CHAPTER - I

INTRODUCTION

1.1 Background

Banking sector plays a vital for the country's economic development. Bank is a resource mobilizing institution that accepts deposit from various sources and invests such accumulated resources in primary, secondary and tertiary sector. The level of overall development of a country; social, cultural, political or economical development is characterized by the level of economic growth and the crux of the economic growth lies in the development of a well-managed banking system. Hence banks can be considered as the backbone of a country's overall development. In short banks are extremely necessary for the healthy and perennial progress of a country. By creating and mobilizing the capital and rendering various financial service banks are contributing to the establishment and development of so many small and large scale industries and domestic as well as international trade and commerce. Though bank refers to transaction of money modern banks are established with specific purposes. Depending upon the nature of bank, it serves differently to its customers though the underlying principle is same. Banks provide an effective payment and credit system, which facilitates the channeling of funds from the surplus spending units (savers) to the deficit spending units (investors) in the economy. By accepting deposits, the banks promote the habit of savings among the people. These savings of the people later result in capital formation, which is the basis of economic progress in the country. Moreover, banks also encourage industrial innovations and business expansions through the funds provided by them to the entrepreneurs. Banks exercise considerable influence on the level of economic activity through their ability to create money in the economy. Banks perform an indispensable task of intermediating between the deficit spending individuals or institutions and the surplus spending individuals or institutions in order to raise funds and then loaning

those funds to deficit spending individuals or institutions. In addition another contribution banks make is their while issue low risk securities to their depositors. The various utility functions performed by banks are of great economic significance for the economic, which can influence the course and direction of economic activity within the economy. They pool together the savings of the community and arrange for their productive use by providing short as well as long term loans in different forms necessary for the trade and commerce. They discharge various functions on behalf of their customers and in turn they are paid for their services. Commercial banks undertake the payment of subscriptions, insurance premium, rent, etc. and collection of cheques, bills, salaries, pensions, dividends, interest, etc. on behalf of their customers and in turn charge a small amount of commission for these services. In addition, they purchase and discount bills of exchange, promissory notes and exchange foreign currency. Furthermore, commercial banks also arrange to remit money from a place to another at very low prices by means of cheques, drafts, SWIFT, etc. They buy and sell shares and securities on behalf of customers, act as the custodian of the valuables such as jewelry, documents of title to goods, securities etc. belonging to the customers. In fact the economic development of a country is not possible without a sound banking system.

1.1.1 Origin and Historical Growth of Banking

Banking is of ancient origin though little is known about it before the middle ages. The origin of commercial banking can be traceable in the ancient era of Greeks and Mesopotamians as well as Romans, when the practice of storing precious metals and coins at safe places and loaning out money to the people on interest was prevalent. The traces of rudimentary banking are found in the Chaldean Egyptian and Phoenician history. According to Alfred Marshall, “In Greece, the temples of Delphi and other safer places acted as store houses for the precious metals before the days of coinage and private purposes at interest though they paid

none themselves. Private money changers began with the task of reducing many metallic currencies more or less exactly to a common unit of value and went on to accept money on deposit at interest and to lend it out at higher interest permitting meanwhile drafts to be drawn on then".

Modern banking made its first appearance in medieval Italy despite strong Christian prohibitions against Usury (the charging of interest) according to the Canon Law Florence, Genoa and Lucca became the centers of finance and trade in Twelfth and Thirteenth centuries. The first bank called the bank of Venice was established in Venice Italy in 1157 A.D. to finance the monarch in his wars. Following its establishment the banks established were the bank of Barcelona and the bank of Genoa in 1401 and 1407 respectively. Banking slowly spread to the rest of Europe and by the late thirteenth century in Barcelona even the clergy was engaged in banking. The Germans and Swiss rose to pre eminence in the 1480s. The bank of Amsterdam was the great bank of the 17th century and it enjoyed a prestigious position no less important than is held currently by the bank of England, for a long time in the sphere of international commerce.

In England, banking had its origin with the London goldsmiths who in the 17th century, began to accept deposits from merchants and others for safe keeping of money and other valuables. Crude money lending and money changing were present during the reign of Elizabeth I (1533 AD – 1603 AD) and the practice developed whereby merchants would deposit money (coins) in the tower of London which served as the British mint. In 1640 Charles I expropriated the sum then on deposit (approximately £ 2000,000). Having learned from this loss the merchants decided to seek a depository free from the danger of royal confiscation. A natural place was the strong boxes owned by goldsmiths and these businesses soon commenced the practice of accepting deposits for which they gave a receipt (or goldsmith notes i.e. claims against deposits) were negotiable they passed from

hand to hand in exchange for goods and services, and became a medium of exchange and a means of payment. From time to time they would be presented for conversion into coin. This first innovation was the forerunner of the bank note or banker's currency.

Shortly thereafter as early as 1680 the practice developed whereby the depositor could write a note requesting that a sum of money be paid to a third party or to the bearer. This innovation was the forerunner of the modern check, which is merely an order to a bank requesting that a deposit be transferred to a third person or bearer. The next stage in the development of banking arises when the goldsmith becomes a money lender. This development was based on discovery or realization of the goldsmiths that it was not necessary to maintain 100 percent reserve against deposit liabilities held with them as it was unlikely that all depositors would ask for their deposits on the same day. The goldsmiths soon realized that on average daily withdrawals were equal to daily deposits and only a contingency reserve was required for the periods when withdrawals exceeded deposits. After keeping the contingency reserve the goldsmiths found it feasible to loan out the remaining deposits by charging interest. Fractional reserve banking must have developed shortly after the goldsmiths entered the banking business because periodically they computed balance sheets or as they called it casting up ye shop. In this way the goldsmith money lender became a banker who started performing the two major functions of a bank i.e. receiving deposits and advancing loans.

The concept of modern commercial bank came into existence by the emergence of bank of England in 1694 with a capital of £ 1.2 million by a group of wealthy London merchants and financiers. At that time there was no concept of joint stock Company it was necessary to obtain a special charter from the crown to pool their money in common venture. King William III was too pleased to grant a royal charter to bank of England because in return a capital subscribed of £ 1.2 million

was lent to him to finance his war against France. The charter also gave the new bank the right to issue notes payable on demand up to the amount of the loan to the king.

In spite of the establishment of bank of England in 1694 the development of modern commercial banking institutions had to wait for another century and four decades until the passage of banking act of 1833 which provided freedom for the establishment of joint stock banks. While banking arose far early and rapidly in some countries than in other it was only in the 19th century that the modern joint stock commercial banking system developed in the leading countries of the world. When colonies were established in North and South America old banking services were transferred to the New World.

1.1.2 Evolution of Banking in Nepal

The evolution of Banking Industry had started a long time back. Banking made its first beginning around the middle of 12th century in Italy and the Bank of Venice founded in 1157 was the first public banking institution, followed by Bank of Barcelona and Bank of Genoa in 1401 and 1407 respectively. With the expansion of commercial activities in northern Europe of private Banking houses were sprang up, spreading it throughout the world.

The infrastructure development, especially industrial is almost impossible without the mobilization of scattered fund with the public. However Nepal has been late in recognizing the fact. So the history of formal and commercial banking finance companies is relatively short. The first commercial bank of Nepal, Nepal Bank Limited was established in 1937 under Nepal Act 1937. Prior to establish of Nepal Bank Limited, a government financial institution called *Tezarath Adda* operated in the country. *Tezarath Adda* used to extend credit to the people but it didn't accepted deposits from them. It performs Banking function partially. With the

establishment of NBL, Tezarath was abolished and inconveniences caused by the absence of formal banking sector were finally removed.

Even after the establishment of NBL there was no general Banking legislation in Nepal up to 1964 and it replaced the Nepal Bank Act 1937 in April 1965. Since the private sector did not take any initiative to establish another commercial bank the government established a public sector Rastriya Banijya Bank in January 1966, under *Rastriya Banijya Bank 1965.* The general commercial Bank Act 1965 and the Rastriya Banijya Bank Act 1965 were repelled and was replaced by a new commercial banking act enacted in 1974.

During the mid 80s the joint venture Banks also came into the free in Nepal, namely Nepal Arab Bank Limited, Nepal Grind Lays Bank Limited and Nepal Indosuez Bank Limited. The two national Banks Nepal Bank Limited and Rastriya Banijya Bank had been extended their area of operation to every nook and every corner of the country. Under banking development scheme 1967 of Nepal Rastra Bank, which entitled a scheme of bank branch expansion. The rapid increase in opening of the joint venture banks following the liberalization and market oriented economic policy resulted in cut throat competition regarding service and product development.

Since the Joint Venture Banks Management is basically held by the foreign banks. They enjoy competitive advantage factors like highly skill personnel, customer oriented modern banking services, management skills in comparison to the domestic commercial banks joint venture banks have come far better regarding the overall performance in each and every aspect.

1.1.3 Introduction of Two Selected Commercial Banks

The establishment of the joint venture and commercial bank has given a new horizon to the financial sector of Nepal. The study focuses on the financial performance of two commercial bank namely Himalayan Bank Ltd. (HBL) and Nepal Investment Bank Ltd. (NIBL).

1.1.3.1 Nepal Investment Bank Limited

Nepal Investment Bank Limited (NIBL) previously 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 of the largest banking groups in the world.

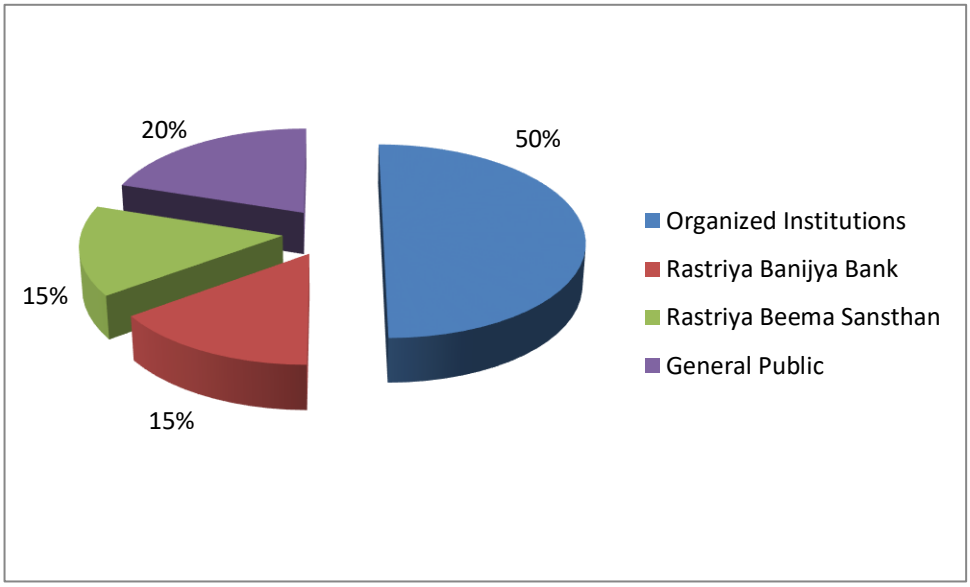
With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, acquired the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd on April 2002.

The name of the bank was subsequently changed to Nepal Investment Bank Ltd. upon a approval of bank's annual general meeting, Nepal Rastra bank and Company Register's office with the following shareholding structure:

- A group of companies holding 50% of the capital
- Rastriya Banijya Bank holding 15% of the capital
- Rastriya Beema Sansthan holding 15% of the capital
- The remaining 20% being held by the General Public (which means that NIBL is listed company in Nepal Stock Exchange)

Figure 1.1

Share Holding Structure of NIBL



1.1.3.2 Himalayan Bank Limited

Himalayan Bank Limited is a joint venture bank with Habib Bank Limited of Pakistan was established in 1992 under the Company Act, 1964, the operation of the bank started from 1993 February. It is the first commercial banks of Nepal with maximum shareholding by the Nepalese private sector. Habib bank is the largest and oldest bank in Pakistan having over 1700 domestic and 65 overseas branches covering all continents and over 1800 correspondent worldwide.

Its policy is to extend quality and personalized service to its customer 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 requirement. To extend more efficient services to its customer, Himalayan Bank has been adopting innovative and latest banking technology, this has not only helped the bank to constantly improve its service level but haws also kept it prepared for future adaptation of new technology.

Himalayan Bank has correspondent arrangements with 178 internationally renowned banks for funds transfer, letter of credit or any banking business anywhere in the world.

The Bank committed to be a "Banking with Difference" has seven branches in Kathmandu valley namely Pulchowk, New Road, Thamel, Maharajgunj, Teku Card Center Pulchowk, Bhaktapur and Nagarkot. The bank is also operating a counter in the premise of the Royal Palace. Moreover it has also covered the area outside the Kathmandu valley namely Banepa. Tandi, Narayanghat, Birgunj, Hetauda, Butwal, Nepalgunj, Dharan, Pokhara, Bhairahawa and Biratnagar. In the near future, it plans to service in different parts of the Kingdom.

Capital Structure of Himalayan Bank Limited

Current Capital Structure	**Nrs.**
Authorized Capital: 20,000,000 ordinary shares of Rs. 100 each	2,000,000,000
Issued Capital: 10,135,125 ordinary shares of Rs. 100 each	1,013,512,500
Paid Up Capital: 10,135,125 ordinary shares of Rs. 100 each	1,013,512,500

1.2 Statement of the Problems

Various financial institutions have been established to assist the process of the economic development of Nepal. Emphasizing the role of commercial banks, India Dani says, "The major problem in almost all undeveloped countries and Nepal is no execution, is that of capital formation and proper utilization. In such countries the commercial banks have to shoulder more responsibility and act as development banks, due to the lack of the other specialization institutions". To avoid problems and thereby contribute to the national economy, various commercial banks have played a vital role by accepting the deposits and providing the various types of loans. Loan affects overall development of the country. The development of the country is directly related to the volume of the loan, which is

also obtained from commercial banks. The problem of lending has become very serious for the developing country like Nepal. This is due to lack of sound policy of commercial bank.

"Nepalese commercial banks have not formulated their investment policy in an organized manner. They mainly rely upon the instructions and guidelines of Nepal Rastra Bank. They do not have clear view towards investment policy. Furthermore, the implementation of the policy is not in an effective way".

Commercial banks are found to be making loans only on short term basis against movable merchandise. There is hesitation to investment on long term project as they are much more safety minded. So, they follow conservative loan policy which is based in string securities, they do not consider the profit potential of the project. There is raised criticism that commercial banks have served only richer communities and not the poor. This has directly had negative impact on economic growth. Nowadays commercial banks do not seem to be capable to invest their fund in more profitable sector. There are found to be more interested in investment in less risky and highly liquid sectors, i.e. treasury bills, development bonds and other securities. They keep high liquid position and flow lower funds to the productive sectors which results in lower profitability to the commercial banks and ignorance to the national economic growth process. This is the main reason of crisis in the commercial banks and in the whole national economy as well.

The proper mobilization and utilization of domestic resources become indispensable for any developing country aspiring for a sustainable economic development and there is no doubt that commercial banks have a pivoted role in the collection of dispersed small savings of Nepalese people and transforming them into meaningful capital investment. Thus success and prosperity of the bank relies heavily upon the successful investment of collected resources to the

important sectors of the economy. Successful formation, effective implementation of investment policy is the prime requisite for the successful performance of the commercial banks. Good investment policy has positive impact on economic development of the country and vice versa. So investment policy of commercial banks should be accordance with the spirit of economic up liftment of the people.

As mentioned above, there are many loopholes in the investment policies of the commercial banks of Nepal, which affect their performance doesn't seem so 'satisfactory' in terms of utilizing its resources efficiency in productive sectors. The study of the commercial banks investment policy focusing on interest rate structure, portfolio management and credit management will strive to disclose the internal weakness and furnish the ideas for improvement policy of commercial banks and point out the defects inherent in it and provide package of suggestions for its improvement.

1.3 Objective of the Study

The study has an objective of analyzing the financial performance of the company. As financial aspect of the company is the key indicator it has always been the concern of the stakes holders about the financial performance of the company.

The specific objectives of the study are:-

- To compare and analysis of various ratio between NIBL and HBL.
- To examine the relative financial performance of NIBL and HBL in terms of different kinds of ratios like financial ratios and profitability ratios.
- To perform trend analysis of theses selected banks and make a projection of these for next five years.
- To provide meaningful suggestions and recommendation to these banks for improvement in their financial performances.

1.4 Scope of the Study

The scope of this study lies mainly in feeling research gap on the study of investment policy and financial performance of commercial banks. This study is basically confined to reviewing the investment policy of commercial banks in the five fiscal from year 2003/04 to 2007/08.

The study is expected to definitely provide a useful feedback to the policy makers of commercial banks of Nepal, and also to the government and the central bank (NRB) in formulating appropriate strategies for the improvement in the performance of commercial banks. Moreover this study can also be used as reference point by the international organization like ADB, IMF, World Bank etc.

1.5 Importance of the Study

The study has multidimensional significance:

- 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 exchange and stock traders are also interest in the performance of the bank as well as the customers, depositors and debtors, who can objectively identify the better bank of deal with in terms of profitability, safety and liquidity.
- Policy makers at the macro level that is government and Nepal Rastra Bank will also benefit regarding the formulation of further policies in regard to economic development through banking institutions.

1.6 Limitation of the Study

The Limitation of the study is given below:

- The study was done on the basis of the data provided by the organization, so the output of the study is entirely dependent on the data provided by the Bank.
- As the report only focuses on the financial aspect of the bank, it does not cover all the aspect of the bank.
- The study fully depends upon the secondary data provided by the bank.
- The time period of only five years has been taken fort the study, so the conclusion drawn includes only for that period.
- Limited resources and time at the disposal of the researcher did not allow a much more extensive analysis of the subjective in question.

1.7 Chapter Scheme

The whole study has been divided into five chapters. Each is developed to some aspect of the study.

First chapter deals with the introduction, which includes general background, simple introduction of two selected commercial banks, statements of the problem, need of the study, objective of the study, scope of the study, importance of the study, limitation of the study and chapter plan.

Second chapter deals with the review of available literature. It includes review of book journals, review of legislation related to commercial banks, review of other relevant books and review of bulletins and annual reports published by bank review of related articles, review of thesis.

Third chapter explains the research methodology used in the study, which includes research design, sources of data; population samples methods of data analysis (various tools, i.e. financial and statistical tools).

Fourth chapter deals with presentation and analysis of data through definite curse of research methodology. The main working of this chapter is to analysis different financial ratios related to the financial performance and fund mobilization of NIBL in comparison to the HBL.

Ultimately, **fifth chapter** discusses summary of main findings, recommendation and suggestions for further improvements. Beside these, bibliography and appendices are also included.

This chapter has focused to giving general introduction to the readers regarding the commercial banks growth, functions, policies and limitations. Furthermore, it provides the chapter plan of the study. Now the next step is to give fundamental base to the study through the review of relevant literature available at present, which will be discussed comprehensively in the next chapter.

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 has been classified into three subgroups as follow.

- Conceptual Review
- Review of Journal and articles
- Review of Thesis

2.1 Conceptual Review

2.1.1 Concept of Banking

Bank is a financial institution, which plays a significant role in the development of country. It facilitates the growth of trade and industry and other sector of the national economy. It is a resource for economical development, which maintains the self-confidence of segments of society and extends credit to the people.

The more development of the financial system of the world characteristically falls into three parts: the central bank, the commercial bank and other financial institutions. They are also known as financial intermediaries.

A bank is a business organization that receives and holds deposits of funds from others makes loans or extends credit and transfers funds by written order of depositors. Philosophy of banking lays in preserving mutual understanding and maintaining trust with its customers.

The business in banking is one of collecting funds from the community and extending credit (making loans) to people for useful purpose. Banks have played a pivotal role in moving money from lenders to borrowers. Banking is a profit seeking business not a community charity. As profit seekers, it is expected to pay dividends and otherwise add to the wealth of its shareholders. In the Nepalese context, nowadays, three types of banks are being operated by performing their activities in different sectors, such as Central Bank (Nepal Rastra Bank), commercial banks and development or the joint sector (NBL) of being operated under joint venture with foreign banks with private participations (HBL).

2.1.2 Commercial Banks

Literally an institution, which accepts deposits, makes business loans, and offers related services are called commercial bank. The commercial bank comprises establishment primarily in engaged in accepting demand and other deposits and making commercial industrial and consumer loans.

The primary activities of banks are accepting demand and other deposits and making commercial, industrial, and consumer loans. They accept deposit from the public on the condition that they are repayable on demand and grant loan in the form of cash credits and overdrafts. Moreover varieties of services like collection of bills and cheques, credit cards, automatic tailor machine (ATM), safe deposit Locker, safekeeping of valuable financial advises, internet banking etc. are offered among its valued customers.

Commercial banks play a vital role in the economic development of a country. In fact, commercial banks are one of the vital aspects of the banking sectors, which deal in the process of canalizing the available resources in the need sectors. It stands as the intermediary between the deficit and surplus of financial resources.

People with the surplus money keep it as deposit in the banks that in turn are provided to the deficit party in the form of loans and advances.

According to the section 2(a) of Commercial Bank Act 1974, the commercial banks are the heart of the economic system. Thus, their task is to provide a collecting point for saving or relatively small average amount from large number of individual sources and invited them into a productive and needed sector of the country, so as to develop the nation.

Altogether there are 28 commercial banks scattered over various parts of the country operating under their own rules and regulations and own vision, ultimately serving nation to build huge financial resources and mobilizing it in the best possible way.

2.1.3 Function of Commercial Bank

Commercial banks can be defined from the function it performs. Generally, all commercial banks perform following functions:

1. Accepting Deposits

The main objective of the commercial bank is to collect the deposit. Commercial banks accept the deposit from the public who has surplus funds. Therefore, accepting deposit by banks is the oldest function. A bank accepts deposits in the form of saving, current and fixed deposit.

2. Advancing Loans

The second major function of commercial bank is providing loan to the needy person. Bank advances the loan against the security to the customer. Advancing loan is also known as the function of the deposit mobilization because bank gives loan to the people from the deposit that it collects from the public. There is various

methods of advancing loans, e.g. overdrafts, cash credit, direct loans, discounting bills of exchange etc.

3. Agency Services

Agency services are those services, which are provided by the banks on benefit of its customer. A commercial Bank undertakes the payment of subscription, insurance premium, rent etc. and collection of cheques, bills, salaries, pensions, dividends, interest etc. on behalf of the customer. The bank charges the service cost to do these function to its customers. The commercial banks also arrange the remit money from one place to another by means of cheques, drafts, wire transfer etc.

4. Credit Creation

Credit creation is one of the most important functions of the commercial banks. In order to earn profits, they accept deposits and advance loans by keeping a small cash reserve ratio for day-to-day transaction as prescribed by the central bank. When a bank advances a loan, it opens an account to draw money by cheque according to his need, by granting a loan, the banks create credit or deposit.

5. General Utility Services

The commercial banks perform certain utility function to its customer. Following are the general utility service provided by the commercial banks:

a. Safe keeping of valuables
b. Assist in foreign trade
c. Making venture capital loan
d. Investment banking and merchant banking.
e. Security brokerage service

2.1.4 Concept of Financial Performance

Financial performance can be defined as the heart of financial decision. The growth and development of an enterprise is fully affected by the financial performance and financial performance of enterprises is correct only wither true facts and data are input.

Business organizations are inspired to generate profit. The volume of profit earned is also one of the major indications of a good financial performance of a firm. “Profit earned by the firm is the main financial performance indicator of a business enterprise” (Robinson, 1951:21-22).

“Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy though retained earnings. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sector”.

Financial performance as a part of financial management is the main indicator of success and failure of a firm. Financial conditions of a firm should be found from viewpoints of shareholders and debenture holders.

A quantitative judgment of the financial performance and financial position of the firm should be made from viewpoint of the firm’s investment. Thus financial analysis is the main qualitative judgment process of identifying the financial strength’s and weakness of the firm by properly establishing the relationship between the items of balance sheet, profit and loss account. “A ratio is defined as the indicated quotient of two mathematical expressions and the relationship between two or more figure”. “In financial analysis ratio analysis is used for evaluating the financial position and performance of the firm” (Pandey, 1991:104).

In this study mainly focused on financial of commercial bank is examined for various reasons.

Ratio analysis is such a powerful tool of financial analysis that through this economic and financial position of a business unit can be fully X-rayed (Kothari, 1991: 48).

There are many parties concerned with the bank (i.e. short term creditors, long term creditors, shareholders, potential investors, management, government, central bank, general public).

Long term creditors and bondholders are interested in the cash flow ability and profitability of the bank. Over a time period and they analyze the ability of the bank to pay the interest in time and also the capital structure of the bank.

Similarly, shareholders want the growth of the retained earnings and the same time stability in earning. They are concerned with strong financial position of the bank so that it can pay regular dividend to its shareholder with no chances of bankruptcy. Likewise management of the bank concerned about the overall position of the bank likes liquidity profitability, solvency, growth and goodwill and so on. Thus the management should analyze all types of financial indicators, which will help in both internal and external analysis of the bank.

Government regulatory is concerned with the rate of return on the assets and also they want to see the proportion of equity and non-equity in capital structure of the banks. The general public is also interested towards the concerned matters.

So financial performance analysis of a firm consists different of kinds of indicators out of which financial statement analysis, ratio analysis, sources and uses of fund

are the major indicators to measure the strength and weakness of a firm. But here the study in focused mainly on the ratio analysis and some other financial indicators to analyze the financial position and performance of the bank.

2.2 Review of Studies

2.2.1 Review of Journal and Books

The banks are such types of institutions, which deal in money and substitute for money. They deal with credit and credit instrument. Good circulation of credit is very much important for the bank. On steady and unevenly flow of credit with ad hock decision harms the economy and the banks as well. Thus, to collect fund and utilized it in good investment, is not a joke for such organization. An investment of fund may be question of life and death for the bank.

In the words of Gitman & Joehnk, "Investment is any vehicle into which funds can be placed with the expectation that will preserve or increase in value and generate positive returns".

Chandler says in this regard, "A banker seeks optimum combination of earning, liquidity and safety, while formulating investing policy" are essential if a bank is to perform its credit creating function effectively and minimize the risk inherent in any extension of credit".

He further adds, the formulation of sound lending policies for all banks should have adequate and careful consideration over community needs, size of loan portfolio, character of loan, credit worthiness of borrower and assets pledged to security borrowing, interest rate policy.

Frank K. Relliy defines investment in his words, "An investment may be defined as the current commitment of funds for a period of time to derive a future flow of

funds that will compensate the investing unit for the time funds are committed, for the expected rate of inflation and also for uncertainty involve in the future flow of the funds".

From the above definition, it is clear that an investment means to trade, a known rupee, amount today for some expected future stream of payments or benefits, that will expected the current outlay by an amount that will compensate the investor. For the time the funds are committed for the expected changes in prices, during the period and for the uncertainty involved in expected future cash flows. Thus, investment is the most important function of the commercial banks. It is the long term commitment of bank in the uncertain and risky environment. It is a very challenging task for commercial banks. So a bank has to be very cautious while investing their funds in various sectors. The success of a bank heavily depends upon the proper management of its inevitable funds.

Investment management of a bank is guided by the investment policy adopted by the bank. The investment policy of the bank helps the investment operation of the bank to be efficient and profitable by minimizing the inherent risk.

William F. Sharpe and Alexander J. Gorden defines investment in this way, "Investment, in its broadest sense means the sacrifice of certain present value for (possible uncertain) future value".

Various authors have expressed their views regarding the investment policies of the commercial banks, then formulation and implementation differently. In the words of S.P. Sing & Sing, "The investment (credit) policies of banks are conditional, to great extent, by the national policy framework; every banker has to apply his own judgment for arriving at a credit decision, keeping of course, his banker's credit policy also in mind".

They further stated, “The field of investment is more challenging as it offers relatively greater scope to banker for judgment and discretion in selecting their loan portfolio. But this higher degree of freedom in the field of credit management is also accompanied by greater risk. Particularly during recent years, the credit functions have become more compels”.

James B Besley, expressed his views as “Investment policy fixes responsibilities for the investment disposition of the bank assets in term of allocating funds for investment and loans and establishing responsibility for day to day management of those assets”.

A commercial bank must mobilize its deposit and other funds to profitable secured and marketable sector so that it can earn a handsome profit as well as it should be secured and can be converted into cash whenever needed. Obviously, a firm that is being considered for commercial loans must be analyzed to find out why the firm needs money, how much money the firm needs and when and how it will be able to repay the loan. Investment policy provides the bank several inputs through which they can handle their investment operation efficiently ensuring the maximum return with minimum exposure to risk, which ultimately leads the bank to the path of success.

2.2.2 Review of Articles

In this section, effort has been made to examine and review of some related articles in different economic journals, World Bank discussion paper, magazines newspaper and other related books.

Thapa (1994), has expressed that the commercial banks including foreign joint venture banks seem to be doing pretty well in mobilizing deposits. Likewise, loans and advance of these banks are also increasing. But compared to the high credit

needs particularly by the newly emerging industries, the banks still seem to lack adequate funds. The banks are increasing to non- traditional sectors along with the traditional sector.

In Nepal, Nepal Bank Ltd. and Rastriya Banijya Bank are opening with a nominal profit. The late turning towards negative form time to time because of non-recovery of accrued interest, the margin between interest income and interest expenses as declining. Because of these two local banks, in traditional off-balance sheet operations, these banks have not been able to increase their income from commission and discounts. On the contrary they have go heavy burden of personal and administration overheads. Similarly, due to accumulated overdue and defaulting loans, profit position of these banks has been seriously affected.

On the other hand, foreign venture banks have been functioning in an extremely efficient way. They are making huge profit year after year and have been distributing large amount of bonus and dividends to its employees and shareholders. Because of their effective persuasion for loan recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. Similarly, concentration of these banks to modern off-balance sheet operation and efficient personnel management has added to the maximization of their profits.

At the end of article concluded that by its very nature of the public sector, the domestic banks could not 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.

Bista (1996), in his research paper, "Nepal ma Aadhunik Banking Byabastha" has made an attempt to highlight some of the important indicators, which has

contributed t efficiency and performance of JVBs in the field of CBs. At the end of the paper he has concluded that the establishment of JVBs a decade ago marks beginning of modern banking era in Nepal. The joint venture banks have brought in much new banking technique such as computerization, hypothecation, consortium finance and modern banking into the economy. These are indeed significant milestones in the financial development process to the economy.

Poudel (1996), has given more emphasis on financial performance of finance companies in the article "An Overview on Financial Companies of Nepal". He had written that at the time 1996, the ratio of capital funds to deposits has been increasing over the time but on top of this, the ratio of capital funds to deposits has been increasing over the time but on top of this is, it is substantially below than the authorized level of deposit mobilization, which is ten times of the capital base.

Never the less, some of the finance companies have even mobilized the deposits by more than ten times of their capital base by violating the regulatory norms issued by NRB. The credit/deposit ratio has remained quite high leaving the room for doubt about the quality of loan especially in the absence of repayment schedule. The loan diversification has been improved however, during a short span of time. As such, the hire purchase housing and term loans are the major sectors, which all together received more than 95% of the total loan and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average sources of funds for each company are natural to decline. Since the varying factor, it is too early to evaluate the performance of financial companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

Pradhan (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.

2.2.3 Review of Thesis

Tuladhar (2000), conducted a study on "*A Study on Investment Policy of Nepal Grindlays Bank Limited in Comparison to Other Joint Venture Banks of Nepal*" with the objective of:

1. To study the fund mobilization and investment policy with respect to fee-based off – balance sheet transaction and fund based on balance sheet transactions.
2. To study the liquidity, efficiency of assets management and profitability position.

3. To evaluate the growth ratios of loan and advances and total investment with respective growth rate of total deposit and net profit.
4. To perform an empirical study of the customer's views and ideas regarding the existing services and adopted invested policy of the Joint venture banks.

The study is mainly based on secondary data and in some aspects of the study primary data are also collected through questionnaire survey of 100 respondents.
The research findings of the study are as follows:

- From the analysis of primary data concerning in which sector should JVBs invest; 28.37% respondents emphasized on educational sector to be invested by these JVBs as the potential investment sector. Consequently poverty stricken and deprived sector was given second priority (26.24), whereas industrial sector (18.44), tourism sector (16%), agricultural sector (16%) , and construction sector (4.25) are given third, fourth, fifth and sixth priority respectively.
- The mean of total investment to total deposits ratio of Nepal Grindlays Bank Ltd. Is higher than the other JVBs. The mean of the loan and advances to total deposits ratio of Nepal Grindlays Bank Ltd. is less and inconsistent than NABIL Bank Ltd. and Himalayan Bank Ltd.
- Loan and advances to working fund ratio of Nepal Grindlays Bank Ltd. was found less than the mean ratio of other banks. Investment on government securities to working fund ratio of Nepal Grindlays Bank Ltd. had the highest mean ratio than NABIL Bank Ltd. and Himalayan Ltd. during the study period.
- It was found that total Off-balance sheet operation to loan and advances ratio of Nepal Grindlays Bank Ltd. is found to be of highest mean ratio than that of NABIL Bank Ltd. and Himalayan Bank Ltd. it means Nepal Grindlays Bank Ltd. used to perform highest off-balance sheet operation than the other two JVBs i.e., used to give priority to provide letter of credit, guarantee and others

(e.g. trade finance) excessively than to others. The mean of investment on shares and debentures to total working fund ratio of Nepal Grindlays Bank Ltd. was found less than NABIL Bank Ltd. but higher than Himalayan Bank Ltd.

- The profitability position of Nepal Grindlays Bank Ltd. is higher than NABIL Bank Ltd. and Himalayan Bank Ltd. as well as it use to provide interest to the customers for different activities consistently. The volume of growth ratio of loan and advances of Nepal Grindlays Bank Ltd. is found higher than that of NABIL Bank Ltd. but lower than Himalayan Bank Ltd. It indicates that all the JVBs used to provide loan and advances in increasing manner. From the analysis of growth ratio of total investment it is found that Nepal Grindlays Bank Ltd. and NABIL Bank Ltd. have negative growth ratio i.e., they Used to reduce the investment during the study period. But it is increasing in the case of Himalayan Bank Ltd.
- The growth ratio of net profit of Nepal Grindlays Bank Ltd. seemed to be more Satisfactory than NABIL Bank Ltd. but in case of Himalayan Bank it seemed to be very high.

Kapadi (2002), has conduct research on "*A Comparative Study on Performance of NABIL Bank Ltd and Standard Chartered Bank Limited.*" The study of this thesis is the descriptive analytical method. The core objective of this thesis is to analyze the financial performance of NABIL bank and SCBNL this includes the examining of liquidity capital structure and activity and profitability ratios of the ratio joint venture sample banks.

The specific objectives of his research are:

1. To examine the trend of deposits and loan and advances of NABIL bank and SCBNL.

2. To study the liquidity profitability capital structure activity and capital adequacy position of NABIL bank and SCBNL.
3. To suggest and recommended some measures by evaluating and finding financial performance of NABIL bank SCBNL on the basis of finding.

From the detail analysis the research finds the following findings of the study.
He found that most of the capital structure ratios show that the capital structure of both the banks is highly leveraged.

- Total debt to equity ratio of both the banks reveals that the claims of the outsider exceeds mere than that of the owner's over the bank asset. However NABIL bank seems to be more leveraged than SCBNL.
- Total debt to total assets ratio of both the banks has always been over 88, which indicates the excessively geared capital structure. Comparatively NABIL bank has used a little more debt financial than SCBNL. Long-term debt to total assets ratio of NABIL bank is seems to be greater as per mean, which shows more use of long-term debt by NABIL bank than by SCBNL.
- Long-term debt to net worth ratio of both the banks is following the fluctuating trend. The mean proportion of outsiders fund and owners fund employed in the total capitalization of NABIL bank is higher than that of SCBNL. This implies that it is following an aggressive strategy of higher risk higher return policy.
- The fixed asset to net worth ratio of NABIL bank is higher than that of SCBNL as per mean ratio. But the investment of owners' equity in fixed assets for both the banks are minimum as is commonly seen in various financial institutions.

Loudari (2003), conducted a study on "*A Study on Investment Policy of Nepal Indosuez Bank Ltd. in Comparison to Nepal SBI Bank Ltd."* with the objective of:

1. To examine the liquidity, asset management and profitability position and investment policy of NIBL in comparison to Nepal SBI Bank Ltd.
2. To study the growth ratios of loans and advances and investment to total deposit and net profit of NIBL in comparison to Nepal SBI bank ltd.
3. To analyses relationship between deposit and investment, deposits and loan & advances, net profit and outside assets of Nepal Indosuez Bank Ltd. In comparison to Nepal SBI Bank Ltd.

The research findings of the study are as follows:

- Current ratios for both the banks are satisfactory.
- Nepal SBI Bank ltd. has increased investment in government securities where as Nepal Indosuez Bank has decreased.
- Nepal Indosuez Bank Ltd. has maintained both current ratio and cash reserve ratio better than Nepal SBI Bank Ltd. But its cash and bank balance, investment in government securities and loan and advances in comparison to current assets are lower than that of Nepal SBI Bank Ltd.
- Deposit utilization of Nepal Indosuez Bank Ltd. is less effective than that of Nepal SBI Bank Ltd. Further Nepal Indosuez Bank Ltd. has invested lesser amount on government securities and shares and debenture than that of Nepal SBI Bank.
- Nepal Indosuez Bank Ltd. did a better performance in return on total assets and loan and advances and interest earning, but it paid lower interest amount to working fund.
- The analysis of growth ratios shows that growth ratios of total deposit, loan and advances, total investment and net profit of Nepal Indosuez Bank are less than that of Nepal SBI Bank.

- The trend value of loan and advances to total deposits ratio is decreasing in case of both banks. The trend value of total investment to total deposits ratio is also decreasing in case of both banks

Shrestha (2004), on his thesis entitled "*Role of Rastriya Banijya Bank in Priority Sector Credit & It's Recovery*" has tried to reveal the following objectives:

1. To identified the compliance of the target loan limit to be invested in priority sector credit as prescribed by NRB.
2. To analyze the relationship of credit (loan & advances) with total deposit & also with PSC of RBB.
3. To examine the situation of deprived sector credit (DSC) of RBB.
4. To analyze the disbursement, recovery status & NPA position under Priority Sector Credit (PSC) of RBB.(Purpose wise)

The major findings made by the researcher are as follows:

- Bank's total no of borrowers in PSC about 76 % to 78 % of borrowers lie under DSC & out of the total loan outstanding of RBB invested on PSC about 28 % to 29 % has been invested under DSC.
- RBB is very much success in complying the NRB policy.
- Bank was not able to fully utilize the collected deposits in a proper way.
- The study reveals that the disbursement & recovery under DSC is in decreasing trend; however the ratio of repayment to disbursement is in increasing trend.
- Loan repayment under DSC was more satisfactory from industry sector that the agriculture sector & services sector.
- The trend valves of recovery of RBB under PSC shows that the recovery position of the bank is in downward sloping whereas its overdue loan under PSC is in increasing trend which brings no return to the bank.

Shrestha (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:

1. To analyze the functions, objectives procedure and activities of the NB bank
2. To analyze the lending practices and resources utilizations of NB bank.
3. To determine the impact of growth in deposit on liquidity and lending practices.
4. To examine the lending efficiency and its contribution to profit.
5. 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.

Gautam (2006), has conduct research on "*A Comparative Study on Financial Performance of Standard Chartered Bank Limited and Nepal Bangledesh Bank Limited"* Financial performance is analyzed with two important tools. The first most important tools are the financial tools, which includes ratio analysis and other is a statistical tools, which is bankruptcy score.

The objectives of his research are:

1. To study the existing capital structure of financial position of selected joint venture commercial banks and to analyze its impact on the profitability.
2. To access the debt servicing of the joint venture commercial bank.
3. To examine the correlation and the signification of their relationship between different ratios related to capital structure.
4. To provide suggestions and recommendations for the optimal capital structure of the joint venture commercial bank.
5. To obtained the objectives, some financial, statistical and accounting tools.

He has found his study were the joint venture banks are operating in Nepal as commercial merchant banks. The growth is still going on as so many new banks are coming into existence after this study. Therefore, JVB's are operating with higher technology and new efficient methods in banking sector. However, this study has been undertaking only three JVB's viz. SCBNL and NBBL to examine and evaluation the financial data.

The research findings of the study are as follows:

- The research sample JVB's have used high percentage of total debt in raising the assets. The higher ratio constitutes that the outsider's claim in total assets of the bank is owner's claim.
- The on an average, NBBL bank constitutes 16.27 times of P/E ratio, which should be reduce as quickly as possible.
- The financial risk of the banks NBBL average degree of finance leverage constitutes 3.73 times which indicates the higher degree of financial risks 3.73 times which indicates the higher degree of financial risks.
- The average ROE of JVB's i.e. SCBL and NBBL area 37.36% and 21.75% respectively.

Now, in Nepal many banks and other financial institution are functioning to collect deposits and invest money somewhere in the investable sectors. Therefore, efficiency has been increased since liberalization policy taken by the government. Heavy remittance has also helps to increase the amount of deposits in bank

2.3 Research Gap

The previous studies can't be ignored because they provide the foundation on the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Here, it is clear that the new research cannot be found on that exact topic, i. e. comparative financial performance analysis: A study on Nepal Investment bank Limited and Himalayan Bank Limited. Therefore, to fulfill this gap, this research is selected. To complete this research work, many books, journals, articles and various published and unpublished dissertations are followed as guideline to make the research easier and smooth. In this regard, here we are going to analyze the financial performance of commercial banks, which are considered only on NIBL as well as HBL.

CHAPTER– III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is composed of two words: 'Research' and 'Methodology'. Research is the systematic and organized effort to investigate a specific problem that needs a solution. This process of investigation involves a series of well thought out activities of gathering, recording, analyzing and interpreting the data with the purpose of finding answer to problem. Thus, the entire process by which we attempt to solve problem is called research, while 'methodology' is the research method used to test hypothesis. A sound and systematic methodology is required to carry out any study, if it is to be worthwhile.

Research refers to the 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" (Saravanavel, 1990).

Research Methodology is a way to systematically solve the research problem (Kothari, 1990). It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his/her research problem among with the logic behind them.

A research methodology helps us to find out accuracy, validity and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of study, the applied methodology will be used. The research methodology used in the present study is briefly mentioned below.

This topic presents the short outline of the methods applied in the process of the financial performance analysis of the selected joint venture banks. Research is a systematic method of finding out the solution to a problem where as research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objective in view.

3.2 Research Design

A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. For the analysis of fund collection and its mobilization of selected joint venture banks, analytical as well as descriptive designs applied to achieve the objective of the research.

Thus, a research design is a plan for the collection and analysis of data. It presents a series of guideposts to the researcher to progress in the right direction in order to achieve the goal. The design may be a specific presentation of the various steps in the problems, conceptual clarity, and methodology, survey of literature and documentation and report writing. Generally, a common research design possesses the five basic elements viz. (i) selection of problem (ii) methodology (iii) data gathering (iv) data analysis and (v) report writing.

The research design asks, what approach to the problem should be taken, what methods will be used, what strategies will used, what strategies will be effective? Etc. Identification, selection and formulation of a research problem may be considered as planning stage of a research and the remaining activities refer to the design, operation and completion of the research study.

A research design is the specification of methods and procedures of acquiring the information needed. It is the overall operational pattern of framework, of the

project that stipulates what information is to be collected from which sources and what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected objective and economical procedures (Paul & Donald, 1999).

Thus, research design is a plan, structure and strategy of investigation conceived so as to obtain answers of questions and to control variance. The analysis of this study is based on certain research design keeping in mind on the objective of the study. Generally, research design means definite procedure and technique which guides in studying profound ways for research viability. The main objective of the study is financial performance analysis commercial banks, a case study of Nepal Investment Bank Limited (NIBL) and Himalaya Bank Limited (HBL). It emphasizes on descriptive and analytical study of the collected data of profit and loss account and balance sheet (i.e. financial statement) over a period of time. Information of data of a five-year period collected from the bank is tabulated. Analysis with different statistical and financial tools has been conducted to find out the necessary result also.

3.3 Data Collection Procedures

The researcher used two types of data collection techniques.

a) Primary Data and
b) Secondary Data

The primary data are those which are collected a fresh and for the first time and thus happen to be original in character. The secondary data, on the other hand are those, which have already been collected by someone else and already, been passed through the statistical process (Kothari, 1990).

In some cases primary data are also taken as personal interview, face to face and telephone interview but the study is mainly based on secondary data. So, the major sources of secondary data for this study are as follows:

a) Annual reports of the bank.
b) Published and unpublished bulletins, reports of the bank.
c) Published and unpublished bulletins, reports of the Nepal Stock Exchange.
d) Previous studies and reports.
e) Unpublished official records.
f) "Banking and Financial Statistics" report of Nepal Rastra Bank Magazines.
g) Journals and other publish and unpublished related documents and reports for Central Library of T. U., Library of Shanker Dev Campus, Library of Nepal Commerce Campus and Library of Nepal Rastra Bank.
h) Various Internet Websites.
i) Other published materials.

3.4 Populations and Sample

26 commercial banks are operation in Nepal. From them, two commercial banks, Nepal Investment Bank Limited (NIBL) and Himalayan Bank Limited (HBL) have been selected as sample for the present study. Similarly, financial statements of this bank for five years from 2003/04 to 2007/08 (2060/61 to 2064/65) have been taken as samples for the same purpose.

3.5 Methods of Data Analysis

Mainly financial methods are applied for the purpose of this study. Appropriate statistical tools are also used. Among them, correlation analysis is regarded as the major tools used for this research.To make the study more specific and reliable, the researcher uses two types of tool for analysis.

a) Financial tools
b) Statistical tools

A) Financial Tools

For the sake of analysis, various financial tools were used. The basic tools used were ratio analysis. Besides it, total investment and total income analysis have been used.

3.5.1 Ration Analysis

Financial ratio is the mathematical relationship between two accounting figures. "Ratio analysis is a part of the whole process of analysis of financial statement of any business of individual concern especially to take output and credit decisions". Thus, ratio analysis is used to compare a firm's financial performance and status to that of other firm's or to itself overtime. The qualitative judgment regarding financial performance of a firm can be done with the help of ratio analysis.

Even though, there are many ratios, only those ratios have been covered in this study, which are related to the performance of the bank. "Ratio analysis is one of the most frequently used tools to evaluate the financial health, operating result and growth. Financial ratios by themselves do not indicate position of the institution. A standard of norms is needed against which to judge them". It is powerful tool of financial analysis.

"A ratio is defined as the indicated quotient of two mathematical expressions and as relationship between two or more things". This study contains following ratios:

3.5.1.1 Liquidity Ratios

Liquidity ratios are used to judge the ability of bank to meet its short term liabilities that are likely to mature in this short period. From them, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. It is the measurement of speed with a bank's assets can be converted into cash to meet anticipated and contingent cash needs.

Cash needs arise from deposit withdrawal and other current obligations. "Liquidity is the ability to meet anticipated and contingent cash needs. Cash needs are met by increase in deposit and borrowing, loan repayment, investment maturity and the sale of assets". Commercial banks need liquidity to meet loan demand and deposit withdraws. Liquidity is needed also for the purpose of meeting cash reserve ratio (CRR) and statutory liquidity ratio requirements prescribed by the Central Bank. The following ratios are calculated under the liquidity ratios:

a. 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.

b. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to make immediate payment to the depositor. This ratio can be computed by dividing cash and bank balance by total deposit and can be presented as:

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

Cash and bank balance includes cash in hand, foreign cash in hand, cheques and other cash items, balance with domestic and foreign banks. The total deposit includes deposits made by customers though different accounts like current (demand deposit), saving, fixed deposit, call deposit and other deposit accounts.

c. Cash and Bank Balance to Current Assets Ratio

This ratio measures the proportion of most liquid assets viz. cash and bank balance among the total current assets of the bank. Higher ratio shows the bank's ability to meet its demand for cash. The ratio is computed by dividing cash and bank balance by current assets, presented as under;

$$\text{Cash and Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

ii. Assets Management Ratios

Asset management ratio measures the proportion of various assets and liabilities in balance sheet. The proper management of assets and liability ensures its effective utilization. The banking business converts the liability into assets by way of its lending and investing functions. The following are the various ratios relating to determine the efficiency of the subjected bank in managing its assets and in portfolio management.

a. Loan and Advances to Total Deposit Ratio

This ratio is also called credit- deposit ratio (C D ratio). It is calculated to find out how successfully the bank is able to utilize its total deposits on loan and advances for profit generating purpose. Greater ratio implies better utilization of total deposits. This ratio can be obtained by dividing loan and advances by total deposit as under;

$$\text{Loan and Advances to Total Deposit Ratio} = \frac{\text{Loan \& Advances}}{\text{Total Deposits}}$$

b. Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit creation to earn income. This implies the utilization of firm's deposit on investment on government securities,

shares and debentures of other companies and banks. This ratio can be calculated by total investment divided by total deposit as:

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

c. Loan and Advances to Total Assets Ratio

Loan and advances is the major component in the total working fund (total assets), which indicates the ability of bank to utilize its deposits in the form of loan and advances to earn high return. The ratio is computed by dividing loan and advances by total working fund, which is stated as under;

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

iii. Profitability Ratios

Profitability ratios are used to indicate and measure the overall efficiency of a firm in terms of profit and financial performance. For better performance, profitability ratios of firm should be higher. Under this, the following profitability ratio will be computed.

a. Return on Loan and Advances Ratio

This ratio indicates how efficiently the bank utilizes its resources in the form loans and advances. This also measures the earning capacity of its loans and advances. This ratio is computed by dividing net profit (loss) by loans and advances which can be expressed as;

$$\text{Return on Loan and Advances Ratio} = \frac{\text{Net Profit (Loss)}}{\text{Loans \& Advances}}$$

b. Return on Total Asset Ratio (ROA)

This ratio measures the overall profitability of all working fund i.e. total assets. It is also known as return on assets (ROA). This ratio is calculated by dividing net profit (loss) by total working funds. This can be presented as;

$$\text{Return on Total Working Fund Ratio (ROA)} = \frac{\text{Net Profit (Loss)}}{\text{Total Working Fund}}$$

The numerator indicates the portion of income left to the internal equities after deduction all costs, charges and expenses.

c. Return on Equity (ROE)

Net worth refers to the owner's claim of a bank. The excess amount of total assets over total liabilities is known as net worth. This ratio measures how efficiently the bank has used funds of the shareholders. This ratio can be computed by dividing net profit by total equity capital (net worth). This can be calculated as;

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit (Loss)}}{\text{Total Equity Capital}}$$

d. Total Interest Earned to Total Asset Ratio

This ratio is computed to find out percentage of interest earned to total assets (working fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing total interest earned by total working fund can be presented as;

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

e.) Return on Total Deposit Ratio

This ratio measures the level of NPAT by using total deposits. It reveals the relationship between NPAT and total deposit with an ability of a firm to utilize maximum of deposits to earn much profit. This ratio can be computed by dividing the NPA by total deposits.

$$\text{Return on Total Deposit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Total Deposits}}$$

vi. Other Ratio

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;

$$\text{Earnings per Share (EPS)} = \frac{\text{Net Profit (Loss)}}{\text{Total Number of Shares Outstandin g}}$$

b. Dividend Per Share

This is a portion of profit allowed to shareholders of a company on even share basis. Apart from dividend, the net profit belonging to the firm is retained earnings and remaining amount is paid to shareholders of a company as a dividend. The dividend to the shareholders on a per share basis is the dividend per share (DPS). It is calculated by dividing dividend by total number of ordinary shares outstanding.

$$\text{Dividend Per Share} = \frac{\text{Earning Paid to Shareholder}}{\text{Number of Common Shares Issued}}$$

c. Earning Yield Ratio

Earning yield ratio is expressed in terms of the market value per share. The earning yield may be defined as the ratio of earning per share to market value per share.

$$\text{Earning Yield Ratio} = \frac{\text{Earning Share}}{\text{Market Value per Share}}$$

d. Dividend Yield Ratio

This ratio is also calculated by dividing DPS by market value per share.

$$\text{Dividend Yield Ratio} = \frac{\text{Dividend Per Share}}{\text{Market value per share}}$$

e. 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.

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

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.

B. Statistical Tools

For supporting the study, statistical tool such as Mean, Standard Deviation, Coefficient of Variation, Correlation, Trend Analysis and diagrammatic cum pictorial tools have been used under it.

i. Arithmetic Mean ($\bar{X}$)

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

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

Where,

$\sum X$= sum of observations

N= Number of observations

ii. Standard Deviation (σ)

The standard deviation is defined positive square root of the arithmetic mean of the square of the deviations of the given observations from their arithmetic mean. The standard deviations measure the absolute dispersion or variability. It is said that higher the value of standard deviation, higher the variability and vice-versa. The formula used to calculate standard deviations is as follows:

Standard Deviation ($\boldsymbol{\sigma}$): $= \sqrt{\frac{\sum x^2}{N} - \left(\frac{\sum X}{N}\right)^2}$

Where,

N = No. of observation

$\sum X^2$ = Sum of square observation in series 'X'

$\sum X$ = Sum of observation in series 'X'

iii. Coefficient of Variation (C.V.)

The Co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage (Shrestha, 1991). It is independent of units. Hence, it is a suitable measure for comparing variability of two series with same of different units. A series with smaller C. V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as:

$$C.V = \frac{\sigma}{\overline{X}}$$

Where,

$\overline{X}$ = Mean

σ = Standard Deviation

iv. Trend Analysis

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

$$Y = a + bx$$

Where,

Y = dependent variable

a = y-intercept

b = slope of the trend line

x = independent variable

$a = \frac{\Sigma X}{N}$ $b = \frac{\Sigma X^2}{\Sigma XY}$

Where,

Σy = Sum of the observations in series y

Σxy = Sum of the observations in series x and y

Σx^2 = Sum of square of the observations in series x

3.5.2 Limitation of Research Methodology

- Only the selected financial and statistical tools have been used in this thesis.
- Researcher mainly depends on the secondary data, i.e. financial statement of the bank and data provided by the NRB.
- Sample taken by the researcher is only two banks.
- In the process of taking primary data from the bank, only 'Yes' or 'No' questionnaires have been used by the researcher.
- Only the five years data (2003/04 to 2007/08) have been collected to analyze the fund collection and its mobilization of the bank.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Introduction review of literature and research methodology is presented in the previous chapters that provide the basic inputs to analyze and interpret the data. Presentation and analysis of data is the main body of the study. In this chapter collected data are analyzed and interpreted as per the stated methodology in the previous chapter. The main sources of data are secondary data. In this chapter, researcher has analyzed and diagnosed Financial Performance of Investment Bank Limited and Himalayan Bank Limited. Different tables and diagrams are shown to make the analysis simple and understandable.

4.1 Financial Analysis

Financial analysis is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. For the purpose of this study, ratio analysis has been mainly used and with the help of it data have been analyzed.

Various financial ratios related to the investment management and fund mobilization are presented to evaluate and analyze the performance of commercial Banks i.e. NIBL and HBL. Some important financial ratios are only calculated in the point of view of fund mobilization and investment patterns. The ratios are designed and calculated to highlight the relationship between financial items and figures. It is a kind of mathematical relationship and procedure dividing one item by another.

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. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to financial performance of banks.

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. Ratio analysis is also concerned with output and credit decision. Four main categories of ratios have been taken in this study that is mainly related to financial performance of banks.

4.1.1.1 Liquidity Ratio

Commercial bank must maintain its satisfactory liquidity posting to satisfy the credit needs of community, to meet demands for deposit–withdrawals, pay maturity obligation in time and convert non cash assets into cash to satisfy immediate needs without loss to bank and consequent impact on long-run profit. Liquidity ratio is mainly used to analyze the short-term strength of commercial banks.

a. Current Ratio

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

The following table shows the current ratio of NIBL and HBL.

Table 4.1

Current Ratio

(Amt in Million/Ratio in times)

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. Deviation**	**C.V.**
NIBL	C. assets	12738	15868	21188	27080	38158	**1.30**	**0.03**	**2.78**
	C. Liabilities	11885	14605	19478	25290	35503			
	Ratio	**1.07**	**1.09**	**1.09**	**1.07**	**1.07**			
HBL	C. Assets	24582	27600	29374	33084	35486	**1.08**	**0.01**	**0.92**
	C. Liabilities	22669	25320	26996	30644	32786			
	Ratio	**1.08**	**1.09**	**1.09**	**1.08**	**1.08**			

Source: - Annual Report

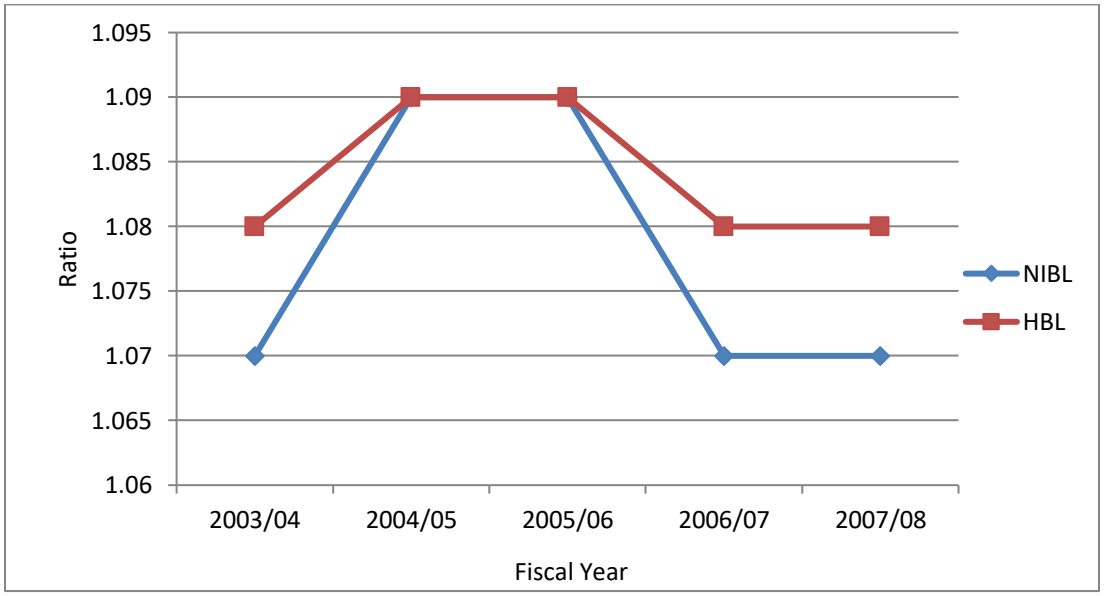
Above table shows the current ratio of selected commercial banks during the study period. The current ratio of NIBL and HBL are fluctuating trend. In general, it can be said that all the banks have sound ability to meet their short- term obligations. In an average, liquidity position of NIBL is greater than HBL i.e. 1.30>1.08 due to high mean ratio. So, NIBL is sound in meeting short-term obligation than HBL. Likewise, S. D. and C.V. of HBL is less than NIBL i.e. 0.03> 0.01 and 2.78 > 0.92. It can be said that C.R. of HBL is more consistent than NIBL.

Lastly, from the above analysis it is known that all these two banks have better liquidity position because the standard ratio is 2:1. They have met the standard ratio.

The trend of current ratio of NIBL and HBL has been presented below.

Figure 4.1

Current 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 Deposits Ratios (in percentage)

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	Cash & Bank Bal	1226	1340	2335	2441	3754	**10.65**	**0.99**	**9.29**
	Total Deposit	11525	14255	18927	24488	34451			
	Ratio (%)	**10.64**	**9.40**	**12.34**	**9.97**	**10.90**			
HBL	Cash & Bank Bal	2001	2014	1717	1757	1448	**6.82**	**1.61**	**23.62**
	Total Deposit	22010	24814	26490	30048	31842			
	Ratio (%)	**9.09**	**8.12**	**6.48**	**5.84**	**4.55**			

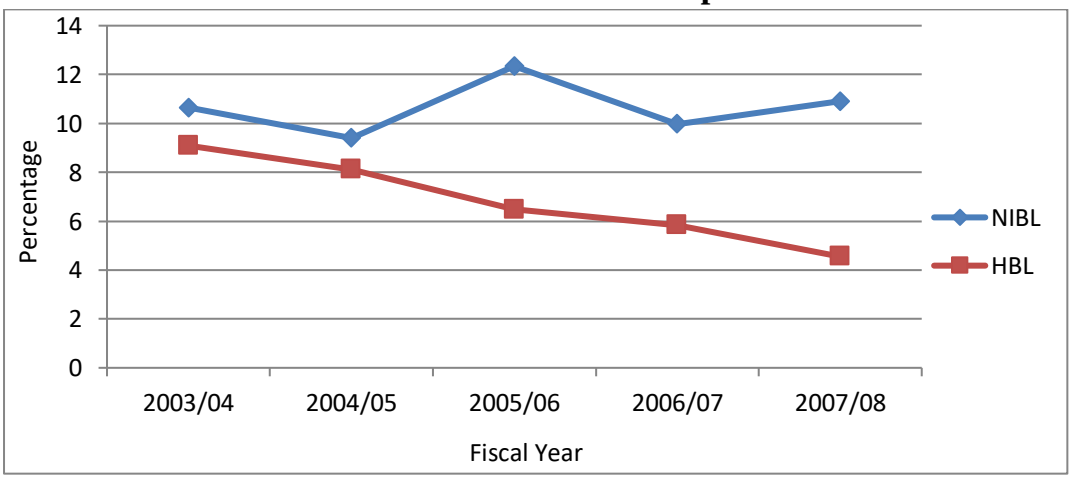
Source: - Annual Report

The above Table 4.2 revels that the Cash and Bank Balance to Total Deposit Ratio of NIBL in fluctuating trend and HBL has fluctuating trend. The highest ratio of NIBL 12.34% in FY 2005/06 and lowest is 9.97% in FY 2006/07. Similarly, the highest ratio of HBL is 9.09% in FY 2003/04 and lowers in 4.55% in 2007/08. The mean ratio of NIBL and HBL are 10.65% and 6.82% respectively. 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 is 9.29 times and HBL is 23.62 times. S.D. of NIBL is lower than the HBL.

The above analysis has to conclude 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 the better liquidity position of NIBL from the view point 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 income generating areas. Thus NIBL should invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability.

The trend of cash and bank balance to current deposit ratio of NIBL and HBL has been presented below.

Figure 4.2
Cash and Bank Balance Total Deposit Ratio



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 firms as per cash and bank balance. Higher the ratios, better the ability of the firms to meet the daily cash requirement of their customers. But high ratio is not so preferred to the firms because firms have to manage the cash and bank balance to current asset ratio in such manner that firm may not be paid interest on deposits and may not have liquidity crisis.

Following the states the cash and bank balance to current assets NIBL and HBL during the study period.

Table 4.3

Cash and Bank Balance to Current Assets Ratios

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	Cash & Bank Bal	1226	1340	2335	2441	3754	**9.58**	**0.86**	**8.98**
	Cur. Assets	12738	15868	21188	27080	38158			
	Ratio (%)	**9.62**	**8.44**	**11.02**	**9.01**	**9.83**			
HBL	Cash & Bank Bal	2001	2014	1717	1757	1448	**6.14**	**1.44**	**23**
	Cur. Assets	24582	27600	29374	33084	35486			
	Ratio (%)	**8.14**	**7.30**	**5.85**	**5.31**	**4.08**			

Source: - Annual Report

The above table reveals that cash and bank balance to current assets ratio of NIBL is in fluctuating trend and HBL has decreasing trend. The mean ratio of NIBL and HBL is 9.58% and 6.14% respectively. The higher mean ratio shows NIBL's liquidity position is better than that of HBL. Moreover the .S.D and C.V. of HBL

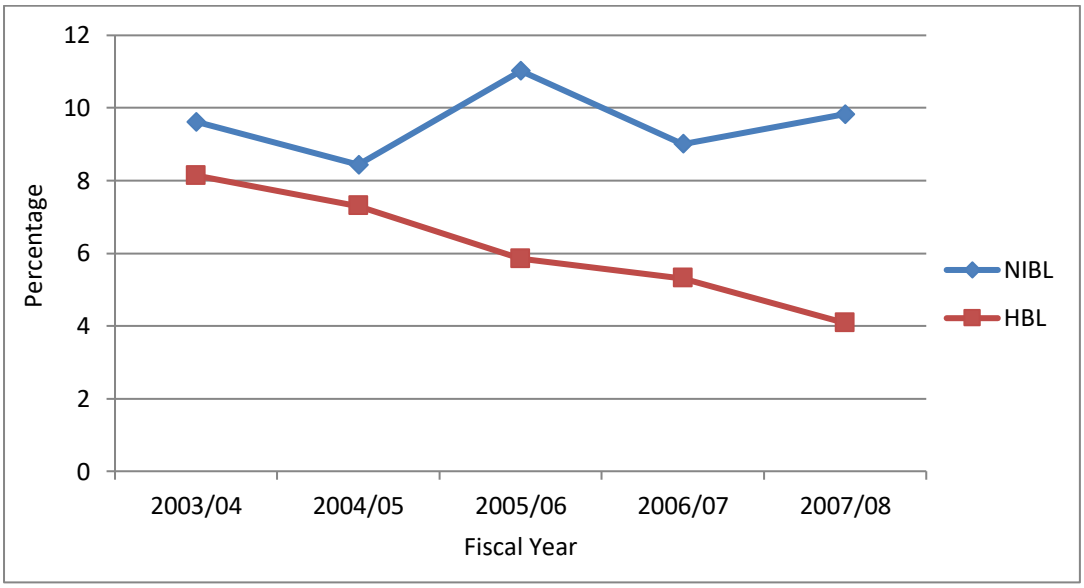
is higher than NIBL. The higher C.V. of HBL indicates that it has more inconsistency in the ratios in comparison to NIBL

Regarding the above analysis, it can be concluded that NIBL has a better ability to meet daily cash requirements of their customers but it should be noted that NIBL has excess cash due to the low investment opportunities.

The trend of cash and bank balance to current assets ratio of NIBL and HBL has been presented below.

Figure 4.3

Cash and Bank Balance to Current Assets Ratios



4. 1.1.2 Assets Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, so to satisfy its customers and for own existence. Assets management ratio measures how efficiently the bank manages the resources at its commands. 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 & advances for the purpose of profit generation. A higher ratio of loan & advances indicates better mobilization of collection deposit and vice-versa. But it should be noted that too high ratio might not be better from its liquidity point of view. Following Table shows the loan & advances to total deposit ratio of related banks.

Table 4.4

Loans and Advance to Total Deposit Ratio

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	Loan & Adv.	7338	10453	13178	17769	27529	**71.82**	**5.28**	**7.35**
	Deposit	11525	14255	18927	24488	34451			
	Ratio (%)	**63.67**	**73.33**	**69.63**	**72.56**	**79.91**			
HBL	Loan & Adv**.**	12919	13451	15761	17793	20179	**59**	**2.91**	**4.94**
	Deposit	22010	24814	26490	30048	31842			
	Ratio (%)	**58.70**	**54.21**	**59.50**	**59.22**	**63.37**			

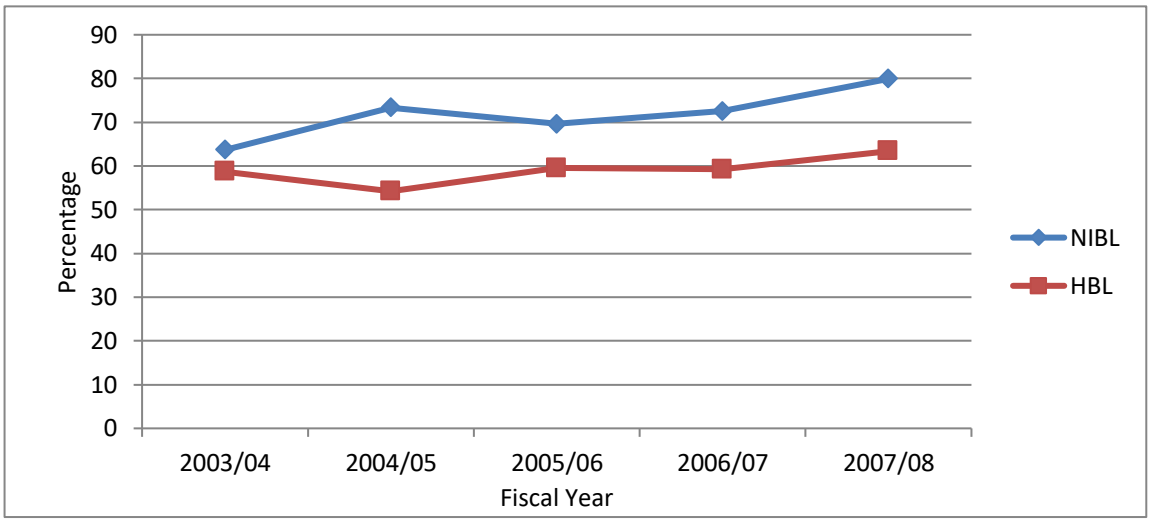
Source: - Annual Report

The above table shows that the loan & advances to total deposit ratio of NIBL and HBL is fluctuating trends. NIBL has higher ratio than that of HBL in each year and mean too. It indicates the better mobilization of deposit by NIBL. The mean of NIBL and HBL are 71.82% and 59% respectively. So NIBL has higher ratio than that of HBL. It reveals that the deposit of NIBL is quickly converted in to loan and advances to earn income. The bank will be able to better mobilization of collected deposit if there is above 70% to 90% of loan and advances to total deposit according to NRB. So in all of the year the NIBL has met the NRB requirement or it has utilized its deposit to provide loan. But HBL has not met the NRB requirement or it has not utilized its deposit to provide loan properly. The S.D. and C.V of NIBL is 5.28, 7.35 similarly HBL has 2.91, 4.94.

The trend of loan and advance to total deposit ratio of NIBL and HBL has been presented below.

Figure 4.4

Loans and Advance to Total Deposit Ratio



b. Total Investment to Total Deposit Ratio

Commercial banks and financial companies 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 on investment in various securities. This ratio of NIBL and HBL are calculated and presentation below.

Table 4.5

Total Investment to Total Deposit Ratio

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	Investment	4172	4074	5672	6868	6874	**28.55**	**5.19**	**18.18**
	Total Deposit	11525	14255	18927	24488	34451			
	Ratio (%)	**36.20**	**28.58**	**29.97**	**28.05**	**19.95**			
HBL	Investment	9292	11692	10889	11822	13340	**42.34**	**2.56**	**6.05**
	Total Deposit	22010	24814	26490	30048	31842			
	Ratio (%)	**42.22**	**47.12**	**41.12**	**39.34**	**41.89**			

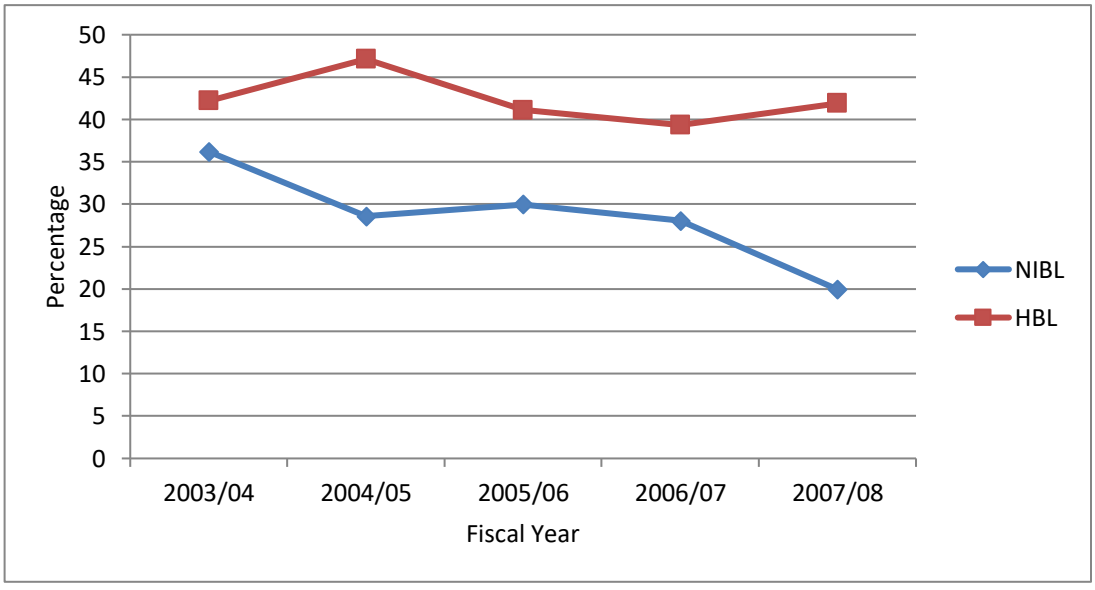
Source: - Annual Report

The above table shows that total investment to total deposit ratio of NIBL and HBL. Both banks have fluctuating trend total investment to total deposit ratio. Higher ratio of NIBL is 36.20% in FY 2003/04 and lowest ratio is 19.95% in FY 2007/08 in the same way the highest ratio of HBL 47.12% percent in FY 2004/05 and lowest ratio is 39.34% in FY 2006/07. Investment volume of NIBL is lower than that of HBL because more funds of NIBL were used in profitable loans to achieve optimum mix of interest earning assets.

The mean of the ratio of NIBL and HBL are 28.55% and 42.34% respectively so HBL has higher ratio. It signifies HBL has successfully allocated its deposit in investment portfolio to get higher investment return. It also implies that HBL has lower investment opportunities. The S.D and C.V. of NIBL is 5.19 and 18.18 and HBL has 18.18 and 6.05 respectively.

Figure 4.5

Total Investment to Total Deposit Ratio



c. Loan & 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 & 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 & advances to total assets of NIBL and HBL as follows.

Table 4.6

Loans and Advance to Total Assets Ratio

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	Loan & Adv.	7338	10453	13178	17769	27529	**62.46**	**5.15**	**8.24**
	Total Assets	13463	16390	21732	28073	39045			
	Ratio (%)	**54.50**	**63.38**	**60.64**	**63.29**	**70.48**			
HBL	Loan & Adv**.**	12919	13451	15761	17793	20179	**51.60**	**7.39**	**14.32**
	Total Assets	25729	28871	30579	34314	36858			
	Ratio (%)	**50.21**	**46.66**	**51.54**	**51.85**	**54.74**			

Source: - Annual Report

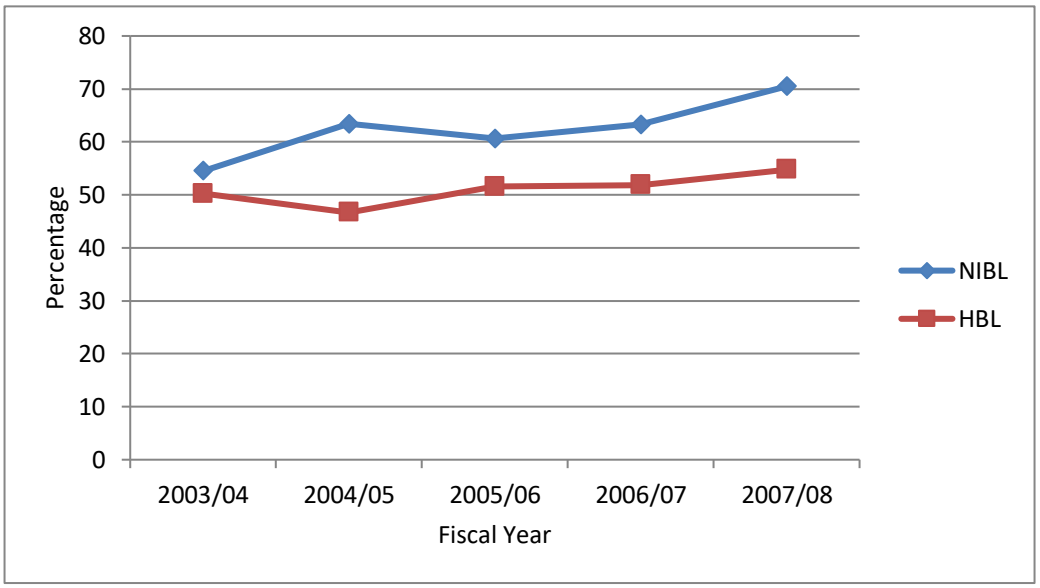
The above table shows the loan & advances to total assets ratio of NIBL and HBL are in fluctuating trend during the study period. While observing their ratios NIBL is better mobilizing of fund as loan and advances and it seems quite successful in generating higher ratio in each year in comparison of HBL.

The mean of NIBL and HBL are 62.46% and 51.60% respectively. So NIBL has higher ratio than that of HBL. It reveals that in total assets, NIBL has high proportion of loan and advances. NIBL has utilized its total assets more efficiently in the form of loan & advances. The higher C.V. of HBL states that it has less uniformity in these ratios throughout the study period than that of NIBL. S.D. and C.V. of NIBL and HBL have 5.15, 8.24 and 7.39 and 14.32 respectively.

The trend of loan and advance to total assets of NIBL and HBL has been presented below.

Figure 4.6

Loan and Advance Total Assets Ratio



4.1.1.3 Profitability Ratio

The major performance indicator of any firm is profit. The objective of investment policy is to make good return. Any organization has to desire of earning high profited which helps to survive the firm and indicates the efficient operation of the firm. Profit is the essential part of business activities 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, those ratios are 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 & Advances

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

Table 4.7

Return on Loans and Advance

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	Net Profit	152	232	350	501	696	**2.46**	**0.27**	**11.15**
	Loan & Adv.	7338	10453	13178	17769	27529			
	Ratio (%)	**2.07**	**2.22**	**2.65**	**2.82**	**2.53**			
HBL	Net Profit	263	308	457	492	635	**2.63**	**0.17**	**6.35**
	Loan & Adv**.**	12919	13451	15761	17793	20179			
	Ratio (%)	**2.03**	**2.29**	**2.90**	**2.85**	**3.15**			

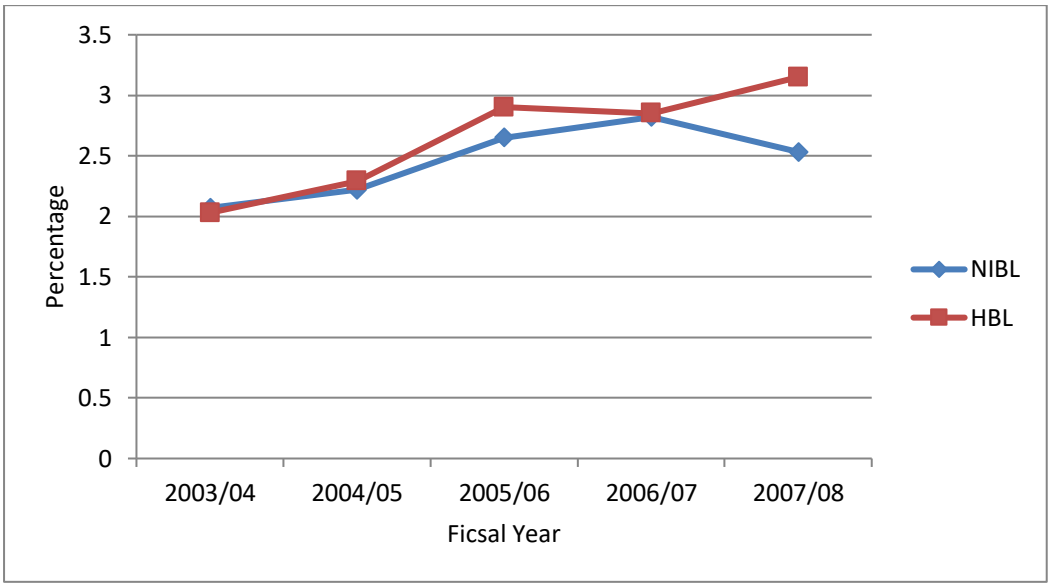
Source: - Annual Report

Above table shows that return on loan and advances ratio of NIBL and HBL are fluctuating trend. The highest ratio of NIBL is 2.82% in the year 2006/2007 and lowest ratio 2.07% in year 2003/2004. The mean ratio is 2.46%.Whereas highest ratio of HBL is 3.15% in year 2007/08 and lowest ratio is 2.03% in 2003/04. The mean ratio is 2.63%. HBL bank shows the good earning capacity in loan and advances whereas NIBL show poor earning capacity in form of loan and advances. From the table we notice that HBL has higher Ratios in all year and mean too. It can be concluded that HBL bank has utilized the loan and advance for the profit generation purpose in proper way.

The trend of Return on loan and advance of NIBL and HBL has been presented below.

Figure 4.7

Return on Loan and Advance



b. Return on Total Assets Ratio (ROTA)

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 4.8

Return on Total Assets Ratio (ROTA)

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. Deviation**	**C.V.**
NIBL	NPAT	152	232	350	501	696	**1.544**	**0.24**	**15.59**
	Total assets	13463	16390	21732	28073	39405			
	Ratio (%)	**1.14**	**1.42**	**1.61**	**1.78**	**1.77**			
HBL	NPAT	263	308	457	492	635	**1.346**	**0.26**	**19.66**
	Total assets	25729	28871	30579	34314	36858			
	Ratio (%)	**1.02**	**1.07**	**1.49**	**1.43**	**1.72**			

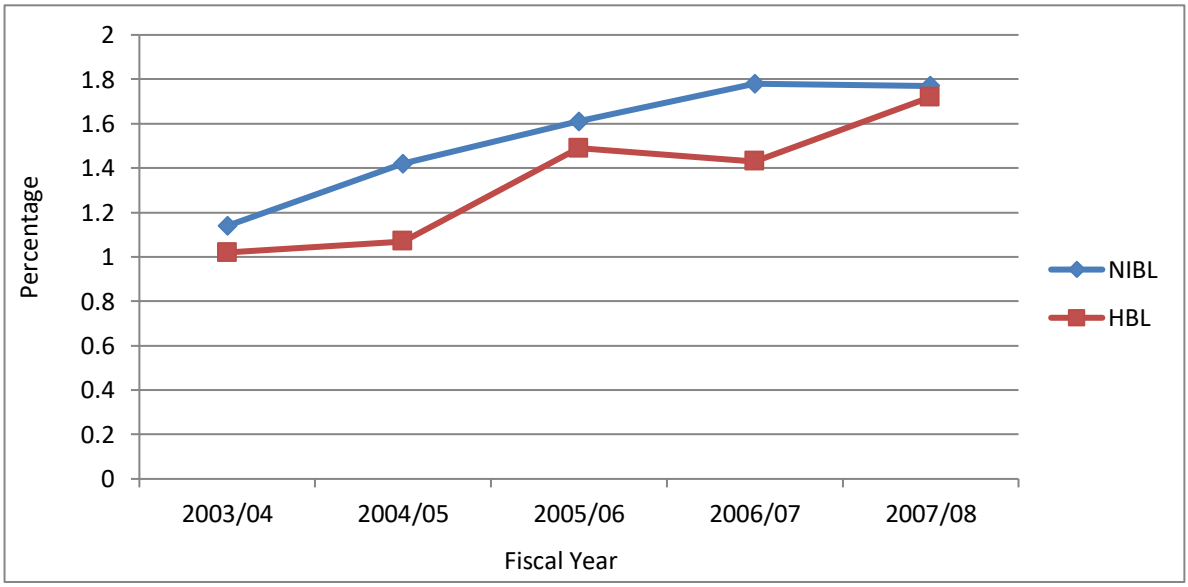
Source: - Annual Report

Above table shows the Return on Total Assets of NIBL and HBL. Both banks have fluctuating trend. The ratio of NIBL has ranged between 1.14% in 03/04 to the hr However, NIBL seems successful in managing higher of 1.78% in 06/07. Similarly the ratio of HBL has ranged from 1.02% in 03/04 to the higher of 1.72% in 07/08. However NIBL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 1.544% of total assets in an average which is higher than that of EBL(i.e. 1.544%>1.346). NIBL has also higher ratio in each year. Whereas S.D. and C.V .of NIBL and HBL are 0.24, 15.59 and 0.26, 19.66 respectively. Higher C.V of HBL shows that it has high incontinences in the ratios.

The trend of return on total assets of NIBL and HBL has been presented below.

Table 4.8

Return on Total Assets ratio (ROTA)



c. Return on Net worth/Equity Ratio

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. Return on equity plays the measuring role

of profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of NIBL and HBL during the study period.

Table 4.9

Return on Net Worth/Equity Ratio

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	NPAT	152	232	350	501	696	**23.57**	**2.73**	**11.58**
	Net worth	729	1180	1415	1878	2686			
HBL	**Ratio (%)**	**20.85**	**19.66**	**24.73**	**26.68**	**25.91**			
	NPAT	263	308	457	492	635	**15.18**	**3.12**	**20.55**
	Net worth	2291	2568	2885	2942	3195			
	Ratio (%)	**11.48**	**11.99**	**15.84**	**16.72**	**19.87**			

Source: - Annual Report

The above table shows that the ratio of NIBL has ranged between 19.66% in 04/05 to the highest to 26.68% in 06/07 with an average of 23.57%. Similarly this ratio of HBL ranged between 11.48% in 03/04 to the highest of 19.87% in 07/08 with an average of 15.18%.

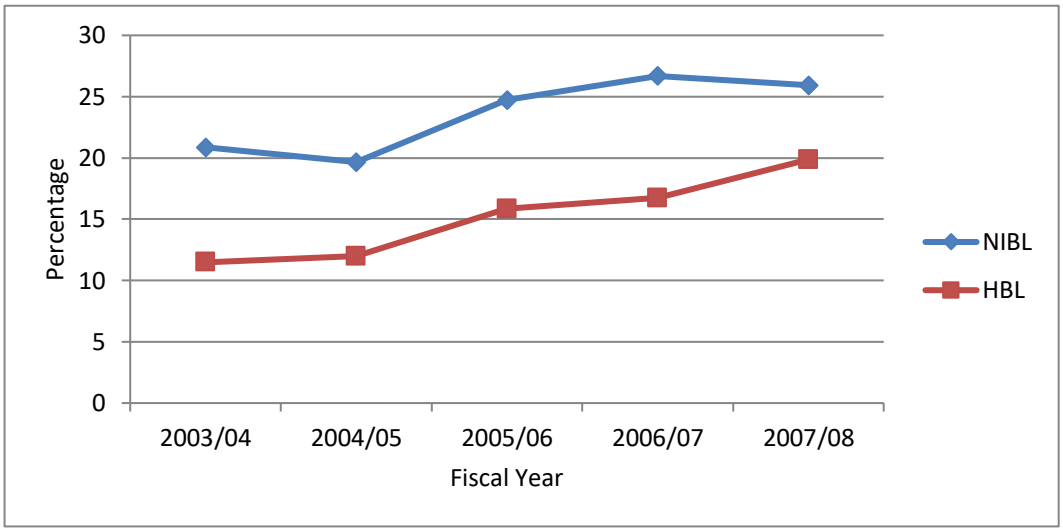
Despite stiff competition and an adverse macroeconomic environment, NIBL is currently generating higher ROE in comparison with HBL. In brief, it signifies that the shareholders of NIBL are getting higher return but in case of HBL, they are getting lesser. It can be concluded that NIBL has better utilized the equity for the profit generation. It proves to be a good strength of NIBL in attracting future investment also while HBL shows its weakness regarding efficient utilization of its owner's equity in comparison with NIBL. NIBL has homogeneous return in each year. It is the strength point of NIBL.

HBL has relatively more inconsistency throughout the study period because it's S.D. and C.V is higher.

The trend line of return on Net worth/Equity ratio of both sample banks are presented below.

Figure 4.9

Return on Net Worth/Equity Ratio



d. Total Interest Earned to Total Assets Ratio

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

Table 4.10

Interest earned to Total Assets Ratio

Amt in Million/Ratio in %

Banks		2003/04	2004/05	2005/06	2006/07	2007/08	Mean	Std. deviation	C.V
NIBL	Int. Earned	731	886	1172	1584	2194	**5.49**	**0.45**	**8.20**
	Total assets	13.463	16390	21732	28073	39405			
	Ratio (%)	**5.43**	**5.41**	**5.39**	**5.64**	**5.57**			
HBL	Int. Earned	1254	1446	1626	1775	1963	**5.14**	**0.36**	**7**
	Total assets	25729	28871	30579	34314	36858			
	Ratio (%)	**4.87**	**5.01**	**5.32**	**5.17**	**5.32**			

Source: - Annual Report

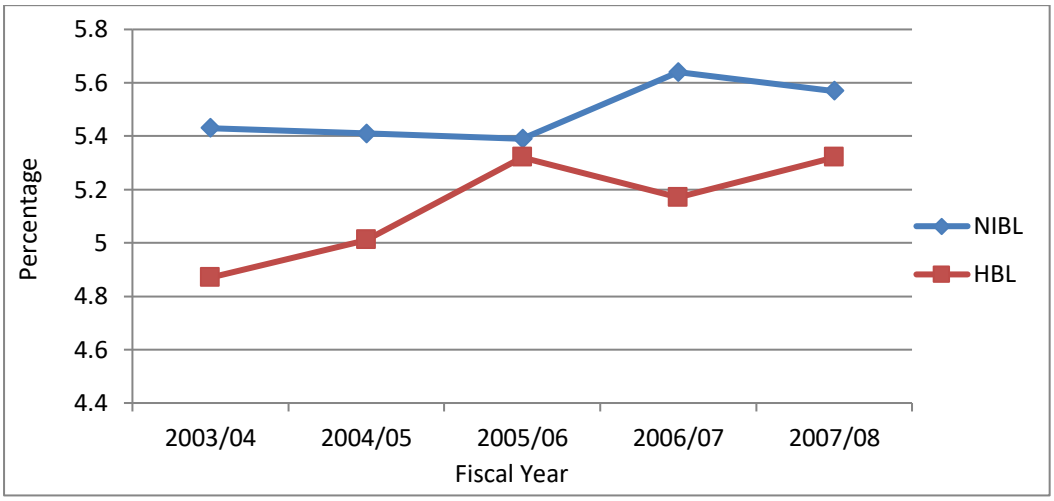
They both have increased total interest earned during studied period. Despite the higher Total assets and interest earned in NIBL, it seems less conscious about managing its assets in order to earn more interest ratio. NIBL shows the fluctuating trend of the interest earned ratio. And its average ratio is 5.49%. Whereas, HBL also shows fluctuating trend and it has maintained average ratio 5.14%. NIBL has higher ratio in each year except in year 2006/07. The mean ratio of NIBL is more than that of HBL. In comparison, NIBL seems effective in earning interest to some extent than that of HBL.

Moreover, NIBL also has higher inconstancies in the ratios during the study period. It can be concluded that NIBL has successfully mobilized their fund in interest generating assets.

The trend of total interest earned to total assets ratio of the NIBL and HBL has been presented below.

Figure 4.10

Interest Earned to Total Assets Ratio



e. Return on Total Deposit Ratio

The ratio of commercial bank measures the degree of NPAT earned by using the total deposit. This ratio shows how efficiently the management is utilizing its deposit in profit generating activities. This ratio is a mirror for bank's overall financial performance as well as its success in profit generation. The reason being that the deposits made by its customer's are the major source of earning of the commercial banks by efficiently and effectively utilization.

The following table shows the ratio of return on total deposits of NIBL and HBL.

Table 4.11

Return on Total Deposit Ratio

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	NPAT	152	232	350	501	696	**1.77**	**0.27**	**15.32**
	Total Deposit	11525	14255	18927	24488	34451			
	Ratio (%)	**1.32**	**1.63**	**1.85**	**2.05**	**2.02**			
HBL	NPAT	263	308	457	492	635	**1.56**	**0.30**	**19.23**
	Total Deposit	22010	24814	26490	30048	31842			
	Ratio (%)	**1.19**	**1.24**	**1.73**	**1.64**	**1.99**			

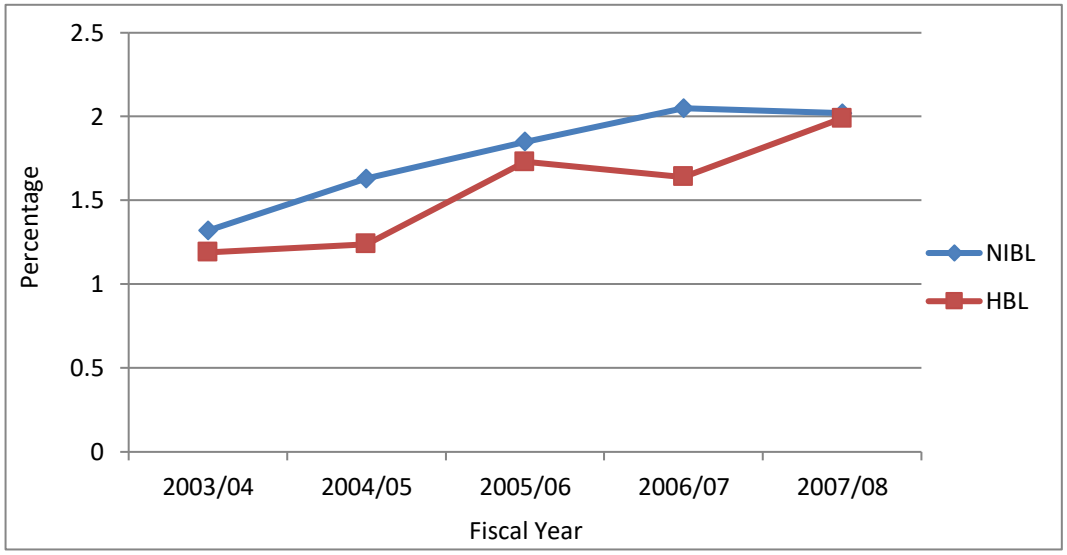
Source: - Annual Report

The above table shows that this ratio of NIBL has ranged between 1.32% in 03/04 to 2.05% in 06/07 with the mean being 1.77%. Likewise the ratio of HBL has ranged between 1.19% in 03/04 to 1.73% in 05/06 with the mean being 1.56% on an average NIBL is comparatively better than HBL and has were consistency with the ratio with CV being 15.32% whereas that of HBL is 19.23%. But however both these bank are not at satisfactory level, due to which they not optimality in the utilization of deposit and lower interest loans extended.

The trend of return on total deposits ratio of both the sample banks has been presented below.

Figure 4.11

Return on Total Deposit Ratio



4.1.1.4 Other Ratios

There are several other widely used ratios relating to the financial aspect of the company. Although various ratios have been calculated and analyzed for the sake of completeness some other indicator has also been considered in this section.

a. Earnings per Share (EPS)

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. Earnings 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.

This ratio of both the sample banks has been presented below.

Table 4.12

Earnings per share (EPS)

Amt in Million/Ratio in %

Banks	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	Std. deviation	C.V.
NIBL	51.70	39.50	59.35	62.57	57.87	54.20	8.15	15.04
HBL	49.05	47.91	59.24	60.66	53.26	54.02	5.17	9.58

Source: - Annual Report

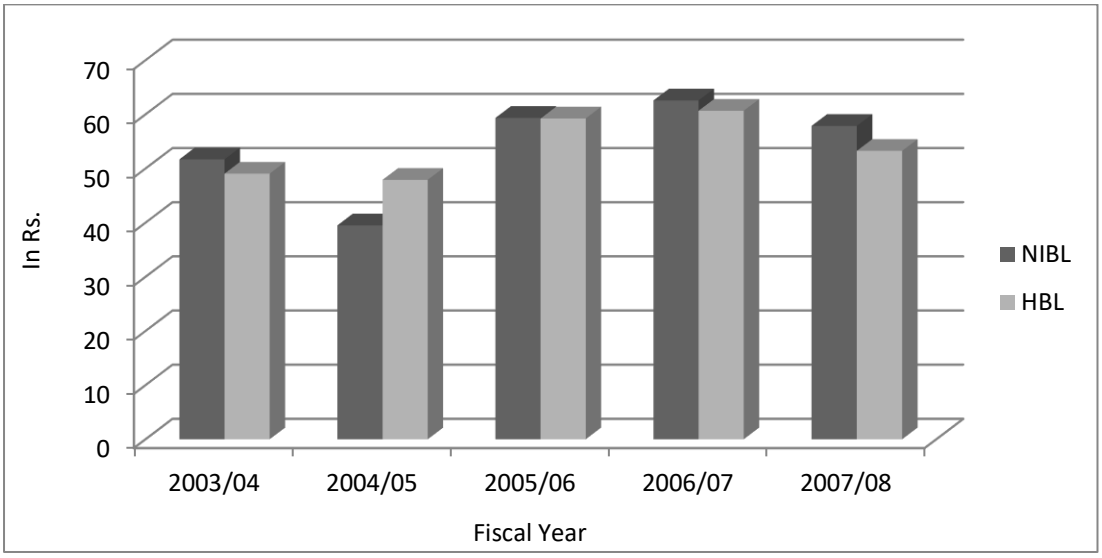
The above table reveals that this ratio of bank has some fluctuation over the study period. The ratio of NIBL has ranged between the least of Rs. 39.50 in 04/05 to the highest of Rs. 62.57 in 06/07. The mean ratio of HBL has ranged between the least of Rs. 47.91 in 04/05 to the highest of Rs. 60.66 in 06/07. The mean of HBL higher than NIBL which is Rs. 54.02. Similarly HBL has more consistency with CV of 9.58 whereas NIBL is 15.04%, it shows that HBL has better signal from the investor's point of view.

However, EPS doesn't reveal how much amount out of the earning id paid to the owners as dividend or how much of the earning are retained in the business.

The trend of earning per share of NIBL and HBL has been presented below.

Figure 4.12

Earnings Per Share (EPS)



b. Dividend per Share (DPS)

Dividend implies that portion of net profit, which is allocated to shareholders as their return in term of cash. DPS is the portion of EAT that cash amount is allocated to shareholders dividend by total numbers of ordinary shares outstanding.

The ratio of both the banks is presented in the following table.

Table 4.13

Dividend Per Share (DPS)

Amt in Million/Ratio in %

Banks	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	Std deviation	C.V.
NIBL	15	12.50	55.46	30	40.83	30.76	16.09	52.31
HBL	20	31.58	35	40	45	34.32	5.22	15.21

Source: - Annual Report

The ratio of NIBL has ranged between Rs. 12.50 in 04/05 to Rs. 55.40 in 05/06 which was in decreasing trend before fiscal year 05/06 and 06/07. HBL it has

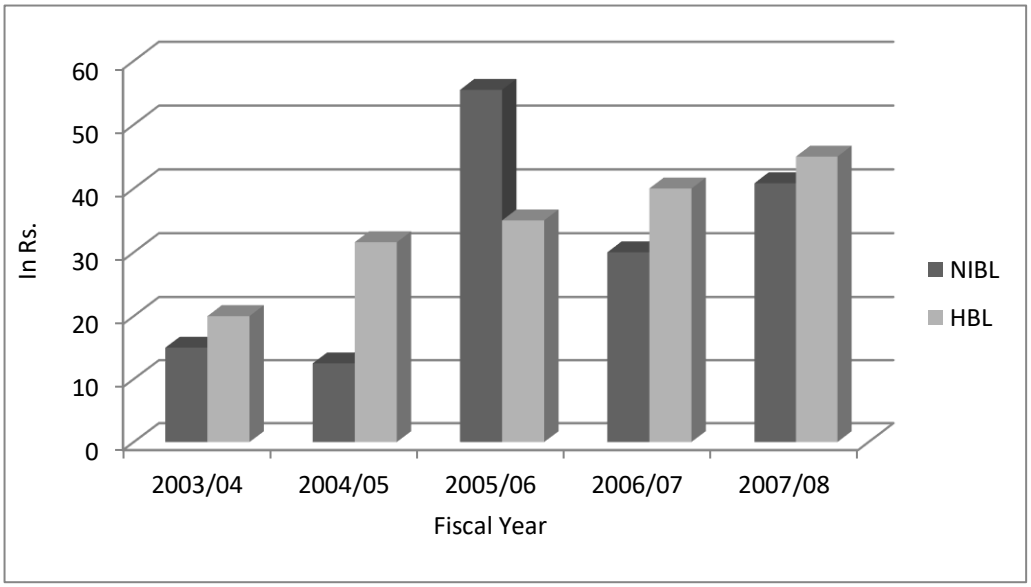
ranged between Rs. 20 in 03/04 to the highest of Rs. 45 in 07/08. The mean ratio of NIBL is Rs. 30.76 whereas that of HBL is Rs. 34.32. Regarding the consistency HBL has more consistency than NIBL with CV of 26.18%. So from shareholder point of view both cannot be considered as satisfactory.

However like, EPS, DPS also should not be taken at its face values as the increased DPS may not be reliable measure of the profitability as the equity has may increased due to increased retention without any change in the numbers of outstanding shares.

The trend of dividend per share ratio of NIBL and HBL has been presented below.

Figure 4.13

Dividend Per Share (DPS)



c. Earning Yield Ratio (E/Y Ratio)

This ratio reflects how much EPS is available from market value per share. The ratio may be defined as the ratio of earning per share to the market value per share. The ratio is also known as earning price ratio. The following table presents the earning yield ratio of both the banks under study.

Table 4.14

Earning Yield Ratio

Amt in Million/Ratio in %

Banks		2003/04	2004/05	2005/06	2006/07	2007/08	Mean	Std. deviation	C.V.
NIBL	EPS	51.70	39.50	59.35	62.57	57.87	4.23	**1.11**	**26.23**
	Market value per share	940	800	1260	1729	2450			
	Ratio (%)	**5.50**	**4.94**	**4.71**	**3.62**	**2.36**			
HBL	EPS	49.05	47.91	59.24	60.66	53.26	**4.52**	**1.21**	**26.77**
	Market value per share	840	920	1100	1740	1980			
	Ratio (%)	**5.84**	**5.21**	**5.39**	**3.49**	**2.69**			

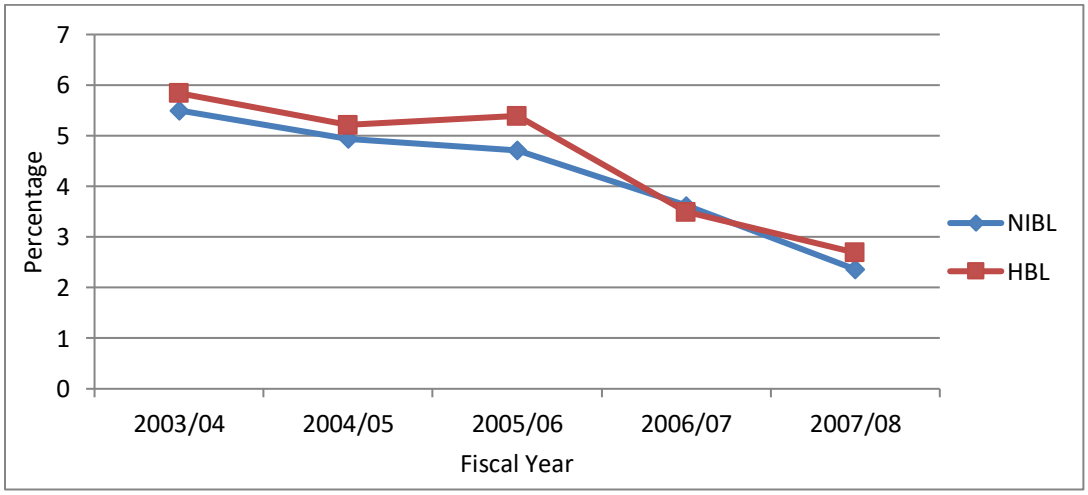
Source: - Annual Report

The ratio of NIBL has ranged between 2.36% in 07/08 to the highest of 5.50% in 03\04 whereas the ratio of HBL has ranged between 2.69 in 07/08 to the highest of 5.84 in 03/04. That mean ratio of HBL is higher than NIBL, it shows that HBL has higher and better earning in relation to market value per share than that of NIBL. But HBL has less consistency than NIBL with CV of 26.77%.

The trend of earning yield ratio of NIBL and HBL has been presented below.

Figure 4.14

Earning Yield Ratio



d. Divided Yield Ratio

This ratio is the dividend per share dividend by market value per share. This ratio evaluates the shareholder's in relation to the market value of the share.

Following tables presents dividend ratio of both the sample bank.

Table 4.15

Dividend Yield ratio

Amt in Million/Ratio in %

Banks		**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**Mean**	**Std. deviation**	**C.V.**
NIBL	DPS	29.01	31.65	93.45	47.95	70.55	**4.02**	**1.75**	**43.51**
	Market value per share	940	800	1260	1729	2450			
	Ratio (%)	**3.09**	**3.96**	**7.42**	**2.77**	**2.88**			
HBL	DPS	40.77	65.92	59.08	65.94	71.74	**4.96**	**1.28**	**25.81**
	Market value per share	840	920	1100	1740	1980			
	Ratio (%)	**4.85**	**7.17**	**5.37**	**3.79**	**3.61**			

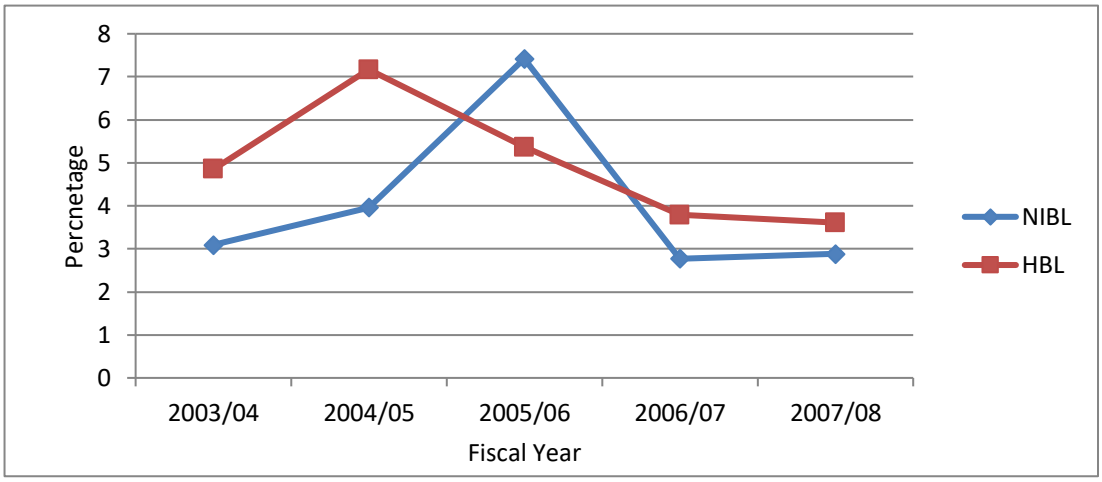
Source: - Annual Report

The above table shows that the ratio of NIBL has ranged between 2.77% in 07/08 to the highest of 7.42% in 05/06 with fluctuating trend. Similarly this ratio of HBL has ranged between 3.61% in 07/08 to the highest of 7.17% in 04/05 with fluctuating trend as well. The mean ratio of HBL has higher return in relation to the MVPS than that of NIBL. Similarly, HBL has more consistency than NIBL with CV of 25.81 and 43.51 respectively it shows that HBL has better performance regarding dividend yield.

The trend of dividend yield ratio of NIBL and HBL has been presented below.

Figure 4.15

Dividend Yield Ratio



e. Price Earnings Ratio (P/E Ratio)

This ratio is widely used by the security analysis to value the firm's performance as accepted by investors. It indicates investor's judgment for or expression about the firm's performance. The ratio reflects investor's expectation about the growth in the firm's earning.

Following table present the price earnings ratio of both the bank under study.

Table 4.16

Price Earnings Ratio (P/E ratio) (in times)

Amt in Million/Ratio in %

Banks	2003/04	2004/05	2005/06	2006/07	2007/08	Mean	Std. deviation	C.V.
NIBL	18.18	20.25	21.23	27.63	42.33	25.92	8.79	34.04
HBL	17.12	19.20	18.57	28.69	31.56	23.03	5.90	25.63

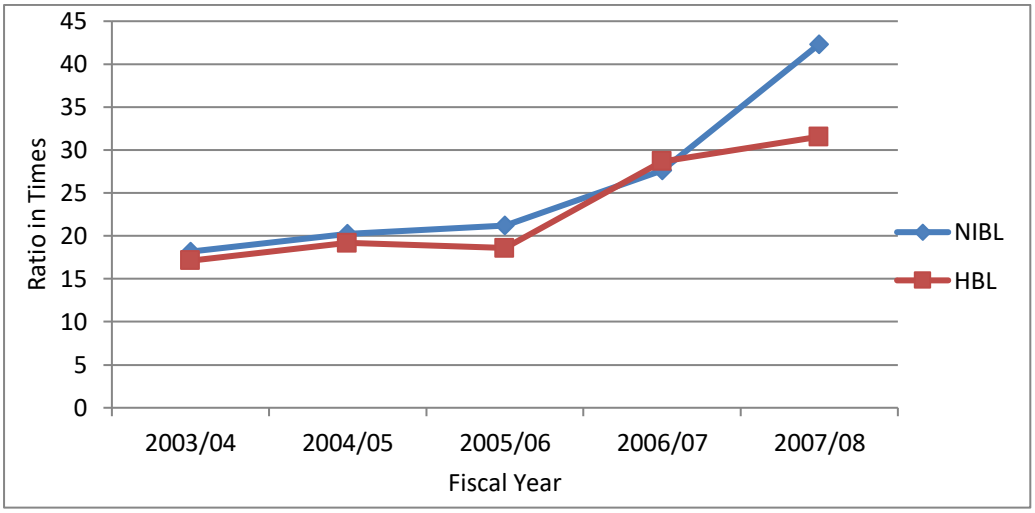
Source: - Annual Report

The above table shows that this ratio of NIBL has ranged between 18.18% in 03/04 to 42.33 in 07/08 with an average of 25.92. Likewise HBL has ranged between 17.12% in 03/04 to 31.56% in 07/08 with an average of 23.03 mean ratio of NIBL is higher than that of HBL. HBL has more consistency with CV of 25.63 than that of NIBL which is 34.04. This means HBL has better performance for the growth in earning than that of NIBL.

The trend of earning price of NIBL and HBL has been presented below.

Figure 4.16

Price Earnings Ratio (P/E ratio)



4.2.2 Trend Analysis and Projection for Next Five Years

Trend analysis is also one of the statistical tools used for the study forecasting. Various methods are used for trend analysis out of which least square method is one of the popular method used in this study.

Trend analysis very effectively, informs various personnel, directly or indirectly related to commercial banks. For shareholders of the bank, it informs about the expected future returns, which helps them to decide whether to stick in the present investment or to search for the alternative investment opportunities. For

professional bankers, it indicates the future achievement of the bank. For depositors it provides degree of safety in the form of financial credit worthiness of the bank in future. For the borrowers, it assures about the financial capability of the bank to furnish their loans and advances in future provided that the present trend will continue. Last but not the least, for academicians they can relate their theoretical growth rate factor with the practical financial results of the selected commercial banks in different trends.

In this section, the researcher analyzed the trends of the six basic financial indicators i.e. Net profit, loan and advances, total deposit, Net interest earned, dividend per share and Earning per share.

Since for any bank these indicators are very crucial financial variables with which we can relate the financial performance these indicates have been chosen the trend of previous five year period and the expected future results for the period of five years have been calculated and analyzed which will be helpful to the various parties concerned with bank. Lastly the summary of the comparative financial trends of all the two selected commercial banks have been presented in such a manner so as the readers know which of the banks is expected to perform better in the coming years.

The projections are based on the following assumptions:

- The main assumption is that other thing will remain unchanged.
- The forecast will be true only when the limitation of least square method is carried out.
- The banks will be running present position.
- The economy will remain in the present stage.
- Nepal Rastra Bank will not change its guidelines to commercial banks.

a. Trend Analysis of Net Profit

Here the value of net profit of NIBL and HBL has been calculated for five years FY2003/04 to 2007/08 and forecasting for the next five years till 2012/13.

$Y = a + bx$

Where,

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

Let trend line be,

$Y = a + b\ x$……. (I)

Where x = X - Middle year

Here,

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

NIBL	HBL
a =278.48	a = 431
b = 135.50	b = 92.8

Yc = 278.48 + 135.50 *X NIBL*

Yc = 431+92.8 X HBL

Table 4.17

Trend Value of Net Profit of NIBL and HBL

(In Millions)

Fiscal year	Trend value NIBL	Trend value HBL
2003/04	7.40	245.40
2004/05	142.90	338.20
2005/06	278.40	431
2006/07	413.90	523.80
2007/08	549.40	616.60
2008/09	684.90	709.40
2009/10	820.40	802.20
2010/11	955.90	895
2011/12	1091.40	987.80
2012/13	1226.90	1080.60

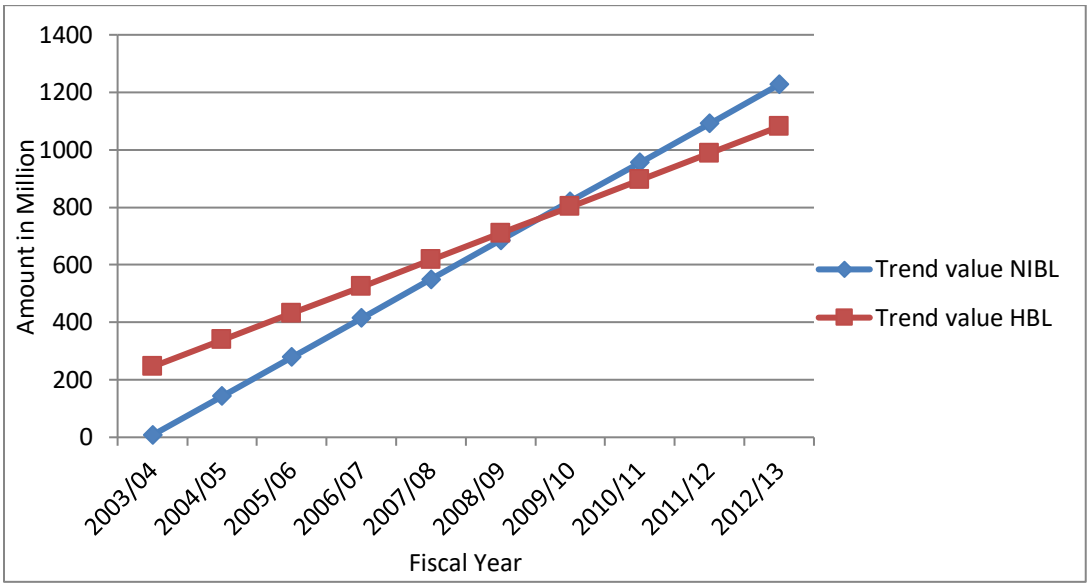
Source: Appendix-I

From the above mentioned comparative table of net profit, it is clear that net profit of both banks are in increasing trend there things remaining the same, the net profit of HBL will be the highest Rs 1080.60 million. In of the NIBL other things remaining same, the net profit will be Rs 1226.90. The net profit in volume is greater in HBL due to its average profit per year being greater. So it can be concluded that, if this trend continues, NIBL will soon surpass HBL in providing net profit. The success to achieve this highly competitive growth rate can be attributed to its aggressiveness in advancing credits to various sectors by diversifying its business to various parts of the country. Hence, we can draw a conclusion that NIBL seems to have failed to utilize its funds to earn handsome amount of profit in compression to the HBL.

The above given trend values have been fitted in the trend lines given on the next page.

Figure 4.17

Trend Value of Net Profit of NIBL and HBL



b. Trend Analysis of Loan and Advances

Here the trend values of loan and advances of NIBL and HBL have been calculated for 5 years for 2003/04-2007/08 the forecast for next 5 years till 2012/13 has also been done.

The following table shows that trend values of 10 years from 2003/04 to 2012/13 of NIBL and HBL. Trend values of loan and advances of NIBL and HBL 2003/04 to 2012/13.

$Y = a + bx$

Where,

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

Let trend line be,

Y = a + b x……. (I)

Where x = X - Middle year

Here,

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

NIBL

a =15253.40

b = 4769.80

Yc = 15253 + 4769.80 *X NIBL*

HBL

a = 16020.60

b = 1886.20

Yc = 16020.60 + 1886.20 X HBL

Table 4.18

Trend value of Loan and Advances of NIBL and HBL

(in million)

Fiscal year	Trend value NIBL	Trend value HBL
2003/04	5713.80	12248.20
2004/05	10483.20	14134.40
2005/06	15253.40	16020.60
2006/07	20023.20	17906.80
2007/08	24793	19793
2008/09	29562.80	21679.20
2009/10	34332.60	23565.40
2010/11	39102.40	25451.60
2011/12	43872.20	27337.80
2012/13	48642	29224

Source: Appendix-II

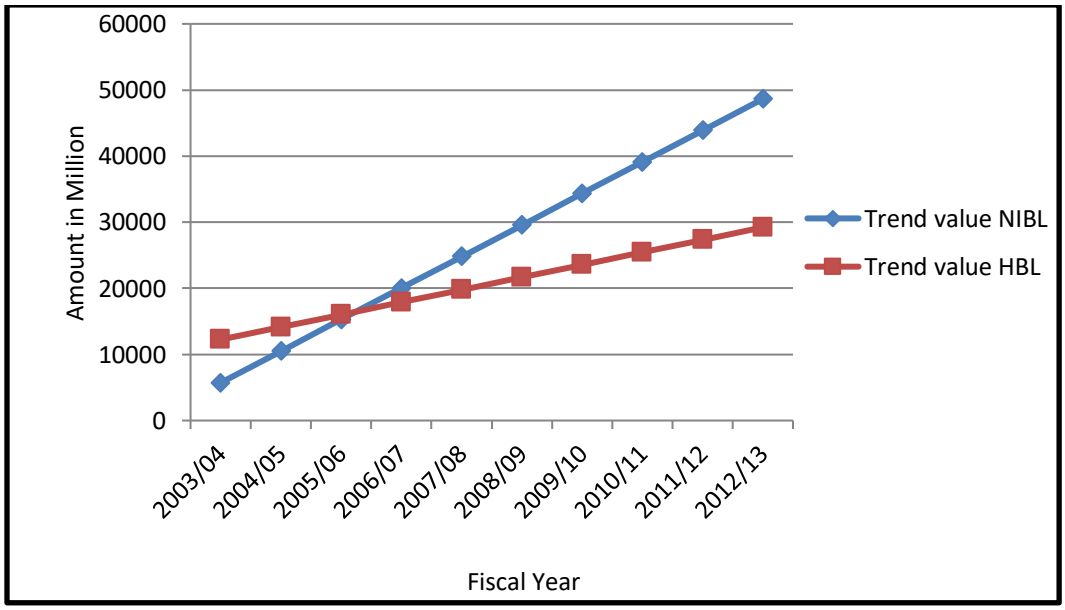
The above comparative table makes clear that the loan and advances of both banks NIBL and HBL are increasing regularly. Other things remaining the same, the loan and advances of NIBL in 2012/13 will be Rs. 48642 million, which is the highest

amount during the period of study. Similarly, the same of HBL will be Rs. 29224 million.

From the above trend analysis, it is clear that NIBL's utilization of deposits in terms of loan and advances is comparatively better than that of the HBL. This proves that NIBL is very aggressive in mobilizing its collected deposit to earn a huge return out of HBL, but this does not guarantee the quality return on loan as the evaluation of credit worthiness of the customer is the prime factor to make credit decision, with the easily realizable collateral. There is need of similar growth in deposit position as well to keep up with the growth rate in loans and advances. The above calculated trend values of loan and advances of NIBL and HBL are fitted in the trend lines, which is given below.

Figure 4.18

Trend value of Loan and Advances of NIBL and HBL



c. Trend Analysis of Total Deposit

The researcher now starts the trend analysis by analyzing the total deposit trend of NIBL and HBL.

Y= a + bx

Where,

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

X = independent variable

Let trend line be,

Y = a + b x……. (I)

Where x = X - Middle year

Here,

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

NIBL

a =20729.20

b =5608.50

Yc = 20729.20 + 5608.50*X NIBL*

HBL

a = 27040.80

b = 2489.80

Yc = 27040.80+ 2489.80X HBL

Table 4.19

Trend Value of Total Deposit of NIBL and HBL

(in million)

Fiscal year	Trend value NIBL	Trend value HBL
2003/04	9512.20	22061.20
2004/05	15120.70	24551
2005/06	20729.20	27040.80
2006/07	26337.70	29530.60
2007/08	31946.20	32019.80
2008/09	37554.70	34510.20
2009/10	43163.20	37000
2010/11	48771.70	39489.80
2011/12	54380.20	41979.60
2012/13	59988.70	44469.40

Source: Appendix-III

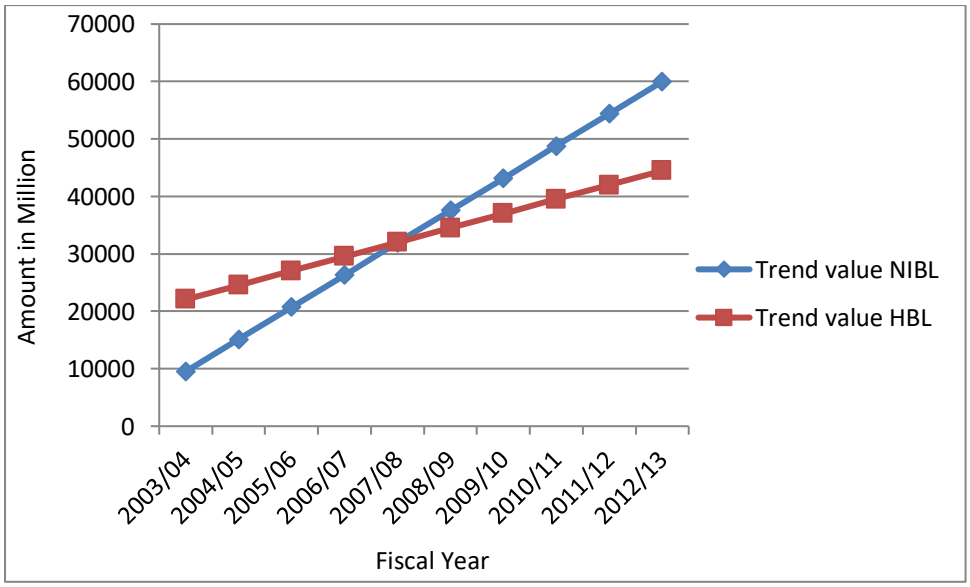
The above comparative table shows that NIBL and HBL total deposit has been in the increasing trend. Other things remaining the same, the total deposit of NIBL in 2012/13 will be Rs. 59988.70 million, which is the highest amount during the study period of HBL and NIBL. Similarly, the same of HBL will be Rs. 44469.40 million.

From the above trend analysis, it is clear that NIBL's collection of deposits in terms of total deposits is slightly better than of HBL during trend forecasting period.

The above calculated trend values of total deposit of NIBL and HBL are fitted in the trend lines, which are given below.

Figure 4.19

Trend Value of Total Deposit of NIBL and HBL



d. Trend Analysis of Total Investment

Under this topic, an attempt has been made to analyze trend analysis total investment of NIBL and HBL for further eight years.

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……. (I)

Where x = X - Middle year

Here,

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

NIBL HBL

a =5532 a = 11407

b =819.80 b = 822.60

Yc = 5532 + 819.80*X NIBL*

Yc = 11407 + 822.60X HBL

Table 4.20

Trend Value of Total Investment of NIBL and HBL

(in millions)

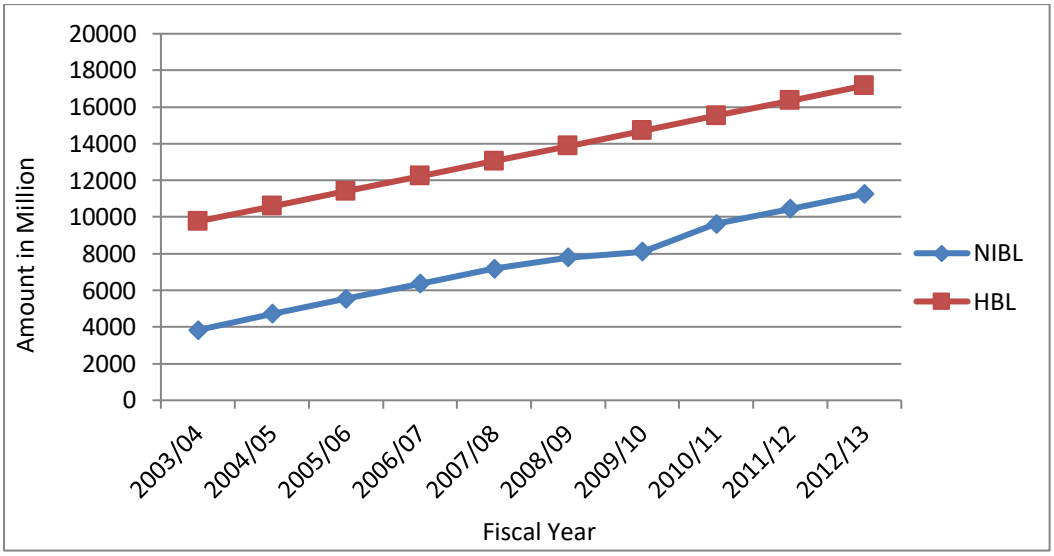
Fiscal year	Trend value NIBL	Trend value HBL
2003/04	3829.40	9761.80
2004/05	4712.20	10584.40
2005/06	5532	11407
2006/07	6351.80	12229.60
2007/08	7171.60	13052.20
2008/09	7791.40	13874.80
2009/10	8111.20	14697.40
2010/11	9631	15520
2011/12	10450.80	16342.60
2012/13	11270.60	17165.20

Source: Appendix-IV

Above table shows the Trend of Total Investment between NIBL and HBL. Both Bank NIBL and HBL have increasing trend in making investment. HBL has little high and upward trend of increasing, but NIBL has moderately increasing trend of total investment. The trend of total investment projected to FY 2012/13. The forecasted trend projected that the HBL has greater increment rate in total investment than the increment rate of NIBL. The figure indicates HBL has highly mobilized the total investment rather than NIBL.

Figure 4.20

Trend Value of Total Investment of NIBL and HBL



e. Trend Analysis of Dividend per Share

Here, the trend values of dividend per share of NIBL and HBL have been calculated for 5 years for 2003/04 to 2007/08. The forecast for next 5 years till 2012/13 has also been done.

The following table no. 4.38 that trend values of 10 years from 2003/04 to 2012/13 has been done.

The following table no. 4.38 shows that trend values 10 years form 2003/04 to 2012/13 of HBL and NIBL.

Y= a + bx

Where,

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

X = independent variable

Let trend line be,

Y = a + b x……. (I)

Where x = X - Middle year

Here,

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

NIBL	HBL
a =30.76	a = 34.32
b =6.92	b = 5.84

Yc = 30.76 + 6.92*X NIBL*

Yc = 34.32 + 5.84X HBL

Table 4.21

Trend Value of Dividend per share of NIBL and HBL

(in million)

Fiscal year	Trend value NIBL	Trend value HBL
2003/04	16.92	22.64
2004/05	23.84	28.48
2005/06	30.76	34.32
2006/07	37.68	40.16
2007/08	44.60	46
2008/09	51.52	51.84
2009/10	58.44	57.68
2010/11	65.36	63.52
2011/12	72.28	69.36
2012/13	79.20	75.20

Source: Appendix-V

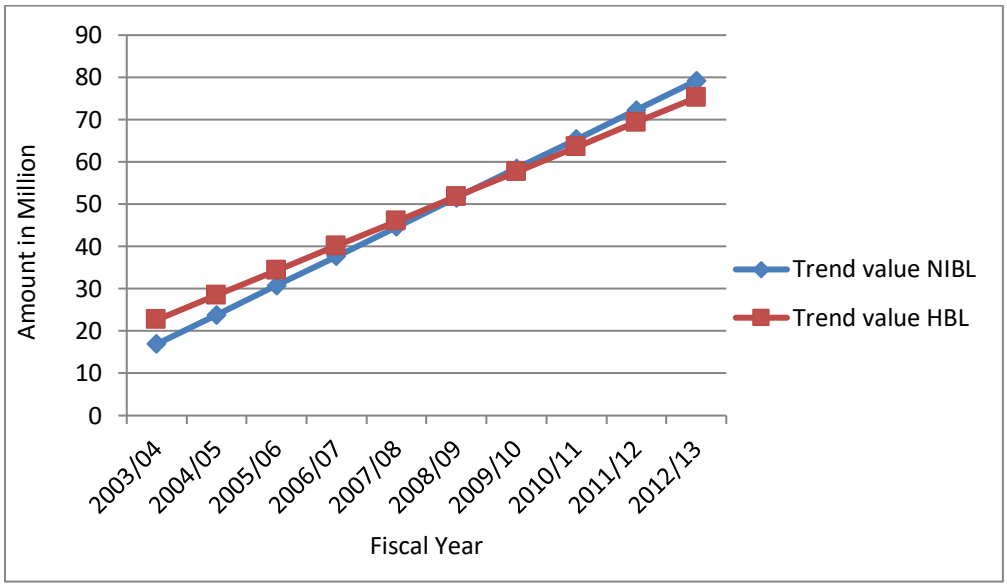
The above comparative table no. 4.38 shows that the NIBL and HBL's dividend per share has been in increasing trends. The highest amount during study period of HBL is Rs. 75.20 million in 2012/13. Similarly the same of NIBL will be Rs. 79.20 million.

From the above trend analysis, it is clear that NIBL is comparatively better dividend per share than that of HBL. Most corporations seek to maintain a target dividend per share. However, dividend increases with a lag after earning rise. When dividend has been increased, strenuous effects are made to maintain them of the new level.

The above calculated trend values of dividend per share of NIBL and HBL are fitted in the trend lines which are given below.

Figure 4.21

Trend Value of Dividend Per Share of NIBL and HBL



f. Trend Analysis of Earnings Per Share

Here, the trend values of earning per share of NIBL and HBL have been calculated for 5 years from 2003/04 to 2007/08. The forecast for next five years till 2012/13 has also been done.

The following table no. 4.39 shows that values of 10 years from 2003/04 to 2012/1 of NIBL and HBL.

$Y = a + bx$

Where,

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

Let trend line be,

$Y = a + b\,x$…… (I)

Where x = X - Middle year

Here,

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

NIBL HBL

a =54.60 a =55.92

b =3.54 b = 4.013

Yc = 54.60 + 3.54*X NIBL*

Yc = 55.92 + 4.013X HBL

Table 4.22

Trend Value of Earning Per Share of NIBL and HBL

(in millions)

Fiscal year	Trend value NIBL	Trend value HBL
2003/04	47.12	47.84
2004/05	50.66	51.91
2005/06	54.20	55.92
2006/07	57.74	59.93
2007/08	61.28	63.95
2008/09	64.82	67.96
2009/10	68.36	71.97
2010/11	71.90	75.99
2011/12	75.44	80
2012/13	78.98	84.01

Source: Appendix-VI

We will now analyze the earning per share trend of NIBL and HBL banks. The above table and calculation in appendix VI shows that NIBL's earning per share has been in the increasing trend. Other things remaining the same the earning per share in 2012/13 will be Rs. 78.98 million, which is the highest amount during the study period of NIBL.

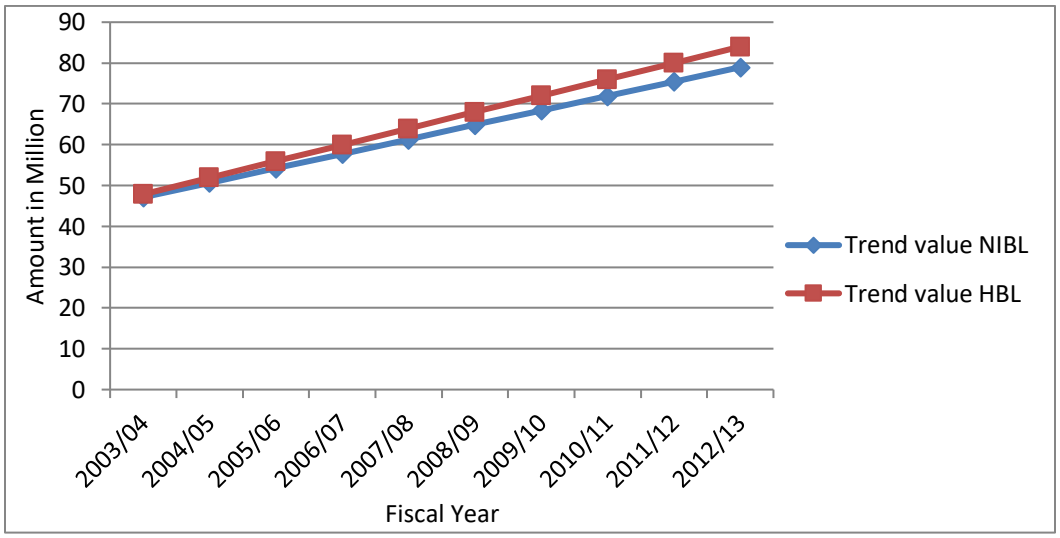
The above table and calculation in appendix Xi shows that HBL's earning per share has been in decreasing trend. Other things remaining the same, the earning per share in 2012/13 will be Rs. 84.01 which is the lowest amount during the study period of HBL.

From the above table, it can be concluded that there is a positive growth in earning per share of NIBL bank only. The growth rate is NPR 5 per year as compared with the both the banks have fluctuating current ratio.

In HBL, there is negative growth rate. The decreasing trend in EPS does not reflect the weak performance of this bank as the EPS depends on many factors like bonds, shares, dividend, retained earnings, etc. therefore, the policy of the banks may affect the EPS largely.

Figure 4.22

Trend Value of Earning Per Share of NIBL and HBL



4.2 Major Findings of the Study

4.2.1 Financial Analysis

Liquidity Ratio

From the above research study, following findings are drawn on the liquidity position of the selected commercial banks.

- Generally banks have to maintain more liquid assets but the current ratios of all banks are below the standard of 1:1. The mean current ratio of NIBL is 1.30 and HBL is 1.08 the current ratio of NIBL is little higher than HBL. It is indicate better liquidity position of NIBL.
- Cash and bank balance to total deposit ratio of NIBL has higher than HBL i.e. 10.65 % > 6.82%. Which indicates that the bank has higher liquidity of NIBL as compare to HBL? A high ratio of cash and bank balance may be undesirable which indicates inability to invest in more productive sectors like short-term marketable securities insuring enough liquidity which will help the bank to improve its profitability. But liquidity position is good.
- Cash and bank balance to current assets ratio of NIBL is higher than HBL i.e. 9.58%. > 6.14%. Regarding the analysis, it can be said that NIBL has a better ability to meet daily cash requirements of their customers but it should be noted that NIBL has excess cash due to the low investment opportunities.

Asset Management Ratio

A commercial bank must be able to manage its assets very well to earn high profit, so to satisfy its customers and for own existence. The assets management ratios of NIBL and HBL show the following findings.

- The loan & advances to total deposit ratio of HBL is lower than NIBL 59% < 71.82%. It indicates the better mobilization of deposit by NIBL. So, NIBL has more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors.

- The total investment to total deposit of HBL is much higher than NIBL i.e. 42.34% >28.55%. It shows the HBL is mobilizing its funds on investment in various securities efficiently. It can be said that HBL is more successful in utilizing its total deposit by investing in marketable securities.
- The loan & advances to total assets ratio of NIBL is greater than HBL i.e. 62.46% > 51.60%. It refers NIBL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio.

Above findings reveals that the NIBL has better utilization of assets in risk free asset i.e. government security and productive sector rather than HBL.

Profitability Ratio

The major performance indicator of any firm is profit. Following findings are drawn on the basis o f profitability position of NIBL and HBL.

- Return on loan & advances ratio of HBL is little higher than that of NIBL i.e. 2.63% > 2.46%. It refers that HBL. It can be concluded that HBL bank has utilized the loan and advance for the profit generation purpose in proper way.
- Return on total assets ratio of NIBL is slightly higher than HBL i.e. 1.544% > 1.346%. However, NIBL seems successful in managing and utilizing the available assets in order to generate revenue.
- Return on equity of NIBL is higher than HBL i.e. 23.57% > 15.18% which shows that NIBL is more successful to earn high profit through the efficient utilization of its equity capital.
- Total interest earned to total assets ratio of HBL is relatively little lower than that of NIBL i.e. 5.14% < 5.49% and also has lower variability in the ratio. It indicates that NIBL has efficiently used its total assets to earn higher interest income in comparison to HBL. HBL seems less conscious about managing its assets in order to earn more interest ratio.

- Return on Total Deposit ratio of NIBL little higher than HBL i.e. 1.77 % > 1.56%.

Overall findings of profitability ratios show that NIBL has utilized its fund in risk free asset and HBL has earned profit by interest mobilization.

Other Ratios

From the above research study, following findings are drawn on the other ratios of the sample banks i.e. NIBL and HBL:

- Average Earning per Share of NIBL is little higher than that of HBL i.e. Rs. 54.20 > Rs. 54.02. NIBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. The C.V of NIBL is higher than HBL; it indicates that there is inconsistent in earning per share.
- Dividend per Share of HBL greater than NIBL i.e. 34.32>30.76. Regarding the consistency HBL has more consistency than NIBL with C.V. of 26.18%.
- The Earning Yield Ratio of HBL greater than NIBL i.e. 4.52%>4.23%. It shows that HBL has higher and better earning in relation to market value per share than that of NIBL. But HBL has less consistency than NIBL with CV of 26.77%.
- Dividend Yield Ratio of HBL greater than NIBL i.e. 4.96%>4.02%. HBL has more consistency than NIBL with CV of 25.81 and 43.51 respectively. It shows that HBL has better performance regarding dividend yield.
- The mean price-earnings ratio of HBL is little lower than that of NIBL i.e. 23.03 %< 25.92%. It indicates that for getting Rs 1 as earning, one should invest Rs 25.92 in NIBL and Rs 23.03 in 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 although EPS of HBL is

lower in comparison than that of NIBL it s suggest to shareholder to sell their stock to get high income.

Time Series Analysis (Trend Analysis)

The research study has revealed following some major findings on the basis of time series analysis.

- The trend line of Net profit for NIBL and HBL is upward slopping But NIBL has aggressively and HBL has smoothly. The position of NIBL is better in order to generate profit than HBL.
- The trend line of loan & advances for both banks is upward slopping. It refers that both advances for NIBL seems high growing than HBL. It refers that NIBL is more aggressive in mobilizing its loan and advance.
- The total investment trend line of NIBL and HBL is upward slopping where as NIBL has aggressive upward slopping of total investment trend line. It refers that NIBL has better increasing trend of total investment than HBL.
- The trend analysis of dividend per share NIBL and EBL have increasing trend. It is clear that NIBL is comparatively better dividend per share than that of HBL.
- The trend of earning per share NIBL and HBL having increasing trend. It can be concluded that there is a positive growth in earning per share.
- Above analysis, reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NIBL is higher than the HBL. It indicates better performance of NIBL rather than HBL.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATION

There are two aspects included in this chapter. The first aspect focuses on the summary and the conclusion of the study while the second aspect focuses on the suggestions and recommendations that are useful to improve the financial performance of NIBL and HBL.

5.1 Summary

Economic development is essential for the development of the country. For this, it is required to transform savings into actual investment. Economic development is supported by the financial infrastructure of the country. The financial institutions transfer funds from surplus spending units to deficit units.

The basic task of financial institutions is to mobilize the saving of the community and ensure efficient allocation of the savings to high yielding investment projects to offer attractive and secured returns to different sectors of the economy according to the planned priorities of the country. On the other hand, this process of financial institutions gives rise to the money and other financial assets which therefore have a central place in the development process of the economy. Banking sector plays an important role in the economic development of the country. It provides an effective payment and credit system, which facilitates the channeling of funds from the surplus (savers) units to the deficit units (investors) in the economy.

Investment operation of commercial banks is a very risky one. For this, commercial banks have to pay due consideration while formulating investment policy. A healthy development of any commercial bank depends upon its

investment policy. A good investment policy attracts both the borrowers and the lenders, which helps to increase the volume of quality deposits and investment.

In most years, banks are the leading buyers of bonds and notes issued by the government to finance public facilities, ranging from hospitals and football stadium to airport and highways. Moreover, bank reserves the principal channel for government economic policy to stabilize the economy. And banks are also the most important sources of short-term working capital needed for the businesses. They have increasingly become active in recent years in making long-term business loans for new plant and equipments. When businesses and consumers must make payments for the purchase of goods and services, more often they use bank provided cheques, credit or debit cards, or electronic accounts connected to a computer network. It is the bankers, to whom they turn most frequently for advice and counsel when they need financial information and financial planning.

A bank always puts in effort to maximize its profitability. The profit is excess of income over expenses. To maximize profit, income should be reasonably excess over expenses. The major source of income of a bank is interest income from loans, investments and fee based income. As loan and advances dominate the asset side of the balance sheet of any bank; similarly, earnings from such loan and advances occupy a major space in income statement of the bank. However, it is very important to be reminded that most of the bank failures in the world are due to the shrinkage in the value of loan and advances. Hence, loan is known as risky asset and investment operation of commercial banks, is a very risky one. Risk of non-performing loans erodes even existing capital. Considering the importance of lending to the individual banks and also to the society it serves, it is imperative that the bank meticulously plans its credit operations.

The major problem in almost all underdeveloped countries and Nepal as no exception is that of capital formation and proper utilization. In such countries, the commercial banks have to shoulder more responsibilities and acts as development banks, due to the lack of other specialized institutions.

Commercial banks in the developing countries like Nepal have the greatest responsibility towards the economic development of the country. In modern times, since credit or bank money constitutes bulk is of the economy's aggregate money supply, it mostly changes the volume of the bank money or credit rather than changes in the total supply of the high-powered money issued by the reserves held by the bank against their deposit liabilities that account for the changes in the aggregated money supply. 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 has a responsibility (obligation) to provide social service oriented contribution for the social economic upliftment of the country by providing specially considered loans and advances towards less privileged sectors.

A bank's marketing starts with a proper relationship with customers either to attract savings or for the loan disbursement. Both the depositors and the creditors are customers of the bank. Banks offer various products for deposit mobilization and disburse the credit products as per the portfolio management. Customers as per their need purchase different types of product offered in the market. Deposit products offered to the customers are categorized into general products and special products, and credit products can be bifurcated into fund based products and non-fund based products. The fund based products in practice are developed from the credit products generally known as overdraft, working capital loan, Term loan, bills purchase or negotiation, export and import bills, import/trust receipt loan, export credit, loan against fixed deposit receipt, loan against shares, loan against

securities, and loan against bank guarantee and deprived sector loan. The term loan used in practice generally addresses short term loam medium term loan and long term loan to be advanced in various forms such as housing loan, hire purchase loan and bridge financing. The non-fund based product is composed of letter of credit (LC) and bank guarantees with different forms (bid bonds, performance bonds, etc.)

Among the different banking products available in the market, the product with high demand are consumer credit, export and import credit, term loan, Project loan and syndicate loan. All banks and financial institution on the basis of their capital base and liquidity position offer these credit products but none of them so far have been found to have expertise in any one of them for marketing. Relying on any one of the product by portfolio seems more risky. Banks in foreign countries are known to bring out numerous products. As an example, the bank of America has a vast range of banking business serving individuals and small firms and a big share of the loan syndicate market. It means markets are there for some products and it is created for others. Banks in Nepal are weak in locating the existing market and in creating new markets too.

Loan disbursement is a trade of win-win game lenders and borrowers both get benefited out of it. Customers are the ultimate source of income not products. For the analysis of customers several questions need to be answered. This includes questions such as which customer buys the product and how do they use it? Where do customers buy the product, when do customer buy, how do customers choose, why do they preferred that product, how do they respond, and will they buy it again. All these data available in the respective files of the customer make the marketing activities quite easier and effective.

5.2 Conclusion

The overall aspect of liquidity position liquidity position of NIBL is comparatively better than HBL. Lower liquidity position of HBL shows that the current assets have been utilized in some profit generating sectors, but at the same time the bank has weak short-term solvency position.

The mean current ratio of NIBL is 1.30 and HBL is 1.08 the current ratio of NIBL is little higher than HBL. It is indicate better liquidity position of NIBL. Cash and bank balance to total deposit ratio of NIBL has higher than HBL i.e. 10.65% > 6.82% which indicates that the bank has higher liquidity of NIBL as compare to HBL. Cash and bank balance to current assets ratio of HBL is higher than NIBL i.e. 9.58%. > 6.14%. Regarding the analysis, it can be said that NIBL has a better ability to meet daily cash requirements of their customers.

An asset management aspect of NIBL is better than HBL which is justified by show the following findings. The loan & advances to total deposit ratio of HBL is lower than NIBL 59% <71.82%. It indicates the better mobilization of deposit by NIBL. So, NIBL has more efficiently utilizing the outsiders' funds in extending credit for profit generating sectors. The total investment to total deposit of HBL is much higher than NIBL i.e. 42.34% >28.55%. It shows the HBL is mobilizing its funds on investment in various securities efficiently. The loan & advances to total assets ratio of NIBL is greater than HBL i.e. 62.46% > 51.60%. It refers NIBL has utilized its total assets more efficiently in the form of loan & advances with more risk because it has greater variability in the ratio. Above findings reveals that the NIBL has better utilization of assets in risk free asset i.e. government security and productive sector rather than HBL.

Overall findings of profitability ratios show that NIBL has earned higher profit in relation to every aspects of the bank than HBL. Return on loan & advances ratio of

HBL is little higher than that of NIBL i.e. 2.63% > 2.46%. It refers that HBL. It can be concluded that HBL bank has utilized the loan and advance for the profit generation purpose in proper way. Return on total assets ratio of NIBL is slightly higher than HBL i.e. 1.544% > 1.346%. However, NIBL seems successful in managing and utilizing the available assets in order to generate revenue. Return on equity of NIBL is higher than HBL i.e. 23.57% > 15.18% which shows that NIBL is more successful to earn high profit through the efficient utilization of its equity capital. Total interest earned to total assets ratio of HBL is relatively little lower than that of NIBL i.e. 5.14% < 5.49% and also has lower variability in the ratio. It indicates that NIBL has efficiently used its total assets to earn higher interest income in comparison to HBL. HBL seems less conscious about managing its assets in order to earn more interest ratio. Return on Total Deposit ratio of NIBL little higher than HBL i.e. 1.77 % > 1.56%. Overall findings of profitability ratios show that NIBL has utilized its fund in risk free asset and HBL has earned profit by interest mobilization.

The analysis reveals that both the banks have well in other ratios, which is not desirable for any commercial bank. Average earning per share of Average Earning per Share of NIBL is little higher than that of HBL i.e. Rs. 54.20 > Rs. 54.02. NIBL is better mobilizing it resources to get more earning per share (EPS) and it seems quite successful by generating higher EPS in each year and in average too. The C.V of NIBL is higher than HBL; it indicates that there is inconsistent in earning per share. Dividend per Share of HBL greater than NIBL i.e. 34.32>30.76. Regarding the consistency HBL has more consistency than NIBL with C.V. of 26.18%. The Earning Yield Ratio of HBL greater than NIBL i.e. 4.52%>4.23%. It shows that HBL has higher and better earning in relation to market value per share than that of NIBL. But HBL has less consistency than NIBL with CV of 26.77%. Dividend Yield Ratio of HBL greater than NIBL i.e. 4.96%>4.02%. HBL has more consistency than NIBL with CV of 25.81 and 43.51 respectively. It shows

that HBL has better performance regarding dividend yield. The mean price-earnings ratio of HBL is little lower than that of NIBL i.e. 23.03 %< 25.92%. It indicates that for getting Rs. 1 as earning, one should invest Rs. 25.92 in NIBL and Rs. 23.03 in 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 although EPS of HBL is lower in comparison than that of NIBL it s suggest to shareholder to sell their stock to get high income.

The basis of time series the trend line of Net profit for NIBL and HBL is upward slopping But NIBL has aggressively and HBL has smoothly. The position of NIBL is better in order to generate profit than HBL. The trend line of loan & advances for both banks is upward slopping. It refers that both advances for NIBL seems high growing than HBL. It refers that NIBL is more aggressive in mobilizing its loan and advance. The total investment trend line of NIBL and HBL is upward slopping where as NIBL has aggressive upward slopping of total investment trend line. It refers that NIBL has better increasing trend of total investment than HBL. The trend analysis of dividend per share NIBL and EBL have increasing trend. It is clear that NIBL is comparatively better dividend per share than that of HBL. The trend of earning per share NIBL and HBL having increasing trend. It can be concluded that there is a positive growth in earning per share. Above analysis, reveals that both the banks have well their ratio. Trend of Both bank has increasing trend. In comparison to both bank every ratio of NIBL is higher than the HBL. It indicates better performance of NIBL rather than HBL.

5.3 Recommendations

Based on the analysis and finding of the study, the following recommendations can be made as suggestions to make the financial performance of NIBL and HBL effective and efficient but comparatively better NIBL.

This would help to draw some outline and make reforms in the respective banks.

- The current ratio of the two banks, NIBL and HBL is considerable. This can be regarded as good liquidity position. The liquidity position affects external and internal factors such as prevalent investment situations, central bank requirements and so on. 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.
- To get success in competitive banking environment, deposit must be utilized as loan & advances. The largest item of bank assets side is loan & advances. It has been found that loan & advances to total deposit ratio of HBL is lower than that of NIBL. It means NIBL has not properly used their existing fund as loan & advances. So NIBL is recommended to follow liberal lending policy and to invest more deposit in loan & advances.
- NIBL and HBL have a possible risk because there is large amount of doubtful loan & advances and risky investment. So it is recommended to evaluate that investment and invest in risk less asset to grab opportunities.
- 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 NIBL and HBL has able to provide good returns
- Both the banks are recommended to formulate and implement the sound and effective investment portfolio to increase volume of total investment and loan & advances that helps to meet required level of profitability as well as social responsibility. The banks should consider rural areas in making investment policy.

- Last political instability directly affected the economic sector such as hotel & tourism, manufacturing and trading sector. Bank loan & advances is decreasing in this sector. So banks should give priority to these sectors as well as banks should create new investing sector to mobilize deposit.
- Both companies have earned more income from interest income which is not good for long term view. So both have to increase their revenue through other banking activity for long-term survival and to avoid bad debt risk.
- Both banks should be careful in increasing profit of the bank to maintain the confidence of shareholders, depositors and all its customers. So it is strongly recommended to utilize risky assets and shareholders fund to gain high amount of profit.
- It is recommended to all banks to expand its services in the rural area so that the people in the rural areas will also be able to have the facilities provided by the bank.
- The banks are suggested to improve its management structure to increase the efficiency. In order to win the heart of the client. They should be given desired facility and deal with maximum courtesy.
- NRB has given directives to financial institution to invest their certain percentage of investment in deprive and priority sector. Both companies have earned profit from profitable and private sector. So, they are recommended to strictly follow up the directives issued by NRB and should make investment on public utilities sector like health, sanitation, education, drinking water, agriculture etc.

Keeping all these in consideration, the HBL has little less performance than that of NIBL. Therefore, in the future ahead, the HBL should improve its weaknesses by adopting the innovative approach to marketing. 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 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. The bank is also required to explore new market areas. For this purpose, it is recommended to form a strong market department in its central level, which deals with the banking products, places, price and promotion.

APPENDICES

APPENDIX-IA

Calculation of the Trend of Net Profit of NIBL

(in millions)

Fiscal Year(t)	Net Profit(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	153	-2	4	-306	-7.40
04/05	232	-1	1	-232	-142.90
05/06	350	0	0	0	278.40
06/07	501	1	1	501	413.90
07/08	696	2	4	1392	549.40
N = 5	$\sum y = 19832$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 1355$	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{1332}{5} = 386.40$

$b = \frac{\sum xy}{\sum x^2} = \frac{1355}{10} = 135.50$

Trend value of net profit of NBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	684.90
09/10	4	820.40
10/11	5	955.90
11/12	6	1091.40
12/13	7	1226.90

APPENDIX-IB

Calculation of the Trend of Net Profit of HBL

(in millions)

Fiscal Year(t)	Net Profit(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	263	-2	4	-526	245.40
04/05	308	-1	1	-308	338.20
05/06	457	0	0	0	431
06/07	492	1	1	492	523.80
07/08	635	2	4	1270	616.60
N = 5	$\sum y = 2155$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 928$	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{2155}{5} = 431$

$b = \frac{\sum xy}{\sum x^2} = \frac{928}{10} = 92.80$

Trend value of Net Profit of HBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	709.40
09/10	4	802.20
10/11	5	895
11/12	6	987.80
12/13	7	1080.60

APPENDIX-IIA

Calculation of the Trend of Loan and Advance of NIBL

(in millions)

Fiscal Year(t)	Loan & Advance(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	7338	-2	4	-14676	5713.80
04/05	10453	-1	1	-10453	10483.20
05/06	13178	0	0	0	15253.40
06/07	17769	1	1	17769	20023.20
07/08	27529	2	4	55058	24793
N = 5	∑y = 76267	∑x = 0	$\sum x^2 = 10$	∑xy = 47698	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{76267}{5} = 15253.40$

$b = \frac{\sum xy}{\sum x^2} = \frac{47698}{10} = 4769.80$

Trend value of loan and advance of NIBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	29562.80
09/10	4	34332.60
10/11	5	39102.40
11/12	6	43872.20
12/13	7	48642

APPENDIX-IIB

Calculation of the Trend of Loan and Advance of HBL

(in millions)

Fiscal Year(t)	Loan & Advance(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	12919	-2	4	-25838	12248.20
04/05	13451	-1	1	-13451	14134.40
05/06	15761	0	0	0	16020.60
06/07	17793	1	1	17793	17906.80
07/08	20179	2	4	40358	19793
N = 5	$\sum y = 80103$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 18862$	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{80103}{5} = 16020.60$

$b = \frac{\sum xy}{\sum x^2} = \frac{18862}{10} = 1886.20$

Trend value of loan and advance of HBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	21679.20
09/10	4	23565.40
10/11	5	25451.60
11/12	6	27337.80
12/13	7	29224

APPENDIX-IIIA

Calculation of Total Deposit Trend of NIBL

(in millions)

Fiscal Year(t)	Total deposit(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	11525	-2	4	-23050	9512.20
04/05	14255	-1	1	-14255	15121.20
05/06	18927	0	0	0	20729.20
06/07	24488	1	1	24488	26337.70
07/08	34451	2	4	68902	31946.20
N = 5	$\sum y = 103646$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy =$ 56085	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{103646}{5} = 20729.20$

$b = \frac{\sum xy}{\sum x^2} = \frac{56085}{10} = 5608.50$

Trend value of total deposit of NIBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	37554.70
09/10	4	43163.20
10/11	5	4871.70
11/12	6	54380.20
12/13	7	59988.70

APPENDIX-IIIB

Calculation of Total Deposit Trend of HBL

(in millions)

Fiscal Year(t)	Total deposit(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	22010	-2	4	-44020	22061.20
04/05	24814	-1	1	-24814	24551
05/06	26490	0	0	0	27040.80
06/07	30048	1	1	30048	29530.60
07/08	31842	2	4	63684	32019.80
N = 5	$\sum y = 135204$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy =$ 24898	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{135204}{5} = 27040.80$

$b = \frac{\sum xy}{\sum x^2} = \frac{24898}{10} = 2489.80$

Trend value of total deposit of HBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	34510.20
09/10	4	37000
10/11	5	39489.80
11/12	6	41979.60
12/13	7	44469.40

APPENDIX-IVA

Calculation of Total Investment Trend of NIBL

(in millions)

Fiscal Year(t)	Total Investment(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	4172	-2	4	-8344	3892.40
04/05	4074	-1	1	-4074	4712.20
05/06	5672	0	0	0	5332
06/07	6868	1	1	6868	6351.80
07/08	6874	2	4	13748	7171.60
N = 5	$\sum y = 27660$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 8198$	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{27660}{5} = 5532$

$b = \frac{\sum xy}{\sum x^2} = \frac{8198}{10} = 819.80$

Trend value of Total Investment earned of NIBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	7791.40
09/10	4	8111.20
10/11	5	9631
11/12	6	10450.80
12/13	7	11270.60

APPENDIX-IVB

Calculation of Total Investment Trend of HBL

(in millions)

Fiscal Year(t)	Total Investment(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	9292	-2	4	-18584	9761.80
04/05	11692	-1	1	-11692	10584.40
05/06	10889	0	0	0	11407
06/07	11822	1	1	11822	12229.60
07/08	13340	2	4	26680	13052.20
N = 5	∑y =	∑x = 0	$\sum x^2 = 10$	∑xy =8226	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{57035}{5} = 11407$

$b = \frac{\sum xy}{\sum x^2} = \frac{8226}{10} = 822.60$

Trend value of Net interest earned of HBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	13874.80
09/10	4	14697.40
10/11	5	15520
11/12	6	16342.60
12/13	7	17165.20

APPENDIX-VA

Calculation of Divided Per Share Trend of NIBL

(in millions)

Fiscal Year(t)	DPS(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	15	-2	4	-30	16.92
04/05	12.5	-1	1	-12.5	23.84
05/06	55.46	0	0	0	30.76
06/07	30	1	1	30	37.68
07/08	40.83	2	4	81.66	44.60
N = 5	$\sum y = 153.79$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 69.16$	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{153.79}{5} = 30.76$

$b = \frac{\sum xy}{\sum x^2} = \frac{69.16}{10} = 6.92$

Trend value of divided per share of NIBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	51.52
09/10	4	58.44
10/11	5	65.36
11/12	6	72.28
12/13	7	79.20

APPENDIX-VB

Calculation of Divided Per Share Trend of HBL

(in millions)

Fiscal Year(t)	DPS(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	20	-2	4	-40	22.64
04/05	31.58	-1	1	-31.58	28.48
05/06	35	0	0	0	34.32
06/07	40	1	1	40	40.16
07/08	45	2	4	90	46
N = 5	$\sum y = 171.58$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 58.42$	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{171.58}{5} = 34.32$

$b = \frac{\sum xy}{\sum x^2} = \frac{58.42}{10} = 5.84$

Trend value of divided per share of HBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	51.84
09/10	4	57.68
10/11	5	63.52
11/12	6	69.36
12/13	7	75.20

APPENDIX-VIA

Calculation of EPS Trend of NIBL

(in millions)

Fiscal Year(t)	EPS(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	51.70	-2	4	-103.40	47.12
04/05	39.50	-1	1	-39.50	50.66
05/06	59.35	0	0	0	54.20
06/07	62.57	1	1	62.57	57.74
07/08	57.87	2	4	115.74	61.28
N = 5	$\sum y = 271$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 35.41$	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{271}{5} = 54.20$

$b = \frac{\sum xy}{\sum x^2} = \frac{35.41}{10} = 3.54$

Trend value of EPS of NIBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	64.82
09/10	4	68.36
10/11	5	71.90
11/12	6	75.44
12/13	7	78.98

APPENDIX-VIB

Calculation of EPS Trend of HBL

(in millions)

Fiscal Year(t)	EPS(y)	X(t-2006)	X^2	XY	yc = a + bx
03/04	49.05	-2	4	-98.10	47.894
04/05	47.91	-1	1	-47.91	51.91
05/06	59.24	0	0	0	55.92
06/07	60.66	1	1	60.66	59.93
07/08	62.74	2	4	125.48	63.95
N = 5	$\sum y = 279.60$	$\sum x = 0$	$\sum x^2 = 10$	$\sum xy = 40.13$	

Source:-Annual Report

Now,

$a = \frac{\sum y}{N} = \frac{279.60}{5} = 55.92$

$b = \frac{\sum xy}{\sum x^2} = \frac{40.13}{10} = 4.013$

Trend value of EPS of HBL

Fiscal Year(t)	X(t-2006)	yc = a + bx
08/09	3	67.96
09/10	4	71.97
10/11	5	75.99
11/12	6	80
12/13	7	84.01

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