain; 1993:13).

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time.

### **B) Income Statement**

Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the “Scoreboard” of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability.

### **2.1.4 Financial Performance Analysis**

Financial Analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data.

Financial Statement Analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm's financial position at a moment in time, the income statement depicts a summary of the firm's profitability over time. From these two statements certain derivative statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne; 1998:56).

Financial Analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance.

“Financial Statement Analysis allows managers, investors and creditors as well as potential investors and creditors to reach conclusion about the recent and current status of a corporation” The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function” (Kuchhal; 1982).

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial statement analysis generally begins with the calculation of a set of a financial

ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position has been improving or deteriorating over time. Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis.

It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available.

“Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results”( Jain;1996:36- 37).

The Analysis and interpretation of financial statement depicts the actual position of a firm regarding the objectives of that firm within a specified period of time. Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of a business enterprise. It is a technique of X-raying the financial position as well as progress of a concern. “Financial statement analysis involves a comparison of firm’s performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the

firm to take advantage of the strengths and correct its weaknesses” (Weston J. Fred; 1996:78).

“Financial Performance Analysis is used primarily to gain insight into operating and financial problems confronting 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 statements into their components on the basis of purpose in the one hand and establish relationships between these components and 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” (Hampton; 1998:99).

Much can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been buried in a maze of details.

### **2.1.5 Objectives of Financial Performance Analysis**

Financial Analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below.

- ) The present and future earning capacity or profitability of the concern
- ) The operational efficiency of the concern as a whole, and of its various parts or departments.
- ) The short-term and long-term solvency of the concern.
- ) The comparative study regarding to one firm with another firm.
- ) The possibility of developments in the future making future forecasts and preparing budgets.

- ) The financial stability of business concern
- ) The real meaning and significance of financial data
- ) The long term liquidity of its fund.

### **2.1.6 Need of Financial Performance Analysis/ Financial Statement Analysis**

The need for the Analysis of financial statement arises in order to address the following questions.

- ) How was the firm doing in the past? Was there any problem? If so, in what Area?
- ) How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
- ) What about the future? Is there any likely problem on the way in the future? What will its position be in the future?
- ) What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- ) What are the expected results of recommendations? Are there any improvements?

### **2.1.7 Significance of Financial Analysis**

Significance of Analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand. Such Analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources.

The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as

- ) Top Management
- ) Creditors

- ) Shareholders
- ) Economists
- ) Labor Unions

A. Top Management

The responsibility of the top management is to evaluate:

- i) Are the resources of the firm has been used effectively and efficiently?
- ii) Is the financial condition of the firm sound enough?

On the basis of past facts, firms can anticipate their future. Hence, top management can measure the success or failure of a company's operations, determine the relative efficiency of various departments, process and products appraise the individual's performance and evaluate the system of internal audit.

B) Creditors

The creditors can find out the financial strength and capacity of the borrower to meet their claims. Trade creditors are interested in the firm's ability to meet their claims over a short span of time. The suppliers of long term debt focus upon the firm's long term solvency and survival. A lending bank through and analysis of these statements can decide whether the borrower retains the capacity of refunding the principal and paying interest in time or not.

C) Shareholders

The shareholders, who have invested their money in the firm's shares are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

D) Economists

To diagnose the prevailing status of business and economy, economists analyze the financial statements (of any firm). The government agencies analyze them for the purpose of price regulation; rate setting and similar other purposes.

#### E) Labor Unions

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. For further motivation they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available.

#### **2.1.8 Process of Financial Performances Analysis**

Financial Analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position.

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. Financial performance analysis may differ according to nature of business.

#### **2.1.9 Types of Financial Performance Analysis**

The nature of financial Analysis differs according to the purpose of the analyst. A distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis.

##### **A) According to material used**

###### 1. External Analysis

It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and governmental agencies regulating a business in a nominal way.

## 2. Internal Analysis

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as governmental and court agencies which may have major regulatory and other jurisdiction over the business.

### **B) According to Modus Operandi Analysis**

#### 1. Horizontal Analysis

When Financial Statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period of times as a whole, this is also known as dynamic analysis.

#### 2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis. Besides, the types of financial analysis on the basis of material used and modus operandi, S.P Jain and K.L. Narang have categorized on the basis of objective of the study.

### **C) According to Objective**

#### 1. Long Term Analysis

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

#### 2. Short Term-Analysis

This is made to determine the short-term solvency, stability and liquidity as well as earning capacity of the business. This analysis is helpful for short term financial planning.

### **2.1.10 Techniques of Financial (Statement) Analysis**

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

- a. Ratio Analysis
- b. Du Pont System of Financial Statement Analysis
- c. Common Size Analysis
- d. Funds Flow Analysis
- e. Cash Flow Analysis

#### **a. Ratio Analysis:**

Ratio Analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two items/variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. "The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm." Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio completed from the available data are numerical, there should not be the tendency to regard them as a precise portrayals of a firm true financial status. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

## **Types of Ratios**

Different Ratios can be calculated from the available data in the financial statement.

Broadly Ratios are classified in four groups. They are:

- i) Liquidity ratios
- ii) Capital structure/leverage ratios
- iii) Activity (assets management) ratios
- iv) Profitability ratios

### **i) Liquidity Ratio**

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

### **ii) Capital Structure/Leverage Ratios**

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the installment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing.

The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

### **iii) Activity Ratio**

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general - purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

### **iv) Profitability Ratio**

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation.

## **b. Du Pont System of Financial Statement Analysis**

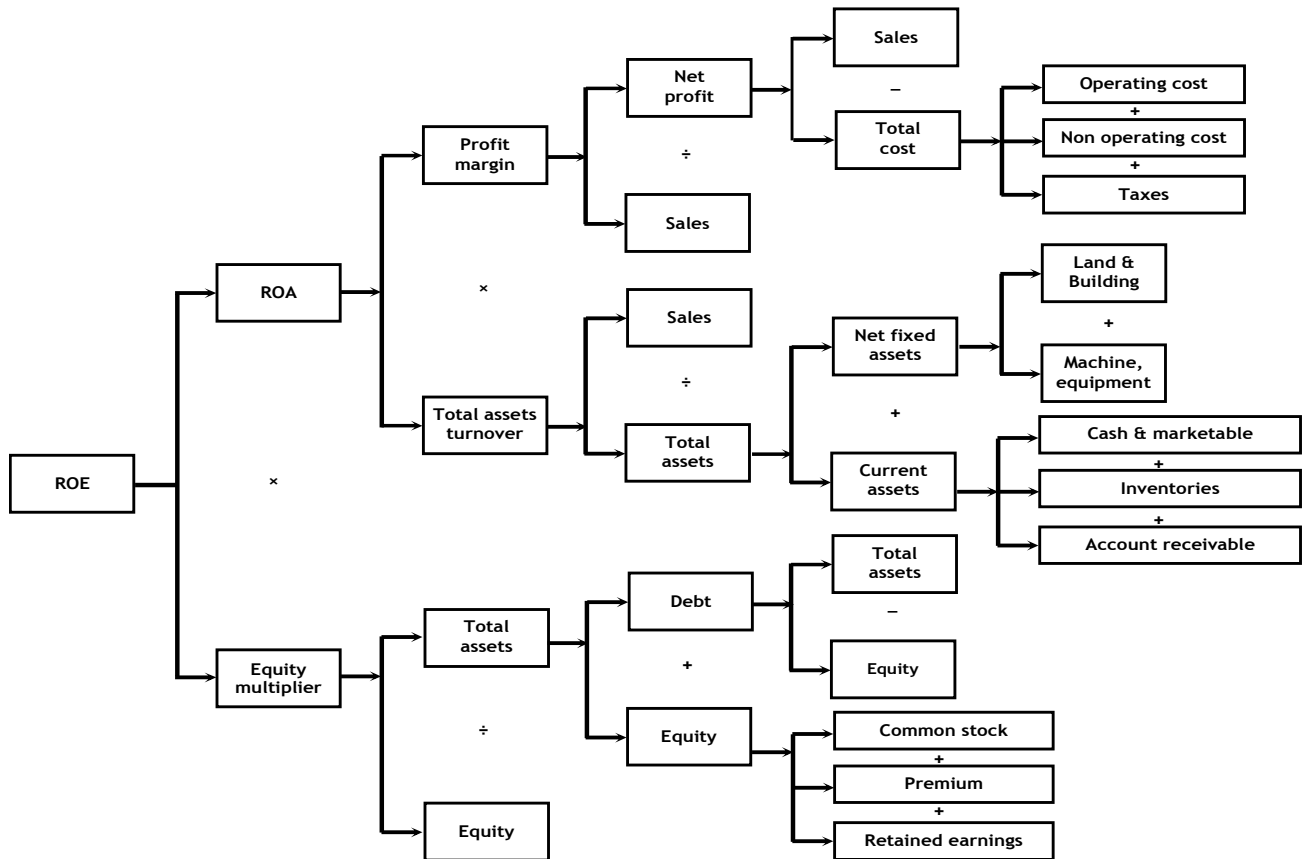
“The Du Pont system is designed to show how the profit margin on sales, the assets turnover ratio and the use of debt interact to determine the rate of return on equity” (Weston,1996:307).

The Du Pont system of financial statement analysis is developed by the financial experts of the Du Pont Company by putting together the effects of profitability, investment and the equity ratios. The approach is based on the relationship among the three basic areas of the firm such as (i) cost controlling area (ii) Assets management area and (iii) Financial

leverage area. The directed to address the concern of the shareholders; hence its main focus is on the return on equity (ROE)The ROE is analyzed in terms of the factors that directly affect the ROE. The factors such as costs, assets utilization and leverage ratio are the grounds on which several test are made to see how the ROE is affected by such factors. The following modified Du Pont Chart presents the relationship among these factors and ROE.

**Figure 2.1**

**Du Pont System of Financial Analysis**



Source: F. Weston and E. F. Brigham. The Dryden Press. 9<sup>th</sup> Edition, P99.

For a business firm, the return on assets (ROA) is the rate of return on the total investment that includes both equity and debt capital. The ROA does not reflect the actual rate of return to equity holders. What reflects the return for stock holders is the return on their money (i.e. ROE), which is generally higher than the ROA. Thus ROA is an overall measure and reflects the overall performance of the company. The Du Pont

system addresses the concerns of stockholder and focuses on ROE.

Du Pont equation defines ROE as a product of ROA and equity multiplier and ROA as a product of profit margin and total assets turnover.

The Du Pont equation is as follows:

$$\begin{aligned}\text{ROE} &= \text{ROA} \times \text{equity multiplier} \\ &= \text{profit margin} \times \text{total assets turnover} \times \text{equity multiplier} \\ &= \text{Net profit/sales} \times \text{sales/total assets} \times \text{total assets/ equity}\end{aligned}$$

### **c. Common Size Analysis**

The common size analysis is another technique of analyzing the items of financial statement on relative terms. Under this method, the percentage of every item in the income statements and balance sheets is carried out for past several years to determine the performance trend of each item during the period under analysis. After analyzing the rising, falling or constant trend of efficiency in the business operation one can make comparison with the industry average or competitors.

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors. Thus, the comparison shows the company's performance relative to competitors as well as compared to its own past record.

### **d. Funds Flow Analysis**

Funds flow Analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put.

The statement is prepared to summarize the changes in assets and liabilities resulting

from financial and investment transactions during the period as well as those changes occurred due to the changes in owner's equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the term 'fund' is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term 'fund' represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without resulting any changes in working capital is not taken as sources or use.

#### **e. Cash Flow Analysis**

This statement is carried out to know clearly the various items of inflow outflow of cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It deals the causes of changes in cash position for the period of two balance sheets date in brief. At the time of preparing cash flow statement, only cash receipt from debtors against credit deals are considered as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose are regarded as the uses of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

#### **2.1.11 Limitations of Financial Performance Analysis**

Financial Performance Analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps

management to evaluate its efficiency in past performance and takes decision relating to the future. (Jain, 1989:33) However, it is not free from drawbacks. Its limitations are listed below.

(a) Historical nature of financial statements:

The basic nature of statements is historical. Past can never be a precise and can never be perfectly helpful for the future forecast and planning.

(b) No subject for judgment:

Financial analysis is a tool to be used by experts, analysts etc. to evaluate the financial performance of firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

(c) Reliability of figures:

Reliability of Analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other facts.

(d) Single year analysis is not much valuable:

The analysis of these statements relating to single year only will have limited use and value. From this, one can not draw meaningful conclusion.

(e) Result may have different interpretation: Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the cause of inefficiency of the management due to under-utilization of fund.

(t) Change in accounting methods:

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

(g) Pitfall in inter-firm comparison:

When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

(h) Price level change reduces the validity of analysis:

The continuous and rapid changes in the value of money, in the present day, economically also reduces the validity. Acquisition of assets at different level of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting periods.

(i) Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of business.

## **2.2 Review of Journal and Articles**

Under this heading, reviews of research papers of researchers are analyzed to find out the financial performance of commercial banks.

Thapa, G.B. (1994), expresses his views in his research paper “*Financial System of Nepal*” that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advances of these banks are also increasing. But compared to high credit needs particularly by newly emerging industries, the bank still seems to lack adequate funds. The banks are increasing their lending to non-traditional sectors along with the traditional sectors. Out of all commercial banks (excluding two recently opened regional commercial banks), Nepal Bank Ltd. and Rastriya Banijya Bank are operating with a nominal profit, the later turning towards negative from time to time. Because of growing competition and limitation of investment sectors, the spread between interest income and interest expenses is declining. These banks have not been able to increase their income from commission and discount. On the contrary, they have got heavy burden of personal and administrative overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected. On the other hand, the foreign joint venture banks have been functioning in an efficient way. They are making profit year after year and have been distributing bonus to their employees and dividends to their shareholders. He concludes

that by its very nature of the public sector, these two domestic banks couldn't compete with the private sector banks, so only remedy to the problems of these banks, as the government decided, is to hand over the ownership as well as the management of these banks to the private hands.

Pradhan, R.S. (2003) in his research paper "*Role of Saving, Investment and Capital formation in Economic Development, A case of Nepal,*" has studied about the strong role and impact of saving, investment and capital formation on economic development of Nepal. This study is based on secondary data only. The necessary data on saving, investment, capital formation and gross domestic product has been collected for the period of 1974/75 to 2000/01. The role and impact of saving, investment and capital formation on economic development were analyzed by using various regression models. The regression equations used in this study have been estimated at current prices as well as in real terms with the entire study period divided into different sub periods.

The results presented in this paper suggest that in all cases, GDP is significantly associated with saving, investment and capital formation both at current prices and in real terms. The results of the empirical analysis led to three important conclusions: First, saving, investment and capital formation have positive impact on economic development. Second, the current values and past values of saving, investment and capital formation have positive impact on economic development but the current values have the largest impact. Third, there is a strong role played by saving and capital formation on economic development while weak role-played by investment.

Mundul, S. (2008) in article "*Understanding of credit derivative*" emphasizes Credit derivative enable financial institution and companies to transfer credit risk to a third party and thymus reduce their exposure to the risk of an obligor's default. Credit enhancement technique, which helps reduce the credit risk of an obligation, play a key role in encouraging loans and investment in debts. In legal term credit derivative are privately negotiated bilateral contract to transfer credit risk from one party to another. Some credit enhancement methodologies have existed for the in debts. Some credit

enhancement methodologies have existed for a longtime with the support of guarantee, letter of credit or insurance product. However such mechanism works best during economic upturns. As an alternative to commercial risk mechanism, various financial mechanisms have been developed over the past few decades. Such credit risks instruments are normally refer to as credit derivatives. Credit derivative helps to transfer credit risk away from the lender to some other party. Now credit derivative grew popular both as tools for hedging credit risk exposure as well as method of investing in certain types of credit risk.

Credit derivative not only helps corporation and financial institution to manage to their credit risk but also enabled a new set of individual retail client to invest in bonds and stocks previously unaffordable. Through credit derivative individual investor can invest indirectly in foreign bonds at a lower price. Credit derivative helps investor isolated credit, and transfer it to other investor who are better suited to managing it or who finds the investment opportunity more interesting. There are many credit instruments in the market they are

- Total return swap (TRS)
- Credit default swaps (CDS)
- Credit linked notes (CLN)
- Credit spread option (CSO)

According to the behavior of the asset or deal above credit instrument can be used and minimizing the risk. In this way credit derivative provide protection against credit peril and risk.

Mundal, S. (2011) in articles "*Lending Policy: Human and Organizational Aspects*" It's an ongoing debate if human and organizational aspects play a role in the formulation of lending policies of banks and financial institution. It takes the human and organizational factor such as skill, attitudes, human equations and leadership. Policies are ever evolving and cannot be successfully implemented unless the issues in these areas are adequately taken care of and the right environment is set up. When change brings about development of new technical skills, there is ground for clash between experiences these skills. It is more so when both the aspects are equally important. While experience, authority and

probably power arte bound to go with one generation. The newer skill involves pencil work, enthusiasm for and the time available to use them would go with the other generation.

A combination of both developing own people and hiring professionals form relevant sector would be good to enhance the internal efficiency and competitiveness. In this regard there are three gaps that are evident even today.

Skill gaps

Organizational change

Generation gaps

It is important to ensure adequate leverage to the operating executives at the industry level vis-à-vis the borrowing clientele including the prospective one. To many estimation the loan market should not become a buyer market pre dominantly, this is likely to cause distortion in the financial system, lending to unhealthy competition amongst lenders.

The country like Nepal needs sincere implementation of change particularly in financial sectors. To be more specific these are require in the process of credit evaluation, writing of credit policy and the bringing about new product. This will certainly assist the development and maturity of the financial market. This will also assists Nepal in the process of integration with global financial market and with the expanding market of the two large neighboring countries. We should take a pragmatic view of the fast developing would and adapt to the changes first for survival and then progress.

### **2.3 Review of Thesis**

Here various thesis and dissertation are review for better precise of knowledge of financial performance analysis.

Shrestha, S. (2005) in his thesis "*Financial performance analysis of Nepal Bangladesh bank ltd*" In this study, various financial research and statistical tools have been used to achieve the objective of the study. The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The specific objectives of his research are:

- ) To analyze the functions, objectives procedure and activities of the NB bank
- ) To analyze the lending practices and resources utilizations of NB bank.
- ) To determine the impact of growth in deposit on liquidity and lending practices.
- ) To examine the lending efficiency and its contribution to profit.
- ) To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

The researcher found that NB bank has sufficient liquidity. It shows that bank has not got investment sectors to utilize their liquid money. Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, miniaturization has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank. On the other hand, due to political crisis, economic sectors have been fully damaged.

The research findings of the study are summarized as:

- ) NB bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.
- ) The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB bank
- ) Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

Gupta, R. (2007) conducted a research study entitled “*Comparative Analysis of Financial Performance of Commercial Banks in Nepal*” The researcher had taken Everest Bank Limited, Bank of Kathmandu and Nepal Standard Chartered Bank Limited as sample. The major objective of the study was

- ) To evaluate Liquidity Ratio, Activity Ratio, Profitability Ratio and other market related ratios of these sample banks.
- ) To study the liquidity profitability capital structure activity and capital adequacy position of EBL, BOL and SCBNL.
- ) To suggest and recommended some measures by evaluating and finding financial performance of EBL, BOK and SCBNL Banks on the basis of finding

The researcher had used descriptive and analytical research design in writing the research study. The research had also used F-Test in testing the hypothesis. The researcher study concluded that among three sample bank BOK maintained the highest liquidity position during the research period in comparisons to other two banks. The study further added that SCBNL had the excellent assets utilization in order achieve the goal of maximizing the shareholder's wealth. In the same way SCBNL generated the highest net profit and paid the highest dividend per share to shareholders. The study further stated that there is no significance difference among the commercial banks in terms of net profit of total assets ratio, and dividend payout ratio. The review of above relevant thesis has not doubt enhanced the fundamental understanding and foundation knowledge base, which is prerequisite to make this study meaningful and purposive.

Subba, Muna (2009) conducted a research study entitled "*The Comparative Analysis on Financial Performance of NABIL and EBL Banks Limited*". The overriding objective of this dissertation is to study the financial performance of NABIL and EBL. To be more specific, this proposed study keeps the following objectives;

- ) To compare and analysis of various ratio between NABIL and EBL
- ) To examine the relative financial performance of NABIL and EBL in terms of different kinds of ratios.
- ) To assess the financial performance of these banks
- ) To provide a package of suggestions and possible guideline to improve the performance of EBL and NABIL.

The analysis of data will be done according to the pattern of data available. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis. From the detail analysis the research, the findings of the study are as follows. The current ratio of NABIL and EBL is considerable. This can be regarded as good liquidity position. The mean current ratio of NABIL is 1.89 and EBL is 1.14. The current ratio of NABIL is little higher than EBL. It is indicate better liquidity position of NABIL. Return on equity of NABIL is higher than EBL. Liquidity position of EBL is comparatively better than NABIL. Lower liquidity position of NABIL shows that the current assets have been utilized in some profit generating sectors, but EBL has over liquidly position.

Investment on government securities to total assets ratio of NABIL is higher than. This indicates that NABIL has invested more portions of total assets on government securities. The liquidity risk of the bank defines its liquidity need for deposit. The average mean ratio of EBL is greater than that of NABIL. EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the higher performance of banks. So Both Nabil and EBL has able to provide good returns

In the light of growing competition in the banking sector both bank NABIL and EBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the customers. For the purpose, the bank should develop an innovative approach to bank marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices.

Niroula, S. K. (2010) in her thesis “The Comparative Study on Portfolio Management and Performance of Nepal Industrial and Commercial bank and Everest bank ltd. Has precise about portfolio management and its implication. The main objectives of the study are as follow:

- ) To compare the liquidity management, asset management efficiency, profitability position, risk position, investment practices of aforesaid Banks.
- ) To find out the relationship between deposit and total investment, deposit and loans and advances and net profit.
- ) To analyze the risk return ratios of investment the banks.
- ) To evaluate the portfolio management of the banks.
- ) To provide suggestion through finding.

The main goal of the bank as a commercial organization is to maximize the surplus by the efficient use of its funds and resources. In spite of being a commercial institution, it too have a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment to the country by providing specially considered loans and advances towards less privileged sectors.

On the basis of study following finding has been drawn:

- ) The current ratio of NIC is higher than EBL. The current ratio of NIC is 1.89 and EBL is 1.14. Cash and bank balance to total deposit ratio of EBL has higher than NIC, which indicates that the bank has higher liquidity of EBL as compare to NIC.
- ) In case of Asset Management Ratio, the loan & advances to total deposit ratio of NIC is higher. Similarly the loan & advances to total assets ratio of NIC is greater than EBL.
- ) In Profitability Ratio, Return on loan & advances ratio of EBL is higher than that of NIC Return on total assets ratio of EBL is slightly higher than NIC. EBL seems successful in managing and utilizing the available assets in order to generate revenue. Similarly, Return on equity of EBL is higher than NIC.
- ) For the perspective of risk and other ratio, the credit risk ratio shows the proportion of no-performing loan in total Loan & Advances. EBL has efficient operating of credit management than that of NIC from the mean point of view. The average mean ratio of EBL is greater than that of NIC.
- ) The time series analysis, NIC and EBL have increasing trend in collecting deposit the rate of increment of total deposit for EBL seems to be higher than that of NIC.

The trend line of loan & advances for both banks is upward slopping. It refers that both the banks are increasing in disbursement of loan & advances.

Bhattra, R.C. (2011) research entitled “*Comparative financial analysis of NABIL bank and Standard chartered t bank ltd.* In his research main objective is to study the financial position of NABIL and SCBNL. The main objectives of the study are as follow:

- ) To present the existing financial position of NABIL and SCBNL.
- ) To examine the relative financial performance of NABIL and SCBNL in terms of different kinds of ratios.
- ) To find out the relationship and trend of deposit, investment, loans and advances and net profit
- ) To provide suggestions and possible guideline according to finding of the study.

Thus this research is conducted with the major objective of highlighting financial analysis of NABIL and SCBNL. The observation and conclusion is Derived by financial analysis in terms of liquidity, asset management, profitability and lending efficiency and other various ratio of NABIL and SCBNL as well as relevant financial and statistical ratios. The overall analysis of liquidity position, the current ration of NABIL is in decreasing and SCBNL is fluctuating. The average liquidity position of NABIL is greater than SCBNL. So, NABIL is sound in meeting short-term obligation than SCBNL. NABIL has the little higher portion of cash and bank balance over current assets. The investment on government treasury bills to current assets ratio of NABIL is fluctuating where as SCBNL is decreasing. The loan and advances to current of NABIL and SCBNL are fluctuating. In the aspect of asset turnover ratio, the loan and advances and deposit ratio of both banks have been fluctuating. In the aspect of profitability ratio of NABIL and SCBNL, The mean ratio of SCBNL is higher than NABIL which signifies that the shareholders of SCBNL are getting higher return but in case of NABIL. The SCBNL has better utilized the equity for the profit generation. The average mean interest earned to total asset ratio price of SCBNL is greater than that of NABIL. It indicates that shareholder of SCBNL are getting higher price and high demand of share in market. The higher PE ratio signify that price of SCBNL is higher than NABIL.

The relationship between deposits and loan and advances is significant. The trend of total deposit of NABIL and SCBNL is in increasing trend. The Trend of Total Investment between NABIL and SCBNL are also increasing in making investment. SCBNL has higher trend of increasing total investment than NABIL. The trend of Net profit of NABIL and SCBNL is increasing. The trend of increasing value of net profit of SCBNL higher at beginning but at last NABIL exceeds. But increment of NABIL is aggressive.

Kandel, S. (2012) has conducted thesis on “*A Comparative Financial Analysis of Nabil Bank Limited, Himalayan Bank Limited & Nepal Investment Bank Limited*”. Every study is conducted with some objectives. The basic objective of this study is the comparative analysis and evaluation of the financial performance of NABIL, HBL and NIBL.

The specific objective of the study will be pointed out as follows:

- ) To see the comparative financial position of these three banks NABIL, HBL and NIBL.
- ) To examine the relative financial performance of NABIL, HBL and NIBL in terms of different kinds of ratios.
- ) To see the trend and relation of deposit, lending, investment and profit of selected banks.
- ) To provide suggestions and possible guideline according to finding of the study.

The major finding and conclusion of the study are as follow, the current ratios of NABIL, HBL and NSBI have been decreasing. The average mean current ratio of NABIL, HBL and NIBL are 1.336 times, 1.06 times and 1.28 times All banks have in better liquidity position because the standard ratio is more than 1:1. The average current ratio of NABIL is greater than HBL and NIBL. The NIBL has high portion cash and bank balance form its current asset. The investment on Govt. Treasury bill to current asset ratio of NABIL, HBL and NIBL have fluctuating The average loan and advance to total deposit ratio of NIBL is higher than NABIL and HBL. It indicates that HBL use more total deposit as loan and advance. The total investment to total deposit ratio NABIL, HBL and NIBL have fluctuating. The highest average ratio of NABIL indicates higher investment from

total deposit and lower ratio of NIBL indicates least. The average loan and advances to total assets ratio of NIBL is higher than NABIL and HBL. The average investment on Govt. securities to total investment ratio of HBL has higher than NABIL and NIBL. The average investment on government treasury bills to total assets ratio of HBL is higher than NABIL and NIBL. The average return on loan and advance ratio of NABIL has higher than HBL and NIBL which indicates that NABIL getting higher earning by utilizing and providing loan. Similarly, the average return on total assets of ratio of NABIL is higher than HBL and NIBL. The interest earned to total asset ratio of NABIL, HBL and NIBL have increasing. The interest earned to total outside asset ratio of NABIL, HBL and NIBL banks have also increasing. The average ratio of NIBL is higher than NABIL and HBL. The interest earned to total operating income ratio of NABIL, HBL and NIBL have increasing.

The correlation between deposits and loan and advances of NABIL, HBL and NIBL are positive and relations of all banks are significant. The correlation between total deposits and investments of NABIL and NIBL are positive but HBL has negative. It means these two variable moves opposite direction. The correlation of NABIL and NIBL is significant but HBL has insignificant. The correlation between loan & advance and net profit of NABIL, HBL and NIBL are positive. The correlation of NABIL and NIBL is significant but HBL has insignificant. The correlation between total deposit and net profit of NABIL, HBL and NIBL are positive. The relationship of NABIL and NIBL significant but HBL has insignificant. The trend of total deposit, lending of NABIL, HBL and NIBL banks forecasted increasing trend. The rate of increment of loan and advance for NIBL is higher, NABIL has moderate and HBL has lower. The trend of total investment of NABIL and NIBL is increasing trend. Whereas trend of HBL has decreasing. The trend of Net profit of NABIL, HBL and NIBL Banks forecasted increasing trend. The rate of increment of Net profit for NIBL is higher than NABIL and HBL.

## **2.4 Research Gap**

There is various researchers conduct on investment policy, lending practice, credit policy, financial performance and credit management of various commercial banks. The past

researches in measuring financial performance of bank have been focused on the limited ratios, which are incapable of solving the problems. In this research various ratio are systematically analyzed and generalized. The past researchers are not properly analyzed about banking performance and its impact on the profitability. The ratios are not categorized according to nature. Here in this research all ratios are categorized according to their area and nature.

In this research comparative study of financial performance analysis of NIBL and HBL is measuring by various ratios, trend analysis and various statistical tools as well and financial tools are used for analyzing survey data. Since the researcher have used data only five fiscal year but all the data are current and fact. Clearly these are the issue in Nepalese commercial bank the previous scholar could not the present facts. This study tries show financial performance by applying and analyzing various financial tools like liquidity ratio, activity ratio, profitability ratio and, credit risk ratio and other ratio as well as different statistical tools like average mean, standard deviation coefficient of correlation and trend analysis. This study try to cover all the requirement of complete research. Probably this will be the appropriate research in the area of financial performance of Bank and financial institutions so far.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research in common parlance refers to a search for knowledge. The Webster international Dictionary gives a very inclusive definition of research as "a careful critical inquiry or examination in seeking facts and principles diligent investigation in order to ascertain something.

Research is a systematic inquiry for seeking facts and methodology means the analysis of specific topic by using proper method. In other words research methodology is the way to solve systematically the research problem (Kothari, 1999: 61).

The topic of the study has been selected as “comparative financial performance analysis of Nepal Investment Bank Ltd and Himalayan Bank Ltd.” In order to reach and accomplish the objectives of the study, different activities will be carried out. For this purpose, the chapter aims to present and reflect the methods and techniques that are carried out and followed during the study period. The research methodology that is adopted for the present study is mentioned in this chapter, which deals with research design, sources of data, data collection, processing and tabulating procedure and methodology.

#### **3.2 Research Design**

Research is a theory building activity. Research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variances.

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combined relevance to the research purpose with economic in procedure (Kothari, 1999:59).

Since the main objectives of this study is to analysis financial performance of the banks, all the indicators that shows the financial performance of the banks were calculated using

data obtained from the five year end internally generated accounting records maintained by sampled Banks. The study depends on the primary and secondary data. Various financial parameters and effective research techniques are employed to evaluate the financial performance of the banks. Furthermore, various descriptive as well as analytical techniques are used. The study is designed as to give a clear picture of the Bank's financial circumstances with the help of available data with useful suggestions and recommendation.

### **3.3 Population and Sample**

At present thirty one Commercial banks are operating in Nepal. All the commercial banks that are operating in Nepal are considered as the population. It is not possible the study all the data related with all 32 commercial banks because of the limited time period and showed also taken in to consideration of the partial fulfillment of the Master's Degree. Currently aggregate 32 commercial banks are running in Nepal. They all 32 Commercial bank are taken as population. Thus two commercial banks i.e. NIBL and HBL have been selected as sample for the present study.

### **3.4 Nature and Sources of data**

The research is based on primary and secondary source of data. All the adequate data are collected from primary as well as secondary sources. In primary source of data the questionnaire are asked to respondent individually. The secondary source of data that are already used and gathered by others. Secondary data are mostly used for this research purpose. Therefore, the major sources of secondary data are Annual Report of concern Bank, Internet and E-mails, NRB directives, Newspaper, journals, articles and various magazines and thesis of Central Library of T. U. and Library of Shanker Dev Campus.

### **3.5 Data Collecting Procedures**

The annual reports of the concerned banks were obtained from their head office and their websites. The main sources of data are annual report of concern financial institute. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc .has been collected from the personal visit of concerned department of NRB

at Baluwatar. Besides, a details review materials are collected from the library of Nepal commerce campus and central library of T.U.

### **3.6 Tools and Techniques used**

In this study, various financial and statistical tools have been used to achieve the objective of the study. According to the pattern of data available, the analysis of data will be done. The various tools applied in this study have been briefly presented as under:

- Financial tools
- Statistical tools

#### **3.6.1 Financial Tools**

Financial performance is analyzed through the use of two important tools. The financial tool is one of the most important tool, which includes ratio analysis and the other one financial statement analysis have been used in this study. Financial tools are used to examine the financial strength and weakness of bank. Although there are many financial ratios, only selected ratios are used in this study.

#### **3.6.2 Analysis of Financial Rations**

The techniques of ratio analysis in of considerable significance in studying the financial stability, liquidity, profitability and the quality of management of the business and industrial concerns, the important ratios that are studied for this purpose are given below.

#### **3.6.3 Ratio Analysis**

Ratio analysis is a technique of analysis and interpretation of financial statement. To evaluate the performances of an organization by creating the ratios from the figure of different accounts consisting in balance sheet and income statement is known as ratio analysis. Five types of ratios have been analyzed in this study, which are related to fund mobilization of the banks. They are presented below.

## **A. Liquidity Ratio**

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community. Liquidity provides honor strength health and prosperity to an organization. It is extremely essential for an organization to meet its obligations as they become due. A firm should ensure that it has not lack of liquidity and also that it is not too much highly liquid.

**i) Current Ratio:** This ratio shows the bank's short-term solvency. It shows the ratio of current assets over the current liabilities. This ratio can be computed by dividing the total current assets by total current liabilities which can be presented as:

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

Higher ratio indicates the strong short-term solvency position and vice-versa.

**ii) Cash and Bank Balance to Total Deposits Ratio:** - Cash and bank balance is said to be first line defense of every bank. The ratio between the cash and bank balance and total deposit measures the ability of a bank to meet the unanticipated call on all types of deposit. Higher the ratio greater will be the ability to meet the sudden demand of deposit. But every ratio is not desirable since bank has to pay interest on deposit. This also maximizes the cost of fund to the bank.

$$\text{Cash and bank balance to total deposit ratio} = \frac{\text{Cash \& bank balance}}{\text{Total deposits}}$$

Where,

Cash and bank balance is composed up of cash on hand including foreign cheques and other cash item; balance with domestic banks and aboard. Deposits include current, saving, fixed money at short call notice and other types of deposits.

**iii) Cash and Bank Balance to Current Assets Ratio:** - This ratio shows the bank's liquidity capacity on the basis of cash and bank balance that is the most liquid assets. High the ratio indicates the bank's ability to meet the daily cash requirements of their

customer deposits and vice versa. But the high ratio is not preferred as the bank has to pay more interest on deposit and will increase the cost of fund. Low ratio is also very dangerous, as the bank may not be able to make the payment against the cheques presented by the customers. We have,

$$\text{Cash and bank balance to current assets ratio} = \frac{\text{Cash \& bank balance}}{\text{Current assets}}$$

**iv) Investment on Government Securities to Current Assets Ratio:** - This ratio is used to find out the percentage of current assets invested on government securities, treasury bills and development bonds. We can find out as:

Investment on Govt. securities to total current assets ratio =

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

Where,

Investment on Government Securities involves treasury bills and development bonds etc.

### **B. Assets Management Ratio:**

A set of ratio which measure how efficiently a firm is managing its assets and whether or not the level of those assets is properly related to the level of operation. In this study this ratio is used to indicate how effectively the selected banks have arranged and invest their limited resources. The assets management ratios measure how effectively the firm is managing its assets. These ratios are designed to answer this question; does the total amount of each type of assets as reported on the balance sheet seem reasonable or not. If a firm has excessive investments in assets, then its capital cost will be unduly high and its stock price will be suffer.

**i) Loan and Advances to Total Deposits Ratio:** - This ratio is calculated to find out how successfully the selected banks are utilizing their collections or deposits on loan and advances for the purpose of earning profit. We have,

$$\text{Loan and Advances to Total Deposits Ratio} \times \frac{\text{Loan and Advances}}{\text{Total Deposits}}$$

**ii) Total Investment to Total Deposits Ratio:** - Investment is one of the major sources of earning profit. It shows how properly firm's deposit has been invested on government securities and shares and debentures of other companies.

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

**iii) Loan and Advances to Total Working Fund Ratio:** - This ratio shows the ability of selected banks in terms of earning high profit from loan and advances. Loan and advances to working fund ratio can be calculated by dividing loan and advances amount by total working fund.

$$\text{Loan and Advances to Total Working Fund Ratio} = \frac{\text{Loan and Advance}}{\text{Total Working Fund}}$$

**iv) Investment on Government Securities to Total Working Fund Ratio:** - Investment on government securities to working fund ratio shows how much part of total investment is there on government securities in percentage, it is calculated for this purpose by following formula:

$$\text{Investment on Govt. Securities to TWF Ratio} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

**v) Investment on Shares and Debentures to Total working Fund Ratio:**

Investment on shares and debentures to total working fund ratio shows the investment of banks on the shares and debentures of other companies in terms of total working fund. This ratio can be obtained dividing on shares and debentures by total working fund. It is calculated as:

$$\text{Investment on Shares and debn. to TWF Ratio} = \frac{\text{Investment on Share and Debenture}}{\text{Total Working Fund}}$$

### **C. Profitability Ratio:**

This ratio is related to profit of the banks is essential for the survival of the bank, so it is regarded as the engine that drives the banks and indicates economics progress. It calculated to measure the overall efficiency of the banks.

**i) Return on Loan and Advances Ratio:** - Return on loan and advances ratio shows how efficiently the banks have utilized their resources to earn good return from provided loan and advances. This ratio is computed as,

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit / Loss}}{\text{Loan and Advances}}$$

**ii) Return on Total Working Fund Ratio:** - Return on total working fund ratio measures the profit earning capacity by utilizing available resources i.e. total assets. Return will be higher if the bank's working fund is well managed and efficiently utilized. Maximizing taxes, this in the legal options available will also improve the return. We have,

$$\text{Return on Total Working Fund Ratio} = \frac{\text{Net Profit}}{\text{Total Working Fund}}$$

**iii) Total Interest Earned to Total Working Fund Ratio:** - This ratio reflects the extent to which the banks are successful in mobilizing these total assets to acquire income as interest. This ratio actually reveals the earning capacity of commercial banks by mobilizing its working fund. Higher the ratio higher will be the income as interest. We have,

$$\text{Total Interest Earned to TWF Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

**iv) Total Interest paid to Total working Fund Ratio:** - This ratio measures the percentage of total interest expenses on total working fund and vice-versa. This ratio is calculated as,

$$\text{Total Interest paid to Total Working Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

#### **D. Risk Ratios:**

Commonly, risk means chance or possibility of loss, uncertainty which lies in the business transaction of investment management. When a firm wants to bear risk and

uncertainty, profitability and effectiveness of the firm is increased. This ratio checks the degree of risk involved in the various financial operations. For this study following risk ratios are used to analyze and interprets the financial data and investment policy.

**i) Liquidity Risk Ratio:** - The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the liquid assets and they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity of need. This ratio is low if funds are kept idle as cash balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk.

Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

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

**ii) Credit Risk Ratio:** - Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally credit risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment } \Gamma \text{ Loan and Advances}}{\text{Total Assets}}$$

**iii) Asset Risk Ratio:** - Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally Asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

$$\text{Credit Risk Ratio} = \frac{\text{Total Investment } \Gamma \text{ Loan and Advances}}{\text{Total Assets}}$$

## **E. Other Ratios**

**a) Earning per Share (EPS):** EPS refers to net profit divided by total numbers of share outstanding. EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. The amount of EPS measures the efficiency of a firm in relative terms. This ratio is calculated as;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net profit (loss)}}{\text{Total number of shares outstanding}}$$

### **b) Market Price per Share**

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

### **c) Price Earning Ratio**

This ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

Here, total equity capital includes shareholders' reserve including profit and loss account, general loan loss provision and share capital i.e. ordinary share preference share capital.

$$\text{Price Earning ratio} = \frac{\text{Market price per Share}}{\text{Earning per Share}}$$

## **3.6.7 Primary Data Analysis**

The primary data analysis has been done by distributing questionnaire containing 17 questions to alltogether 80 respondent related in various field consisting Business person, investor, staff, working in Govt., public and private company and laymen.

### 3.7 Statistical Tools

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

#### 3.7.1 Average Mean

An average is a single value related from a group of values to represent them in some way, a value, which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages.

Mathematically:

Arithmetic Mean (AM) is given by,

$$\bar{X} = \frac{\sum X}{n}$$

Where,  $\bar{X}$  = Arithmetic mean

$\sum X$  = Sum of all the values of the variable X

n = Number of observations

#### 3.7.2 Standard deviation:

The standard deviation measures the absolute dispersion. It is said that higher value of standard deviation the higher the variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1823 A. D. and this is denoted by the small Greek letter (pronounced sigma) the formula to calculate the standard deviation is given below:

$$\sigma = \sqrt{\frac{\sum x^2}{N}}$$

Where,  $\sum x = \sum (X - \bar{X})^2$

#### 3.7.3 Coefficient of variation

The coefficient of variation reflects the relation between standard deviation and mean. The relative measure of dispersion based on the standard deviations known as coefficient

of variation. The coefficient of dispersion based on standard deviation multiplied by 100 is known as the CV. It is used for comparing variability of two distributions; the CV is defined as,

$$CV = \frac{\sigma}{X} \times 100$$

Greater the CV, the more variable or conversely less consistent, less uniform, less stable and homogenous than the consistent more uniform, more stable and homogenous. This nature of CV uses that actual size of working capital.

#### **3.7.4 Coefficient of correlation (r)**

Correlation analysis is the statistical tools that we can use to describe the degree to which one variable is linearly related to another. Coefficient of correlation is the measurement of the degree of relationship between two casually related sets of figures whether positive or negative. Its values lie somewhere ranging between - 1 to +1. If the both variables are constantly changing in the similar direction, the value of coefficient will be +1, two variables take place in opposite deflection. The correlation is said to be perfect negative. In this study, simple correlation is used to examine the relationship of different factors with working capital and other variable.

$$\text{Coefficient of correlation (r)} = \frac{\text{CoVariance of X \& Y}}{\sigma_x \sigma_y}$$

Deposit have played a very important role in performance of commercial banks and similarly loan & advances are important to mobilize the collected deposits. Coefficient of Correlation between deposit and loan & advances measures the degree of relationship between the two variables. In this analysis, deposit is independent variable (X) and loan & advances is dependent variable (Y). The main objectives of computing 'r' between these two variables are to justify whether deposits are significantly used on loan & advances in a proper way or not.

### 3.7.5 Trend Analysis

The least square method to trend analysis has been used in measuring the trend analysis. This method is widely used in practice. The straight line trend of a series of data is represented by the following formula.

$$Y = a + bx$$

Here,

Y is the dependent variable, a is y intercept or value of y when  $x=0$ , b is the slope of the trend line or amount of change that comes in y for a unit change in x.

Where,

Y = Dependent variable

x = Independent variable

a = Y – intercept

b = Slope of the trend line

## **CHAPTER - IV**

### **PRESENTATION AND ANALYSIS OF DATA**

In this chapter data collected are analyzed and interpreted as per the stated methodology in the previous chapter. The main source of data is secondary and primary data. Presentation and analysis of data is the main body of the study. Here researcher has analyzed and diagnosed financial performance of Nepal Investment Bank and Himalayan Bank Limited are shown in different tables and diagrams to make the analysis simple and understandable. All the financial positions of both the banks are analyzed by calculating following ratio.

#### **4.1 Financial Analysis**

Financials ratios related to the financial performance are presented to evaluate and analyze the performance of NIBL and HBL. Some important financial ratios are calculated in the point of view of financial performance. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical procedure that shows the relationship where one item is divided by another.

##### **4.1.1 Ratio Analysis**

Ratio analysis shows the mathematical relationship between two accounting figures. It helps to analyze the financial strengths and weaknesses of the banks. It is also inevitable for the quantitative judgment with which the financial performance of banks can be presented properly.

###### **4.1.1.1 Liquidity Ratio**

Commercial bank must maintain its satisfactory liquidity position to meet demands for deposit Liquidity ratio is mainly used to analyze the short-term strength of banks.

###### **A. Analysis of Current Ratio**

This ratio measures the liquidity position of the commercial banks. It indicates the ability of Banks to meet the current liquidity.

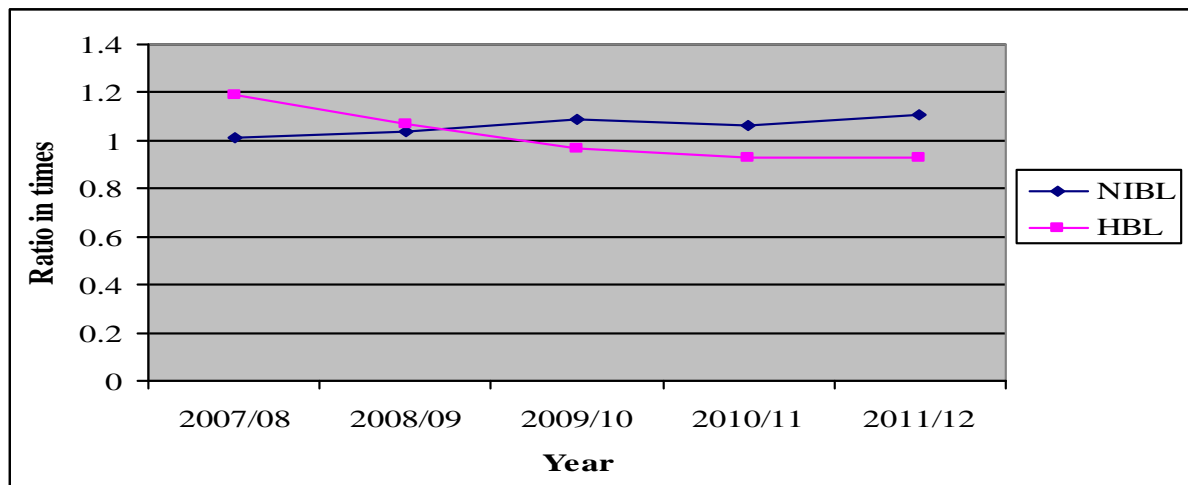
**Table 4.1**  
**Current assets to current liability (in times)**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Current Assets	Current Liabilities	Ratio in Times	Current Assets	Current Liabilities	Ratio in Times
2007/08	31869.6	31430.7	1.01	29449.34	24696.45	1.19
2008/09	44095.57	42449.15	1.04	29813	27968	1.07
2009/10	46211.87	42053.17	1.09	29858	30797	0.97
2010/11	46260.2	43870.43	1.06	31590.73	33855.55	0.93
2011/12	53835.13	48658.87	1.11	36965.6	39726.16	0.931
Mean			1.062			1.0182
S.d.			0.0396			0.1117
C.V.			0.0373			0.1097

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.1**  
**Current Ratio**



Above table and figure shows the current ratio of NIBL and HBL banks during the study period. The current ratio of NIBL and HBL has a fluctuating trend. The highest current ratio of NIBL is 1.11 in F/Y 2011/12 and lower ratio is 1.01 times in F/Y 2007/08. Similarly highest current ratio of HBL is 1.19 in F/Y 2007/08 and lowest ratio is 0.93 in

2010/11. The average current ratio of NIBL and HBL are 1.062 and 1.0182. The average ratio indicates liquidity position of NIBL is higher than HBL. So, NIBL is sound in meeting short-term obligation than HBL. The S. D. and C.V. of NIBL is also less than HBL, so it can be said that current ratio of HBL is inconsistent than that of NIBL. Lastly, from the above analysis it is known that these two banks moderate liquidity position because the ratio is more than 1:1. They have just managed to meet the standard ratio. 1:1.5 is called good current ratio. Generally, banks require more liquid assets as compared to current liabilities in order to provide better banking service but these two banks have lower liquidity ratio than standard ratio.

### **B) Cash and Bank Balance to Total Deposit Ratio**

Cash and Bank Balance to Total Deposit Ratio indicates the bank ability to meet their daily requirement of depositors. Higher ratio shows the greater ability of the firms to meet customer demands on their deposits. Following table shows cash and bank balance to total deposit of NIBL and HBL during the study period.

**Table 4.2**  
**Cash and Bank Balance to Total Deposit Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Cash and Bank Balance	Total Deposit	Ratio in Percent	Cash and Bank Balance	Total Deposit	Ratio in Percent
2007/08	3754.94	34452	10.9	1448.14	31842.79	4.55
2008/09	7918	46698	16.95	3048.53	34681.35	8.79
2009/10	6815.89	50094.73	13.61	3866.49	37611.2	10.28
2010/11	8140.37	50138.12	16.24	2946.65	40920.63	7.20
2011/12	11803.75	57010.6	20.7	6362.3	47730.99	13.33
Mean			15.68			8.83
S.d.			3.6831			3.2912
C.V.			0.2349			0.3727

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.2**

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

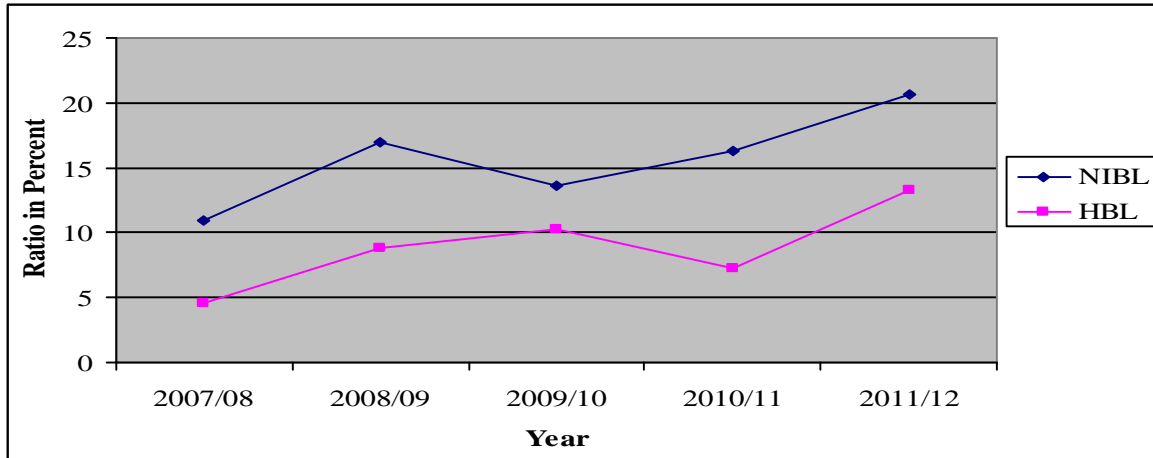


Table and figure 4.2 reveals that the Cash and bank balance to total deposit ratio of NIBL and HBL are in fluctuating trend. The highest ratio of NIBL is 20.70 percent in FY 2011/12 and lowest is 10.9 percent in F/Y 2007/08. Similarly, the highest ratio of HBL is 13.33 percent in FY 2011/12 and lowest ratio is 4.55 percent in 2007/08. The average mean ratio of NIBL and HBL are 15.68 percent and 8.83 percent respectively. The average ratio of NIBL has higher ratio than the HBL, which shows its greater ability to pay depositors money as they want. Similarly, the coefficient of variation of NIBL has 0.2349 times and HBL has 0.3727 times. So C.V. of NIBL is lower than the HBL which indicate more consistency in its ratio. The above analysis concludes that the cash and bank balance position of NIBL with respect to HBL is better in order to serve its customer's deposits. It implies better liquidity position of NIBL from the viewpoint of depositor demand. In contrast a high ratio of cash and bank balance may be undesirable which indicates the bank's inability to invest its funds in income generating areas.

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

Cash and Bank Balance are the most liquid or quick assets. Cash and bank balance to current assets ratio represents the liquidity capacity of the banks as per cash and bank balance. Higher the ratios, better the ability of the banks to meet the daily cash requirement of their customers. Following table shows the cash and bank balance to current assets of NIBL and HBL.

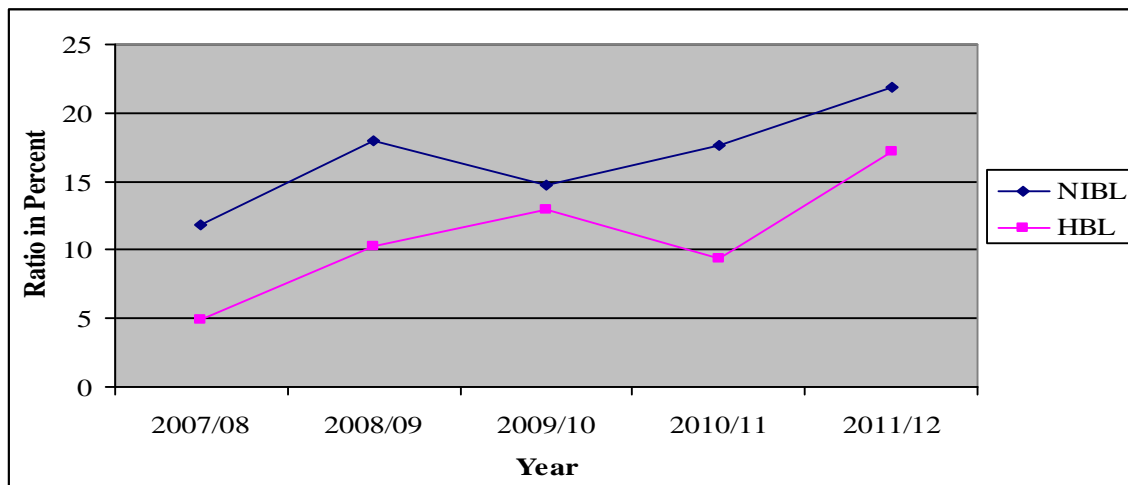
**Table 4.3**  
**Cash and Bank Balance to Current Asset Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Cash and Bank Balance	Current Asset	Ratio	Cash and Bank Balance	Current Asset	Ratio
2007/08	3754.94	31869.6	11.78	1448.14	29449.34	4.92
2008/09	7918	44095.57	17.95	3048.53	29813	10.23
2009/10	6816	46211.87	14.75	3866.49	29858	12.95
2010/11	8140.37	46260.2	17.59	2946.65	31590.73	9.33
2011/12	11803.75	53835.13	21.92	6362.3	36965.6	17.21
Mean			16.798			10.928
S.d.			3.7935			4.5467
C.V.			0.2258			0.4160

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.3**  
**Cash and Bank Balance to Current Asset Ratio**



The table and figure 4.3 reveal that cash and bank balance to current assets ratio of NIBL is in fluctuating trend over the study period. The highest ratio of NIBL is 21.92 percent in F/Y 2011/12 and lowest ratio is 11.78 in F/Y 2007/08. Similarly the highest ratio of HBL is 17.21 percent in F/Y 2011/12 and lowest ratio is 4.92% in F/Y 2007/08. The mean

ratio of NIBL and HBL are 16.798 percent and 10.928 percent respectively. The higher mean ratio shows that NIBL's liquidity position is better than that of HBL. Moreover, the C.V. of NIBL is lower than HBL. The lower C.V. of NIBL indicates that it has more consistency in the ratios compared to HBL. Regarding the above analysis, it can be concluded that NIBL has a better ability to meet daily cash requirements of their customers.

#### **D) Investment on Government Securities to Current Assets Ratio**

This ratio examines that portion of a commercial bank's current assets, which is invested on different government securities. More or less, each commercial bank is interested to invest their collected funds on different securities issued by government. Although those securities can be sold easily in the financial market and they can be converted into cash, they are liquid assets like cash and bank balance. It shows the portion of current assets to banks that are invested on various securities. These securities are also called risk less investment but return generated is lesser than others risky assets.

**Table 4.4**

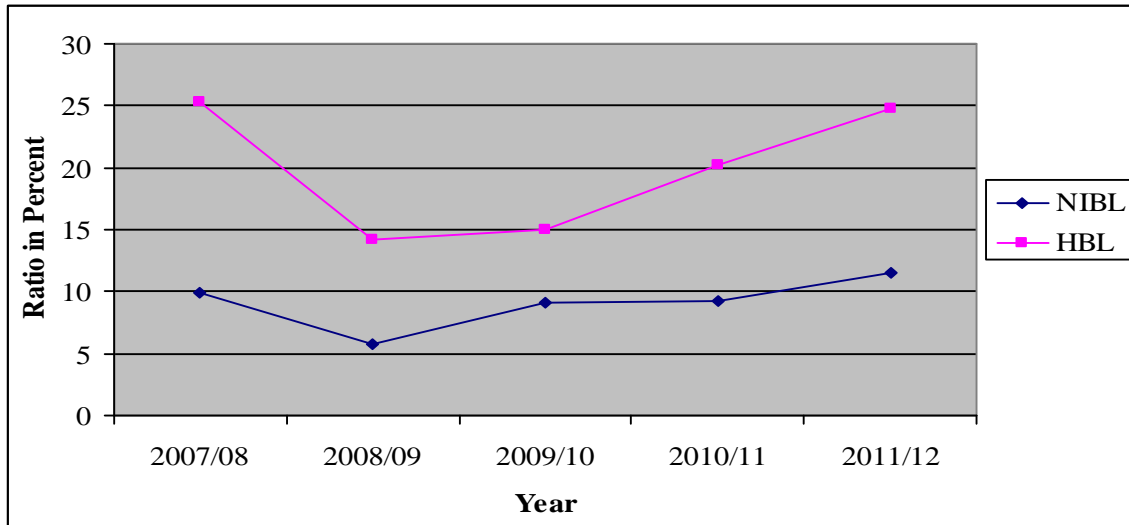
#### **Investment on Government Securities to Current Assets Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Investment on Government Securities	Current Assets	Ratio	Investment on Government Securities	Current Assets	Ratio
2007/08	3155	31869.6	9.89	7471.66	29449.34	25.37
2008/09	2531.3	44095.57	5.74	4212.3	29813	14.13
2009/10	4201.85	46211.87	9.09	4465.37	29858	14.96
2010/11	4294.6	46260.2	9.28	6407.36	31590.73	20.28
2011/12	6169.49	53835.13	11.46	9162.22	36965.6	24.78
Mean			9.092			19.904
S.d.			2.0926			5.2815
C.V.			0.2302			0.2653

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.4**  
**Investment on Government Securities to Current Assets Ratio**



Above table and figure show investment on government securities to current assets ratio of NIBL and HBL. Both Banks have fluctuating ratios. The table show the highest ratio of NIBL is 9.89 percent in FY 2007/08 and lowest is 5.74 percent in FY 2008/09. In the same way, the highest ratio of HBL is 25.37 percent in FY 2007/08 and lowest is 14.13 percent in FY 2008/09. The mean ratio of NIBL is 9.092 percent which is lower than the mean ratio of HBL of 19.904 percent. It means HBL has invested more money in risk free assets than NIBL has. In another words HBL has emphasized more on loan and advances and other short term investment than investment in govt. securities. For minimization of investment risk, NIBL should divert its investment in govt. securities. Similarly, C.V. of NIBL is 0.2302 and HBL has 0.2653 times respectively. The higher C.V. of HBL shows the more inconsistency in the ratios with compare to NIBL.

#### **4.1.1.2 Assets Management Ratio**

A commercial bank must be able to manage it's assets very well to earn higher profit, so to satisfy it's customers and also for its own existence. Assets management ratio measures how efficiently the bank manages the resources at its command. Through following ratios, assets management ability of banks has been measured.

### A) Loan and Advance to Total Deposit Ratio

This ratio actually measures the extent to which the banks are successful to mobilize the total deposit on loan and advances for the purpose of profit generation. A higher ratio of loan and advances indicates better mobilization of collection deposit and vice-versa.

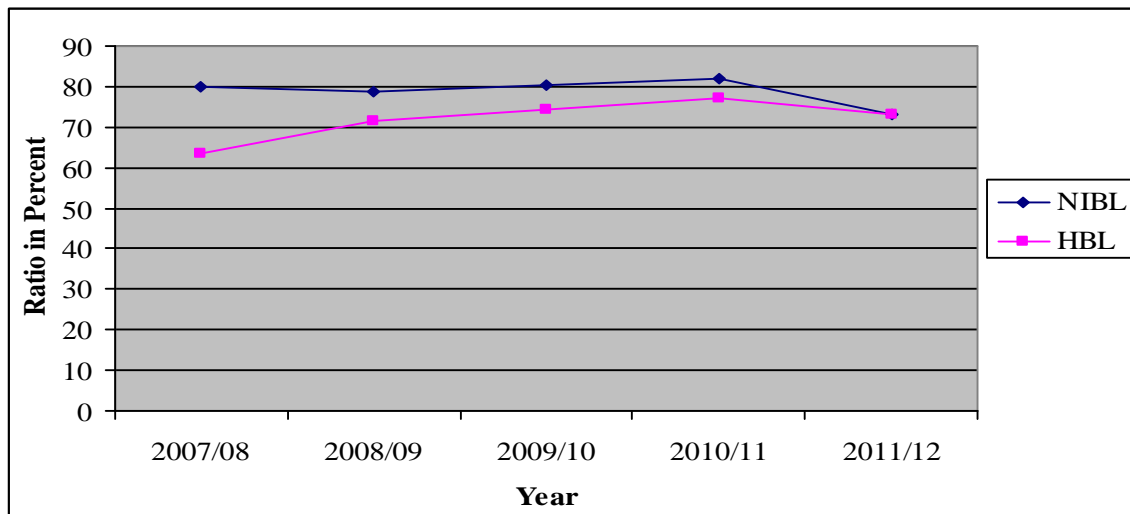
**Table 4.5**  
**Loan and Advance to Total Deposit Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Loan and Advance	Total Deposit	Ratio in Percent	Loan and Advance	Total Deposit	Ratio in Percent
2007/08	27529	34452	79.91	20179.61	31842.79	63.37
2008/09	36827.16	46698	78.86	24793.15	34681.35	71.49
2009/10	40318.31	50094.73	80.48	27980.63	37611.2	74.39
2010/11	41095.51	50138.12	81.96	31566.98	40920.63	77.14
2011/12	41636.99	57010.6	73.03	34965.43	47730.99	73.26
Mean			78.848			71.93
S.d.			3.4397			5.2065
C.V.			0.0436			0.0724

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.5**  
**Loan and Advance to Total Deposit Ratio**



Above table and figure show that the loan and advances to total deposit ratio of NIBL and HBL. The ratio of NIBL and HBL has increasing and decreasing trend at last. The highest ratio of NIBL is 81.96% in F/Y 2010/11 and lowest ratio is 73.03% in F/Y 2011/12. Similarly highest ratio of HBL is 77.14% in F/Y 2010/11 and lowest ratio is 63.37% in F/Y 2007/08. The mean ratio of NIBL and HBL are 78.848% and 71.93% respectively. Here NIBL has higher ratio than that of HBL. It indicates the better mobilization of deposit by NIBL as loan and advance. It reveals that the deposit of NIBL is quickly converted in to loan and advances to earn income. According to NRB directives less than 80% of loan and advances to total deposit ratio is required to enable better mobilization of collected deposit. But NIBL has more than that. The S.D. and C.V of HBL has higher than NIBL which indicates more inconsistency in ratios than NIBL.

#### **B) Total Investment to Total Deposit Ratio**

Banks invest their collected funds in various government securities and other financial or non-financial companies. This ratio measures how successfully and efficiently the banks are mobilizing their funds at investment in various securities.

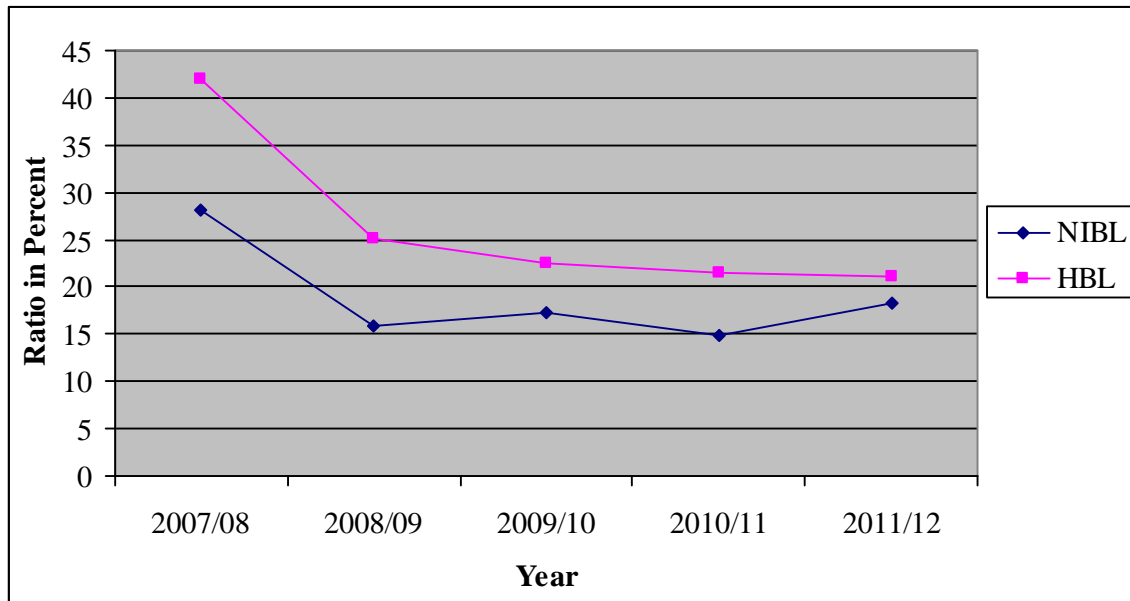
**Table 4.6**  
**Total Investment to Total Deposit Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Total Investment	Total Deposit	Ratio	Total Investment	Total Deposit	Ratio
2007/08	6874.02	34452	28.07	13340.18	31842.79	41.89
2008/09	8635.53	50094.73	15.85	8710.69	34681.35	25.12
2009/10	7423.11	50138.12	17.24	8444.91	37611.2	22.45
2010/11	7423.11	50138.12	14.81	8769.94	40920.63	21.43
2011/12	10438.49	57010.6	18.31	10031.58	47730.99	21.02
Mean			18.856			26.382
S.d.			5.3201			8.8151
C.V.			0.2821			0.3341

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.6**  
**Total Investment to Total Deposit Ratio**



Above table and figure show that total investment to total deposit ratio of NIBL and HBL. Both the banks have fluctuating decreasing trend in total investment to total deposit ratio. The highest ratio of NIBL is 28.07 percent in FY 2007/08 and lowest ratio is 14.81 percent in FY 2010/11 in the same way the highest ratio of HBL 41.89% percent in FY 2007/08 and lowest ratio is 21.02 percent in FY 2011/12. The ratio of both banks has decreasing form. The mean ratio of the NIBL and HBL are 18.856% and 26.382% respectively, which shows that HBL has a higher ratio. It signifies that HBL has successfully allocated its deposit in investment portfolio. The C.V. of HBL has higher than NIBL which indicate more inconsistent its ratio.

### **C) Loan and Advances to Total Assets Ratio**

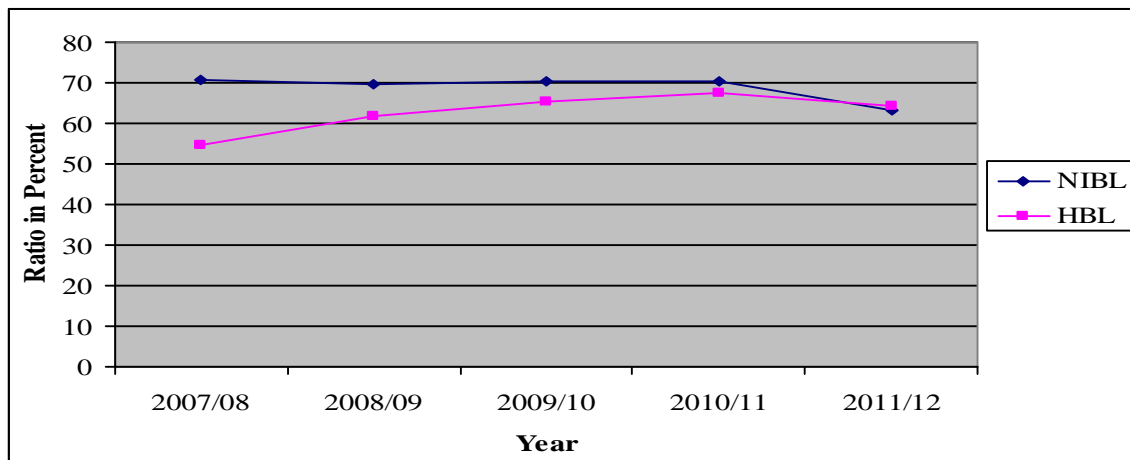
A commercial bank's working fund plays very active role in profit generation through fund mobilization. This ratio reflects the extent to which the banks are successful in mobilizing their total assets on loan and advances for the purpose of income generation. A high ratio indicates better mobilization of funds as loan and advance and vice-versa. The following table shows loan and advances to total assets of NIBL and HBL as follows.

**Table 4.7****Loan and Advances to Total Assets Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Loan and Advances	Total Assets	Ratio in %	Loan and Advances	Total Assets	Ratio in %
2007/08	27529	38873	70.82	20179.61	36857.62	54.75
2008/09	36827.16	53010	69.47	24793.15	40046.69	61.91
2009/10	40318.31	57305.41	70.35	27980.63	42717.12	65.50
2010/11	41095.51	58356.83	70.42	31566.98	46736.2	67.54
2011/12	41636.99	65756.23	63.32	34965.43	54364.43	64.32
Mean			68.876			62.804
S.d.			3.1447			4.9412
C.V.			0.0456			0.0787

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.7****Loan and Advances to Total Assets Ratio**

Above table and figure show the loan and advances to total assets ratio of NIBL and HBL during the study period. Loan and advances to total assets of both NIBL and HBL has increasing trend beside last year. While observing their ratios NIBL has constant and HBL has fickle. The highest ratio of NIBL is 70.82% in F/Y 2007/08 and lowest is 63.32 in F/Y 2011/12. Similarly the highest ratio of HBL is 67.54% in F/Y 2010/11 and lowest

is 54.75% in F/Y 2007/08. The mean ratio of NIBL and HBL are 68.876% and 62.804% respectively. Here NIBL has higher ratio than HBL. It reveals that in total assets of NIBL has high proportion as loan and advances. NIBL has utilized its total assets more efficiently in the form of loan and advances. The lower S.D and C.V. of NIBL also states that it has more uniformity in these ratios throughout the study period than HBL. Both S.D. and C.V. of HBL have higher than NIBL which indicate inconsistency in its ratio.

#### **D) Investment on Government Securities to Total Assets ratio**

It is not possible to convert all collection, deposit and other resources into loan and advances for the banks. Among all possible sectors, investment on government securities is a less risky investment. Investment on government securities to total assets ratio measures how successfully selected banks have applied their total assets on various forms of government securities for profit maximization and risk minimization. Higher the ratio, the better the position of fund mobilization into investment on government securities and vice-versa.

**Table 4.8**

#### **Investment on Government Securities to Total Assets ratio**

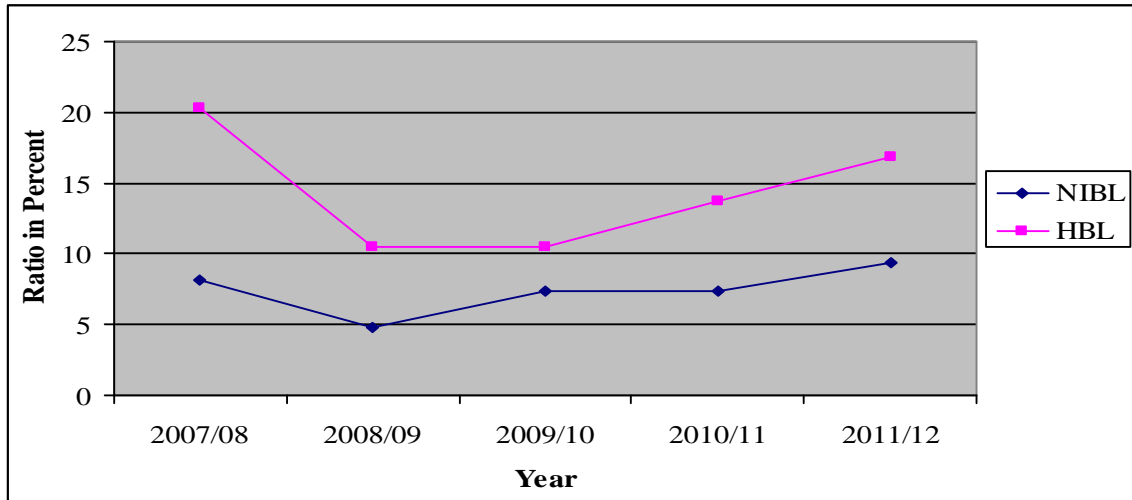
Rs in Millions

Fiscal Year	NIBL			HBL		
	Investment on Government Securities	Total Assets	Ratio in Percent	Investment on Government Securities	Total Assets	Ratio in Percent
2007/08	3155	38873	8.12	7471.66	36857.62	20.27
2008/09	2531.3	53010	4.77	4212.3	40046.69	10.52
2009/10	4201.85	57305.41	7.33	4465.37	42717.12	10.45
2010/11	4294.6	58356.83	7.36	6407.36	46736.2	13.71
2011/12	6169.49	65756.23	9.38	9162.22	54364.43	16.85
Mean			7.392			14.36
S.d.			1.6854			4.2304
C.V.			0.2279			0.2946

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.8**

**Investment on Government Securities to Total Assets ratio**



Above table and figure show that the investment on government treasury bills to Total assets of NIBL and HBL. The both banks have fluctuating trend. The highest ratio of NIBL has 9.38% in 2011/12 and HBL has 20.27% in 2007/08 and the lowest of NIBL is 4.77% in F/Y 2008/09 and HBL has 10.45% in 2008/09 respectively. The mean ratio of NIBL and HBL are 7.392% and 14.36% respectively. The ratio of HBL has higher than NIBL. It means HBL has invested more assets in risk free assets than NIBL. In another words NIBL has emphasized more on loan and advances and other short-term investment than investment in govt. securities. There is more variability in the ratio of NIBL. It shows that there is more inconsistency in the ratio of HBL during the study period, which is indicated by higher C.V. of HBL which shows inconsistency in its investment in Govt securities.

#### **4.1.1.3 Profitability Ratio**

The major performance indicator of any firm is its profit. The objective of investment policy is to earn good return. Profit is the essential part of business activities that helps to meet internal obligation, overcome the future contingencies, make a good investment policy, expand the banking transaction etc. Profitability ratios are the best indicators of overall efficiently. Here, these ratios presented and analyzed which are related with profit as well as fund mobilization. Through the following ratios, effort has been made to measure the profit earning capacity of NIBL and HBL.

### A) Return on Loan and advances

Every financial institution tries to mobilize their deposits on loan and advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan and advances ratio of selected banks are presented as follows.

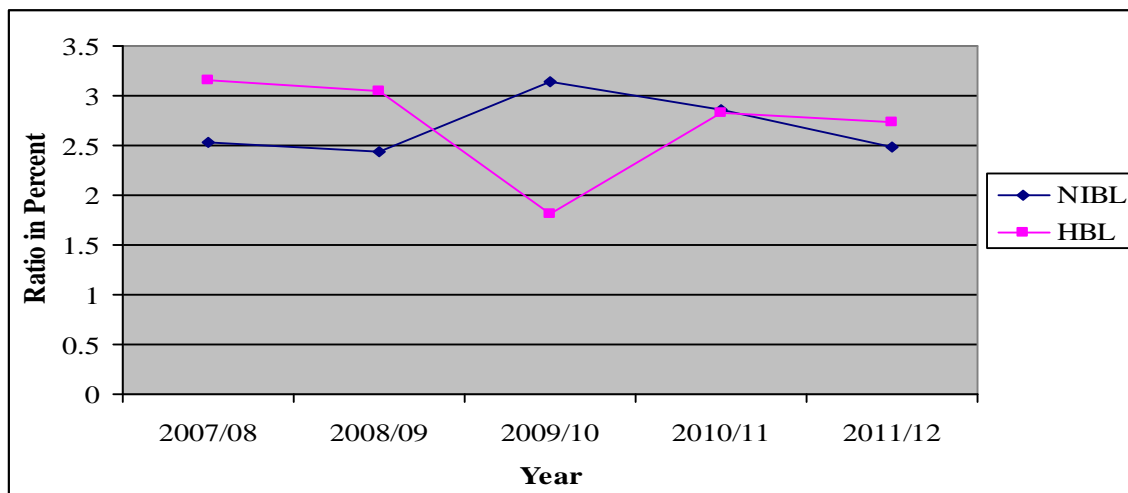
**Table 4.9**  
**Return on Loan and advances**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Net Profit	Loan and Advances	Ratio	Net Profit	Loan and Advances	Ratio
2007/08	697	27529	2.53	635.87	20179.61	3.15
2008/09	900.62	36827.16	2.44	752.83	24793.15	3.04
2009/10	1265.95	40318.31	3.14	508.8	27980.63	1.82
2010/11	1176.64	41095.51	2.86	893.12	31566.98	2.83
2011/12	1039.28	41636.99	2.49	958.64	34965.43	2.74
Mean			2.692			2.716
S.d.			0.2998			0.5267
C.V.			0.1114			0.1939

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.9**  
**Return on Loan and advances**



The table and figure 4.9 show that return on loan and advances ratio of NIBL and HBL. The ratio of NIBL and HBL have fluctuating trend. The highest ratio of NIBL is 3.14% in the year 2009/10 and lowest ratio is 2.44% in year 2008/09. The mean ratio is 2.692%. Whereas highest ratio of HBL is 3.15% in year 2007/08 and lowest ratio is 1.82% in 2009/10. The mean ratio of HBL is 2.716%. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances. The average ratio of HBL is little higher than NIBL. Which indicate that return from loan and advance of HBL is higher than NIBL. It can be concluded that HBL has utilized the loan and advance for the profit generation in earning capacity. However both banks seem to have poor performance in order to have returns from loan and advances because return on loan and advances is less than five percent as five percent is benchmarking ratio in this case. Lower C.V. of NIBL indicates consistency in its ratio.

#### **B) Return on Total Assets**

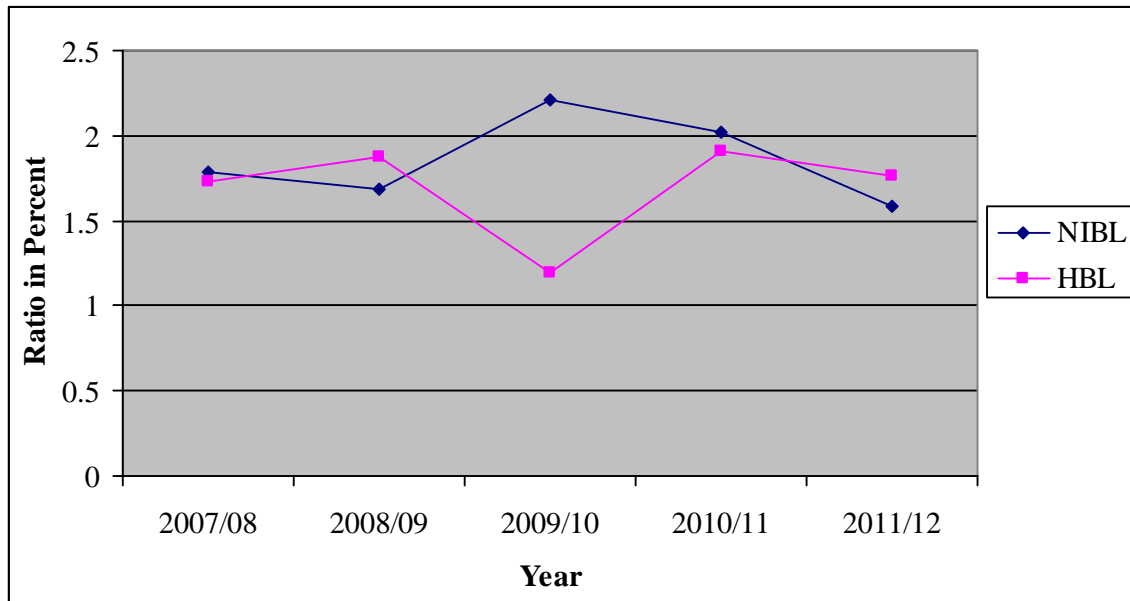
This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

**Table 4.10**  
**Return on Total Assets Ratio**

Fiscal Year	NIBL			HBL		
	Net Profit	Total Asset	Ratio	Net Profit	Total Asset	Ratio
2007/08	697	38873	1.79	635.87	36857.62	1.73
2008/09	900.62	53010	1.69	752.83	40046.69	1.88
2009/10	1265.95	57305.41	2.21	508.8	42717.12	1.19
2010/11	1176.64	58356.83	2.02	893.12	46736.2	1.91
2011/12	1039.28	65756.23	1.58	958.64	54364.43	1.76
Mean			1.858			1.694
S.d.			0.2551			0.2919
C.V.			0.1373			0.1723

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.10**  
**Return on Total Assets Ratio**



Above table and figure show the return on total assets of NIBL and HBL. This table states the net profit to total assets of selected banks has fluctuating during the study period. NIBL seems successful in managing and utilizing the available assets in order to generate revenue since its average ROA is 1.858% of total assets in an average which is higher than that of HBL of 1.694 percent. The highest ratio of NIBL has 2.21 percent and lowest ratio is 1.58. Similarly highest ratio of HBL is 1.91 and lowest ratio is 1.19 percent. Where as S.D. and C.V. of HBL has relatively higher than NIBL it indicate less uniformity in the ratios. So return from total asset of NIBL is relatively better than HBL.

### **C) Return on Equity**

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn higher profit and there by, maximizing return on its equity capital. Return on equity measures the profitability of a bank. It reflects the extend to which the bank has been successful to mobilize or utilize its equity capital. A higher ratio indicates higher success in mobilizing its owned capital and vice-versa. Following table shows the return on equity of NIBL and HBL during the study period.

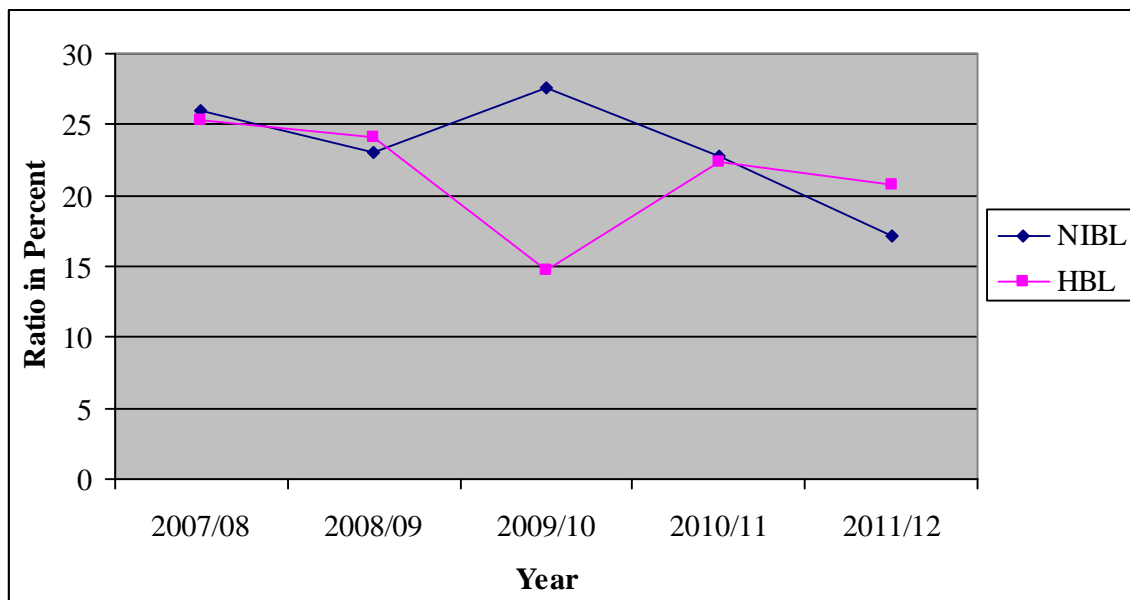
**Table 4.11**  
**Return on Equity Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Net Profit	Total Equity	Ratio	Net Profit	Total Equity	Ratio
2007/08	697	2686.78	25.94	635.87	2513	25.30
2008/09	900.62	3907.84	23.05	752.83	3119.88	24.13
2009/10	1265.95	4585.39	27.61	508.8	3439.2	14.79
2010/11	1176.64	5159.76	22.8	893.12	3995.48	22.35
2011/12	1039.28	6049.94	17.18	958.64	4632.01	20.70
Mean			23.316			21.454
S.d.			3.9784			4.1150
C.V.			0.17063			0.1918

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.11**  
**Return on Equity Ratio**



Above table and figure show return on equity ratio of NIBL and HBL. Above data indicates that NIBL and HBL have fluctuating trend of return on equity ratio. The highest ratio of NIBL is 27.61% in F/Y 2009/10 and lowest ratio is 17.18% in F/Y 2011/12.

Similarly highest ratio of HBL is 25.30% in F/Y 2007/08 and lowest ratio is 14.79% in F/Y 2009/10. The average mean ratio of NIBL is 23.316 and HBL is 21.454 percent.

According to mean ratio NIBL is generating higher ROE in comparison with HBL. In brief, it signifies that the shareholders of NIBL are getting higher return but in case of HBL, they are getting lesser. It can be concluded that NIBL has better utilized the equity for the profit generation. It proves to be strength for NIBL in attracting future investment also while HBL shows its weakness regarding efficient utilization of its owner's equity in comparison to NIBL. HBL is relatively more inconsistent throughout the study period due to being its higher C.V than NIBL.

#### **D) Interest Earned to Total Assets Ratio**

Interest earned to total assets ratio evaluates how successful the selected banks are at mobilizing their total assets to achieve higher amount of interest. Higher ratio indicates higher interest income of the selected banks. The total interest earned to total assets ratio of NIBL and HBL.

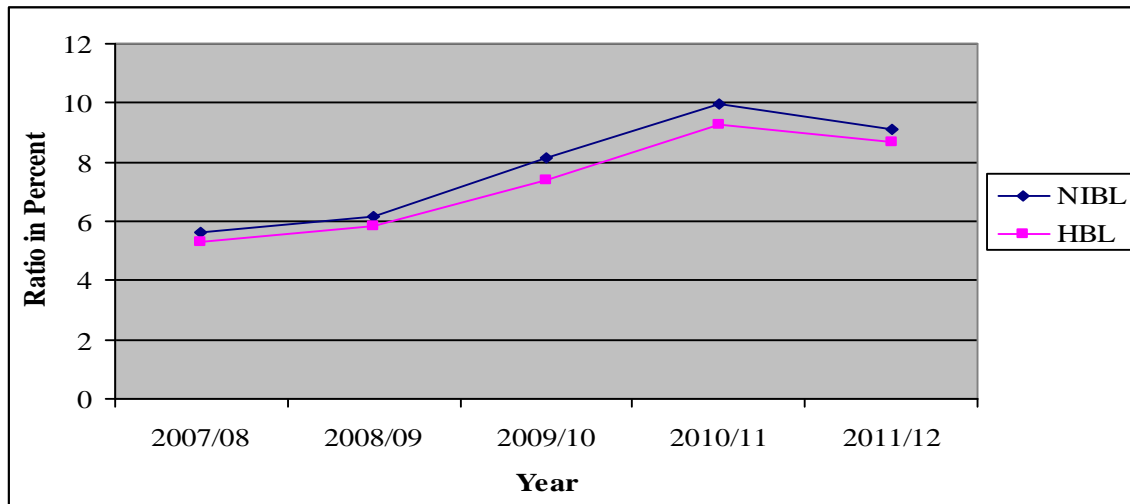
**Table 4.12**  
**Interest Earned to Total Assets Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Interest Earned	Total Assets	Ratio in Percent	Interest Earned	Total Assets	Ratio in Percent
2007/08	2194.27	38873	5.64	1963.65	36857.62	5.33
2008/09	3267.94	53010	6.16	2342.2	40046.69	5.85
2009/10	4653.52	57305.41	8.12	3148.6	42717.12	7.37
2010/11	5803.44	58356.83	9.94	4326.14	46736.2	9.26
2011/12	5982.64	65756.23	9.09	4724.89	54364.43	8.69
Mean			7.79			7.3
S.d.			1.851			1.7148
C.V.			0.2376			0.2349

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.12**  
**Interest Earned to Total Assets Ratio**



Above table and figure show the increased total interest earned to total asset ratio of NIBL and HBL. Both the banks have increasing total interest earned to total asset ratio during studied period. Which indicate both banks doing well in interest earning. The highest ratio of NIBL is 9.94 percent and lowest ratio is 5.64 percent similarly highest ratio of HBL is 9.26 percent and lowest ratio is 5.33 percent. The average mean ratio of NIBL and HBL are 7.79 and 7.30 percent respectively. The mean ratio of NIBL is little more than that of HBL. Despite the higher interest earned to total assets of NIBL has inconsistency in its ratio. In comparison, NIBL seems effective in interest earning ratio than HBL. Moreover, HBL has uniformity in the ratios during the study period due to having lower C.V. anyway It can be concluded that both NIBL and HBL has successfully mobilized their fund in interest generating assets.

**E) Total Interest Earned To Total outside Assets Ratio**

The main assets of commercial banks are its outside assets, which includes loan and advances, investment on government securities, investment on shares and debentures and other investment. Thus, this ratio reflects the extent to which the banks are successful to earn interest as major income on all the outside assets. A higher ratio indicates higher earning on such total assets and vice-versa. The following table exhibits the ratio of total interest earned to total outside assets of NIBL and HBL during the study period.

**Table 4.13**

**Total Interest Earned To Total outside Assets Ratio**

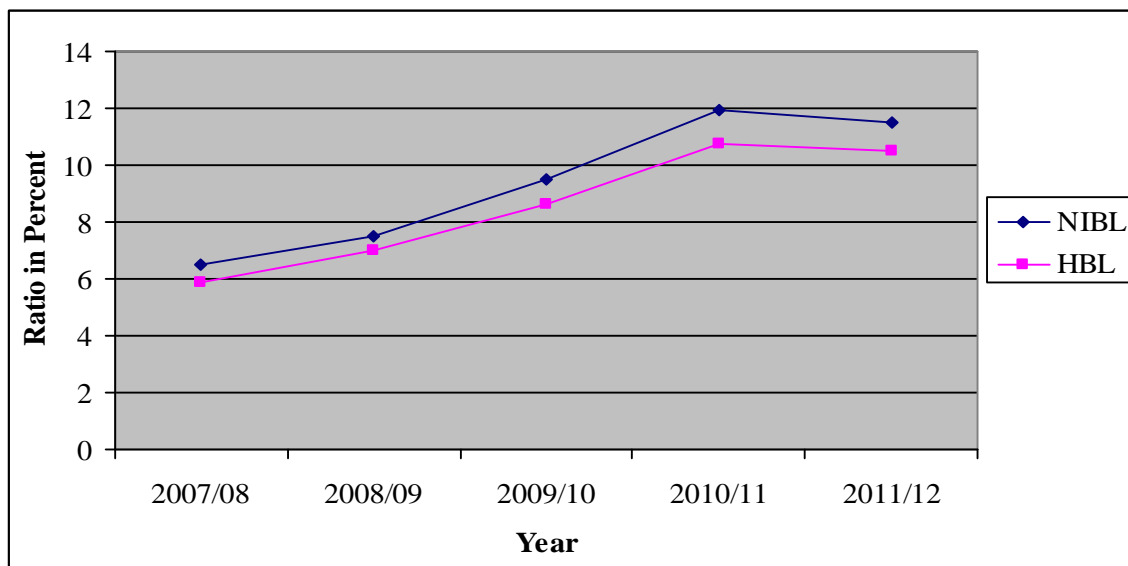
Rs in Millions

Fiscal Year	NIBL			HBL		
	Interest Earned	Total outside Assets	Ratio in Percent	Interest Earned	Total outside Assets	Ratio in Percent
2007/08	2194.27	33870.67	6.48	1963.65	33519.79	5.86
2008/09	3267.94	43641.02	7.49	2342.2	33503.85	6.99
2009/10	4653.52	48953.84	9.51	3148.6	36425.54	8.64
2010/11	5803.44	48518.62	11.96	4326.14	40336.92	10.73
2011/12	5982.64	52075.48	11.49	4724.89	44997.01	10.5
Mean			9.386			8.544
S.d.			2.4035			2.1349
C.V.			0.2561			0.2499

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.13**

**Total Interest Earned To Total outside Assets Ratio**



Above table and figure show the total interest earned to total outside assets ratio. The total interest earned to total outside assets ratio of both bank NIBL and HBL are in

increasing beside last year the study period. NIBL has highest ratio in the year 2010/11 with 11.96% and lowest in the years 2007/08 with 6.48%. Similarly, HBL has the highest ratio in the year 2010/11 with 10.73% and the lowest in the year 2007/08 with 5.86%. The mean ratio of NIBL and HBL are 9.386% and 8.544% respectively. Here NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets. But it has relatively inconsistent returns due to having lower C.V.

#### **F) Total interest earned to Total operating income Ratio**

Total interest earned to total operating income ratio reveals that portion of interest income on total operating income of the bank. The major sources of income for the bank are interest income so the banks should mobilize their funds in more interest generating sectors. This ratio measures how successfully the selected banks have been mobilizing their fund uninterested generating assets during last from FY 2006/07 to 2010/11 are presented to analyze in the following table. Commercial the banks should mobilize their funds in more interest generating sectors considering the risk and return.

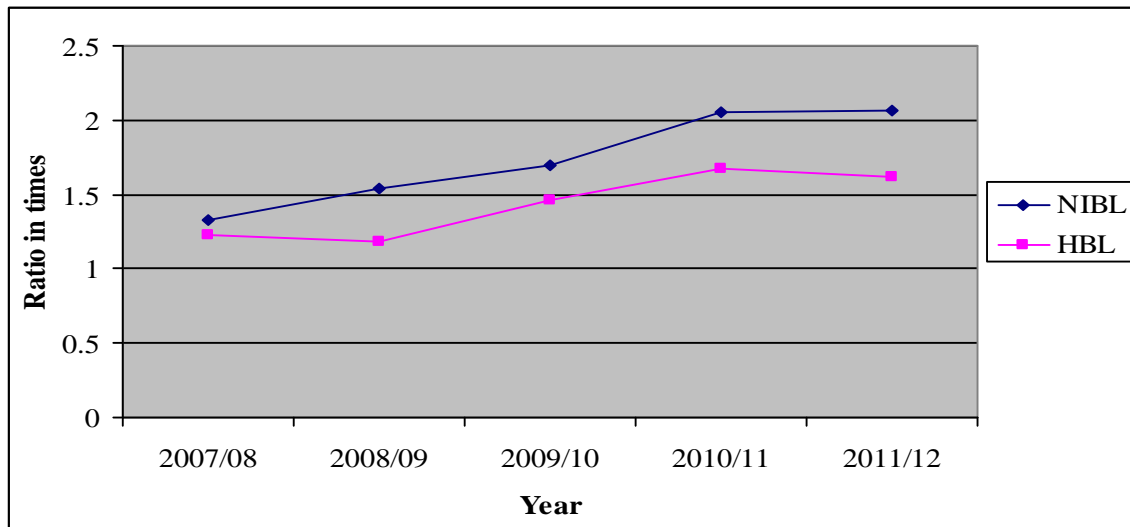
**Table 4.14**  
**Interest Earned to Operating Income Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Interest Earned	Operating Income	Ratio	Interest Earned	Operating Income	Ratio
2007/08	2194.27	1649.62	1.33	1963.65	1597.5	1.23
2008/09	3267.94	2116.66	1.54	2342.2	1988.05	1.18
2009/10	4653.52	2734.93	1.70	3148.6	2157.96	1.46
2010/11	5803.44	2833.59	2.05	4326.14	2586.74	1.67
2011/12	5982.64	2909.84	2.06	4724.89	2911.21	1.62
Mean			1.736			1.432
S.d.			0.3194			0.2219
C.V.			0.1839			0.1550

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.14**  
**Interest Earned to Operating Income Ratio**



Above table and figure show interest earned to operating income ratio of NIBL and HBL. Both banks have increasing its ratio during the study period. The NIBL has greater share of total interest earn in its total operating income in most of the years and mean too. The average mean ratio of NIBL and HBL are 1.736 times and 1.432 times respectively. The higher ratio of NIBL has indicates the high contribution in operating income made by lending and investing activities (core banking activity). HBL has lower ratio, it indicates that high contribution in operating income is not made by lending and investing activities (core banking activity). High contribution in operating income made by lending and investing activities may not good in long run but in short run it is not so bad. Thus, from short term view, HBL is in good condition. In overall, both banks have managed sound interest earned to operating income ratio. The S.D. and C.V of NIBL is higher than HBL. So the ratio of NIBL is more inconsistency than HBL.

#### **4.1.1.4 Risk Ratio**

Risk and uncertainty is a part of business. All the business activities are influenced by risk, so business organizations cannot achieve a good return as per their desires. The profitability of risk makes banks investment a challenging task. Bank has to take risk to get return on its investment. The risk taken is compensated by the increase in profit. So the banks have to accept the risk thoughtfully and manage it efficiently. A bank has to

have idea of the level of risk that one has to bear while investing its funds. Through following ratios, effort has been made to measure the level of risk inherent in the NIBL and HBL.

#### A) Credit Risk Ratio

Credit risk ratio measures the possibility that loan will not be repaid or that investment will deteriorate in quality or go into default with consequent loss to the bank. By definition, credit risk ratio is expressed as the percentage of non- performing loan to total Loan and Advances.

Bank utilizes its collected funds by providing credit to different sections. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. The credit risk ratio shows the proportion of non-performing assets in total Loan and Advances. Higher ratio indicates more risky assets in the volume of Loan and Advances of the bank and vice-versa.

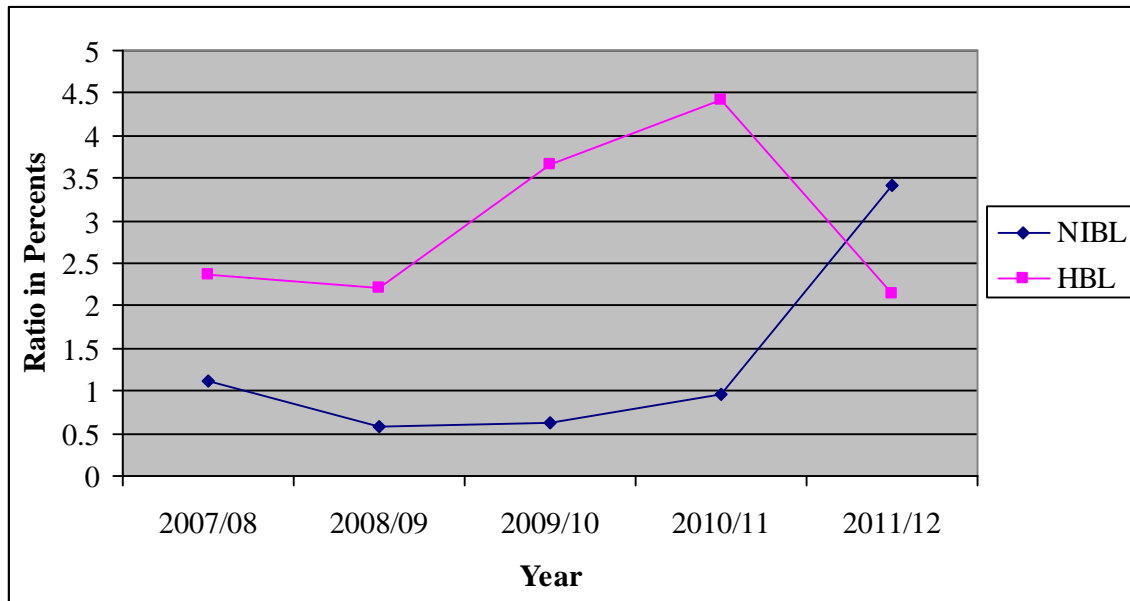
**Table 4.15**  
**Credit Risk Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Non-Performing Loan	Total Loan	Ratio	Non-Performing Loan	Total Loan	Ratio
2007/08	309.47	27529	1.12	477.23	20179.61	2.36
2008/09	213.91	36827.16	0.58	551.31	24793.15	2.22
2009/10	254.03	40318.31	0.63	1024.83	27980.63	3.66
2010/11	395.28	41095.51	0.96	1391.58	31566.98	4.41
2011/12	1425.39	41636.99	3.42	751.16	34965.43	2.15
Mean			1.342			2.96
S.d.			1.1833			1.0193
C.V.			0.8818			0.3444

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.15**  
**Credit Risk Ratio**



Above table and figure show credit risk ratio of NIBL and HBL. NPL to total loan and advances of both NIBL and HBL are in fluctuating. The mean non-performing loan to total loan and advances ratio of NIBL and HBL are 1.342% and 2.96% respectively. The ratio indicates that HBL has higher credit risk. These ratios indicate the more efficient operating of credit management of both banks according to NRB directives. However, in comparison, NIBL is more efficient at operating credit management than HBL. In another words, HBL is less efficient at operating credit management than NIBL. The NIBL bank has efficiently used the total loan and advances than that of HBL in credit risk aspect. Here NIBL is more successful in loan recovery because it has lower non performing loan in total loan and advances. The ratio of NIBL is inconsistency than HBL due to having higher C.V. so far.

**(B) Liquidity Risk Ratio:**

The liquidity risk of the bank defines its liquidity need for deposit. The cash and bank balance are the most liquid assets, they are considered as banks liquidity sources and deposit as the liquidity needs. The ratio of cash and bank balance to total deposit is an indicator of bank's liquidity in need. This ratio is low if funds are kept idle as cash

balance but this reduces profitability, when the banks makes loan, its profitability increase and also the risk. Thus, higher liquidity ratio indicates less profitable return and vice-versa. This ratio is calculated as below:

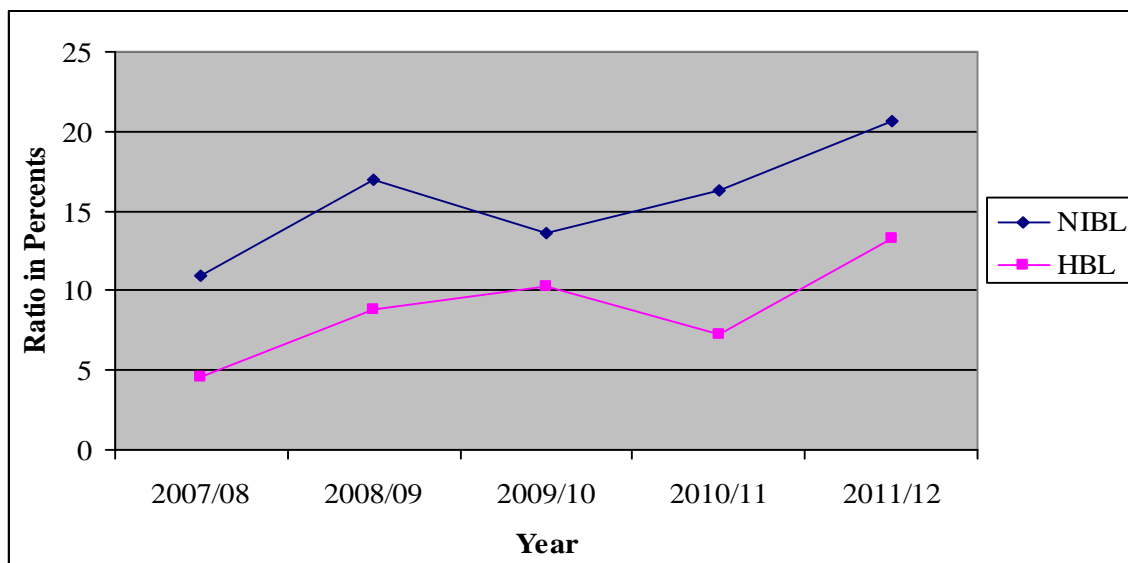
**Table 4.16**  
**Liquidity Risk Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Cash and bank balance	Total Deposit	Ratio	Cash and bank balance	Total Deposit	Ratio
2007/08	3754.94	34452	10.9	1448.14	31842.79	4.55
2008/09	7918	46698	16.95	3048.53	34681.35	8.79
2009/10	6815.89	50094.73	13.61	3866.49	37611.2	10.28
2010/11	8140.37	50138.12	16.24	2946.65	40920.63	7.20
2011/12	11803.75	57010.6	20.7	6362.3	47730.99	13.33
Mean			15.68			8.83
S.d.			3.683			3.2912
C.V.			0.2349			0.3727

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.16**  
**Liquidity Risk Ratio**



Above table and figure show liquidity risk ratio of NIBL and HBL. The cash and bank balance to total deposits ratio of the NIBL and HBL have fluctuating form. The highest ratio of NIBL is 20.07% in F/Y 2011/12 and lowest ratio is 10.90% in F/Y 2007/08. Similarly highest ratio of HBL is 13.33% in F/Y 2011/12 and lowest ratio is 4.55% in F/Y 2007/08 respectively. The average mean ratio of NIBL is 15.68% which is higher than that of HBL of 8.83%. It signifies that NIBL has sound liquid fund to make immediate payment to the depositors. So NIBL has excess liquidity and HBL has under liquidity position than standard ratio. The lower C.V. of NIBL indicates more consistency in its ratio than HBL.

**C.) Asset Risk Ratio:**

Bank utilizes its collected funds in providing credit to different sectors. There is risk of default or non-repayment of loan. While making investment, bank examines the credit risk involved in the project. Generally asset risk ratio shows proportion of non-performing assets in the total investment plus loan and advances of a bank it is computed as:

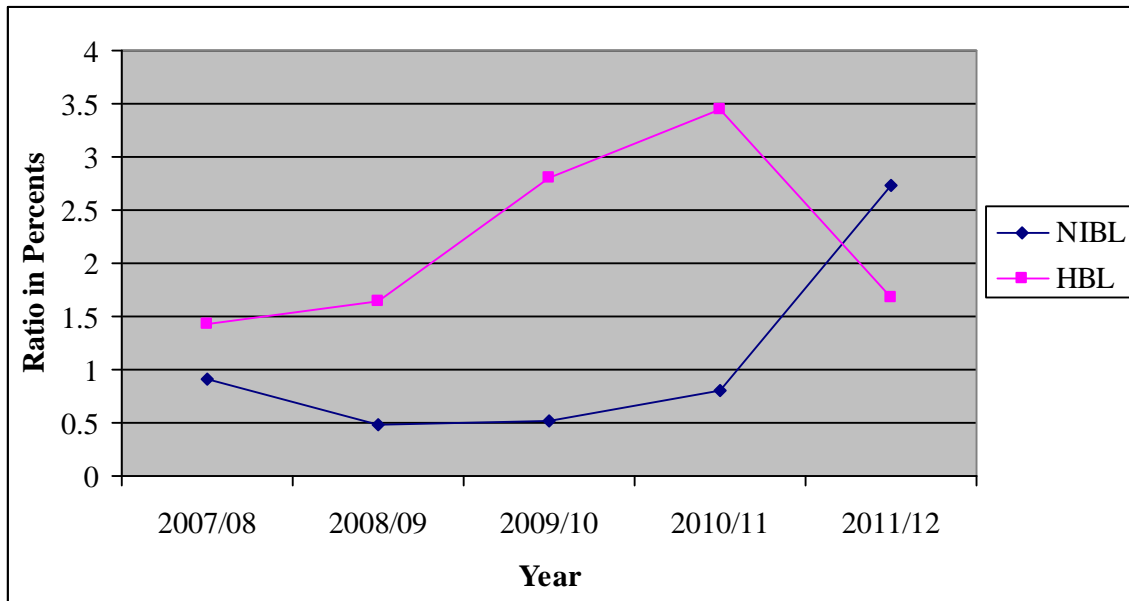
**Table 4.17**  
**Asset Risk Ratio**

Rs in Millions

Fiscal Year	NIBL			HBL		
	NPL	Outside Asset	Ratio	NPL	Outside Asset	Ratio
2007/08	309.47	33870.67	0.91	477.23	33519.79	1.42
2008/09	213.91	43641.02	0.49	551.31	33503.85	1.65
2009/10	254.03	48953.84	0.52	1024.83	36425.54	2.81
2010/11	395.28	48518.62	0.81	1391.58	40336.92	3.45
2011/12	1425.39	52075.48	2.74	751.16	44997.01	1.67
Mean			1.094			2.20
S.d.			0.9378			0.8841
C.V.			0.8572			0.4018

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.17**  
**Asset Risk Ratio**



Above table shows that non-performing asset to total outside asset ratio of NIBL and HBL. Both banks have fluctuating ratio. Decreasing trend is the good sign of efficient asset management. The highest ratio of NIBL is 2.74% and lowest 0.49%. Similarly highest ratio of HBL is 3.45% and lowest is 1.42%. The average mean non-performing asset to total outside asset ratio of NIBL and HBL are 1.094% and 2.20% respectively. The HBL has higher asset risk ratio than NIBL. So HBL has comparatively higher asset risk than NIBL. These Ratios indicate the more efficient operating of asset management of both banks. However, in comparison, NIBL is more efficient in asset management than HBL. The ratio of NIBL is less consistency than HBL due to having higher C.V.

#### **4.1.1.5 Other Ratios**

##### **A) Earning Per Share**

EPS measure the efficiency of a firm in relative terms. It is a widely used ratio, which measures the profit available to the ordinary shareholders on per share basis. Earning per share calculation made over years indicates whether the bank's earning power on per share basis has changed over that period or not but it doesn't reflect how much is paid as

dividend and how much is retained in the business. Following table shows the EPS of related banks during the study period.

**Table 4.18**  
**Earning Per Share**

Rs in Millions

Fiscal Year	NIBL			HBL		
	Net profit	Total equity	Ratio	Net profit	Total equity	Ratio
2007/08	697	12039154	57.89	635.87	10135125	62.74
2008/09	900.62	24070689	37.42	752.83	12162150	61.9
2009/10	1265.95	24090977	52.55	508.8	2000000	31.8
2010/11	1176.64	30113721.25	48.84	893.12	24000000	44.66
2011/12	1039.28	3766155250	27.6	958.64	276000000	39.94
Mean			44.86			48.208
S.d.			12.227			13.6823
C.V.			0.2726			0.2838

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.18**  
**Earning Per Share**

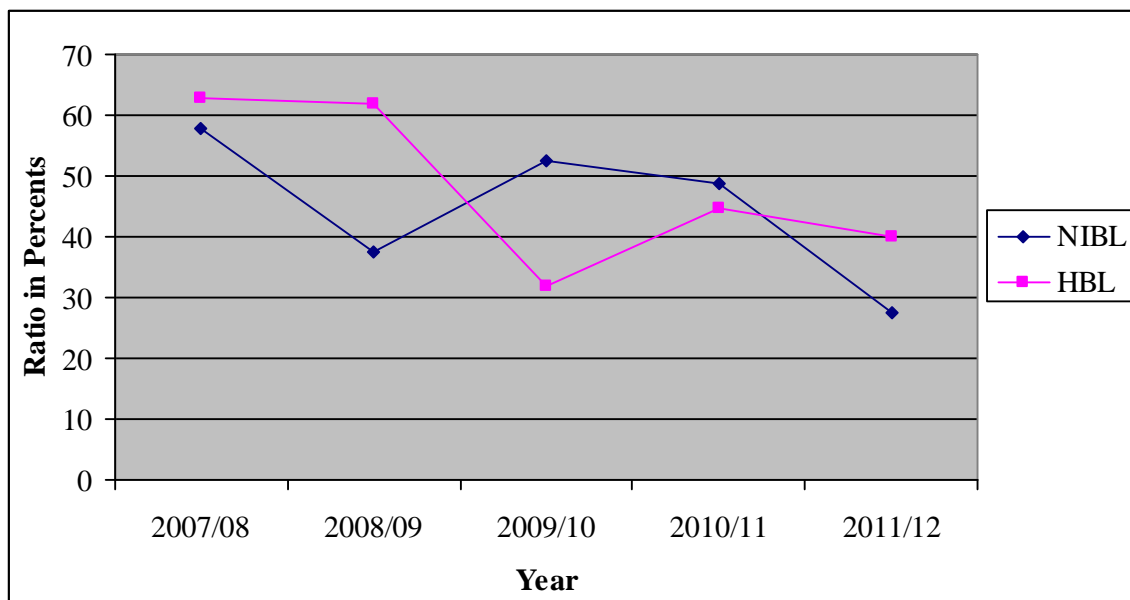


Table and figure 4.18 show earning price per share of NIBL and HBL. Both NIBL and HBL have fluctuating form of its EPS. The average EPS of HBL is little higher than NIBL. While observing their ratios HBL is better mobilizing its resources to get more earning per share (EPS) although both banks have fluctuating its EPS. The highest EPS of NIBL is 57.89 and lowest is 27.60 percent. Similarly highest EPS of HBL is 62.74 and lowest is 31.8 percent. The average EPS of NIBL and HBL are 44.86 and 48.208. so higher ratio of HBL indicate more dividend. The higher mean indicate successful to generating higher EPS of HBL. The S.D and C.V. of HBL is higher than NIBL which indicate inconsistency in its EPS.

### B) Market Price per Share

Market price per share is the price at which shares are traded in the stock market. The secondary markets provide liquidity for securities purchased in primary market. Generally MPS is determined through supply and demand factors.

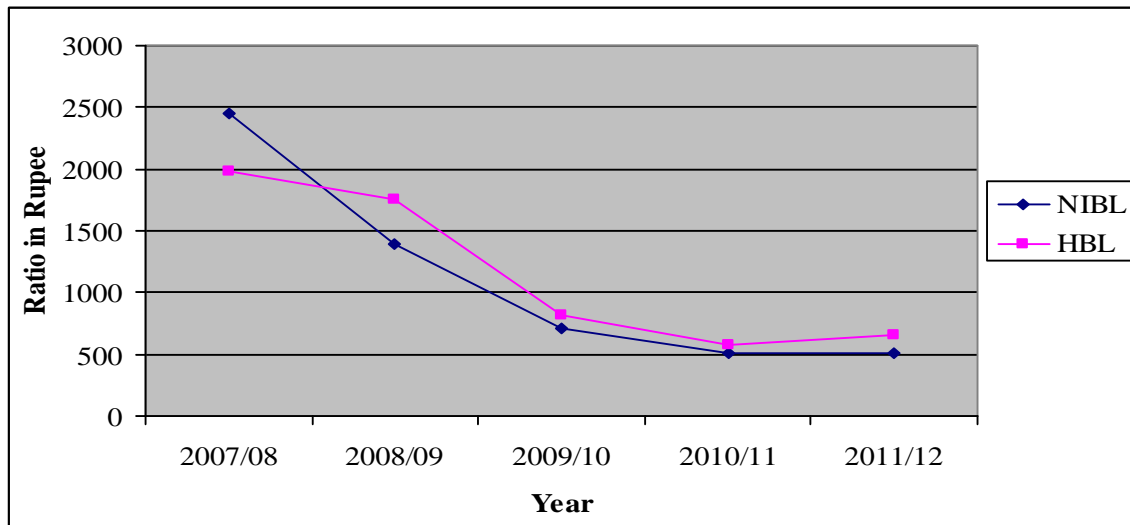
**Table 4.19**  
**Market price per share (in Rs)**

Amount in Rupees

Fiscal Year	NIBL	HBL
	MPS	MPS
2007/08	2450	1980
2008/09	1388	1760
2009/10	705	816
2010/11	515	575
2011/12	511	653
Mean	1113.8	1156.8
S.d.	829.105	661.43
C.V.	0.7444	0.5718

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.19**  
**Market price per share**



Above table and figure shows market price of the share of NIBL and HBL. The statistic shows both banks NIBL and HBL has decreasing its share price during the study period. It indicates that recession and low expectation of investor in share market. This tends low performance of company and low expectation from company. The highest MPS of NIBL is Rs 2450 and lowest is 511 similarly highest MPS of HBL is 1980 and lowest is 653. Average mean price of NIBL and HBL are 1113.8 and 1156.8 Rupee. The average price of HBL is higher than of NIBL. It indicates that shareholder of HBL are getting higher price. The S.D. and C.V. of NIBL have higher which indicate high fluctuation in its hare price than HBL.

### **C) Price Earning Ratio**

Price earning ratio is closely related to the earning per share. It is calculated by dividing the market value per share by EPS. Price earning ratio indicates investor's judgments or expectation about the firm's performance. This ratio widely used by the security analysis to value the firm's performance. This ratio widely used by the security analysis to value the firm's performance as accepted by investors. Price earning ratio reflects investor expectations about the growth in the firm's earning. Higher ratio indicates the more value of the stock that is being ascribed to future earning as opposed to present earning.

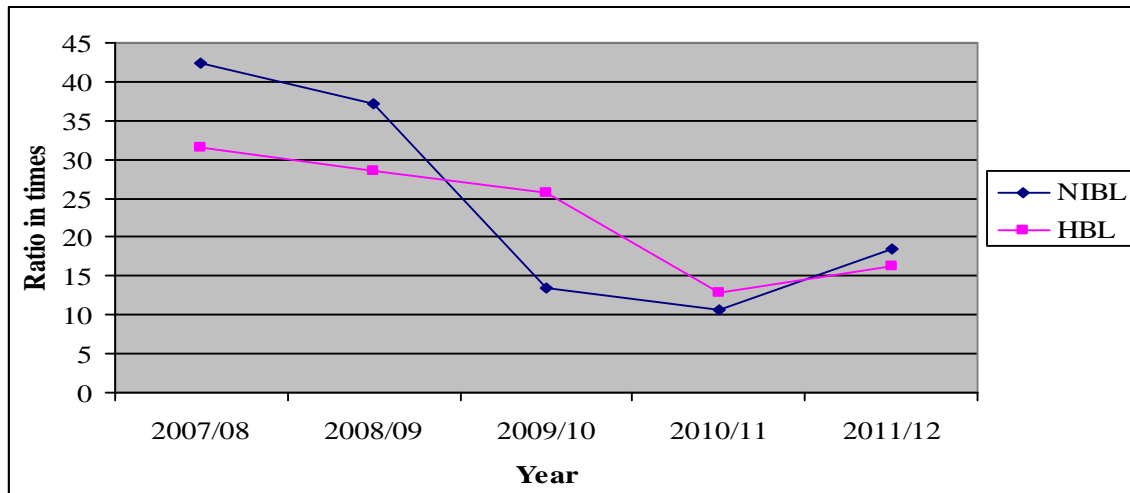
**Table 4.20**  
**Price Earning Ratio**

Amount in Rupees

Fiscal Year	NIBL			HBL		
	MPS(Rs)	EPS (in Rs )	PE/Ratio	MPS Rs)	EPS (in Rs)	PE/Ratio
2007/08	2450	57.89	42.33	1980	62.74	31.56
2008/09	1388	37.42	37.1	1760	61.9	28.43
2009/10	705	52.55	13.42	816	31.8	25.66
2010/11	515	48.84	10.55	575	44.66	12.88
2011/12	511	27.6	18.5	39.94	653	16.35
Mean			24.38			22.976
S.d.			14.404			8.007
C.V.			0.5908			0.3485

Source: Annual Report of Concern Banks (F/Y 2007/08 to 2011/12)

**Figure 4.22**  
**Price Earning Ratio**



Above table and figure show that price earning ratio earning of NIBL and HBL. The P E ratio NIBL and HBL are decreasing beside last year. From the mean point of view, mean ratio of the NIBL and HBL are 26.21 and 25.44 times respectively. It indicates that for

getting Rs 1 as earning, one should invest Rs 24.48 of NIBL and Rs 22.976 of HBL. Looking the mean ratio we conclude that in short run, investor of NIBL are getting better profitability because they are selling their shares in high price. But from the long term view and sustainable fair price, investor of HBL will get better profitability and they will be in safe side a little bit in comparison with NIBL. The S.D and C.V of NIBL is also high than the HBL it indicate its contradiction to invest in NIBL rather than the HBL due to high fluctuation. Anyway both banks are measure as almost equally.

#### 4.2 Primary Data Analysis

The primary data analysis has been done by distributing questionnaire containing 17 questions to altogether 80 respondent related in various field consisting Business person, investor, staff, working in Govt., public and private company and laymen.

##### i. Respondent's profiles:

The total 80 questionnaire are distributed to each of different respondent. The respondents are in various sectors. The questionnaires are asked to different professional working at private and public company, businessman and layman. The conclusion is drawn according to their response.

According to questionnaire:

**Table 4.21**  
**Respondent's Profession**

<b>Particular</b>	<b>Respondents</b>	<b>Percentage</b>
Business person	45	56.25
Working for private company	15	18.75
Working in government/semi government org.	15	18.75
Unemployed/Retired	5	6.25
Total	80	100

**Source:** Field survey, 2012

The questionnaire distributed to various age group and professionals. The highest 56.25

percent of responded were business person. The equal 15 respondent contain 18.75 percents of customer were from private company and government organization. The least 18.75 percent responded were work in govt. and least 6.25 percent are unemployed and retired. The highest responded were group from businessman and lest were unemployment and retired.

**ii. Categories of client (Loan/deposit products):**

The major products of banks are different types of loan and deposit however, different types of banking product available in market. By the concept product portfolio, emphasis is on including the different types of services/ schemes found at the different stages of the product life cycle. The question asked to which banking product they are currently using. According to questionnaire:

**Table 4.22**

**Loan and Deposit customers of NIBL**

<b>Particular</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Loan client	22	27.5
Deposit client	58	72.5
Total	80	100.00

**Source:** Field survey, 2012

In the aspect of banking product deposit and loan, the tables depicts that out of 80 respondents 22 which are 27.5 percent of person regarding to loan customer. The least 58 which is 72.5 percent of respondent were depositor client of bank. Here majority of customer were depositor rather than loan client. Every bank may have more deposit client than loan client but a manager should give emphasis on both clients.

**iii Customers availing different types of Deposit:**

To know about the types of deposit they are performing at the bank, the researcher put the question to the respondent's as what types of loan have you been availing? The following series of tables represent the response.

According to questionnaire:

**Table 4.23**

**Customers availing different types of loan**

<b>Particular</b>	<b>Respondents</b>	<b>Percentage</b>
Fixed Deposit	22	27.5
Current Deposit	18	22.5
Saving Deposit	32	40
Other	8	10
Total	80	100.00

**Source:** Field survey, 2012

Above table shows that customer using different type of deposit. Among the sampled respondent 27.5% are has deposited their amount as fixed deposit and 22.5 percent as current deposit. Similarly most 40 percent respondent has saving deposit and 10 percent are using other kind of deposit. Anyway highest no of customer are saving depositor of the bank and lowest are other categories of depositor.

**iv Customers availing different types of loan:**

To know about the types of loan customers availing from NIBL, the researcher put the question to the respondent's as what types of loan have you been availing.

The following tables represent the response of questionnaire:

**Table 4.24**

**Customers availing different types of loan**

<b>Particular</b>	<b>Respondents</b>	<b>Percentage</b>
Corporate Loan	21	26.25
Small and Medium Size Loan (SME Loan)	19	23.75
Retail Loan	24	30
Other	16	20
Total	80	100.00

**Source:** Field survey, 2012

Above table shows that customer using different type of loan. among the sampled respondent 26.25% are availing corporate loan, 23.75% availing SME loan, and 30% are availing retail loan and 20% are availing other loan like personal mortgage loan, card loan, travel loan etc. here highest client were part of retail loan and lowest percent of customer from other categories.

**v. Customer response about interest rate**

Interest rate in loan, commission and other charges are known as price in the bank. Interest rates on loans and deposits, bank pricing consists of fees and charges levied for the performance of various services. To know about the pricing of bank, the researcher has put questions among the respondent about interest rate they are using in deposit and loans.

The responses of questionnaire are as follows:

**Table 4.25**

**Customer’s response in interest rates of Banks**

<b>Particular</b>	<b>Respondents</b>	<b>Percentage</b>
Very high	13	16.25
High	25	31.25
Moderate	30	37.5
Low	12	15
Total	80	100.00

**Source:** Field survey, 2012

The above table shows the view of customer about interest rate of bank. Here 16.25 percent of the respondent felt very high interest rate and 31.25 percent said high pricing. Similarly 37.5 percent of client felt that the interest/pricing is moderate and 15% felt it low. As per the above table, the research can conclude that customers perceive the pricing policy of bank as satisfactory level. Majority of respondent were viewed about high moderate and just like other bank. During the course of field survey, the researcher found that the bank has policy to change the pricing according to the market situation. The bank is committed to deliver the efficient services in competitive pricing.

#### **vi. The response about performance and service of banks**

The researcher has tries to find out the performance and service of bank to customer regarding to their response. The questions are asked to respondent are the performance and services of bank easily available to you.

The answerer of respondent are presented as follows:

**Table 4.26**  
**Performance and service of banks**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Satisfied	30	37.5
Moderate	35	43.75
Unsatisfied	15	18.75
Total	80	100.00

**Source:** Field survey, 2012

Above table shows that the 37.5 percent of respondent said satisfied from banks service and performance, 43.75 percent found moderate and 18.755 percent of respondent found unsatisfied. Here highest portion of response found in moderate and lowest in unsatisfied. According to analysis highest percent is moderate so still service and performance of bank should enhance to fully satisfy to the client.

#### **vii. Response towards to staff of banks**

The bank has policy to recruit any one with graduate or master's degree from the reputed university and who is motivated and has passion to make banking as career. The bank has policy to groom, train and retains the deserving staffs for making service delivery efficient. Efficient human resources are need of the moment to implementation marketing strategy of loan policy of bank. To know about staff of bank, the researcher put the question as how do you find the staff of bank.

**Table 4.27**

**Customers view about staff of Banks**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Supportive	35	43.75
Non-supportive	15	18.75
So on	30	37.5
Total	80	100.00

**Source:** Field survey, 2012

Above table shows that highest 43.75 percent of respondents feel that peoples of bank are supportive, 18.75 percent feel non supportive and 37.5 percent feel so on just like other banks. NIBL still trained to its staff to be supportive and be helpful towards value clients. Mainly, the support of bank staff, especially in the deposit and loan department is essential to find out the actual financial requirement of client and management for business efficiency.

**viii. The response about capital structure of banks**

The researcher has tries to find out the performance and service of bank to customer regarding to capital structure. The questions are asked to respondent the good capital structure measure strength of bank.

The view of respondent are presented as follows according to questionnaire:

**Table 4.28**

**Capital structure of banks**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Yes	58	72.5
No	10	12.5
Don't Know	12	15
Total	80	100.00

**Source:** Field survey, 2012

Above table shows that the most 72.5 percent of respondent said yes that capital structure

measure the performance of banks, 12.5 percent says no and 15 percent of respondent don't know in this regards. Here highest portion of response found in yes so capital structure of bank directly impact in their performance.

**ix. Response regarding to financial need of banks.**

To know about the how commercial banks meet their financial need. The question asked to various respondents in this regards.

The answers of questionnaire are present as below.

**Table 4.29**  
**Customer's view about financial need of banks**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Deposit	30	37.5
Borrowing	25	31.25
Capital and other	25	31.25
Total	80	100.00

**Source:** Field survey, 2012

The table shows the customer view about financial need of banks. The highest 37.5 percent of responded view towards deposit, 31.25% viewed towards borrowing and least 31.25 percent agree towards capital and other source. So according to survey most of financial need of banks are fulfilled by deposit of deposer and else are by borrowing and capital and other funds.

**x. Financial performance management banks**

Banking is highly sensitive business. In today's competitive environment, banks are facing throat cut competition; so, soliciting and retaining customers are top challenge for banker. To know about performance of the researcher put the question: What would you like to suggest with regard to financial performance management in banks.

The responses of questionnaire are following:

**Table 4.30**  
**Financial Performance Management Banks**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Utilization of cash as a proper manner and get higher profit for shareholders	35	43.5
Reduce the Risk proportion of Bank	37	46.5
Don't know	8	10
Total	180	100.00

**Source:** Field survey, 2012

Above table depicts that 43.5 percent respondent viewed towards utilization of cash as a proper manner and get higher profit for shareholders and 46.5 percent feel that Reduce the Risk proportion of Bank least 10 percent viewed they don't know in this regards. The survey shows the highest respondent agree towards reduction of bank risk first then only towards profit maximization of bank.

**xi. The preference of bank while in investing**

Banks applied different types of strategy to invest and lending. Every banks and FIs are offering almost similar products and services. The main difference for customer for selecting particular sector. To know how bank make preference while investing in their funds the following table show the strategy of banks.

The answers of respondent are as follows:

**Table 4.31**  
**The preference of bank**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Portfolios of investment	40	50
Return from investment	20	25
Return from lending	20	25
Total	80	100.00

**Source:** Field survey, 2012

Above table shows that 50 percent of responded agree with portfolio investment. Similarly 25 percent says return from investment and next same 25 percent agree with return from lending. The survey indicates that highest portion of respondent viewed towards the portfolio investment. So portfolio investment is applied by bank while Applying investment policy.

**xii Suitable sector for investment**

To know about better earning from investment portfolio. There are various sector of investment. The question asked to various investors that which would you feel better among below given options. The responses of investor are shown in following table. The researcher put question to the respondent as which sector do you prefer for investment. The answers of respondent are as follows:

**Table 4.32**  
**Sector for investment**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Fixed deposit	22	27.5
Bond, Debenture and Gov. Saving bond	15	18.75
Share Market	27	33.75
Others	16	20
Total	80	100.00

**Source:** Field survey, 2012

Above table shows that 27.percent of respondent feel that keeping as fixed deposit. 18.75 percent refer for bond debenture and government saving bond. Most 33.75 present of respondent invest in share market and else 20 percent prefer for other investment. So among 80 respondent majority of investor prefer for investment in share market least are refer towards other investment.

### **xiii Expectation of Shareholder**

Every investor invests their money for earning. They purchase share of certain company and banks. This research the question asked to respondent what is expecting from their company.

Following table show the view of respondent.

**Table 4.33**  
**Expectation of Shareholder**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Bonus Share	36	45
Cash Dividend	38	47.5
Right Share	6	7.5
Total	80	100.00

**Source:** Field survey, 2012

The table shows the investor view about dividend of company and banks. There 45 percent of responded view towards bonus share, most 47.8% of shareholder are expecting cash dividend and least 7.5 percent agree towards right share of company. So according to survey most of investor want cash dividend from their investment. They want cash rather than bonus or right share.

### **xiv Return from investment**

Every investor invests their fund and money to achieve certain gain. They expect higher earning from the investment. Here question asked to respondent that whether their investment able to gain desire return from investment.

The following table shows the view of respondent of return from investment:

**Table 4.34**

**Expectation on return from investment**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Yes	22	27.5
To some extends	42	52.5
No	16	20
Total	80	100.00

**Source:** Field survey, 2012

Above table depicts the respondent view towards desire earning. There 27.5 percent of investor are satisfied by company surplus due their yes answer. Majority 52.5 percent of investor are viewed towards to some extends and least 20 percent are said no so they are unsatisfied from company. The survey indicates that majority of responded are no fully satisfied from company dividend payments. They are only satisfied to some extends.

**xv. Purpose of holding share of banks**

Every investor invests money for better earning. Some investor invests in share of company for capital gain, to takeover the company and social purpose. The question asked to various investors that, what is the purpose for holding of share of particular banks and company.

The responses of investor according to questionnaire are as follows:

**Table 4.35**

**Purpose of holding share of banks**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
For capital gain	28	35
For dividend income	22	27.5
To take over of company	10	12.5
Lack of other alternative	20	25
Total	80	100.00

**Source:** Field survey, 2012

Above table shows that 35 percent of respondent hold stock of bank for capital gain. Similarly 27.5 percent of respondent hold for dividend income, 12.5 percent of respondent viewed towards to take over of company and 25 percent of respondent hold share because of lack of other investment alternative. So above statistic indicates that majority of investor hold the stock for capital gain and dividend income. So reason behind holding of stock is for capital gain and dividend income of particular company and banks.

**xvi. Investor preference towards share investment**

There are a lot of investment sector. Investors invest their money in various sectors to make better portfolio. Investor analyzes return and risk before making investment in any sector. There are various investment alternative of various sector are available in market. Here researcher question asked to various respondents to know their investment preference.

The respondent view for investment preference are as follow.

**Table 4.36**  
**Investor preference towards share investment**

Promotion Variables	No. of respondents	Percentage
Banking Sector	32	40
Insurance	12	15
Manufacturing and Service Sector	10	12.5
Hydro	18	22.5
Others	8	10
Total	80	100.00

**Source:** Field survey, 2012

Above table shows the investment preference towards share of various companies. The respondent answers that more around 40 percent go for banking sector. The 12 percent prefer for insurance company and 10 percent viewed towards manufacturing and service sector. The second highest 22.5 percent of respondent prefer for hydro sector and least 8

percent viewed towards other sectors. From above statistic it's concluded that majority of investor want to invest in share of bank and second prefer for hydro sector.

**xvii. Financial analysis for to purchase share of banks**

Financial analysis of company is essential before investing in particular company or banks. Financial analysis shows the whole situation of any company and bank. Banking is highly sensitive business. So financial analysis is done before investing on it. To know investor about financial analysis the researcher put the question: What would you make financial analysis before investing on particular share of banks.

The view of respondent are as follows.

**Table 4.37**

**Financial analysis for to purchase share of banks**

<b>Particular</b>	<b>No. of respondents</b>	<b>Percentage</b>
Yes	58	72.5
Not at all	12	15
Don't know	10	10
Total	80	100

**Source:** Field survey, 2012

Above table show the 72.5 percent of respondent make financial before investing in stock of particular company and banks. Similarly 15 present of respondent viewed not make financial analysis before investing on stock and least 10 percent of respondent don't know about financial analysis. The survey shows the highest respondent agree towards yes that means they make financial analysis of company and bank before purchasing its stock. So financial analysis has been done before performing trading of bank stock.

**4.3 Statistical Analysis**

Statistical tool is one of the important tools to analyze the data. There are various tools for the analysis of tabulated data such as, mean, standard deviation, regression analysis, co-relation analysis, trend analysis, various types of tests etc. There is convenient statistical tools are used in this thesis study.

### 4.3.1 Coefficient of Correlation Analysis

Co-efficient of co-relation shows the relationship between two or more than two variables. It measures that the two variables are positively or negatively co-related. For this purpose, Karl Pearson's co-efficient of correlation has been taken and applied to find out and analyze the relationship between deposit and loan and advances, deposit and total investment, total assets and net profit, total investment and net profit and also analyze the correlation of total deposit, total investment, loan and advances and net profit NIBL and HBL using Karl Persons coefficient of correlation, value of coefficient of determination (R<sup>2</sup>) probable error (P.Er.) and (6 P.Er.) are also calculated and value of them are analyzed.

#### A) Correlation Coefficient between Deposit and Loan and Advances

Deposit have played vary important role in performance of a commercial banks and similarly loan and advances are very important to mobilize the collected deposits. Co-efficient of correlation between deposit and loan and advances measures the degree of relationship between these two variables. In this analysis, deposit is independent variable (X) and loan and advances are dependent variable (Y). The main objectives of computing 'r' between these two variables is to justify whether deposit are significantly used as loan and advances in proper way or not.

**Table 4.38**

**Correlation between Deposit and Loan and Advances**

Name of Banks	Evaluation Criteria				
	r	r <sup>2</sup>	P.Er.	6 P.Er.	Remarks
<b>NIBL</b>	0.959	0.9197	0.02423	0.1454	Significant
<b>HBL</b>	0.971	0.9428	0.0172	0.1035	Significant

Source: Through SPSS Data Editor

In above table 4.38, it is found that coefficient of correlation between deposits and loan and advances of NIBL and HBL are 0.959 and 0.971. It is shows that both have the positive relationship between these two variables. It refers that deposit and loan and advances of NIBL and HBL moves together very closely. Moreover, the coefficient of

determination of NIBL is 0.9197. It means 91.97 percent of variation in loan and advances has been explained by deposit. Similarly, value of coefficient of determination of HBL is 0.9428. It refers that 94.28 percent variance in loan and advances are affected by total deposit. The correlation coefficient of both banks is significant because the correlation coefficient is greater than the relative value of 6 P. Er. In other words, there is significant relationship between deposits and loan and advances of NIBL and HBL.

### **B) Coefficient of Correlation between Total Deposits and Total Investment**

The coefficient of correlation between deposit and investment measures the degree of relationship between these two variables or deposit is significantly utilized or not. In correlation analysis, deposit is independent variable (X) and total investment is dependent variable (Y). The following table shows the coefficient correlation between deposits and total investments i.e. r, P. Er., 6 P. Er. and coefficient of determination (R<sup>2</sup>) of NIBL and HBL during the study period.

**Table 4.39**  
**Correlation between Deposit and Total Investment**

Name of Banks	Evaluation Criteria				
	r	r <sup>2</sup>	P.Er.	6 P. Er.	Remarks
<b>NIBL</b>	0.752	0.5655	0.1311	0.7864	insignificant
<b>HBL</b>	-0.378	0.1429	0.2585	1.5513	Insignificant

Source: Through SPSS Data Editor

The Table 4.39 shows the coefficient of correlation between total deposit and total investment of NIBL and HBL. The correlation of NIBL is 0.752. It shows the high positive correlation between two variables. In addition, coefficient of determination of NIBL is 0.5655, It means only 56.55 percent of total investment is explained by total deposit. The correlation coefficient is insignificant because the correlation coefficient is less than 6 P. Er. It refers that there is significant relationship between total deposit and total investment of NIBL.

Similarly, correlation coefficient between total deposit and total investment of HBL is negative by -0.378, which refer negative relation between these two variables. The value of coefficient of determination is 0.1429 this refers that only 14.29 percent of the variation in total investment is explained by total deposit least are determined by other factor. The correlation coefficient is insignificant because the correlation coefficient is lower than 6 P. Er. It refers that there is insignificant relationship between total deposit and total investment of HBL.

From the above analysis, the conclusion can be drawn in the case of NIBL and HBL that NIBL has high degree positive correlation where as HBL has negative correlation. This indicates that NIBL is successful to mobilize its deposit in proper way in comparison to HBL.

### C) Co-efficient of Correlation between Loan and advance and Net Profit

Co-efficient of correlation between total assets and net profit is used to measure the degree of relationship between two variable i.e. Loan and advance and net profit of NIBL and HBL during the study period. Where Loan and advance is independent variable (X) and net profit is dependent variable (Y). The main objective of calculating this ratio is to determine the degree of relationship whether there the net profit is significantly correlated or not and the variation of net profit to loan and advance through the coefficient of determination. The following table shows the ‘r’,  $R^2$ , P.Er. and 6 P. Er. between those variables of NIBL and HBL for the study period.

**Table 4.40**  
**Correlation between Loan and advance and Net profit**

Name of Banks	Evaluation Criterions				
	R	$r^2$	P.Er.	6 P.Er.	Remarks
<b>NIBL</b>	0.875	0.7656	0.0707	0.4242	Significant
<b>HBL</b>	0.673	0.4529	0.1650	0.9902	Insignificant

Source: Through SPSS Data Editor

Above table shows correlation coefficient between loan & advance and net profit is 0.875 of NIBL. It refers that there is positive correlation between these two variables. Here, 76.56 percent of net profit is contributed by loan and advance as its coefficient of determination is 0.7656 shows. Moreover, this relationship is significant because the coefficient of correlation is more than 6 P.Er.

Likewise HBL also has positive correlation between loan & advance and net profit by 0.673. The coefficient of determination  $r^2$  is 0.4529 which indicates that only 45.29 percent variability in net profit is explained by loan and advance. The correlation coefficient is less than 6 P.Er. So relationship between loan and advance and net profit is insignificant for HBL. It refers that there is insignificant relationship between total deposit and total investment of HBL. In calculation, NIBL has more significant relationship between loan and advance and net profit than that of HBL.

#### **D) Coefficient of correlation between Total Deposit and Net Profit**

Coefficient of correlation between total deposit and net profit measures the degree of relationship between these two variables. In this analysis, deposit is independent variables (X) and net profit is dependent variable(Y). The main objective of computing “r” between these two variables is to justify whether deposits are significantly used to get proper net profit or not. The table shows the value of r,  $r^2$ , probable Error (P.Err) and 6 P.Er. between total deposit and net profit of NIBL and HBL.

**Table 4.41**  
**Correlation between Total Deposit and Net Profit**

Name of Banks	Evaluation Criteria				
	r	$r^2$	P.Er.	6 P.Er.	Remarks
<b>NIBL</b>	0.687	0.4720	0.1593	0.9557	Insignificant
<b>HBL</b>	0.717	0.5141	0.1466	0.8795	Insignificant

Source: Through SPSS Data Editor

The table shows the correlation coefficient between total deposit and net profit of NIBL and HBL. The correlation coefficient between total deposit and net profit of NIBL is

0.687, which implies there is positive correlation between total deposit and net profit. In addition, coefficient of determination of NIBL is 0.4720. It means 47.20 percent of profit is contributed by total deposit. The correlation is insignificant at all due to coefficient of correlation is lower than 6 P Err. On the other hand HBL has also positive correlation between total deposit and net profit by 0.717. The coefficient of determination of HBL is 0.5141, It means only 51.41 percent of profit is contribute by total deposit. This relationship is insignificant as its correlation coefficient is lower than 1.0916. The NIBL and HBL has insignificant relationship between total deposit and net profit. Thus it can be concluded that the degree of relationship between total deposit and net profit of HBL and NIBL are positive.

#### **4.3.2 Time Series Analysis (Trend Analysis)**

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

##### **A) Trend Analysis of Total Deposit:**

Deposits are the important element in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of Total deposit of NIBL and HBL for further five year

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Where as

$$Y_c = 48366.71 + 4516.06 * X \text{ of NIBL}$$

$$Y_c = 38557.39 + 3801.57 * X \text{ of HBL}$$

**Table 4.42**

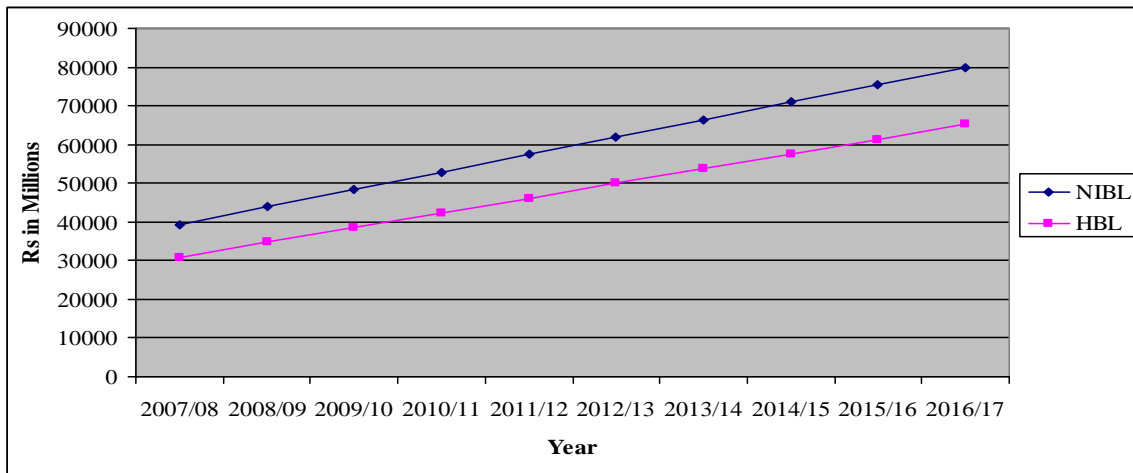
<b>Trend analysis of Total Deposit of NIBL and HBL</b>		
<b>Year(x)</b>	<b>NIBL</b>	<b>HBL</b>
2007/08	39334.6	30954.3
2008/09	43850.7	34755.8
2009/10	48366.7	38557.4
2010/11	52882.8	42359
2011/12	57398.8	46160.5
2012/13	61914.9	49962.1
2013/14	66431	53763.7
2014/15	70947	57565.2
2015/16	75463.1	61366.8
2016/17	79979.1	65168.4

Source: Trend value of Concern Bank

Appendix -1

**Figure 4.23**

**Trend Line of Total Deposit of NIBL and HBL**



Above table and figure shows that trend of total deposit of NIBL and HBL. Both Banks is in increasing trend. The rate of increment of total deposit for NIBL seems to be higher than that of HBL. The actual trend value of total deposit for NIBL is more than that of

HBL. The trend analysis has projected deposit amount in fiscal year FY 2012/13 to FY 2016/17. From the above trend analysis it is clear that NIBL has higher position in collecting deposit than HBL.

**B) Trend Analysis of Loan and advances**

Here, the trend values of loan and advances Between NIBL and HBL have been calculated for further five year. The following Table shows the actual and trend values of NIBL and HBL.

$Y = a + bx$

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots\dots\dots (I)$

$Y_c = 37481.39 + 3248.43 * X$  of NIBL

$Y_c = 27897.16 + 3634.55 * X$  of HBL

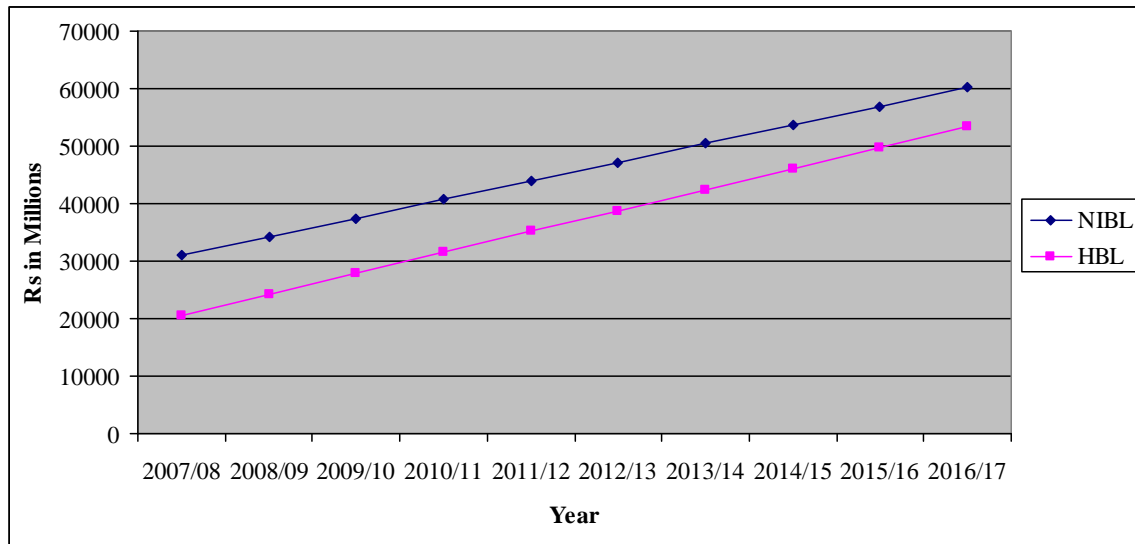
**Table 4.43**

<b>Trend analysis of Total Loan and Advance of NIBL and HBL</b>		
<b>Year(x)</b>	<b>NIBL</b>	<b>HBL</b>
2007/08	30984.5	20628.1
2008/09	34233	24262.6
2009/10	37481.4	27897.2
2010/11	40729.8	31531.7
2011/12	43978.3	35166.3
2012/13	47226.7	38800.8
2013/14	50475.1	42435.4
2014/15	53723.5	46069.9
2015/16	56972	49704.5
2016/17	60220.4	53339

Source: Trend value of Concern Bank

**Figure 4.24**

**Trend line of Total Loan and Advance of NIBL and HBL**



Above table and figure depicts that trend of loan and advances of NIBL and HBL. Both Banks has in increasing trend. The increasing trend of NIBL is higher than HBL. The value of loan and advances for HBL is quite fluctuating in relation to NIBL. The trend projected for father five year FY 2012/13 to FY 2016/17. From the above analysis, it is clear that both NIBL and HBL is mobilizing its collected deposits and other funds in the form of loan and advances. But above table and figure shows NIBL has more mobilizing loan and advances than the HBL.

**C) Trend Analysis of Total Investment**

Under this topic has been made to analyze trend analysis total investment of NIBL and HBL. Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$Y_c = 8158.85 + 591.65 * X \text{ of NIBL}$$

$$Y_c = 9859.46 - 655.80 * X \text{ of HBL}$$

**Table 4.44**

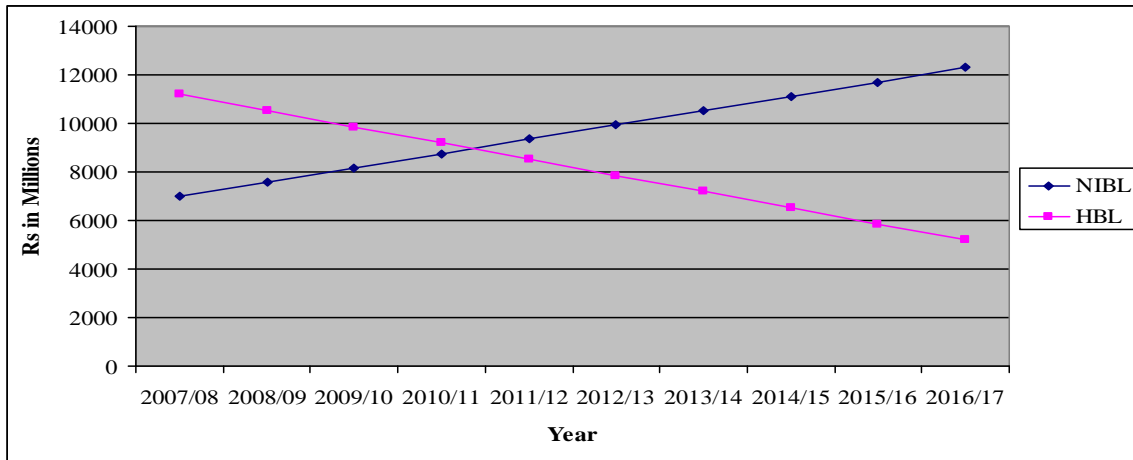
<b>Trend analysis of Total Investment Between NIBL and HBL</b>		
Year(x)	NIBL	HBL
2007/08	6975.55	11191.1
2008/09	7567.2	10525.3
2009/10	8158.85	9859.46
2010/11	8750.5	9193.66
2011/12	9342.15	8527.86
2012/13	9933.8	7862.06
2013/14	10525.5	7196.26
2014/15	11117.1	6530.46
2015/16	11708.8	5864.66
2016/17	12300.4	5198.86

Source: Trend value of Concern Bank

Appendix -3

**Figure 4.25**

**Trend Line of Total Investment between NIBL and HBL**



Above table and figure shows the trend of total investment between NIBL and HBL. The NIBL has increasing trend where as HBL has decreasing trend in making investment. The trend shows that NIBL has little increasing trend, but HBL has decreasing trend of total investment. The trend of total investment projected to further five year. The forecasted trend projected that the NIBL has positive increment rate in total investment and HBL

has downward and decreasing rate of HBL. The figure indicates that NIBL has highly mobilized the total investment rather and HBL has decreasing trend.

**D) Trend Analysis of Net Profit**

Net profit is the final income of bank after deducting all expenses. Here, the trend values of net profit of NIBL and HBL have been calculated for five years FY 2007/08 to FY 2011/12 and forecasting further next five year till FY 2016/17.

Where,

Y= dependent variable, a=Y-intercept, b=slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where  $x = X - \text{Middle year}$

$$Y_c = 1015.90 + 96.06 * X \text{ of NIBL}$$

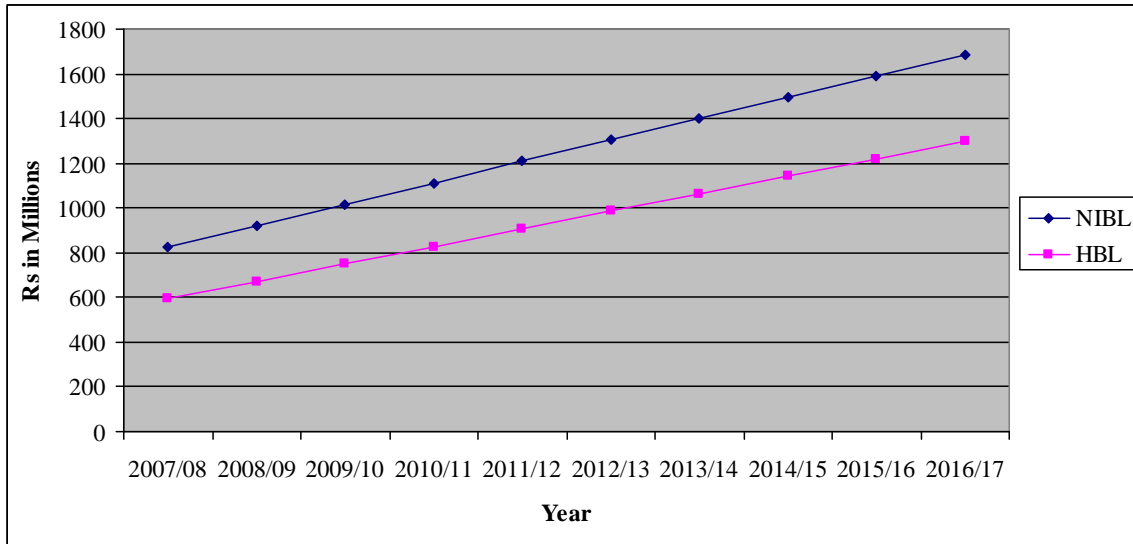
$$Y_c = 749.85 + 78.58 * X \text{ of HBL}$$

**Table 4.45**

<b>Trend Analysis of Net Profit Between NIBL and HBL</b>		
Year(x)	NIBL	HBL
2007/08	823.78	592.69
2008/09	919.84	671.27
2009/10	1015.9	749.85
2010/11	1111.96	828.43
2011/12	1208.02	907.01
2012/13	1304.08	985.59
2013/14	1400.14	1064.17
2014/15	1496.2	1142.75
2015/16	1592.26	1221.33
2016/17	1688.32	1299.91

Source: Trend value of Concern Bank

**Figure 4.26**  
**Trend Line of Net Profit between NIBL and HBL**



The above table and figure reveals the trend of Net profit of NIBL and HBL. Net profit of both banks NIBL and HBL forecasted in increasing trend. The trend of increasing value of net profit of NIBL is higher than HBL. The net profit of NIBL and HBL has been increasing every year by Rs. 96.06 million and Rs. 78.58 million respectively. The increment rate of net profit of NIBL is little higher than HBL. The trend of Net profit projected to FY 2016/17 i.e. further five year. In conclusion, NIBL is doing better in order to generate net profit during the projected study period although both NIBL and HBL have increasing trend.

### 4.3 Major Findings of the Study

From the above research, the researcher has enlisted the major findings in a summarized manner so that a complete picture of the data presentation and analysis can be presented following findings are drawn on the financial performance of the selected commercial banks.

1. Generally banks have to maintain standard current assets. The current ratio of NIBL and HBL has a fluctuating trend. The average current ratio of NIBL and HBL are 1.062 and 1.018. The liquidity position of NIBL is little greater than HBL as it has a higher mean ratio. So, NIBL is sound in meeting short-term

- obligation than HBL. Both banks have moderate liquidity position because the ratio is more than 1:1 ratio.
2. The average cash and bank balance to total deposit ratio of NIBL and HBL are 15.68 and 8.83 percent. NIBL has higher ratio than the HBL, which shows its greater ability to pay depositors money. Liquidity position of NIBL is good.
  3. The cash and bank balance to current assets ratio of NIBL and HBL are fluctuating. The mean ratio of NIBL is higher than HBL. The higher mean ratio shows that NIBL's liquidity position is better than that of HBL.
  4. The investments on government securities to current assets ratio of NIBL and HBL have fluctuating. The mean ratio of NIBL is lower than HBL. It means HBL has invested more money in risk free assets than NIBL. For minimization of investment risk, NIBL should divert its investment in govt. securities.
  5. The loan and advances to total deposit ratio of both bank NIBL and HBL has increasing form. NIBL has higher ratio than that of HBL. It indicates the better mobilization of deposit by NIBL as loan and advance. It reveals that the deposit of NIBL is quickly converted in to loan and advances to earn income.
  6. The total investment to total deposit ratio NIBL and HBL both the banks have fluctuating decreasing form. Which indicate investment from deposit is decreasing. The mean ratio of the NIBL and HBL are 18.852% and 26.382% respectively, which shows that HBL has a higher ratio. It signifies that HBL has successfully allocated its deposit in investment portfolio.
  7. The loan and advances to total assets ratio NIBL has constant and HBL has increasing. Average ratio of NIBL has higher ratio than HBL. It reveals that in total assets of NIBL has high proportion as loan and advances. NIBL has utilized its total assets more efficiently in the form of loan and advances. The lower C.V. of NIBL also states that it has more uniformity in ratios than HBL.
  8. The investment on government treasury bills to total assets NIBL and HBL have fluctuating. The mean ratio of HBL has higher than NIBL. It means HBL has invested more assets in risk free assets than NIBL. In another words NIBL has emphasized more on lending and other short-term investment than investment in govt. securities.

9. The return on loan and advances ratio of NIBL and HBL has fluctuating form. This both banks show the normal earning capacity in loan and advances and same earning capacity in form of loan and advances. The average ratio of NIBL is little higher than HBL. Which indicate that return from loan and advance of NIBL is higher than HBL. NIBL has utilized the loan and advance for the profit generation in earning capacity.
10. The NIBL and HBL both banks have fluctuating trend of return on its total assets. However, NIBL seems successful in managing and utilizing the available assets in order to generate revenue since its average ROA is higher than that of HBL.
11. Return on equity ratio of NIBL and HBL have fluctuating. The average mean ratio of NIBL has little higher mean ratio than that of HBL. So NIBL is generating higher ROE in comparison with HBL. The shareholders of NIBL are getting higher return than HBL.
12. Both NIBL and HBL banks have increasing total interest earned to total asset ratio, which indicate both banks doing well in interest earning. The mean ratio of NIBL is little more than that of HBL. NIBL seems effective in interest earning ratio despite having lower asset and interest earning. However both banks performing best in this regards.
13. The interest earned to total outside assets ratio of both bank NIBL and HBL are in increasing during the study period. The mean ratio of NIBL has little higher than HBL. Here NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets.
14. Interest earned to operating income ratio of NIBL and HBL banks have increasing form. The NIBL has higher of total interest earn in its total operating income in most of the years and mean too. The higher ratio of NIBL indicates the high contribution in operating income made by lending and investing activities (core banking activity). But the ratio of NIBL is more inconsistency than HBL.
15. The NPL to total loan and advances of NIBL and HBL are in fluctuating. Decreasing trend is the good sign of efficient credit management. The mean ratio of NIBL and HBL are 1.342% and 2.96%. These ratios indicate that ratio of HBL is higher. These ratios indicate more efficient operating of credit management of

- both banks according to NRB directives. However, NIBL is more efficient at operating credit management than HBL.
16. The liquidity risk ratio of the NIBL and HBL are in fluctuating. The average mean ratio of NIBL is greater than that of HBL. It signifies that NIBL has sound liquid fund to make immediate payment to the depositors.
  17. The asset risk ratio of NIBL and HBL are decreasing and increasing form. Decreasing trend is the good sign of efficient asset management. The average ratio of HBL is higher than NIBL. These ratios indicate that NIBL has more efficient in operating of asset management than HBL. In comparison, NIBL is more efficient in asset management than HBL.
  18. The earning price per share of both NIBL and HBL has fluctuating form. HBL is better mobilizing it resources to get more earning per share (EPS). The average EPS of NIBL and HBL are 44.86 and 48.208. The EPS of HBL seems little higher than NIBL which indicate successful to generating higher EPS. Anyway both banks have performing well. HBL has more inconsistency in its EPS than NIBL.
  19. Market price of the share of both bank NIBL and HBL has decreasing its share price from second fiscal year. This tends low performance and expectation from company. The highest MPS of NIBL is 2450 and lowest is 511 similarly highest MPS of HBL is 1980 and lowest is 653. Average mean price of HBL is little higher than that of NIBL. It indicates that shareholder of HBL are getting higher price.
  20. The price earning ratio of NIBL and HBL are fluctuating decreasing. The mean ratio of the NIBL and HBL are 24.38 and 22.976 times. It indicates that for getting Rs 1 as earning, it should invest Rs 24.382 in NIBL and Rs 22.976 in HBL. The NIBL are getting better profitability because they are selling their shares in high price. But from the long term view and sustainable fair price, both banks are equal.
  21. In primary data analysis has. The highest responded were group from businessman and lest were unemployment and retired person. In the aspect of banking product deposit and loan, the tables depicts that out of 80 respondents 22 which are 27.5 percent of person regarding to loan customer. The least 58 which

- is 72.5 percent of respondent were depositor client of bank. Here majority of customer were depositor rather than loan client. Every bank may have more deposit client than loan client but a manager should give emphasis on both clients.
22. In Customers availing different types of Deposit, the saving deposit is highest and fixed depositors are in second position and least is other. So highest no of customer are saving depositor of the bank and lowest are other categories of depositor.
  23. in the study of customer using different type of loan 26.25% are availing corporate loan, 23.75% availing SME loan, and 30% are availing retail loan and 20% are availing other loan like personal mortgage loan, card loan, travel loan etc. here highest client were part of retail loan and lowest percent of customer from other categories.
  24. Customer response about interest rate, the research can conclude that customers perceive the pricing policy of bank as satisfactory level. Majority of respondent were viewed about high moderate and just like other bank. During the course of field survey, the researcher found that the bank has policy to change the pricing according to the market situation. The bank is committed to deliver the efficient services in competitive pricing.
  25. The response about performance and service of banks, the 37.5 percent of respondent said satisfied from banks service and performance, 43.75 percent found moderate and 18.755 percent of respondent found unsatisfied. The highest portion found in moderate and lowest in unsatisfied. According to analysis highest percent is moderate so still service and performance of bank should enhance to fully satisfy to the client. Similarly The research shows that highest 43.75 percent of respondents feel that staff of bank are supportive, 18.75 percent feel non supportive and 37.5 percent feel so on just like other banks.
  26. The capital structure of banks, the most 72.5 percent of respondent said yes that capital structure measure the performance of banks, 12.5 percent says no and 15 percent of respondent don't know in this regards. Here highest portion of response found in yes so capital structure of bank directly impact in their performance.
  27. The customer view about financial need of banks. The highest 37.5 percent of

- responded view towards deposit, 31.25% viewed towards borrowing and least 31.25 percent agree towards capital and other source. So most of financial need of banks are fulfilled by deposit of deposer and else are by borrowing and capital and other funds.
28. Financial performance management banks, 43.5 percent respondent viewed towards utilization of cash as a proper manner and get higher profit for shareholders and 46.5 percent feel that Reduce the Risk proportion of Bank least 10 percent viewed they don't know in this regards. The highest respondent agree towards reduction of bank risk first then only towards profit maximization of bank.
  29. The preference of bank while in investing 50 percent prefers portfolio investment. 25 percent says return from investment and next same 25 percent agree with return from lending. The survey indicates that highest portion of respondent viewed towards the portfolio investment. So portfolio investment is applied by bank while Appling investment policy. For Suitable sector for investment the 27 5 percent of respondent feel that keeping as fixed deposit. 18.75 percent refer for bond debenture and government saving bond. Most 33.75 present of respondent invest in share market and else 20 percent prefer for other investment. So majority of investor prefer for investment in share market least are refer towards other investment.
  30. The investor view about dividend of company and banks, 45 percent view towards bonus share, most 47.8% of shareholder are expecting cash dividend and least 7.5 percent agree towards right share of company. So most of investor want cash dividend from their investment. They want cash rather than bonus or right share. The respondent view towards desire earning. 27.5 percent of investor is satisfied by company surplus due their yes answer. Majority 52.5 percent of investor are viewed towards to some extends and least 20 percent are said no so they are unsatisfied from company. So this survey indicates that majority of responded are no fully satisfied from company dividend payments. They are only satisfied to some extends.

31. Purpose of holding share of banks, the 35 percent hold stock of bank for capital gain. 27.5 percent hold for dividend income, 12.5 percent viewed towards to take over of company and 25 percent hold share because of lack of other investment alternative. So majority of investor hold the stock for capital gain and dividend income. So reason behind holding of stock is for capital gain and dividend income.
32. In the aspect of investor preference towards share of various companies. The highest 40 percent choices towards banking sector. The second highest 22.5 percent of respondent prefer for hydro sector and least 8 percent viewed towards other sectors. Here majority of investor want to invest in share of bank and second prefer for hydro sector.
33. Financial analysis for to purchase share of banks show the 72.5 percent of respondent make financial before investing in stock of banks. 15 percent of respondent viewed not make financial analysis before investing on stock and least 10 percent of respondent don't know about financial analysis. The highest respondent agrees towards yes that means they make financial analysis of company and bank before purchasing its stock. So financial analysis has been done before performing trading of bank stock.
34. The coefficient of correlation between deposits and loan and advances of NIBL and HBL are 0.959 and 0.971. It is shows that both banks have positive relationship between these two variables. The relationship between deposits and lending of NIBL and HBL are significant.
35. The correlation between total deposit and total investment of NIBL is 0.752 and HBL has negative by 0.378. The correlation of NIBL has normal and HBL has negative. This indicates that deposit and investment of HBL has inverse relationship. The relationship between total deposit and total investment of NIBL is significant whereas insignificant relationship of HBL.
36. The correlation between loan & advance and net profit of NIBL and HBL are 0.875 and 0.673. It is positive correlation between these two variables. The NIBL has significant relationship and HBL has insignificant relationship between loan and advance and net profit.

37. The correlation between total deposit and net profit of NIBL and HBL are 0.687 and 0.717. Both banks have positive correlation. The both bank have insignificant relationship. Thus it can be concluded that the degree of relationship between total deposit and net profit of NIBL is lower than the HBL.
38. The trend of total deposit of NIBL and HBL banks is in increasing trend. The rate of increment of total deposit for NIBL seems to be higher than that of HBL. The actual trend value of total deposit for NIBL is more than that of HBL. NIBL has higher position in collecting deposit than HBL. Similarly the trend of loan and advances between NIBL and HBL also increasing trend. The increasing trend of NIBL is higher and aggressive than HBL. It is clear that both NIBL and HBL is mobilizing its collected deposits and other funds in the form of loan and advances. The trend projected to further five year F/Y 2016/17.
39. The trend of total investment of NIBL have increasing trend where as HBL has decreasing trend OK has little increasing but HBL has high increasing trend. The forecasted trend projected that the NIBL has increasing and HBL has decreasing trend. The NPA trends of NIBL has decreasing trend where as HBL has increasing. The trend shows that NIBL has little decreasing trend, but HBL has increasing trend of total NPA. The forecasted trend projected that the NIBL has good loan due to decrement rate in its NPA and HBL has increasing its NPA which indicate nonperforming loan is increasing. The figure indicates that NIBL has better lending rather than HBL.
40. The trend of Net profit of NIBL and HBL are increasing trend. The trend of increasing value of net profit of NIBL is higher than HBL. The net profit of NIBL and HBL has been increasing every year by Rs. 96.06 million and Rs. 78.58 million respectively. The increment rate of net profit of NIBL is higher than HBL. NIBL is doing better in order to generate net profit during the projected study period although both NIBL and HBL have increasing trend.

## **CHAPTER – V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This research has been carrying out to evaluate the comparative financial performance analysis of commercial banks. The research is about the financial performances analysis of NIBL and HBL. In this chapter, summary conclusion and recommendation are included. All the summary and conclusion are made according to obtained data from analysis. Reference of this research would be beneficial for the management of the bank and other stakeholder.

#### **5.1 Summary**

This research has been analyzed the financial performance of commercial banks. Here two banks have been selected as sample of the study and five year financial statements of respective banks have been used for the study. The study has been divided into five chapters which include introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendation. This study based in primary and secondary data, with include published annual report and other publication of banks. Other related information were collected from the concerned banks, NRB, NEPSE, Securities Board of Nepal and different websites. The data have been analyzed by using financial and statistical tools.

The research is about comparative financial performance analysis of NIBL and HBL banks. The researcher has identified that research problem and set objectives to solve research problems about financial analysis of sample banks as described in introduction chapter. The main objective of the study is to analyze the financial position, of sample banks. The specific objectives of the study are: to present the existing financial position, strength, financial performance and to analyze the liquidity, asset and profitability ratio and lending efficiency ratio of NIBL and HBL offer suitable suggestions based on findings of this study. The research is based on primary and secondary source of data. There related literatures have been reviewed for more effective. This section includes conceptual review and review of related studies. In conceptual review includes concept of

banks, financial statement, financial analysis, need and objective of financial analysis, process, type and significance of financial analysis. In the review of related studies includes review of books, journal and articles and review of previous thesis as well.

Research methodology has been described in third chapter, which is a way to solve the research problems with the help of various tools and techniques. This chapter includes the various financial as well as statistical tools to analyze the data. This chapter includes the research design, population and sample data collection procedure, data period covered and methods of analysis. These studies is mainly conducted on the basis of secondary data collected from annual reports of concern bank, official report, economic journal, financial statement etc.

The presentation and analysis of data has been made comparative analytical and their interpretation has done in chapter four by applying the wide varieties of methodology as stated in chapter three. It includes the various financial and statistical tools. In case of financial tools ratio analysis is done which consists current ratio, liquidity ratio, assets management ratio, profitability ratio, activity ratio and other ratios. Other ratio includes EPS, MPS and P.E. ratio. Various statistical tools such as arithmetic mean, standard deviation, coefficient of correlation, regression analysis and trend analysis, have been applied to fulfill the objective of this study. The analysis has been done mainly through secondary. The major findings of the study are also included in the final section of the presentation and analysis chapter.

Lending and Investment of commercial banks is a very risky factor. For this, financial performance of commercial banks have to pay due consideration while investment, mobilization of fund and use of resources. A healthy development of any commercial bank depends upon its financial performance. A good financial performance of a bank attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

Financial performance analysis involves the use of various financial statements. These statements perform several things like the balance sheet, summarizes the assets, liabilities

and owner's equity, the income statement summarizes the revenues and expenses of the firm over a particular period of time. Financial Analysis is used primarily to gain insight into operating and financial problems confronting 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 statements into their components on the basis of purpose in the one hand and establish relationships between these components and 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.

## **5.2 Conclusions**

This research is done with the major objective of financial performance analysis of NIBL and HBL. Here make analyze the financial analysis in terms of liquidity, asset management, profitability and lending efficiency and other various ratio of sample banks as well as relevant financial and statistical ratios. Following conclusion has been drawn from the study.

For the analysis of liquidity position, the current ratio of NIBL and HBL has fluctuating trend. The liquidity position of NIBL is higher than HBL. The average cash and bank balance to total deposit ratio of NIBL has higher than the HBL. The cash and bank balance to current assets ratio of NIBL is higher than HBL. The investments on government securities to current assets ratio of NIBL and HBL have fluctuating. The HBL has invested more in govt. securities than NIBL. The loan and advances to total deposit ratio of both bank NIBL and HBL has increasing form. NIBL has higher ratio which indicates the better mobilization of deposit. The total investment to total deposit ratio of HBL has a higher than NIBL. NIBL has utilized its total assets more efficiently in the form of loan and advances. The investment on government treasury bills to total assets NIBL and HBL have fluctuating. HBL has invested more assets in risk free assets than NIBL. The return on loan and advances ratio of NIBL and HBL has fluctuating form. The return from loan and advance of NIBL is higher than HBL. The NIBL and HBL both banks have fluctuating trend of return on its total assets. Return on equity ratio

of NIBL has little higher mean ratio than that of HBL. So NIBL is generating higher ROE in comparison with HBL. Both NIBL and HBL banks have increasing total interest earned to total asset ratio, which indicate both banks doing well in interest earning. The interest earned to total outside assets ratio of both bank NIBL and HBL are in increasing. NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets. Interest earned to operating income ratio of NIBL and HBL banks have increasing form. The NIBL has higher of total interest earn in its total operating income. The NPL to total loan and advances of NIBL and HBL are in decreasing and increasing at last. Decreasing trend is the good sign of efficient credit management. The liquidity risk ratio of the NIBL and HBL are in fluctuating. The NIBL has sound liquid fund to make immediate payment to the depositors. The non-performing asset to total outside asset ratio of NIBL and HBL are decreasing at first and increasing at last. Decreasing trend is the good sign of efficient asset management. NIBL is more efficient in asset management than HBL due to having low ratio. The earning price per share of both NIBL and HBL has fluctuating form. HBL is better mobilizing it resources to get more earning per share (EPS. Anyway both banks have performing well. HBL has more inconsistency in its EPS than NIBL. Market price of the share of both bank NIBL and HBL has decreasing its share price from second fiscal year. This tends low performance and expectation from company. Higher ratio indicates that shareholder of HBL are getting higher price. The price earning ratio of NIBL and HBL are fluctuating decreasing. For getting Rs 1 as earning, it should invest Rs 24.38 in NIBL and Rs 22.976 in HBL. The NIBL are getting better profitability because they are selling their shares in high price.

In the aspect of primary data analysis, The highest responded were businessman or investor and lest were unemployment and retired person In the aspect of banking product deposit and loan, majority of customer were depositor rather than loan client. Every bank may have more deposit client than loan client but a manager should give emphasis on both clients. In different types of Deposit, the saving deposit is highest and fixed depositors are in second position and least is other. So highest no of customer are saving depositor of the bank and lowest are other categories of depositor. in the different type of loan 26.25% are availing corporate loan, 23.75% availing SME loan, and 30% are

availing retail loan and 20% are availing other loan like personal mortgage loan, card loan, travel loan etc. here highest client were part of retail loan and lowest percent of customer from other categories. Customer responses about interest rate, Majority of respondent were viewed about high moderate and just like other bank. The 37.5 percent satisfied from banks service and performance, 43.75 percent found moderate and 18.755 percent of respondent found unsatisfied. The highest portion found in moderate and lowest in unsatisfied. Similarly the research shows that staffs of bank are supportive. The 72.5 percent of respondent said yes that capital structure measure the performance of banks. So highest portion of response found in yes so capital structure of bank directly impact in their performance. Most of financial need of banks are fulfilled by deposit of deposer and else are by borrowing and capital and other funds. Financial performance management banks, the highest respondent agree towards reduction of bank risk first then only towards profit maximization of bank. The preference of bank while in investing 50 percent prefers portfolio investment, 25 percent says return from investment and next same 25 percent agree with return from lending. The highest portion of respondent viewed towards the portfolio investment. So portfolio investment is applied by bank while Applying investment policy. For Suitable sector for investment majority of investor prefer for investment in share market least are refer towards other investment. The investor view about dividend of company and banks, most of investor want cash dividend from their investment. They want cash rather than bonus or right share. The respondent view towards desire earning, majority 52.5 percent of investor are viewed towards to some extends and least 20 percent are said no so they are unsatisfied from company. So this survey indicates that majority of responded are no fully satisfied from company dividend payments. Purpose of holding share of banks, majority of investor hold the stock for capital gain and dividend income. So reason behind holding of stock is for capital gain and dividend income. Investor preference towards share of various companies, majority of investor want to invest in share of bank and second prefer for hydro sector. Financial analysis for to purchase share of banks, the highest respondent agrees towards yes that means they make financial analysis of company and bank before purchasing its stock. So financial analysis has been done before performing trading of bank stock.

The correlation between deposits and loan and advances of NIBL and HBL are 0.959 and 0.971. It is shows that both banks have positive relationship between these two variables. The relationship between deposits and lending of NIBL and HBL are significant. The correlation between total deposit and total investment of NIBL is positive and HBL has negative. This indicates that deposit and investment of HBL has inverse relationship. The relationship between total deposit and total investment of NIBL is significant whereas insignificant relationship of HBL. The correlation between loan & advance and net profit of NIBL and HBL are positive by 0.875 and 0.673. The NIBL has significant relationship and HBL has insignificant relationship. The correlation between total deposit and net profit of NIBL and HBL are positive but HBL has lower. The NIBL has significant relationship but HBL has insignificant relationship. The trend of total deposit of NIBL and HBL banks is in increasing trend. The rate of increment of total deposit for NIBL seems to be higher than that of HBL. NIBL has higher position in collecting deposit than HBL. Similarly the trend of loan and advances between NIBL and HBL also increasing trend. The increasing trend of NIBL is higher and aggressive than HBL. It is clear that both NIBL and HBL is mobilizing its collected deposits and other funds in the form of loan and advances. The trend of total investment of NIBL have increasing trend where as HBL has decreasing trend The forecasted trend projected that the NIBL has increasing and HBL has decreasing. The trend of Net profit of NIBL and HBL are increasing trend. The trend of increasing value of net profit of NIBL is higher than HBL. The net profit of NIBL and HBL has been increasing every year by Rs. 96.06 million and Rs. 78.58 million respectively. The increment rate of net profit of NIBL is higher than HBL although both NIBL and HBL have increasing trend.

### **5.3 Recommendation**

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the financial analysis NIBL and HBL effective and efficient. This would help to draw some outline and make reform in the respective banks.

- ) Generally, banks have to maintained liquid assets. The current ratio of the two banks, NIBL and HBL is considerable. This can be regarded as good liquidity position. Because both bank have more than 1:1 ratio. This can be regarded as

- good liquidity position. But HBL has little lower. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. So, it is recommended to maintain sound liquidity position to NIBL and HBL.
- ) Considering the growth position of financial market, the lending policy management capabilities, strategic planning and fund flow situation, bank should maintain enough liquid assets to pay short-term obligations. So, it is recommended to maintain sound liquidity position to NIBL and HBL.
  - ) Government securities such as Treasury bills, Development bonds, saving certificates etc. are risk less investment alternatives because they are free of default risk as well as liquidity risk and can be easily sold in the market. In this research study, it has found that both banks NIBL and HBL have made some amount of fund in Government securities. But NIBL has found little lower. So it's recommended to NIBL invests more funds in Government securities instead risky lending.
  - ) To get success in competitive banking environment, deposit must be utilized as loan and advances. The largest item of bank assets side is loan and advances. It has been found that loan and advances to total deposit ratio of HBL is lower than that of NIBL. It means HBL has not properly used their existing fund as loan and advances. So HBL is recommended to follow liberal lending policy and to invest more deposit in loan and advances.
  - ) The NPL of NIBL and HBL are fluctuating. Decreasing trend is the good sign of efficient credit management. The mean ratio of NIBL and HBL are 1.342% and 2.96%. These ratios indicate that HBL has worse loan than NIBL. Both banks have under the credit risk according to NRB directives. However, both bank recommended reducing its nonperforming loan especially for HBL which has more ratio.
  - ) EPS and DPS play a vital role to determine the market price of the share and also indicate the financial performance of banks. Higher EPS and DPS indicate the

- banks' sound financial position that would help them satisfy their stakeholders. So both bank recommended to increase in this regards.
- ) Interest earning is main source of bank. The interest earned to total outside assets ratio of both bank NIBL and HBL are in increasing. Its good sign. The mean ratio of NIBL has little higher than HBL. Here NIBL seems to have more efficiency in generating total interest through well utilizations of outside assets. So both banks recommended to follow the same way afterwards.
  - ) Both the banks are recommended to formulate and implement the sound and effective investment policy to increase volume of total investment and loan and advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.
  - ) Political instability directly affected the economic sector such as hotel and tourism, manufacturing and trading sector. Bank loan and advances are decreasing in this sector. So banks should give priority to these sectors as well as create new investing sector to mobilize deposit.
  - ) Banks should develop an innovative approach to marketing and formulate new strategies of serving customers in a more convenient and satisfactory way by optimally utilizing the modern technology and offering new facilities to the customers at competitive prices. Banks are also required to explore new market areas. For this purpose, it is recommended to form a strong market department in central level, which deals with the banking products, places, price and promotion.
  - ) In conclusion, NIBL has better performance than HBL. But both banks are doing well. So both banks should keep up with its growth trend to give strong competition to other banks. In the light of growing competition in the banking sector, both bank NIBL and HBL should be customer oriented. It should strengthen and activate its marketing function as it is an effective tool to attract and retain the purposive customers.

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<http://www.nrb.org.np>

<http://www.sebonp.com>

**Appendix - 1**

**A) Trend Analysis of Nepal Investment Bank Limited**

Year(x)	Total Deposit (Y)	X = x-2009/10	X <sup>2</sup>	XY
2007/08	34452	-2.00	4.00	-68904.00
2008/09	50094.73	-1.00	1.00	-50094.73
2009/10	50138.12	0.00	0.00	0.00
2010/11	50138.12	1.00	1.00	50138.12
2011/12	57010.6	2.00	4.00	114021.20
Tot n= 5	Y = 241833.57	X = 0	X <sup>2</sup> =10	XY = 45160.59

Source: Annul Report of Nepal Investment Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

NIBL

$$a = 48366.71$$

$$b = 4516.06$$

Where as

$$Y_c = 48366.71 + 4516.06 * X \text{ of NIBL}$$

**B) Trend Analysis of Himalayan Bank Limited**

Year(x)	Total deposit(Y)	X = x-2009/10	X <sup>2</sup>	XY
2007/08	31842.79	-2.00	4.00	-63685.58
2008/09	34681.35	-1.00	1.00	-34681.35
2009/10	37611.2	0.00	0.00	0.00
2010/11	40920.63	1.00	1.00	40920.63
2011/12	47730.99	2.00	4.00	95461.98
Tot n= 5	Y = 192786.96	X = 0	X <sup>2</sup> =10	XY= 38015.68

Source: Annul Report of Himalayan Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots \dots \dots (I)$$

Where x = X - Middle year

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

HBL

$$a = 38557.39$$

$$b = 3801.57$$

Where as

$$Y_c = 38557.39 + 3801.57 * X \text{ of HBL}$$

**Appendix - 2**

**A) Trend Analysis of Nepal Investment Bank Limited**

Year(x)	Loan and advances (Y)	X = x-2009/10	X <sup>2</sup>	XY
2007/08	27529	-2.00	4.00	-55058.00
2008/09	36827.16	-1.00	1.00	-36827.16
2009/10	40318.31	0.00	0.00	0.00
2010/11	41095.51	1.00	1.00	41095.51
2011/12	41636.99	2.00	4.00	83273.98
Tot n= 5	Y = 187406.97	X = 0	X <sup>2</sup> =10	XY = 32484.33

Source: Annul Report of Nepal Investment Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

NIBL

$$a = 37481.39$$

$$b = 3248.43$$

Where as

$$Y_c = 37481.39 + 3248.43 * X \text{ of NIBL}$$

**B) Trend Analysis of Himalayan Bank Limited**

Year(x)	Loan and advances (Y)	X = x-2009/10	X <sup>2</sup>	XY
2007/08	20179.61	-2.00	4.00	-40359.22
2008/09	24793.15	-1.00	1.00	-24793.15
2009/10	27980.63	0.00	0.00	0.00
2010/11	31566.98	1.00	1.00	31566.98
2011/12	34965.43	2.00	4.00	69930.86
Tot n= 5	Y = 139485.80	X = 0	X <sup>2</sup> =10	XY = 36345.47

Source: Source: Annul Report of Himalayan Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

HBL

$$a = 27897.16$$

$$b = 3634.55$$

Where as

$$Y_c = 27897.16 + 3634.55 * X \text{ of HBL}$$

### Appendix -3

#### A) Trend Analysis of Nepal Investment Bank Limited

Year(x)	Total Investment(Y)	X = x-2009/10	X <sup>2</sup>	XY
2007/08	6874.02	-2.00	4.00	-13748.04
2008/09	8635.53	-1.00	1.00	-8635.53
2009/10	7423.11	0.00	0.00	0.00
2010/11	7423.11	1.00	1.00	7423.11
2011/12	10438.49	2.00	4.00	20876.98
Tot n= 5	Y= 40794.26	X=0	X <sup>2</sup> =10	xy = 5916.52

Source: Annul Report of Nepal Investment Bank Limited

$$Y = a + bx$$

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum XY}{\sum X^2}$$

NIBIL

$$a = 8158.85$$

$$b = 591.65$$

Where as

$$Y_c = 8158.85 + 591.65 * X \text{ of NIBIL}$$

**B.) Trend Analysis of Himalayan Bank Limited**

Year(x)	Total Investment(Y)	X = x-2009/10	X <sup>2</sup>	XY
2007/08	13340.18	-2.00	4.00	-26680.36
2008/09	8710.69	-1.00	1.00	-8710.69
2009/10	8444.91	0.00	0.00	0.00
2010/11	8769.94	1.00	1.00	8769.94
2011/12	10031.58	2.00	4.00	20063.16
Tot n= 5	Y= 49297.3	X=0	X <sup>2</sup> =10	xy = -6557.95

Source: Annul Report of Himalayan Bank Limited

$Y = a + bx$

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$Y = a + b x \dots\dots\dots (I)$

Where  $x = X - \text{Middle year}$

Here,

$a = \frac{\sum Y}{N}$

$b = \frac{\sum XY}{\sum X^2}$

HBL

$a = 9859.46$

$b = -655.80$

Where as

$Y_c = 9859.46 - 655.80 * X \text{ of HBL}$

**Appendix - 4**

**A) Trend Analysis of Nepal Investment Bank Limited**

<b>Year(x)</b>	<b>Net Profit (Y)</b>	<b>X = x-2009/10</b>	<b>X<sup>2</sup></b>	<b>XY</b>
2007/08	697	-2.00	4.00	-1394.00
2008/09	900.62	-1.00	1.00	-900.62
2009/10	1265.95	0.00	0.00	0.00
2010/11	1176.64	1.00	1.00	1176.64
2011/12	1039.28	2.00	4.00	2078.56
Tot n= 5	Y = 5079.49	X = 0	X <sup>2</sup> =10	XY = 960.58

Source: Annul Report of Nepal Investment Bank Limited

Where,

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

NIBL

$$a = 1015.90$$

$$b = 96.06$$

Where as

$$Y_c = 1015.90 + 96.06 * X \text{ of NIBL}$$

**B.) Trend Analysis of Himalayan Bank Limited**

Year(x)	Net Profit (Y)	X = x-2009/10	X <sup>2</sup>	XY
2007/08	635.87	-2.00	4.00	-1271.74
2008/09	752.83	-1.00	1.00	-752.83
2009/10	508.8	0.00	0.00	0.00
2010/11	893.12	1.00	1.00	893.12
2011/12	958.64	2.00	4.00	1917.28
Tot n= 5	Y = 3749.26	X = 0	X <sup>2</sup> =10	XY = 785.83

Source: Annul Report of Himalayan Bank Limited

Where,

Y= dependent variable

Y = dependent variable

a = Y-intercept

b = slope of trend line or annual growth rate,

X = deviation from some convenient time periods.

Let trend line be

$$Y = a + b x \dots\dots\dots (I)$$

Where x = X - Middle year

$$a = \frac{SY}{N}$$

$$b = \frac{SXY}{SX^2}$$

HBL

$$a = 749.85$$

$$b = 78.58$$

Where as

$$Y_c = 749.85 + 78.58 * X \text{ of HBL}$$

*Appendix*

**QUESTIONNAIRE**

**Dear Sir/Madam,**

This is to bring your kind information that this is an attempt to identify the FINANCIAL PERFORMANCE ANALYSIS OF COMMERCIAL BANKS “A comparative study of Nepal Investment bank limited and Himalyan bank” for the partial fulfillment of Thesis required for MBS degree, T.U. You are kindly requested to fill up the following questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

*Respondents:*

Name: ..... Sex: M [ ] F [ ]  
Institution: ..... Position (Optional):  
.....

*Please tick the best answers.*

**1. What is Your Profession?**

- Business person / investor[]
- Working for private company[]
- Working in government/semi government organization. []
- Unemployed/ Retired[]

**2. Please indicate which banking product (service) you are currently using with Bank?**

- Deposit products[]
- Loan products[]
- Others

**3. If you are a depositor client then what types of deposit have you been performing?**

- Fixed deposit[]

- ) Current deposit []
- ) Saving deposit[]
- ) Others[]

**4. If you are a loan client then what types of loan have you been availing?**

- ) Corporate Loan[]
- ) Small and Medium Size Loan (SME Loan)[]
- ) Retail Loan[]
- ) Others[]

**5. What are the interest rates on different types of loan and deposit? What do you feel about interest rate of banks?**

- ) Very high[]
- ) High[]
- ) Moderate[]
- ) Low[]

**6. Do you satisfied with overall banking product and service of commercial bank that you are using?**

- ) Satisfied []
- ) Moderate []
- ) Unsatisfied []

**7. How do you find the staff of bank?**

- ) Supportive[]
- ) Non-supportive[]
- ) So so[]

**8. Can Good Capital Structure management measure Strength the banks in Nepal?**

- Yes
- No
- Don't know

**9. How are the commercial banks managing their financial needs?**

- Deposit
- Borrowing
- Capital and other

**10. What would you like to suggest with regard to financial performance management in Nepalese commercial banks?**

- Utilization of cash as a proper manner and get higher profit for shareholders
- Reduce the Risk proportion of Bank.
- Don't know

**11. While forming the investment policy, what will be bank's preference among these?**

- Portfolios of investment
- Return from investment
- Return from lending

**Investor**

**12. Which sectors are suitable for purpose of investment?**

- Fixed deposit
- Gov. Saving bond
- Share Market
- other

**13. What shareholder expectation from the company (Bank)**

- Bonus Share

- Cash Dividend
- Right Share

**14. Is the present investment able to gain desired return?**

- Yes
- To some extends
- No

**15. In which of the following sectors do you want to invest in Share?**

- Banking Sector
- Insurance
- Manufacturing and Processing Sector
- Hydro
- Others

**16. For which purpose do you buy the share of commercials banks?**

- For capital gain
- For dividend income
- To take over
- Lack of other alternative

**17. Do you make financial analysis of bank before perform to transaction share of bank?**

- Yes
- Not at all
- Don't know

*Thank You for your time and your answers.*

**Thank You,  
Atma Ram Dawadi**