CHAPTER –I

INTRODUCTION

1.1 Background of the Study

Nepal is the poorest and least developed country in the world with almost one-third of its population living below the poverty line. Agriculture is the mainstay of the economy, providing a livelihood for over three-fourth of the population and accounting for 34.6 percent of GDP. Industrial activity mainly involves the processing of agricultural products including jute, sugarcane, tobacco, and grain. Nepal has considerable scope for exploiting its potential in hydropower and tourism, areas of recent foreign investment interest. Prospects for foreign trade of investment in other sectors will remain poor, however, because of the small size of the economy, its technological backwardness, its remoteness, its landlocked geographic location, its civil strife, and its susceptibility to natural disaster. In this regard banks can play very significant role for strengthening the national economy.

Bank is considered as the backbone in the development of national economy. It is a financial institution which acts as transaction of money by accepting various types of deposit, disbursing loans and rendering other financial services. According to history of bank, an institutional banking system come into existence in Nepal only in the 19th century but before this it is better to know about the financial institution and origin of bank basically the word "financial institution" is related to financing trade, commerce and industry. Bank is one of the financial institutions dealing with monetary transactions. The word "bank" is derived from the Latin word "Bancus" or the French word "Banque" and the Italian word "Bancus" which mean a "Bench". During those days the bankers used to do their banking business sitting on a bench in the market. The history of bank begins from Italy. The banker's business is to take the debts of other people to offer him in exchange and these create money. The bank is ordinary banking business consists of charging cash for bank deposits and bank deposits for cash, transferring bank deposits from one person of corporation to another, giving bank deposits in exchange for bills of exchange, government bonds, the secured of unsecured promises of businessmen to repay.

Bank is a financial institution which plays significant role in the development of the country. It helps the growth of agriculture, trade, commerce and industry which can enhance the national economy. The banking sector is largely responsible for collecting household saving items of different sectors of the economy. The banking sector has now reached even to the most remote areas of the country and has contributed a good deal to the growth national economy. By lending their resources in small-scale industries under intensive banking programmed the banks have contributed to the economic growth of the economy.

In broad sense, bank can be said as an important financial institution which collects and safeguards the public money, disburses the collected money for productive purpose, transfers funds guarantees credit worthiness and exchange of money. Since banks are rendering a wide range of services to the people of different walks of life and they have become an essential part of modern society.

In fact, a modern bank performs such a variety of functions that it is difficult to give a precise and general definition of it. It is because of this reason that different economists have given different definition of it.

According to Kinley, “A bank is an establishment which makes to individuals such advances of money as may be required and safety made and to which individuals entrust money when not required by them for use.”

According to Crowther, “A bank collects money from those who have it to spare or who are saving it out of their incomes and lend this money to those who require it.”
According to US law, “Any institution offering deposit subject to withdrawal on demand and making loans of commercial of business nature is a bank.”

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Banking industry has acquired a key position in mobilizing recourse for finance and for socio-economic development of the country. No function is more important to the economy and its constituent part than financing. Banks assist both the flow of goods and services from the producers to customers and the financial activities of the government. Banking provides a country with the monetary system of making payment and is an important part of financial system which makes loan to maintain and increase the level of consumption and production in the economy.

A sound banking system is important because of the key role it plays in the economy intermediation, maturity transformation, facilitating payment flows, credit allocation and maintaining financial discipline among the borrowers. Banks can encourage thrift and allocate saving and by enabling savings to be used outside the sector in which they originate. In any economy whether highly developed financial markets of less well developed financial markets, bank remain at the centre of economic and financial activity and stand apart from other institutions as primary providers of payment services and a fulcrum for the monetary policy implementation.

So, the importance of banking as the nerve centre of economic development cannot be over emphasized and it is said that bank which are the need of and great wealth of the country have got to be kept very scared just as water for irrigation, good banks for the country's industry and trade.

Finance industry in Nepal basically consists of two components, banking sector and non-banking sector. The banking sector includes commercial banks while co-operatives, Grameen Banks, Development Banks, Finance Companies and NGO's make up non banking sector.

Commercial banks are the components of banking sector of Nepalese finance industry. The role and importance of commercial banks are high above and it has its own consideration in the economic development of any country. They are regarded as the heart of financial system because they hold deposits of many persons, government establishments and business unit, make funds available through lending and investing activities to borrowers, individuals, business firms and government establishment. It maintains economic confidence of various segments and extends credit to people.

Nepal entered the world of banking with the incorporation of Nepal Bank Limited (NBL) in 1994 BS with a large number of general shareholdings. NBL had responsibility of attracting public towards banking sector, the predominant Sahu Mahajan’s transactions and of introducing other commercial banking services. Begin a commercial bank; it focuses on income generating and profit maximization. As it was only one commercial bank has to look the economic condition of country. Only one Nepal Bank Limited was not sufficient to look after the entire sector of country. So realizing the need of improvement of banking sector and to help the government in formulating momentary policies, Nepal Rastra Bank (NRB), central bank was established in 2013 BS under NRB Act 2012 BS. Since then it is functioning as the government’s bank and has contributed to the growth of financial sector. It undertook the responsibility of establishing and developing commercial banks in the country. Similarly the 2nd commercial bank named Rastriya Banijya Bank was established in 2022 BS with total government control, under Rastriya Banijya Bank Act 2021. This act is now revised as Commercial Bank Act 2031 BS. With the establishment of RBB, banking services spread to both urban and rural areas but the customers fail to have the taste of quality and competitive services because of excessive political and bureaucratic interference and absence of modern managerial concept.

Accepting deposits, granting loan and performing commercial banking functions are the main motto of commercial banks. (Commercial Bank Act, 2031)

For the development of industry, commerce and trade, Nepal Industrial Development Corporation was established under Industrial Development Corporation Act 2016. For the development of agriculture section, Agriculture Development Bank was established on 2024 BS, under the Agriculture Bank Act 2024 BS. (Source: nrb.org.np)

The government of Nepal observed the necessities of rapid development of the country for which it has adopted “Liberalized economic policy, laissez fair economy and encouraged foreign investment” (Foreign Investment and Technology Act, 1981). The government formed Foreign Investment and Technology Act 1981 AD which was later revised as Act 1992 AD by the new elected democratic government (Foreign Investment and Technology Act, 1992). The joint venture bank was introduced in Nepal in 2041 BS with establishment of "Nepal Arab Bank Limited". It was established with joint venture of UAE bank, financial institution of Nepal. The 2nd joint venture bank, Nepal Indosuez Bank Limited was established in 2042 BS recently known as Nepal Investment Bank (NIB). Similarly, other the joint venture banks like Nepal Grindlays Bank Limited on 2043 which is recently known as Standard Chartered Bank, Himalayan Bank Limited on 2049 BS, Nepal State Bank of India (NSBI) in 2050 BS, Nepal Bangladesh Bank Limited on 2051 BS, Everest Bank Limited on 2051 BS, Bank of Kathmandu on 2052 BS, and Nepal Bank of Ceylon Limited on 2052 BS have been established. Still some more commercial banks are on get set in the days to come to start their business.

The organization of finance company is new to Nepal. Finance companies are the effective instruments for mobilizing public. Private and external financial resources and challenging them into productive areas as short term loan, long term loan in different commercial business activities.

There has been mushroom growth of finance companies about registration with wide diversified function of various age groups. Capital sizes, national and international joint venture features, nature scope and volume of financial activities and services networks (Shrestha, 1996:23).

The financial sector is composed of banking sector and non-banking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non-banking sector includes development banks, financial companies, micro-credit development banks, co-operative financial institutions, non-government organizations (NGOs) performing limited banking activities and other financial institutions such as insurance companies, employee's provident fund, citizen investment trust, postal saving offices and Nepal stock exchange. However, it contains the information only on those institutions which are licensed by NRB up to mid-July.

During the last two and half decades, the number of financial institutions has grown up significantly. In the beginning of the 1980s, there were only two commercial banks and development banks in the country. After the induction of economic liberation policy, particularly the financial sector liberalization, that impetus in the establishment of new banking and non banking financial institutions. Consequently, by the end of mid-February 2014 altogether 258 banks and non banking financial institutions licensed by NRB are in operation. Out of them, 30 are "A" class commercial banks, 75 are "B" class development banks, 65 are "C" class finance company, 28 are "D" class Micro credit development bank, 25 are saving and credit co-operatives, and 35 NGOs.

Table: 1.1 Growth of Financial Institutions

Types of financial institution	No. of financial institutions upto mid may 2014 according to Nepar Rastra Bank													
	1980	1985	1990	1995	2000	2005	2006	2007	2009	2010	2011	2012	2013	2014
Commercial Banks	2	3	5	10	13	17	18	20	25	27	30	32	32	30
Development banks	2	2	2	3	7	26	26	38	59	63	65	78	80	75
Finance companies				21	45	60	70	74	78	80	89	90	89	65
Micro credit development bank				4	7	11	11	12	12	15	20	23	25	28
Saving and credit cooperatives				6	19	20	19	17	16	18	22	24	28	25
NGOs (limited banking activities)					7	47	47	47	45	50	53	55	60	35
Total	**4**	**5**	**7**	**44**	**98**	**181**	**193**	**208**	**235**	**203**	**279**	**302**	**314**	**258**

Source: nrb.org.np, February 25, 2014

1.2 Commercial Banks

1.2.1 Meaning of Commercial Bank

Commercial Banks are those financial institutions which deal in accepting deposits from person and institutions and provide loans against securities. They provide working capital needs to trade, industry and agricultural sectors as well. Commercial banks also provide technical and administrative assistance to industries, trade and business enterprises.

Commercial banks are the main part of the financial system of the nation. They hold the deposits of many persons, of community and manage the gather deposits into productive use. They supply the financial needs of modern business by various means. They accept deposits from public on the condition that they are repayable on demand or on short notice. Commercial banks are restricted to invest their funds in corporate securities. Their business is confined to finance the government's establishment and business unit. They make fund available through their lending an investing activities to borrowers, individual business firms and services from the producers to customers and the activities of the government. They provide a large portion to medium of exchange and they are the media through which monetary policy is affected. These facts show that the commercial banking system of the nation is very important for the functioning of the economy. Commercial banks are those banks that pool together the saving short term need of trade and industry such as working capital financing. They grant loans in the form of cash credits and overdrafts. Apart from financing, they also provide services like collection of bills and cheques, safeguarding of valuables, financing advertising etc to their customers.

American Institute of Banking has defined commercial banks as a corporation which accepts demand deposits subject to repeated and short term loans to business enterprises, regardless of the scope of its other services (American Institute of Banking, 1972:356).

A Commercial Bank means bank which deals in exchanging currency, accepting deposits, giving loans and commercial transaction (Ministry of Law & Justice, 2031: 4).

In the same way, according to Webster's new World Dictionary, "An establishment for receiving, keeping , lending or sometimes issuing money and making easier the exchange of funds by checks, notes etc. Banks make profit by landing money at interest."

By above definitions and general concepts a commercial bank can be ascertained as: It is an institution with the core objectives of generation profit by providing services to the general public regarding their monetary activities.
A commercial banker is a dealer in money and substitute's money such as cheques or bill of exchange. He also provides a variety of financial services (New Encyclopedia Britannica, 1986: 600).

The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confluence of various segments and extends credit to people (Ronald, 1999: 87).

Ordinary banking business consists of chancing case of bank deposits and bank deposits from one person to corporation giving bank deposit in exchanging for bills of exchange, governments bond and secured and unsecured promises businessman to reply (Sayers, 1976: 22).

Principally, commercial bank accepts deposits and provides loans, primary to business firms there are by facilitating the transfer of funds in economy (Gupta, 1984: 115).

The terms commercial banks, joint stock banks, member banks and credit banks are frequently used interchangeable. For example, in the context of the English banking system the terms "Joint Stock Banks" and "Commercial Banks" are interchangeable. The primary objective of commercial bank is the maximization of profit; the central bank is primarily concerned with the economy. Moreover while there may certainly be many competing commercial banks, there exists only one central bank in a country.

Various functions associated with commercial banks can be summarized as; it performs vital services to all sectors of the economy by providing facilities for pooling of national savings and providing interest on deposits. Pooled fund is made available to deficit areas in the form of loans and credit for productive purposes. Bank lending contributes a lot to the economy in terms of financing agriculture, commercial, construction and industrial activities. Transfer of fund is another important function provided by commercial banks. It makes foreign trade like drafts, letter of credit, telex transfer and travellers cheques etc. easier to general public and for business enterprises. Safely keeping of valuable things of the bank's client is another important function of the banks. In modern world, however, the functions of banks cannot be limited to transfer of money only. It services like facilities of credit card, Automatic Teller Machine (ATM), Electronic banking, tale-banking etc. as well.

Despite its service-oriented functions, a commercial bank is a profit-oriented institution. Mainstream function of commercial bank remains the mobilizing scattered savings of public for providing credit to needy firms, industries of people to get productive use.

In Nepal, Nepal Bank Limited is the first modern commercial bank established in the year 1994 BS. Besides, Nepal Bank, at present there are lots of commercial banks established under the commercial act in the joint ownership of Nepalese and foreign people or organization. Nepal Rastra Bank being the central bank of Nepal recommends, directs and controls the establishment, operations and dissolutions of all the commercial banks in Nepal.

Commercial banks play a vital role in developing the country. Its functions are very attractive for people. Although these banks are truly inspired with the objective of gaining profit these commercial banks are also established to accelerate common people's economic welfare and facility to make available loan to the agriculture, industry and commerce and to provide the banking services to the public and the state. Recent innovation in banking includes the introduction of credit cards, accounting services for business firms, factoring leasing participation in the Eurodollar market and lick-box banking.

The major functions of commercial banks are explained in brief:

I. Accepting Deposit

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

II. Creating Money

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

III. Payment Mechanism

Providing for payment mechanism or the transfer of fund is one of the important functions performed by commercial banks and it is increasing in important functions performed by commercial banks and it is increasing in importance, as greater reliance is placed on the cheques and credit cards. Moreover, banks deposits and loan payment and transfer funds between a depositor’s saving and checking account.

IV. Pooling of National Saving

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

V. Extension of Credit

The major function of commercial bank is the extension of credit to worth borrower. Bank lending is very important to the economy for making possible the financing of the agriculture, commercial and industrial activities of the country. Moreover, the provision of bank credit provides for the smooth operation of government such as capital improvement for building of schools and hospitals and purchasing of fire trucks, construction of highways and dams, and nation’s defence.

VI. Facilities of the Financing of Foreign Trade

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

VII. Trust Service

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

VIII.Safe Keeping of Valuables

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

IX. Agency Services

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

Thus, commercial banks render valuable services to the community. A country with a developed banking system has a secure foundation of industrial and economic progress. It constitutes the very lifeblood of an advanced economic society.

1.2.2. Role of Commercial Banks in the Economic Development

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

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

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

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

1.2.3. Concept of Joint Venture Bank

Concept of “Joint Venture Bank” is an innovation in finance and it is on growing stage, mostly in developing countries. In developing countries, foreign investment plays a significant role for economic development by flowing capital, technology, skills, management efficiency and others.

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

A joint venture is forming of two forces between two or more enterprises of the purpose of carrying out a specific operation like: industrial or commercial investment, production trade (Gupta, 1984:56).

Joint venture banks are the commercial banks formed by joining the two or more enterprises for the purpose of carrying out specific operation such as investment in trade, business and industry as well as in the form of negotiation between various groups of industries of trade to achieve mutual exchange of goods and services.

For the enlistment of economic growth and to rival to rival upon poverty problem of under developed country like Nepal they need strong banking system. Since, earlier established CB’s (Commercial Banks) i.e. NBL and RBB are not proficient to contribute efficiently, “HMG/N deliberated policy of allowing foreign JVB’s (Joint

Venture Bank) to operate in Nepal with a view to encourage locally traditional run CBs to enhance their bankable capacity through competition and efficiency improvements, modernization via computerization and prompt service."

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

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

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

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

1.2.3.1 Role of Joint Venture Banks in Nepal

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

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

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

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

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

I. Information to Foreign Investors

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

II. Creation of Competitive Environment

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

III. Contribution to National Economy

Joint venture banks, comparatively are adopting new banking systems. They are already establishment in financial, garments, agriculture and housing needs and playing a significant role to contribute in national economy from their own sector. Thus, through such bank's managerial and banking techniques, new ideas and philosophy, foreign investment and capital, healthy, competitive atmosphere and diversified market concepts transfer to other companies.

But there is a remarkable point that the joint investment should be directed by the economic need and perspectives and not by political interest. Financial and legal rules, regulations and practices should be clear and convenient to foreign investors.

IV. Modern Management and Banking Techniques

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

After the establishment of these banks, other new and old banks have begun computerizing their system. So, new banks have adopted new techniques such as Tele-banking, Credit Card and Master Card system in urban areas. Now these banks are oriented to follow up some developing techniques in international banking sector.

V. Offering Better Links with International Market

The JVBs are usually better placed to raise resources internationally for viable projects in a developing country like Nepal mainly due to their credibility in and easier access to that opportunity of financial and technical assistant will be high.

1.3 Focus of the Study

The area of the study is "Comparative Study of Profitability Analysis; A Case Study of Himalayan Bank Ltd. and Nepal SBI Bank." Profitability analysis is the process of determining the significant operating and financial characteristics of the firm from accounting data and statements.

A powerful and most widely used tool in profitability analysis is ratio analysis. A financial ratio is a relationship between two accounting figures. Financial ratio helps us to find the symptoms of problem. The cause of the problem may be determined only after locating the symptoms. The operational and financial problem of the corporation can be ascertained by examining the behaviour of these ratios. So the ratio in financial institution is regarded as the best indicator of their performance.

Hence, the study is basically focused on financial ratio to analyze the profitability of Himalayan bank and Nepal SBI bank ltd.

1.4 Statement of the Problem

Establishment of private joint venture banks have been continued in response to the economic liberalization policies of the government. The tendency to concentrate these banks only in urban areas like Kathmandu, Biratnagar etc. has raised certain questions. This state of affairs cannot contribute much to the socio-economic development of the country where 90% of the population lives in rural areas and 81% of that population depends upon agriculture. These joint venture banks are reluctant to extend their operation in rural areas. Despite the circular of Nepal Rastra Bank, the central Bank of the country, regarding compulsory investment of 10% of their total investment in the rural areas, these sector. This problem remains to be solved, so that event the small investor in the rural areas will benefit from the services of such banks. Moreover, even the existing branches of the commercial banks in the rural areas do not seem to have been able to mobilize the local resources effectively.

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

Commercial banks are found to be making loan only on short term basis against movable merchandise. This hesitation to investment on long term projects as they are much more safety, 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 in economic growth.

Delivering effective service to the common people by enhancing efficiently of the commercial banks an improving their management style pose a challenge to the banks and financial institutions. The existing condition of the liquidity of the banking and the financial institutions also needs to be reduced through an appropriate investment policy. Equally important is the challenge to minimize their intermediation cost.

The mushrooming banking and finance companies and about a dozen of rural banks and cooperative societies in short span of time have brewed new competitive scenario and have posed a challenge to the joint venture banks like HBL and NSBI bank which are making attractive profits. In the changed scenario, these banks need to explore their strengths and weakness and improve their performance because their success depends on their ability to boost their productivity and financial performance.

Profit is the main objective of every business organization. Besides other tasks they have to achieve the minimum objectives. The successful operation of any organization whatever the nature of it is largely depends upon the planning system that it adopts. So the planning for project is also the most important device to get success for a period. It plays a key role for the effective formulation and implementation of strategic plans. Profit planning system requires the effective coordination between various functional budgets. It is important not only for manufacturing industries but also for commercial Banks.

Banks generate their profit by mobilizing its deposits by providing short term and long-term loans. Beside this, it can gain profit by investing productive resources mutilation sector. The Himalaya Bank is one of the leading banks in Nepal, Which is earning profit since its establishment. The study aims to find out the answer to the following some questions.

1. Are the bank's operating profit is satisfactory?
2. Has the bank adopted the policy of making plan for deposit, mobilization?
3. Has the bank mobilized its investment in profitable sectors?
4. What step should be taken to improve the profit planning system in the bank so that overall profitability of the bank can be increased?
5. What are the major factors affecting the profitability?

1.5 Objective of the Study

Profit plays a vital role in every business organization. It is equally important for commercial banks. Banks are the institutions, which provide many facilities to develop the economic conditions for a country by providing facilities for trade, industry, business, agriculture, tourism etc. Without profit it cannot operate its functions and cannot provide banking facilities to the public. The main objectives of commercial banks are to serve people as well as to maintain profitability position. This study is to appraise the profitability of the Himalaya Bank Ltd. with comparison to Nepal SBI Bank ltd. The main objectives of the study are:

1. To evaluate the profitability and financial position
2. To analysis the trend of total deposit and loan&advance of the study period.
3. To observe the net profit of study period.
4. To analyse the income and expenditure, cost and profit of the banks.
5. To provide suggestion, recommendation and practical idea for improving competitiveness.

1.6. Significance of the Study

To get the maximum profit and to maintain the profitability every business firm has to follow the process of profit planning. It leads an organization ultimately a success. Profit planning acts as a vital instrument for minimizing future risks and achieving its objective. The study of profitability of Himalayan Bank ltd and Nepal SBI ltd will prove useful to all the parties interested on profit planning. It may give guideline to follow the profit planning process to any banking sectors. It may also help the bank to develop future plan, to maximize profit. As profit is the main objective of every organization, profit plan is the most useful tools to improve profitability position.

1.7. Limitation of the Study

In this dynamic world nothing is free for limitations. The study also is not an exception. It has the following limitations:

1. Only the profit planning aspect of the bank has been analyzed leaving other areas.
2. The study covers seven years period from the fiscal year 2063/64 to the fiscal year 2069/70 BS.
3. The accuracy of the study is based on the data collection from the Himalaya Bank and Nepal SBI Bank and response made by the respondent during the informal discussion.
4. This research is mainly depending on secondary data of the bank's balance sheet, profit and loss and other journal. Primary data will be collected when it is necessary.
5. The study is done with the help of financial tools and few statistical tools.

1.8. Organization of the Study

The whole study is divided into five chapters. Each chapter is developed to the some aspects of the study.

Chapter- I: Introduction

First chapter is the introductory chapter. It consists: General Background and importance of commercial banks, statement of the problem, objectives, need of the study and limitations and organization for the study and methodology being used.

Chapter- II: Review of Literature

Second chapter deals with review of literature with the concept of some terminology used in this analysis part of the study. The second part of the chapter consists of review of books, previous studies, research papers and review of unpublished thesis of various research students.

Chapter-III: Research Methodology

Third chapter is concerned with the research methodology used in this study. It consists of Introduction, Research Design, Sources of Data, Population and Data, Methods of Analysis.

Chapter-IV: Data Collection and Analysis

Fourth chapter is the analytical chapter, which is the main chapter. This chapter is mainly concerned with the analysis of the different profitability ratios related to the financial statements of Nepal SBI Bank and Himalaya Bank and the trend analysis of profit with forecast of trend line.

Chapter- V: Summary, Conclusion and Recommendation

Fifth chapter is associated with the main findings, recommendation and suggestions. Further, thesis includes reference books. Magazines, newspapers; previous dissertations are shown under bibliography.

Bibliography and Appendix have been presented at the end of the report.

CHAPTER -II
REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Concept of Profit Planning and Control

Profit is the primary measure of business success. Higher profit shows the efficient and good management of the organization. It is important to sustain the business organization. When an organization cannot make profit, there is no way to operate business due to lack of working capital and over burden of loan. Profit can be said as the ultimate goal of organization. To fulfil this goal, the organizations have many objectives. It depends upon nature of business. For e.g. a trading business organization's objective is to provide qualitative goods at cheaper price as far as possible.

The entrepreneurs earn profit for organizing and coordinating the different factors of production for propose of production of goods and services. Therefore, entrepreneur is a special labour and profit is the special form of wage. Profit is the excessive income over the cost of business operation. In accounting view, profit is the amount of sales revenue over explicit or accounting cost of business operation.

Profit is a reward for risk taking for an entrepreneurship. It is the tool which secures other factors of production i.e. men, material, machinery and money. Thus, entrepreneur is brain and profit is the blood of organization.

Profit planning and control (PPC) is a part of an overall planning process and is an area in which the financial function plays major role. PPC is widely used descriptive term. Budgeting, profit planning or managerial budgeting are use to describe the PPC.

Comprehensive profit planning and control is viewed as a process designed to help management effectively perform significant phase of the planning and control function. The PPC involves (1) Development of the Enterprise; (2) Specification of Enterprise Goal (3) Development of a Strategic Long-range Profit Plan in Term (4) Specification of a Tactical Short-Range Profit Plan Detailed by Assigned

Responsibilities (Division, Departments Project) (5) Establishments of a System of Periodic Performance Reports Detail by Assigned Responsibilities (6) Development of Follow up Procedures (Welsch, et.al., 2000:30).

Comprehensive profit planning and control helps to enhance effective management for achieving organizational goals. Comprehensive profit planning and control is a new term in the literature of business, however, it is not a new concept in management. The process of preparing and using budget to achieve management objectives is called comprehensive budgeting. A comprehensive PPC is a systemic and formalized approach for stating and communicating the firm's expectation and accomplishing management in such a way as to minimize the use of a profit plan to achieve the maximum benefit from the resource available to an organization.

Profit planning is a well thought out operational plan with its financial implications expressed at either long or short range profit plans or budgets in the form of financial statements, including balance sheet, income statement and cash and working capital projection (Matz and Milton, 1985: 472).

Profit planning in fact is a managerial techniques and a profit plan is such a written plan, in which all aspects of business operation with respect to definite future period are included. It is a formal statement of policy, plan, objectives and goal established by the top management in respect of some future period. Profit planning is a predetermined detailed plan of action develops and distributed as a guide to current operations and as a basis for a subsequent evaluation of performance (Gupta, 1992:521).

Comprehensive profit planning and control is a new term in the literature of business. Though it is a new term, it is not new concept in management. The other terms, which can be used in the same context, are comprehensive budgeting, managerial budgeting, and simply budgeting. The profit planning and control can be defined as process/technique of management that enhances the efficiency of management (Goet, et. al., 2062:1).

Profit planning and control is one of the comprehensive approaches that have been developed to facilitate effective performance of the management processes. It is a systematic and formalized approach for performing significant phases of management planning and control functions. It includes the following activities:

- Development and application of broad and long term objectives of organization.
- Specification of organizational goals
- Development of long run profit plan in broad terms
- Development of short run profit plan detailed by assigned responsibility
- System of periodical performance report detailed by assigned responsibilities
- Follow up procedure (Fago, 2003:1).

The profit planning and control is used for the development acceptance of objectives and moving an organization efficiently, systematically and timely to achieve the predetermined objective and targeted goals. It is not a separate technique that can through of and operated independently of the total management process. Rather the broad concept of profit planning entails integration of numerous managerial approaches and techniques. Profit planning and control can be reviewed as one of the major valuable approaches that have been developed to facilitate effective performance of the overall management process.

2.1.2 Concept of Profitability and Liquidity

2.1.2.1 Concept of Profitability

Profit is the reward for entrepreneurship. It is the excess amount of revenue over total expenses and provisions. Profitability is the capacity to earn profit. Profitability is a very important element, which influences the overall activities of any kind of business. If there is no profit, it is impossible to run any organization. In the case of bank, if bank cannot earn profit, no one can expect that a bank makes their payment of interest on deposits maintain by them. Profit is the resource left to the firm for future growth and expansion or reward to be distributed to the entrepreneurs in the form of dividends etc.

Analyzing the behaviour and future prospects for profitability of a financial institution is a complex task. Many factors affect each institution’s profitability. Among the most important factors are the friskiness of loans and investments made; liquidity needs and the institutions provision for those needs 'The effectiveness of tax management practices' the level of efficiency in utilizing human and non-human resources; and the ability of management to control expenses (Particularly interest expenses and employee costs) (Rose, 1993: 124-125).

Profit is essential for every enterprise to survive in the long run as well as to maintain capital adequacy through retain earning. It is also necessary to accept market for both debts and equity to provide funds for increased assistance to the productive sector (Robinson, 1951:21-2).

Many financial analyses have recommended market value accounting for banks, because the results of financial ratio of bank condition based on the book values are unlikely to be timely predictions of bank risk (Rose, 1999:127).

Achieving superior profitability for a bank depends upon several crucial factors:-

- Careful use of operating leverage from fixed assets or the proportion of bank assets financed by debts as opposed by the shareholders equity capital.
- Careful use of operating leverage from fixed assets or the proportions of fixed cost input the bank used to boost its operating earnings before taxes as bank output grows.
- Careful control of operating expenses so that more dollars of sales revenue become net income.
- Careful control of banks' exposure to risks so that the looser don't overwhelm its income and equity capital (Rose,1999:169).

Profit is the ultimate goal of every business house. They involve in business for making profit. Profit cannot achieve easily. It should be managed with better managerial skills. So profit is the planned and controlled output of management. By element, profit is the difference of revenue and costs (Goet, et.al., 2062:1).

Banking and Financial Markets have tried to analyze a bank's profitability under and economic approach. They state, "To maximize profits bank should attract the interest rate paid on deposits" (Michael and Dennies, 1996:47).

Profit in the accounting sense is the net figure or difference between all types if accountable revenue and all accountable costs. In accounting, profit is expressed only in explicit and measurable accounting terms and on the book value basis. However, in economics, profit is measurable in the realizable terms.

2.1.2.2 Concept of Liquidity

Liquidity means that state of position of a bank to meet the demand on the customer's deposits. Banking is a business of financial dealing whose major sources of financing is the public deposits. Banks maintain liquidity in various forms like ready cash at its disposal, makes placements in other banks; some percentage is utilized in investment on government securities, and certain percentage deposit at central bank as a statutory requirement. Deposit in other bands and investment in government securities can be converted into cash immediately. Because we can sell government security and can withdraw deposits from other bank.

Banks pay the depositors money at the demand, and if this is not meet, it damages the banks image. The confidence of the public will be lost and this leads the bank towards downfall. So bank should not invest all the money on investment. It has on exposure based assets only, as it will not be repaid when required. Therefore, banks keep a certain percentage of their fund on such assets that can be utilized as need arises, which is known as liquid assets (Shrestha, 2007:204).

Central bank ensures liquidity of commercial banks by enforcing the letter to maintain a certain percentage of their deposits liability in the form of reserve fund with the central bank and in its vaults (Shrestha, 2007:204).

Importance of Liquidity

- For withdrawal of deposits.
- For lending loans and advances.
- For meeting personal expenses.
- For earning through foreign exchange holding.

- For exploiting unforeseen opportunity.
- For meeting contingent liabilities such as invocation of guarantee, payment of LC, and other payment like fines and other taxes etc. (Shrestha, 2007:204)

Sources of Bank Liquidity

- Primary deposits from customers in cash, cheques and remittance from various banks increase the bank cash in hand, which increases the liquidity position of banks
- Issuance of share capital is also reliable source of bank to maintain liquidity.
- Loan from money market, other commercial banks and central bank under refinance facility increase the bank's liquidity.
- Replacement of loan and its interest increase banks liquidity.
- Other miscellaneous sources like cheque sent on collection, fund transferred from other banks, commission received on guarantee and LC issued, sales of unnecessary assets adds the liquidity of banks.

2.1.2.3 Profitability and Liquidity

The profitability of commercial bank is highly depended on optimum utilization of available financial liquidity in the profit generating asset like loan and advances and investments. However banks cannot ignore the necessity of maintaining cash in hand or deposits maintained at the central bank or any highly liquid assets like government treasury bills, other government bonds that can be easily sellable without loosing future value.

A sound liquidity position of the bank helps to fulfil the demand of depositors; it helps to maintain the goodwill of the organization. In case of not fulfilling of their demand, banks sale their faith of the public. So anyhow, banks maintain their liquid position.

However, liquid assets are almost idle. They do not generate any returns. The cash in the vault and deposit in central bank do not get interest or other return but these liquid assets can help to maintain faith of the public

A balance of assets must be stroked to ensure both profitability and liquidity. These paradoxical principles of liquidity and profitability are reconciled to the maximum benefits of the bank (In order to avoid difficulty in meeting the various commitments), banks strike a balance by arranging their assets in different proportion of liquidity and profitability (Shrestha, 2007:205).

Profitability and liquidity both are equally important for commercial banks but they maintain a highly negative co-relation. So banks cannot ignore any of them. The more liquidity will cause the less profitability. So management of the bank will be crucial decision of trade-off between profitability and liquidity.

2.2 The Financial Statement of Commercial Bank

Banks are simply the business forms selling different kinds of products. The product a bank deals with is the financial instruments representing various financial claims. The particular services a bank chooses to offer and overall size of a banking organizations are reflected in the financial statements. "Nepal accounting standards, July 2002" emphasizes the preparation of financial statements by company content the following:

- Income statement or trading and profit and loss a/c.
- Statement of retained earning or profit and loss appropriation a/c.
- The balance sheet
- Statement of changes in financial position or cash flow statements.

Basically, banks are submitting two financial reports to regulatory authorities and the public each year are: income statement or trading and P/L a/c. and balance sheet. Income statement reports the income and expenses and balance sheet reports the financial condition/position of banks. The balance sheet reflects all assets, liabilities, and net worth of the bank on a particular day of a year. Assets reports uses of fund/source to generate revenue for the bank. Liabilities and net worth are sources of bank fund.

One useful way to view a banks balance sheet is to note that bank liability and equity capital represents accumulated sources of fund, which provide the needed spending power for the bank to acquire the assets. A bank's assets, on the other hand, are its accumulated uses of funds which are made to generate income of its stockholders, pay interest to its deposits, and compensate the bank employee for their labour and skill (Rose, 1999:127).

2.2.1 Contents of Report of Balance Sheet

a. Cash and Cash Items

The most liquid assets held by any commercial bank are cash. Since cash is an idle asset, a minimum level of cash is held by banks to ensure that the statutory requirement is at least fulfilled. It is used to cover deposits, withdrawals, handle credit demands from customers, and to meet all regular and emergency expenses. This item includes currency and coins in the bank vault, and cash balance maintained in other banks and financial institutions and cash item in the process collection for clearing and this all composition is regarded as the first line of defence for meeting liabilities.

Cash items refer to the clearing checks, which are in the collection process, and written against deposit accounts of other banks. Eventually (not more then 2 or 3 days latter) the bank sending these clearing items will receive credit for them, either in its reserve accounting maintain in the central bank or in the form of an increased deposits at a correspondent bank.

b. Money at Call or Short Notice and Overnight Placement

This is a bank to bank and account to account transaction for a very short period between 1 to 7 days. As per the statutory requirement, banks are supposed to maintain a level of liquidity including the fund maintained in the central banks account. Commercial banks may find a very hard time to retire the heavy liability, knowingly and unknowingly, and they fill shortage of liquidity. In such a situation, bank with deficit or fund may find another bank with excess reserve and debit, as per agreement between, Rastra bank account and credit account of their own maintained in the central bank for the very short position. This is appeared in the balance sheet as the liquid assets and which can be used as the second line of the defence for the bank granting the short time fund collectable at a call or short time notice.

c. Investment in the Securities

As the third line of defence to meet demands for cash and reserve, as a quick source of funds is the bank's liquid security holdings, often called secondary reserves. These assets normally compose more than one third of total assets of banks. These typically include holding of shorter-term government bonds like treasury bills; development bonds etc. and other securities purchased in the open market and readily convert into cash in the financial market. These security bear low risk, low return, but higher liquidity. The remaining securities of banks investment are, direct and indirect, in the sectors where by virtue the statutory requirements are imposed.

Commercial bank invests their excess funds to the shares and the debenture or the other company. They generally do so when there is excess of funds then required and there is no alternative opportunity to make investment in the profitable sector. Now days, the commercial bank of Nepal have purchased shares and debenture of regional development bank. These types mainly hold their income generating power and for other advantage like tax shelter etc. investment are recorded in their cost price, or markets value whichever is lower.

d. Loan and Advances

This is the primary source of income and most profitable assets to a bank. A bank is always willing to lend as more as possible since they constitute the larger part of revenue. This occupies the highest proportion of assets of any commercial banks bearing more than 40% of the assets used. But a bank has to be more careful while providing loans and advances since they may not be realized at short period of time. And sometimes it may turn into bad debts. Therefore, it is wise not to rely on them at the time of emergency for all banks.

Commercial banks offer two types of credit facilities namely funded facility and non-funded facility. In the case of funded facilities offered, cash is involved such as in OD facility, demand loan, short term loan, long term loan etc. and in the case of non-funded facility, cash is not involved but only the contingent liabilities increase. LC and guarantee facilities offered by banks are non-funded facilities (Shrestha, 2007:177).

A commercial bank hardly lends money for a long period of time. It lends money for a short period of time that can be collected at a short period of time. The commercial banks are never bounded to provide long-term loan because it receives. Loans and advances are provided against the personal security of the borrower of against the security of the immovable and movable properties. Banks provide the loans in the various forms: overdraft, cash credit, direct loans and discounting bills of exchange.

e. Other Assets

The great majority of bank assets are financial claims. However banks assets also include the value of bank building, vehicles, equipment, computer and other miscellaneous fixed assets like different revenue expenditure, leaseholds and freeholds, prepaid expenses and advances. However, only a small portion of total assets is covered in this category.

f. Deposits

The principal liability of a commercial bank is its deposits collected from general public, business and government agencies. It is a direct claim of outsider to the bank. The total assets of bands are financed supported more than
75% from the deposits. Normally deposits are classified into three categories: demand/checking deposits, saving deposits, and fixed term/time deposits.

Demand deposits are permitted for unlimited check writings, but they do not bear any interest liability. However, a minimum balance is fixed for the depositors. By the viewpoint of banks, these are the cost free deposits but banks are not confirmed to hold them for a longer period, since they can be demanded at any time. This is an easy mean for more circulating transaction and suitable for business concerns.

Saving deposits are normally meant for the individuals, non-profit making organization and others who are for saving motive and want to earn some interest from the deposits. However, there is a minimum balance fixed, but now days some bank open saving account in zero balance deposits. Banks offer interest in the minimum monthly balance to the saving depositors and also permit withdrawal and deposits to these accounts. However, banks impose some constraints in the maximum one-time withdrawal. If the maximum one time limit is exceeded and minimum balance is not maintained, no interest is offered to the depositors. These depositors are of somehow stable and banks can fool confirmed to invest them in the medium term financings.

Fixed term deposits (Time deposits) are the major sources for banks longer –term investment as these deposits bear a fixed maturity period. These deposits are offered a stipulated interest rate a fixed denomination of amount and a prefixed maturity period. Banks tend to offer different interest rates to these deposits according to the deposit amount and maturity time. The more amount and longer maturity period, higher the interest rate and vice versa.

Nowadays, Nepalese commercial banks have introduced a different type of deposit account: call deposits. Banks are interested to find the single source of heavy deposits constable to invest in the market. These types of deposits have various benefits. Banks can serve a single corporate depositor more carefully than various small accounts. The deposits are of constable nature and banks can invest them without hesitation. So, banks provide a special interest rate to such deposit, permit to write checks against them, but also fix a minimum balance for maintaining this account.

g. Borrowing from non Deposit Sources

A sizable amount of funds stem from miscellaneous liability accounts. Banks assets are supported from other non deposit liabilities with or without costs. Bank to bank borrowing, placement, overnight placement, borrowing from central bank, foreign banks are some examples for nominal cost bearing sources. However, these are short term liabilities, due to no obligation for banks to maintain reserve for them, these types. Other cost free sources of liabilities are accrued interest payable, differed expenses, accounts payable, differed tax liabilities, obligations such as bankers acceptance, banker cheque, matured time deposits, remittance awaiting disposals and other liabilities.

h. Stockholders Equity/ Internal Financing Sources

Every new bank begins with a minimum amount owner’s capital and borrows fund from the public to lower up its operations. There capital normally accounts less than10% value of the total assets. So, banks are the institutions having the greatest financial leverage using from external sources of finance. Though relatively a small item, banks capital account typically includes value of paid up capital, share premium, statutory and other reserves and retained/ploughed back profits. Usually the largest item in the capital accounts is retained earnings, undivided profits, which include accumulated profit over each year after payments of dividends.

2.2.2 Contents of Report of Income Statement/Profit and Loss Account of Commercial Banks

a. Operating Income

Operating income for a business entity is the regular and prime source of revenue for that business. It is the main identity of a business regarding what a business stands for.

b. Interest Income

Under operating income of a commercial bank, interest income is the primary source of income. Not surprisingly, interest and fees generated from loan account for most banks revenue account more than two thirds to total income. Under interest income, Nepalese banks report the income summed up as interest income from loan, Advances and Overdrafts (LAO), income on investments from securities, interest from interbank lending etc. Interest income is considered the main traditional income source of a commercial bank.

c. Fees and Commission

Banks have moved towards near banking business other than the traditional business of lending and investments. Banks create utility of services under various sources. They play various roles like agency role, guarantor’s role mediator’s role and so on. From these services banks earn fees and commissions. Banks earn form fees and commission from various sources such as letter of credit, bills purchase, share underwriting commission, discounts, remittance fees, etc. Nowadays, banks have taken these sources of income as operating income.

d. Trading and Revaluation Gain

Similarly, banks deal with foreign currencies. Foreign currencies are remitted outward and inward. Banks involve in trade while dealing this transaction. While selling and buying foreign currencies banks earn trading profits. Banks can maintain foreign currency stock for their trade. Banks also gain from revaluation the stock wherever the revaluation rates are their favour.

e. Non operating Income

Non operating income is the casual sources, not the regular sources of revenue for business entity. These incomes are from the regular course of business but from some other sources where the business entity can be involved legally as prescribed by the directives of related governing authority. Nepalese commercial banks are allowed to invest in the shares of another entity like other commercial banks, rural development banks, financial institutions and other organized institutions. The investing banks receive dividend income and other income. Further banks receive various types of fees from safe deposit locker, credit cares, ATM cards issuance and renewals, consultancy fees and other non banking and casual incomes like form sale of assets, revaluation gain of assets etc.

f. Operating Expenses

Operating expenses of a business entity is the regular and prime item of cost expenditure. It is the main identity of a business regarding what a business expense for. This type of expenditure is directly attributed to the production/ service that entity provides for. These expenses are for income generating expenses. Operating expenses is regularly expensed.

g. Interest Expense

The main expenditure item for a commercial bank is interest expenses deposits. Normally this type of expenditure covers more than half of the total expenditure. Interest is regularly expensed off for various deposits; inter bank borrowings, central bank borrowings and other external obligations.

h. Administrative Overheads

Under non interest expenses bank has to bear the various fixed and variable administrative overheads like office occupancy expenses, depreciation expenses,

amortization of deferred expenditures, personal expenses, and other
general and administrative expenses like insurance, stationary, repair and maintenance, fuel, telephone, electricity rates and taxes and other expenses.

i. Non Operating Expenses

Under this heading, the casual type expenditure likes loss on sale of assets and others. In addition to other expenditures, banks deduct from revenue any loss from revaluation of foreign currency, staff bonus, loan loss provision and income tax before arriving to net disposable income.

2.2.3 off-balance Sheet Activities

The massive expansion and growth of banking in the last couple decades and constant pressure on improving the rate of return have forced the banking sector to diversify from its traditional function of lending and deposit mobilization with deregulation of financial system, new financial institution mostly in the form of off-balance sheet commitment have increasingly figured in the financial operations, and banks have been placing increasingly emphasis on activities that generate income increasing the assets in the balance sheet.

The banks, in their traditional functions, increased lending and committed itself beyond the strength of the bank. Qualities of assets were questioned, i.e. lending became bad due to slow recovery, but banks continued lending and thereby increased the portfolio and the balance sheet footling.

At this point of time the central bank, is the regulatory body, was forced to introduce control mechanism, in term of capital adequacy ratios. The banks in order to come out of this difficult situation were forced to diversify activities in order to come out of this difficult situation were forced to diversify activities in order to maintain the ratios and increase profitability thus the introduction of off-balance sheet transactions.

Off-balance sheet activities arise from the contingent commitments of banks in the present time, which can appear as real liabilities in the future. These activities are not recognized as asset and liabilities in balance sheet. These activities are not recognized as assets and liabilities in balance sheet. These activities are very important, as they are the good source of profit to the bank, though they have risk. The off-balance sheet items are not included in the balance sheet until they are recognized as real liabilities. Off balance sheet activities involve contracts for future purchases of sale of assets and all these activities are contingent obligations that are not recognized as assets or liabilities on balance sheet.

Central banks are the regulatory bodies which force to introduce control mechanism to the banking sectors in terms of capital adequacy. The banks in order to come out of the difficult situation were force to diversify activities in order to maintain the ratios and increase profitability. This is the main reason for the introduction of off- balance sheet transaction.

Few typical off-balance sheet transactions are follows:

- Letter of credit
- Letter of guarantees
- Document negotiated under reserve
- Commitments
- Acceptance
- Bills of collation
- Performance bond
- Bid bond
- Forward foreign exchange transaction
- Currency exchange, etc.

It is estimated that the joint venture generate more than one third of their total income funds from fee-based activities. The joint venture banks have been successful in harnessing the fee-based activity to the maximum possible extent so as to earn profits.

2.2.4 Financial Statement Analysis

Annual documents prepared by the government companies are financial statements. Financial statements are prepared for annual review on the progress made and results achieved during the period under review. Financial analysis is done to know about the form’s position and performance. It is done by applying various financial tools, such as ratio analysis, cash flow statement; capital budgeting etc. The basic purpose of financial appraisal is to determine the financial soundness of the company.

The financial analysis is done to ascertain the liquidity, profitability, leverages, debt servicing and interest servicing ability of firm (Shrestha, 2007:94).

The analysis of financial figure contained in the company's profit and loss account and balance sheet by employing appropriate techniques is known as financial statement analysis. Formally, financial statement analysis is defined as the process of analyzing and interpreting the financial figures contained in the statements by developing some relationships among the figures in such a manner that meaningful information can be obtained about the liquidity, efficiency , profitability and leverage position of the company (Koirala, et.al., 2005:254).

The financial analysis of financial statements the analysis of financial statements is done to obtain a better insight into a firm's position and performance. Analysis of financial statement is a process of evaluating the relationship between the component parts of the financial statements to obtain better understanding of a firm's position and performance. Generally, the following parties are interested in analysis of financial statements (Munankarmi, 2003: 1203).

a. Creditors: Creditors are interested to know the short-term liquidity position and ability to pay its short term liability of the form because they are interested in receiving their payment as and when due.

b. Investors: Investors are interested to know the solvency position of the organization. They want to know about the safety of their investment and firm's ability to pay their interest and repayment of principal amount on due date. For this purpose they analyze financial statement.

c. Management: Management analyzes the financial statements to know about their policies and decisions which are effective or not. They also analyze to know both short and long term solvency position, profitability in relation to turnover and investment and liquidity position of the business.

d. Regulating Authorities: Regulating authorities like government determine tax liability and formulate effective plans and policies for economic growth. So, financial analysis helps them.

2.3 Review of Related Studies

2.3.1. Review of Journals

After the conceptual and theoretical reviewing, certain useful journals on domestic market, banking, financial statement analysis and monetary credit situation of Nepal are studied.

Madlin and Snock (1998), when government decided to establish banks with joint ventures, two benefits were expected. First that competition would force domestic banks, such as Nepal Bank Ltd. and Rastriya Banijya Bank to improve their services and efficiency, second that introduction of new banking procedures, methods and technology would occur.

Shrestha (1990), there have been substantial growths in the number of Joint Venture banks in Nepal since 1990s. The basic reason behind this is the government's deliberate policy of allowing foreign joint venture banks to operate in Nepal. Government's liberalization policy of allowing also encourages the traditionally run commercial banks to enhance their efficiency and competitiveness through modernization, mechanization and computerization and prompt customer services by setting them to the exposure of joint venture banks

Chopra (1990), the existence of foreign joint venture banks has presented an environment of healthy competition among the existing commercial banks. The main beneficiary of this is the Bank-client. The increased competition forces the existing banks to improve their quality and extend services by simplifying procedures and by training, motivating own staff to respond the new challenges

Pradhan (1991), the joint venture banks are in a better position than local commercial banks profit making. In an average, no foreign banks have suffered loss till now, but local banks own the negative profits.

Nepalese Economy (1998), despite the increase in number, the joint venture banks are concentrated in urban centres, especially in major cities, with all their headquarters in Kathmandu alone except that of Nepal Bank of Ceylon (name changed to Nepal Credit and Commerce Bank Ltd.) which is based in Rupandehi. This trend has resulted in two-way effects on the operation of the government owned commercial banks in Nepal. First, the comparatively attractive interest rates and devices promptness of these private banks have drawn the public deposit to their side thereby reducing financial liabilities; the government-operated commercial banks have been forced to shut down some of their branches in the remote areas of the country. Nevertheless, a look at the activities of these JVBs provides a fill up in to the tremendous aid they provide to the national and to a large extend. Especially, they have been more helpful in founding the private sector.

2.3.2. Review of Articles

Shrestha (1991), in the article **"**Commercial Bank's comparative Performance Evaluation" Karmachari Shanchaya Kosh, Kosh Samachar, has concluded about Joint Venture Banks are new, operationally more efficient and having superior performance while comparing with local banks. Better performance of Joint Venture Bank is due to their sophisticated technology, modern banking method and skill. Their better performance is also due to burden the local banks are facing due to government banking policy in rural areas and financial public enterprises. Local banks have to face growing constraints of socio-economic and political system on one spectrum and that of issues and challenges of Joint Venture Bank commanding significant banking business in the other spectrum. He has further said that the government's liberalization policy also encourages the traditionally run domestic banks to enhance their efficiency and competitiveness through modernization, mechanization via computerization and prompt customer service by setting them to the exposure of Joint Venture Bank.

Poudel (1996), has given more emphasis on financial performance of finance companies in the article "An Overview on Financial Companies on 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, it is substantially below than the authorized level of deposit mobilization, which is ten times of the capital base. Nevertheless, some of the finance companies have even mobilized 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 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 factors, 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

Poudel (2055), on the topic 'Banking: challenges Ahead' focuses on the potential areas where banks should invest to fight the prevailing economic recession. Currently, grown in the profitability of JVBs has been mainly due to external factors such as foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long-run, banks should enter new areas by marking their credit in important sub-sectors such as Hydro-electricity, tourism, irrigation etc.

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

2.3.3 Review of Previous Research Work

Ghimire (2006), in the thesis entitled Impact of budgeting on profitability (A case study of Nepal Electricity Authority) has focused on the objectives as :

- To examine and analyze and evaluate the profitability in power centre by analyzing the various functional budget of NEA
- To obtain a true picture of profit planning diversification of NEA.

Major Findings:

- It is found that the NEA is not achieving sales target during the study period but its actual sales revenue is increasing every fiscal year of study period.
- The financial performance is not satisfactory up to the level.
- NEA has no practice for preparing monthly budget and failed to analysis its strengths, weakness, opportunities and threat.

Major Recommendations:

- NEA should have an efficient management system and it should restructure its capital structure by issuing equity share capital.
- It should avoid obligatory purchase agreement to avoid huge amount of losses.
- Sales budget should be considered with cost volume profit relationship which develops the sales plan and strategy.
- NEA should utilize all its available capacity.

Adhikari (2006), performed his study in titled "A study on the Effectiveness of Profit Planning and Control of Unilever Nepal Limited".

Main objectives:

- To examine the variance between the target and actual activities and analyze the various types of budgets adopted by UNL.
- To examine the present profit planning premises adopted by UNL.

Major Findings:

- The Organization was able to utilize 26.90% of installed capacity to produce overall in FY 2061/62 BS. Application of the profit plan was not realistic.
- Similarly, sales territories of the companies were two groups: domestic sales increased at 100% and the exports sales were to nil in 2061/62 BS. UNL has the

positive policy of selling its products both on credit and cash. Interest and external SWOT variable are not identified by the top management.

- Current ratio except in the fiscal year 2058/59 was not satisfactory. It was recommended that the UNL must classify cost of each department and product and it should hire qualified and technically enriched manpower to utilize its idle capacity.

Major Recommendations:

- For the positive performance the top executives should be given opportunity to work for a long duration.
- Preparation of budgeted sales and budgeted production is necessary.
- UNL should develop a reliable source of raw material.
- Lastly, UNL is suggested to keep it up with its ongoing performance in Nepalese market and advice utilise its idle capacity with more compatible products.

Sitaula (2010), a research work on ‘Sales planning and its impact on profitability (A case study of Unilever Nepal Limited)’.

His Objectives:

- To analyse the current practices of sales budgeting and its effectiveness in manufacturing enterprises established under foreign investment.
- To make comparison of sales with profit of the UNL.

Major Findings:

- The study shows that the company does not have practice of preparing sales budget although there is attentive sales budget. Budgeted and actual sales show a positive correlation. There is no cost classification system in the company.
- UNL has no planning departments. So it can be said that no proper practice of profit plan has been exercised.
- Both the production and sales are fluctuating over the period of 5 years. UNL has lunched the services, ‘Doctors’ contact program” etc. Profit and loss of company is not good satisfactory.

Major Recommendations

- UNL must classify the cost according to departments and products and it should hire qualified technically manpower to utilize its idle capacity.
- For the positive performance it is required appointing the top executives for a specific period.
- There must be separate planning department and UNL should implement of profit planning in all the areas.
- The company needs to follow certain strategy to increase the export sales. UNL should have in depth analysis of company's strength and weak.

Shrestha (2006), conducted a research entitled "Profitability Analysis of Standard Chartered Bank Nepal Ltd. and Nabil Bank Ltd".

His Objectives:

- To evaluate the soundness of profitability and operating effectiveness of NABIL comparison with that of SCBNL
- To compare and analyze fund based interest income with fee-based income of NABIL Bank, in comparison with SCBNL in light of interest earning assets.

Major Findings:

- The Profitability in relation to investment of SCBN is higher than Nabil bank. Both of the sample bank's interest income to total earning assets is decreasing. Similarly, net profit margin is decreasing every year. Earning spread rate of both of banks are also decreasing and negative sign to the bank's performance.
- Both of the banks weight average cost of deposit ratio is decreasing every year. EPS is the main tool to use to see the banks performance. Nabil bank has lower EPS than SCBN. It indicates that the performance of SCBN is better.
- Main income source of the both banks are interest. In comparison, Nabil bank is earning more amounts from interest and SCBN is earning more from fees and commission. Nabil bank is earning fewer amounts from foreign exchange than SCBN.

Major Recommendations:

- The banks are suggested to adopt cost management strategy to reduce the various costs and increase profitability and it should follow the strict investment policy to avoid the non-performing assets.
- Fee based activities are recommended to enhance the off balance operation as it is very profitable and immediately realizable.
- To cope up the changing environment Nabil bank is suggested to enhance its existing facility.
- An emphasis should be given on planning, research and development for the proper planning and controlling purpose. For survival of long run, bank should not be profit oriented ignoring their social responsibility.

Adhikari (2006), has conducted his study on “A Comparative Study of the Profitability of Nepal SBI Bank and Nepal Bangladesh Bank”.

His Objectives:

- To analyze profit plans of the banks.
- To analyze the income and expenditure, cost and profit trends of the banks.

Major Findings:

- Profitability ratio of NB Bank is comparatively less than SBI Bank.
- SBI Bank and NBB both have maintained nearly the same level of earning spread.
- Because of not proper investment, NB bank has negative net income in the fiscal year 061/62.

Major Recommendations:

- Both the bank should be serious in regards liquidity position and they should reduce fixed deposit to decrease high interest burden.
- Both banks have to control in its expenses, which are unnecessary.
- It is suggested that the commercial banks of Nepal have to use well-trained personnel. They are suggested to mobilize their deposit funds in productive sector.

- For the development of overall economy of the country, the joint venture banks are suggested to promote the foreign investors for making their investment.

Bhandari (2008), has conducted his study on "Financial Performance Analysis of Himalayan Bank Limited".

Major Objectives:

- To analyze, examine and interpret the financial performance of HBL.
- To evaluate financial performance of HBL in terms of liquidity, efficiency of asset and cost management and providing recommendation on the basis of research findings using financial ratios.

Major Findings:

- The bank is able to maintain liquidity position to meet the daily cash requirement or meet its short-term.
- Profitability position of HBL seems good but the bank cannot use efficiently its assets to generate profit.
- Turnover ratio of HBL indicates that HBL is more efficiently utilizing the outsider's funds in extending credit for profit generating sectors.

Major Recommendations:

- HBL has to invest some amount to less risky investment alternatives.
- To provide different types of services, it is recommended to HBL to formulate new schemes and techniques
- The bank should try to collect more non-interest bearing deposits.
- Though HBL has been able to gain the confidence of people living urban areas, it should also start its services in rural areas.

2.4 Research Gap

There is a vast gap between the present research and previous researches. Most of the previous researches of account have been conducted on profit planning and controlled by convening the budgeting practices in manufacturing companies, especially PEs. They were either a case study of particular company or a comparative study of two different companies. A few numbers of researches have been also made in the area of receivable management, inventory management, CVP analysis, financial performance analysis, capital expenditure planning, and so on. But these all are only a part of management account, which cannot represent overall practice of management accounting in Nepalese companies. Most of the dissertations have been prepared based on secondary data and all of the findings are similar to each other.

This is a comparative case study of joint venture banks research entitled “A Comparative Study of Profitability Analysis (a case study of Himalayan bank and Nepal SBI bank limited)” with the main objectives of comparison of profitability and financial position of banks. This study is based on secondary information. Primary data will be added when necessary.

The previous researches cannot represent the overall practices of management account in Nepalese companies, especially to service sector. This research has clearly described which of financial tools and techniques are practicing and which are not practicing till now. The research also discloses the major difficulties for the proper application of statistical tools in Nepalese companies. Most of the researches ignored the statistical tools and financial position. Finance is the engine of the organization. Few researches adapted financial tools to identify the profitability position. But financial tools represent only one year’s performance. To calculate the fluctuation of financial position of organization, we most use statistical tools like mean, standard deviation etc. the research also discloses the major difficulties of the proper application of statistical tools in Nepalese companies. The study has conducted by dividing the PEs different joint ventures organization. This includes manufacturing, trading, service, social service, public utility and financial sector done by the corporation coordination division, government of Nepal. It also helps to identify the business sector, where statistical tools can apply to strength the Nepalese PEs. The research has also suggested and recommended, where statistical tools can be applied, to overcome the difficulties for the proper application of financial tools and techniques in Nepalese companies. It can become a milestone in context of Nepalese joint ventures companies.

CHAPTER- III
RESEARCH METHODOLOGY

This study has done specially to evaluate the current practice of profit planning and control of commercial bank. This chapter shows how research problem is solved systematically. This chapter consists of:

- Research Design
- Source of data
- Data collection and analysis
- Coverage of time

3.1 Research Design

Research design is a plan for the collection and analysis of data to obtain answer of research objectives. Here historical and descriptive research designs are used to analyze the application of profit planning and control in commercial banks. Past seven year data are taken to analysis from 2063/64 to 2069/70. To fulfill the objectives primary and secondary data are used. It focuses on the effect on profitability due to profit planning and control. Statistical tools also have been applied to examine and evaluate the effect of profit planning on profitability of Nepal SBI Bank limited and then to compare with the Himalayan Bank limited.

3.3 Sources of Data

The study basically focuses on the secondary data and primary data are also used when necessary. The primary data are collected from head office of HLB and SBI bank ltd. through discussion with concerned authority. The secondary data are taken from annual report, auditor's reports, balance sheet, profit and loss account, website, and unpublished/ published thesis. Supplementary information is collected from different institution and authorities like NRB, Security Exchange Board, Nepal Stock Exchange, Ministry of finance, and economic surveys. Likewise, various data and information are collected from the economic journals, periodicals, bulletins, magazines and other published and unpublished reports and documents from various sources.

3.4 Data Collection and Analysis

Data collection and analysis is important function of research work. According to Mr. H. K. Wolff and P. R. Pant (2005) "Collecting data is the connecting link to the world of reality for the researcher."

Primary data are collected from the concerned authority of central office. Secondary data are collected from annual reports, auditor's reports, Balance sheet and profit and loss A/c, and other thesis.

Data are analyzed by using different financial and statistical tools. We can use ratio analysis and different statistical tools to analyze the data.

3.4.1. Ratio Analysis

Financial statements are repaired with the help of periodic financial year. It provides financial information that helps to take decision, but we cannot draw meaningful conclusion from these statements alone. This information is useful in making decision through analysis and interpretation. There are various methods used in analyzing the financial statements. Ration analysis is one of the most powerful tools of financial analysis.

Ratio is the expression of one figure in terms of another. It is the expression of the relationship between mutually independent figures. It is a simple mathematical expression of the relationship of one item with another. Absolute figures alone convey no meaning unless they are compared to each other. Accounting ratios show the interrelationship existed among various accounting data (Munakarmi, 2003:12.04).

Ratio is the relationship between two figures. They provide two important facts about the management: the return on investment and the soundness of the company's financial position. A single ratio will not depict a true picture of the unit. Hence the combination of ratios must be analyzed to derive a true picture. After that, it must be compared either with the previous year ratios of the same firm or with some leading firm's ratios or else with the industry level ratio. When the figures of final account of all the firms in the industry are added together, the average arrived at is the industry level. Ratio analysis can be taken as a diagnostic tool which helps in identifying problem areas and opportunities for the company (Shrestha, 2007: 100-101).

The relationship between two numerical figures expressed mathematically is known as ratio. Similarly, analysis of the relationship between various items of financial statements is called financial ratio analysis which helps to summarize the large quantity of financial data and to make qualitative judgments about the firm's financial performance. Financial ratio reflects the quantitative relationship which helps the manager to take qualitative judgments (Shrestha, 2008:57).

Ratio analysis is a process of determining and presenting the quantitative relationship between two accounting figures to evaluate the strengths and weaknesses of a business. It is important from the point of view of investors, creditors and management for analysis and interpretation of a firm's financial health. It is also a useful analysis of financial statement for joining the company's operating efficiency, identifying strengths and weakness and comparing its performance with other companies.

3.4.1.1. Analysis of liquidity

Liquidity ratio represents the borrowing unit's ability to meet its current obligation. There are two types of liquidity ratios:

a. Current ratio (CR)
b. Quick ratio (QR).

Higher ratio shows the better position. Generally preferred ratios are current ratio of 2:1 and quick ratio of 1:1.

a. Current Ratio: Current ratio measures short run debt paying ability of the firm. It is quantitative relationship between current assets and current liability. Current assets are those assets, which can convert into cash within a short period of time without any loss. Current ratio is calculated by the total current assets (CA) by total current liability (CL):

$$\text{Current Ratio(CR) X} \frac{\text{Current Assets(CA)}}{\text{Currrent Liabilities(CL)}}$$

Where,

Current Assets = Cash+ Balance with NRB + Balance with Financial Institution + Money at call or short notice + investment + loan and advances + bills purchase.

Current Liabilities = Bills payable + Deposit + Borrowing + Dividend payable + Other liabilities + Income tax liability.

CR of 2:1 is considered as an idle proportion but still bank relax up to 1.2:1 depending on the profitability of the unit.

Current ratio indicates the extent to which the short-term claims are covered than the current assets within one year. Neither more nor less value of the current ratio is desired than the industry. The excessive current ratio increases the liquidity but reduces the profitability and vice versa (Shrestha, et,al, 2008:58).

b. Quick Ratio: - Firm's ability to convert its current assets into cash quickly to meet its current obligations is observed with quick ratio. It is the quantitative relationship between quick assets and current liabilities. When inventory and prepaid are deducted from current assets, we can obtain quick assets because inventory are not highly liquid current assets and prepaid are no chance of return back. Quick ratio is calculated by dividing quick assets by current liabilities.

$$\text{Quick Ratio(QR) X} \frac{\text{Quick Assets(QA)}}{\text{Current Liabilities(CL)}}$$

Where,

Quick assets = Cash+ Balance with NRB + Balance with Financial Institution + Money at call or short notice + short term investment.

Current liabilities = Bills payable + Deposit + Borrowing + Dividend payable + other liabilities + Income tax liability.

The quick ratio shows the ability to pay current liabilities immediately. The higher ratio indicates that the firm has more high liquid assets. The standard of QR is 1:1 in the absence of QR of the industry.

c. Cash and Bank Balance to Total Deposit Ratio: Cash and bank balance are the liquid assets of the bank and deposits are the liabilities which may be both fixed and current. In the view point of maturity, deposits are three types; current deposits, saving deposits, and fixed deposits. Cash and bank balance to total deposit ratio shows the liquidity position of the bank. This ratio is calculated by dividing the cash and bank balance by total deposits (excluding fixed deposits). So it is related to liquidity ratio. Cash and bank includes cash on hand, foreign cash in hand, cheque and other cash items, balance with domestic bank and balance hold abroad. Similarly deposits include current deposits, fixed deposits, money at call and short notice and deposits. This ratio not only analyzes the use of total resources of the firm, but also the use of various components expresses the information about the management consciousness towards the liquidity. The ratio can be expressed as:

$$\text{Cash and bank balance to total deposit ratio X} \frac{\text{Cash and bank balance}}{\text{Total Deposits (excluding fixed deposits)}}$$

Higher the ratio indicates sound liquidity position of the bank. Even after that too high ratio is not good enough as it reveals.

3.4.1.2. Analysis of Profitability

Profit is the essential for the survival of the business, so it is regarded as the engine that drives the business and indicates economic progress. Profitability ratios are calculated the operation efficiency as well as earning ability of the firm. Management of the company interest in the profitability of the firm where as creditors, owners and potential investors are also interested. These ratios show the combined effects of liquidity assets management and debt management on operating results. To measure the profitability of the firm following ratios are calculated:

a. Net Profit Margin

This ratio measures the overall profitability of the firm by establishing relationship between net profit and total income indicates management's ability to operate the bank with sufficient success not only to recover the interest expenses/operation expenses of bank but also to leave a margin of reasonable compensation to the owners for providing their capital at risk. This ratio is calculated by dividing the net profit by the total income and it is expressed as percentage of net sales as follows:

$$Net\ profit\ margin(NPM)\ \mathrm{X}\frac{Net\ Profit}{Total\ \ Income}\%$$

Where,

Net profit = Net profit shown in profit and loss account.

Total income = interest income + commission and discount + dividend + exchange fluctuation income + non-operating income.

Net profit margin indicates margin of compensation left to the owner's for providing their capital, after all expenses have been met. Higher net profit margin shows the overall best performance of the firm. So it is better. Low profit margin will have opposite implications.

b. Return on Total Assets

This ratio expresses the relationship between net income and total assets. It measures the overall effectiveness in generating profit with its available assets. It measures the overall effectiveness in generating profit with its available assets. It is calculated by dividing net income or earning available to common shareholders by total assets.

$$Return\ on\ Assets(ROA)\ \mathrm{X}\frac{Net\ Profit}{Total\ Assets}\ \mathrm{X}.............\%$$

Where,

Net profit = Net profit shown in profit and loss account.

Total assets = Cash balance + Balance with NRB + balance with financial institution + money at call or short notice + investment + loan and advance + Bills Purchase + fixed assets + non banking assets.

This ratio judges the effectiveness in using the total fund supplied by the owners and creditors. Higher ratio shows the higher return on the assets used in the business there by indicating effective use of the resource available and vice versa.

c. Return on Equity

The shareholders are true owners of the bank and thus the profit belongs to them. Return on equity measures the rate of return on shareholder's investment. It indicates the profitableness of the owner's investments. This is the most commonly used ratio for measuring the return on owner's investment and is calculated as follow:

$$\text{Return On Equity}\,(ROE)\ \text{X}\frac{\text{Net Profit}}{\text{Shareholders Equity}}$$

Where,

Net profit = net profit shown in profit and loss account.

Shareholders equity = Equity share capital + Reserve Fund.

This ratio reveals how profitability the owner's fund have been utilized by the firm. Higher profitability ratio or percentage reveals the efficient use of owner's investment and vice versa.

d. Earning per Share (EPS)

Earning per share expresses the raring power of the company in term of a share hold by the equity shareholders. It measures the profit available to equity shareholders on per share basis. It is computed by dividing the net profit after preference dividend by the number of equity shares outstanding. It is expressed in an absolute rupee figure:

$$\text{Earning Per Share}\,(EPS)\ \text{X}\frac{\text{Net Profit}}{\text{No. of Equity Shares}}\ \text{X}............Rs.\_\_$$

Where,

Net profit = net profit as per profit and loss account.

Number of equity shares = Total number of shares issued and paid up shown in table of major indicator.

e. Dividend per Share (DPS)

Net profit after preference dividend will be the earning available to the common shareholders. But it is not necessary that dividend per share must be equal with the earning per share. The amount of earning distributed and paid as cash dividend is considered for calculating the dividend per share. The objective of computing this ratio is to measure the profitability of the firm on dividend per equity share basis. This ratio is computed by dividing the amount of dividend distributed to shareholders by the number of common shares outstanding. In the form of formula, this ratio may be expressed as under:

$$Dividend\ per\ Share\ \mathrm{X}\ \frac{Earning/dividend\ paid\ to\ Shareholders}{Number\ of\ Equity\ share\ outstanding}\ \mathrm{X}\ Rs....$$

Where,

Dividend paid to shareholders = Dividend paid by the bank during the year presented in profit and loss appropriation account.

Number of equity share outstanding = Number of issued and paid up equity share.

In general, higher the figure, better it is and vice versa. Dividend per share may not be equal to the earning per share. If earning is not sufficient, retained profit may be used to distribute the dividend.

3.4.1.3 Earning Spread

a. Operating Expenses Ratio

Operating ratio tries to establish relation between operating cost and net income. Operating ratio indicates an average operating cost incurred on income. The ratio is calculated to determine the operational efficiency and expressed as a percentage. It is calculated as follow:

$$Operating\ Ratio\ \mathrm{X}\ \frac{Operating\ cost}{Total\ Income}\ \mathrm{X}..........Times.$$

Where,

Operating cost = interest expenses + staff expenses + other operating expenses.

Total income = Total income presented in profit and loss account.

Higher the ratio the operating profit is available to cover the non operating expenses, to pay dividend, and to create reserve and vice versa.

b. Interest Payout Ratio

The basic function of the bank is to collect deposit and provide loan to customer. It charges the interest on the loan and advances, which is main operating income for the bank. Banks earn income from investments and deposits at other organization and banks also. Similarly banks have to pay interest on borrowings. Thus, this ratio provides the proportion of interest payment of the bank as compared to the interest income generated by the bank. The ratio is calculated as follow:

$$Interest\ Payout\ Ratio = \frac{Interest\ Expenses}{Interest\ Income} \times 100 = ...\%$$

Where,

Interest expenses = Interest expenses shown in profit and loss account.

Interest income = interest income shown in profit and loss account.

c. Foreign Exchange Income to total Income Ratio

One of the sources of income for commercial bank is foreign exchange income (or exchange fluctuation gain). Commercial banks facilities in the view point of foreign trade are letter of credit, the incoming and outgoing foreign exchanges in remittances, purchase and sale of foreign bills, and other activities. In this way, commercial banks deal with foreign currencies. Banks earn income from foreign exchange by two ways, one is trading gain from which banks provide letter of credit (LC) and another is revaluation gain. In case of revaluation, there will both gain and loss. When the bank has enough foreign currency, at that time, if the value of foreign currency is decreasing than the bank bears huge loss. But, if value of foreign currency increases, bank earns profit as exchange fluctuation gain.

Foreign exchange income helps to increase total income. Objective of the calculation of this ratio is shown in how percentage covers foreign exchange income over total income. It is expressed in percentage and calculated as following formula:

$$Foreign\ Exchange\ Income\ to\ Total\ Income = \frac{Foreign\ Exchange\ Income}{Total\ Income} \times 100$$

d. Interest Expenses to Total Expenses Ratio

Commercial bank's major expenses head is interest expenses. Interest expenses incurred on various saving and fixed account, inter bank borrowings, borrowing from NRB and from other foreign banks. These borrowings are the input of the bank. These inputs are process by the bank into the product loan, advances etc. Bank also purchases security bills from different sector like government sector, foreign sector. So banks have to try to obtain borrowings at low interest rate and get interest from loan and advances at high rate as possible. These provide banks higher interest spread to get more profitability. Therefore, lower the cost of deposits and borrowing cause higher profitability. An objective of calculation of this ratio is to know about the portion of interest expenses incurred. In the other word, to know about the portion of interest occurred by the bank as a whole expenses. This ratio is also presented in percentage and is calculated by the following formula:

$$Interest\ Expenses to Total\ Expenses Ratio \text{ X } \frac{Interest\ Expenses}{Total\ Expenses} | 100$$

Staff Expenses per Employee

In a service industry, importance of the human element cannot be ignored. The service organizations have to keep their employees satisfied otherwise productivity of the employee will be low. Although cost minimization is one way to maximize the profits, the minimum level of staff expenses can work other way round. Unmotivated and unsatisfied worker shall be highly inefficient and unproductive in their work there by affecting the profitability of the organization. Thus, the perks and benefits should be designed at an appropriate level keeping both the organization and staff unaffected. This ratio provides the average spending of the bank on its employee during the year including the bonus payments.

$$Staff\ Expenses\ per\ Employee \text{ X } \frac{Total\ Staff\ Expenses}{No. of\ Staff} \text{ X } Rs. ....$$

Where,

Staff expenses = salary+ allowances + medical expenses + provident fund + pension and gratuity + training expenses etc.

Number of Employee = total number of staff on a payroll or in the end of the fiscal year.

Interest Spread

The banks pay interest to its depositors and collect interest on the loans and advances. The banks collect at higher interest rate than at what they provide. This margin is the profit of the banks. The interest spread is the difference in rates between the loans/advances and deposits. So, higher the margin, grater is the likelihoods of larger profit. The comparisons of spread of different banks provide an analysis of the different contribution margins. Interest spread is expressed in percentage and calculated as follow:

Interest spread = % of interest income – % of interest expenses

Where,

% of interest income = $\dfrac{Interest\ Income}{Money\ at\ Call + Lending + Investment} \times 100$

$$Interest\ Expenses\,(\%)\ \mathrm{X}\ \frac{Interest\ Expenses}{Deposits + Borrowing} \times 100$$

3.4.3 Statistical Tools

3.4.3.1 Mean

Average calculation gives us the idea of concentration of the items around the central part of the distribution. The means (averages) are the measures which condense a huge mass of data into single value representing the whole data. Averages are the typical values around which most of the data tend to cluster. These are the values which lie between two extreme observations of the entire data and give us the idea about the concentration of the values in the central part of the distribution. Measure of such single value is known as mean.

3.4.3.2. Standard Deviation and Coefficient of Variance

The standard deviation is the absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. It is said to be the best measurement of dispersion as it satisfies most of the requisites of a good measure of dispersion.

Standard Deviation (SD) is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. It is denoted by σ . Following is the formula the calculation of standard deviation:

$$Standard\ Deviation\ (\sigma) = \sqrt{\frac{1}{N} \quad x^2}$$

Where,

N= No. of observations

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

X= Actual value

$\bar{x}$= arithmetic mean of the observation

$$Cofficient\ of\ Variation (C.V) = \frac{Standard\ Deviation}{Mean} \times 100$$

Where,

$\sigma = Standard\ Deviation\ of\ the\ observation$

X= Arithmetic mean of the observation

Standard deviation refers to the difference of the performance from the average mean. Likewise the coefficient of variation provides the relative measurement of consistency of the series. The series which higher homogeneity has lower coefficient of variance as such, the standard deviation and coefficient of variation of the net profits are calculated to identify their respective degree of deviation of profitability from their average.

3.4.3.3 Correlation of Net Profit

Correlation is the relationship between two (among more) variables. In which one variable is dependent and the rest are independent variable, dependent variables are changed, when the value of independent variables changed. In the other word, if the two variables are so related that the change in the value of one independent variable results the change in the value of dependent variables then they are said to have “correlation”. There is correlation between income and expenditure, cost and profit. So, if we increase expenditure in different income generating sectors, then the volume of income will increase. Similarly, there is positive relationship between deposit, loan and advances with profit. These all relations are determined their degree by correlation. Thus correlation is the statistical tools, with the help of which, we can determine whether or not two or more variables are correlated and of they are correlated the degree and direction of correlation is determined.

Correlation analysis is defined as the statistical technique which measures the degree and direction of relationship (or association) between/among the variables. In other words, it helps in studying the covariance of two or more variables. Correlation analysis does not tell anything about cause and effect relationship i.e. if there is a high degree of correlation between the variables, we cannot say what the cause is and what is the effect (Shrestha, et.al., 2060:326).

For the calculation of correlation, we use the following Karl Pearson's formula:

$$\text{Correlation Coefficient(r)} = \frac{XY}{N \pm x \pm y}$$

3.4.3.4. Analysis of Time Series (Trend Analysis)

Now days, the important tasks for the economists and businessman are to estimate for future because a businessman is interested to estimate the likely sales in a coming years so that s/he may be able to adjust their stocks accordingly. Similarly, banks want to estimate most likely loan and advances and deposits in the coming year so that proper liquidity position can be made. Thus for future estimation, the study of past information are necessary.

A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. It is also known as 'Trend Analysis". It shows the relation between two variables, one being the time. The time series analysis is used to detect patterns of changes in the values of variable over regular period of time. These patterns are then rest to estimate for the future. Thus, estimation for the future of banks with reference to their respective past performance will be made. Out of the various methods available, the analysis is based on the least squares method. As per the least square method, the straight line of trend is given by:

$$Y = a + bx$$

Where,

x = No. of year for the average (mid year)

y = estimated value in year

$$a \, \text{X} \frac{Y}{N}$$

$$b \, \text{X} \frac{Y}{Y2}$$

3.5 Time Coverage

The present study covers ten years time period from FY 2056/57 to FY 2065/66 which can cover the long range performance of the organization. Data are taken from HLB and Nepal SBI bank ltd. and analysis is based upon nine years data.

CHAPTER- IV
DATA PRESENTATION AND ANALYSIS

Introductions, review of literature and research methodology are presented in the previous chapters and they preceded the basic inputs to analyze and interpret the data. In this chapter, collected data are analyzed and interpreted according to the methodology presented in the previous chapters. This chapter presents the data and facts, which are related to different aspects of Himalayan Bank Ltd. and Nepal SBI Bank Ltd. The included data are collected from various sources. These available data are tabulated, analyzed and interpreted so that financial forecast of banks can be done easily. The main objective of analyzing the financial performance and interpretation is to highlight the strengths and weakness of the banks. The collected data are analyzed and interpreted by using the various financial and statistical tools.

4.1 Interpretation and Analysis of Data

4.1.1 Financial Analysis

Effective planning and control are central to enhancing enterprises value. Financial plans may take form but any good plan must be related to the firm’s existing strength and weakness. The strength must be understood for the proper advantages and the weakness must be recognized for the corrective action that is to be taken. For examples: Are inventions adequate to support the projected level of the sales? Does the firm have too heavy an investment in account receivable and does this condition reflect at a tax collection policy? For the efficient options: Does the firm have too much to too little investment in plant and equipment? The financial manager can plan future financial requirement in accordance with the forecasting and budgeting procedures, but the plan must begin with the type of financial analysis.

Financial statement analysis involves a study of the relationship between income statements and balance sheet accounts how these relationship change over time and how a particular firm compares with other firms in its industry (comparative ratio analysis).

4.1.1.1 Ratio Analysis

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

a. Liquidity ratio

Following ratios are calculated to find the liquidity position of the bank:

(i) Current ratio

Current ratio is the relation between current assets and current liabilities. Current assets are those assets which can be converted into cash very quickly and current liabilities are those which is to be paid within short period of due date. Bank must have enough cash for the payment of current liabilities in due date. This ratio helps us to know about the liquidity position of the banks. It also helps to judge whether the firm's ability to pay current liabilities is proper or not. Current ratio of banks over a period of 7 years is given below:

Table: 4.1 Current Assets to Current Liabilities Ratio

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	1.08	1.09	1.08	1.07	1.06	1.09	1.05	1.07	0.0014	0.14
HBL	1.03	1.04	1.06	1.03	1.05	1.08	1.04	1.04	0.00072	0.07

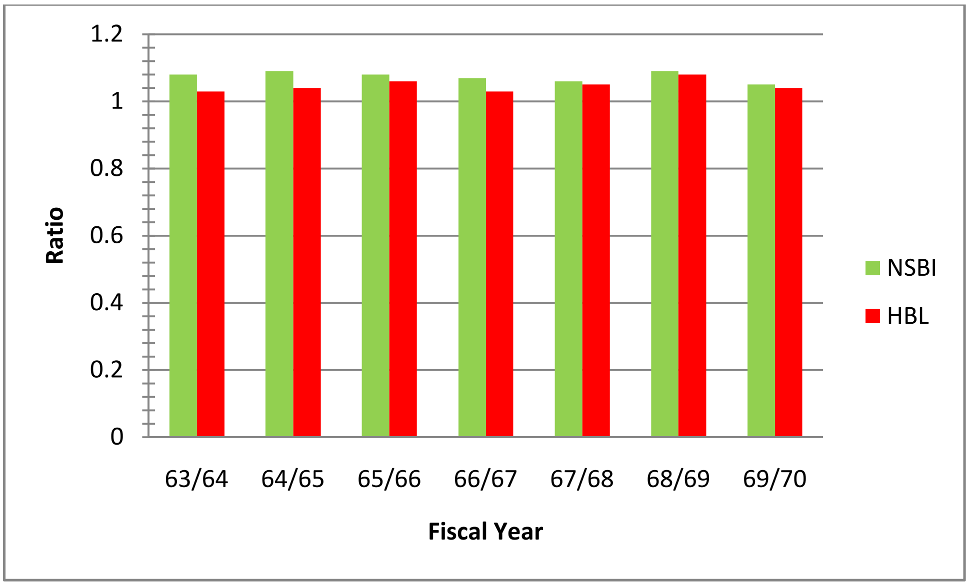
The above table shows the current ratios of HBL and NSBI, calculated by dividing current assets by current liabilities.

The current ratios of both banks are not satisfactory. The standard ratio is 2:1. The current ratio shows that the solvency position of the bank is not good. However, the current ratio of HBL is gradually rising, improving its short term solvency and now it claims that short term creditors are covered by assets to some extent that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims. The table shows the average of current ratio for the period of NSBI is 1.07 and HBL is 1.04. The standard deviation which is 0.0014 of NSBI and 0.00072 of HBL covered in the study period which shows that there is a relative fluctuation in current ratio. The coefficient of variation of NSBI is 0.14 and HBL is 0.07. Less the C.V., more will be the uniformity; consistency and more the C.V. less will be the uniformity. Therefore, we can say that there is more uniform distribution of current ratio of HBL then NSBI, which is unfavourable for liquidity position.

From this analysis, it seems that both banks should try to come to the current ratio of 2:1 to satisfy the claims of short-term creditors. The current ratio of NSBI is better than HBL.

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

Figure: 4.1 Chart Showing Current Ratio



***(Sources:** annual report)*

In the given graph, the current assets and current liabilities of NSBI and HBL Bank from the year 2063/64 to 2069/70 are shown. X-axis represents fiscal year and Y-axis represents ratio. From the graph, we can conclude that the ratios of both banks are in fluctuating trend.

(ii) Cash and Bank Balance to Total Deposit Ratio

This ratio shows the ability of bank's immediate fund to meet their deposits (current, call margin and saving). This ratio is calculated by dividing the cash and bank balance by the amount of total deposits (excluding fixed deposit). In this study, cash and bank balance include cash in hand, foreign cash in hand cheque and other cash items, balance with domestic bank and balance held abroad. The total deposits of current deposits, saving deposits, fixed deposits, money at call and short notice and other deposits.

It is hidden fact that the deposits would not withdraw the total deposits, in case at a time so the bank keeps a certain margin of cash. This ratio includes that if the ratio is higher, there is higher liquid and if lower the bank is less liquid.

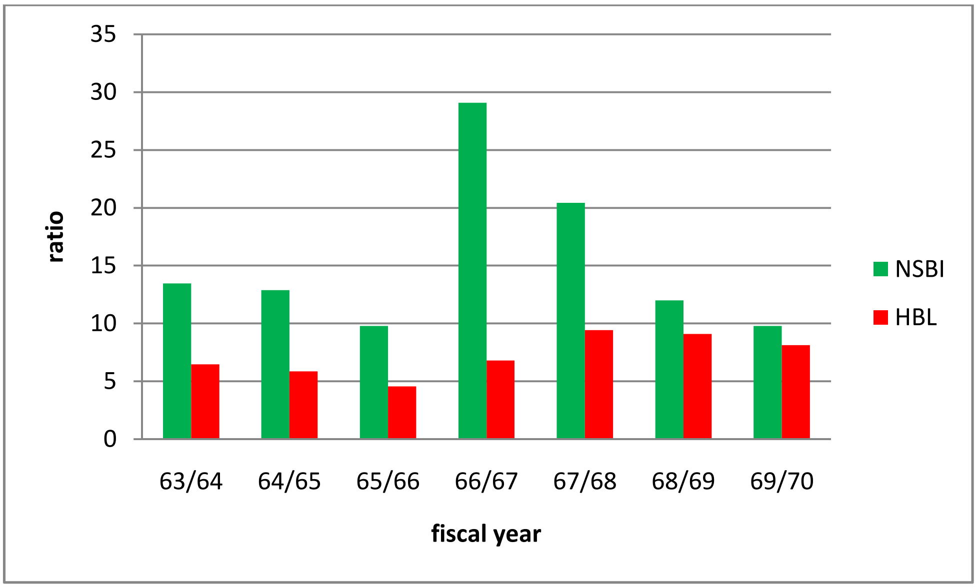
Table: 4.2 Cash and Bank Balance to Total Deposit Ratio (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	13.46	12.87	9.79	29.07	20.44	12.01	9.78	15.34	80.79	412.19
HBL	6.48	5.85	4.55	6.79	9.42	9.09	8.12	7.18	2.05	28.34

It is observed that total cash and bank balance to total deposit rate in NSBI Bank shows fluctuating trend. It's highest 29.07% in fiscal year 2066/67 and lowest 9.78 in fiscal year 2069/70. If we compare annually, ratio of HBL Bank is also fluctuating trend. The mean ratio of the NSBI Bank is 15.34 and 7.18 HBL Bank. The CV of ratio of NSBI is 412.19 that are comparatively higher than HBL Bank 28.34. It indicates the cash and bank balance to total deposit ratio of the NSBI Bank is less consistent.

From the above analysis, SBI Bank holds great idle balance of cash which is one of the main factors for less profit.

Figure: 4.2 Chart showing Cash and Bank Balance to Total Deposit Ratio



(*Sources:annual report)*

The above table shows the cash and bank balance to total deposit ratio. Ratio of NSBI is much higher than NSBI which indicates that NSBI has strong liquidity position and ratio of NSBI is more fluctuating trend.

b. Profitability Ratio

To measure the profitability of banks, following ratios have been calculated and analyzed under.

i. Net Profit Margin

The profit is the universal measurement tools of the performance of any institution. Likewise, it also serves as an important yardstick to measure the performance of the banks. Profit is important to various parties like management, employees, shareholders, creditors and the government for their own reason. Management may use it to measure their performance; employee may use it to validate their claim for better remunerations; the government to receive taxes; shareholders may use it to receive dividend and creditors to refund their investment.

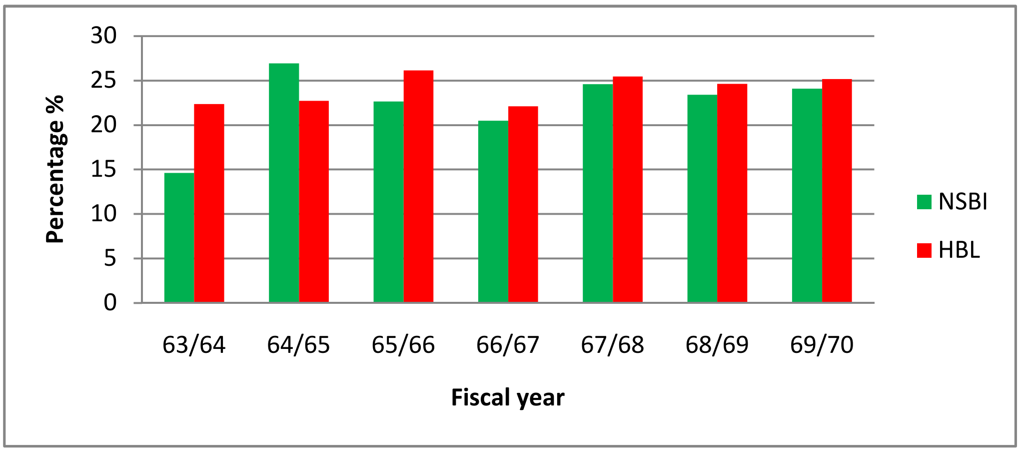
The ratio signifies the effectiveness of expenses management and cost control and gives the direction to management for service pricing policies. It means how much of total revenue has been declared as net profit after all the charges are covered up. In other words, it indicates margin of compensation lift to the owners for providing their capital, after all expenses have been meet. It helps in determining the efficiency with which the affairs of the business are managed. The higher ratio means the management has been able to control its operational costs and maintain efficiency. Net profit margin of the banks is given below

Table: 4.3 Net Profit Margin (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	14.63	26.95	22.67	20.5	24.6	23.4	24.1	11.36	57.78	508.63
HBL	22.38	22.72	26.16	22.13	25.46	24.65	25.19	12.51	8.69	69.46

The Table 4.3 represents the net profit margin of NSBI bank and HBL bank which shows the percentage of net profit on the behalf of total income. The table also represents the mean, Standard deviation and C. V. of both banks. In the above table NPM of NSBI is more fluctuating nature which is not good for the financial health of the bank. It is more fluctuated. The highest NPM of NSBI is 26.95% in 2064/65 and the lowest NPM is 14.63% in 2063/64. This represent that NSBI is progressing their net profit. NPM of HBL is also fluctuating nature but its fluctuation is very low scale. Initially NPM of HBL is more than the NSBI. HBL earns high NPM in the year 2064/65 which is 26.95% and lowest NPM is 14.63% in 2063/64. The mean of ratio of the both banks shows that HBL has higher of ratio of NPM 26.16 than that of NSBI 22.67. Here also HBL is more constant in maintaining the higher net profit margin ratio (11.36<12.51). The net profit margins of the two banks are not satisfactory in initial year of the study period.

Figure: 4.3 Chart showing Net Profit Margin



(***Sources:****annual report)*

In the graph, the net profit margins of NSBI and HBL Bank for the ten fiscal year are shown. X-axis represents fiscal year and Y-axis represents percentage of Net profit margin. There is increment in the ratio of both banks but quite more of NSBI bank.

(ii) Return on Total Assets

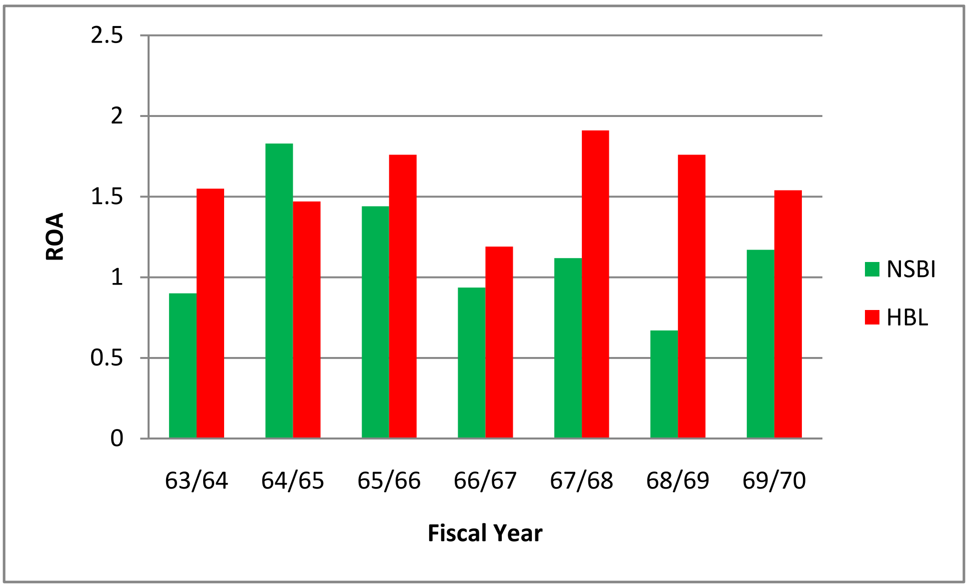
The ratio is a primary indicator of managerial efficiency. Efficient use of total fund increases profit. It indicates how effectively all the assets have been utilized by the management. It judges the effectiveness in using total fund supplied by the owner and management has utilized all the assets of the bank for profit generation. [Return on Assets (ROA) indicated efficiency of the utilization of the total assets and vice-versa]. Higher ratio shows the higher return on the assets which is used in the business there by indicating effective use of the resource available and vice-versa. Returns on assets of banks are shown below:

Table: 4.4 Return on Assets (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	0.90	1.83	1.44	0.936	1.12	0.67	1.17	1.15	0.20	23.13
HBL	1.55	1.47	1.76	1.19	1.91	1.76	1.54	1.59	0.62	4.55

The above table shows the ratio appeared 0.90% in2063/64, 1.83% in 2064/65, 1.44% in 2065/66, 0.936 in 2066/67, 1.12% in 2067/68, 0.67% in 2068/69,and 1.17% in 2069/70 of NSBI and 1.55% in 2063/64, 1.47% in 2064/65, 1.76% in 2065/66, 1.19% in 2066/67, 1.91% in 202067/68, 1.76% in 2068/69, 154% in 2069/70, of HBL. It shows that utilization of assets is unsatisfactory. Similarly, HBL is running quite satisfactorily, it gets its highest ROA in the fiscal year 2064/65 i.e 1.83%. Quality of assets (Loan) affects its net profit. If the bank has higher non-performing loan, the bank has to create higher Loan Loss Provision. So it has direct effect on net profit, less net profit less ROA and vice versa. The mean ratio of NSBI is lower than the HBL's, i.e. 1.15 and 1.59 respectively. The CV of he both banks show that the earning on total assets utilization is more consistent in case of HBL bank 4.55then that of NSBI bank 0.20. Although both banks do not seem to be utilizing their assets more efficiently, HBL is more capable than HBL.

Figure: 4.4 Chart showing Return on Total Assets



***(sources**:annual report)*

In the graph, the Return on Total Assets of NSBI and HBL Bank for the seven fiscal years are shown. X-axis represents fiscal year and Y-axis represents percentage of return on total assets. The table shows that ratio of HBL Bank is higher than NSBI in all year except fiscal year 2069/70..

(iii) Return on Shareholders' Equity (ROSE)

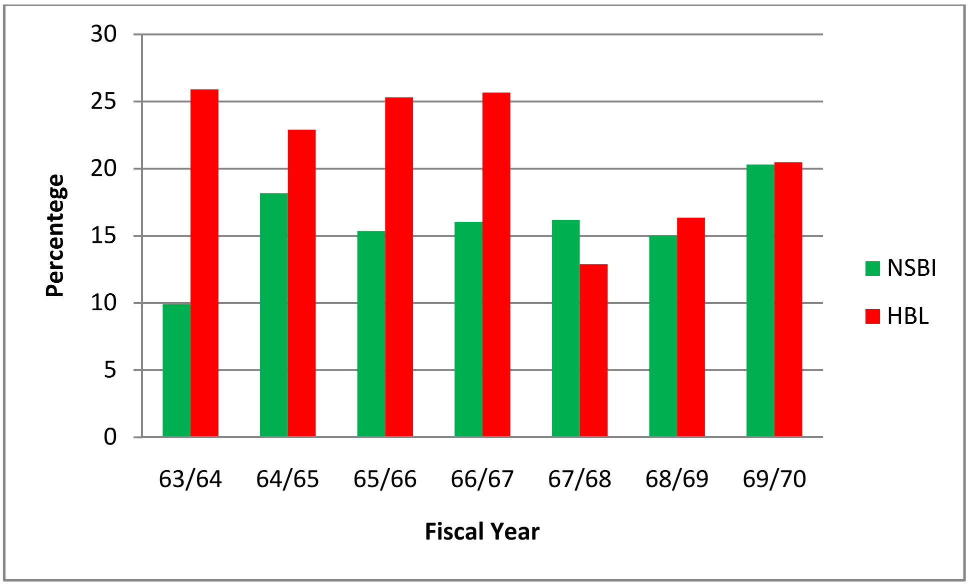
This ratio indicates the profits of the owner's fund which have been utilized by the firm. It indicates how well the firm has utilized the resources of the owners. Return on shareholder's equity of two banks is presented as bellow:

Table: 4.5 Return on Shareholders' Equity (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	9.90	18.17	15.35	16.05	16.19	15.02	20.31	15.86	40.34	360.50
HBL	25.90	22.91	25.30	25.66	12.88	16.35	20.47	21.35	130.47	430.28

Above table shows the ROSE of the bank for seven years. It also reveals that ROSE of NSBI is 9.90% in 2063/64, 18.17% in 2064/65, 15.35% in 2065/66, 16.05% in 2066/67, 16.19% in 206768,15.02% in 20668/69, 20.31% in 2069/70,. It was the highest in the year 2069/70 i.e. 20.31%. Similarly, ROSE of HBL had 25.9% in 2063/64, 22.91% in 2064/65, 25.30% in 2065/66, 25.66% in 2066/67, 12.88% in 2067/68, 16.35% in 2068/69, 20.47% in 2069/70. Highest ROSE of HBL is 25.90 in the fiscal year 2063/64. Rose of HBL was in fluction trend . Himalayan Bank earns more profit for their shareholders as compare to NSBL. The ratio shows that bank utilized the shareholders fund more efficiently than NSBI bank's management. The coefficient of variation of return on shareholders' equity of NSBI bank is to some extent less than the NSBI Bank 360.50<430.28. Less the CV, more will be the uniformity; consistency and more the CV less will be the uniformity. Higher is an indication of future of utilizing the shareholder's fund. Return of shareholders fund also reflects the market value of share. Comparatively the market value of HBL bank is higher than that of the NSBI bank.

Figure: 4.5 Chart Showing Return on Shareholders' Equity



(***sources:****annual report)*

The above chart reveals the total return on shareholders' equity for the ten fiscal years affecting from 2056/57 to 2065/66. Fiscal year is represented by x-axis and percentage represented by Y-axis. The ratio of HBL bank is comparatively higher than NSBI.

(iv)Earnings per Share

The performance and achievement of a bank can be identified with the earning power of the bank. In general case, higher earning implies the strength of the bank. An earning per share (EPS) is the widely quoted statistics in every investor's word. Every shareholder is much interested in the return on the share. A company invests when the invested capital can earn equate return per share.

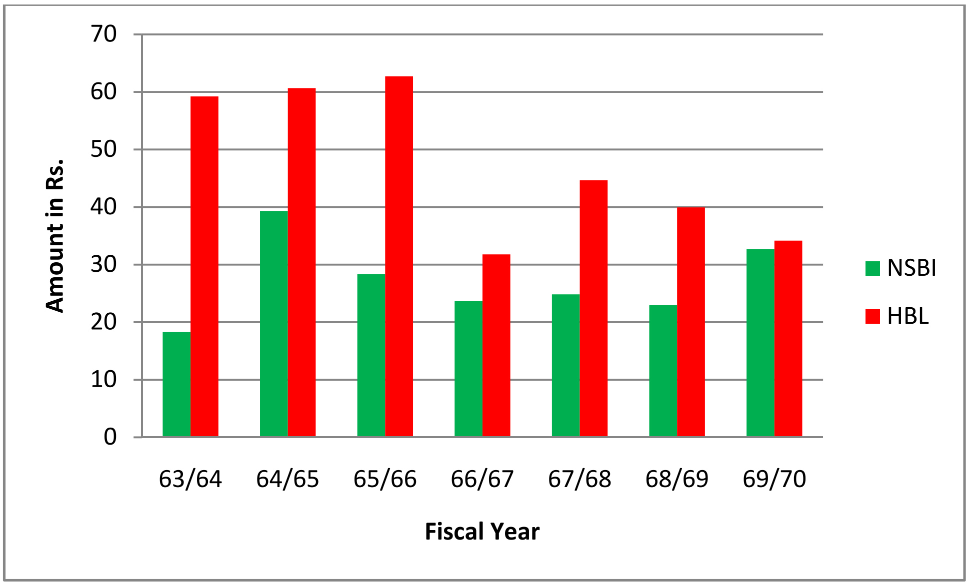
The ratio measures the profit available to the equity shareholders on per share basis i.e. the amount that they can get on each share they hold. The ratio of earning available to the common shareholders to their outstanding share capital is expressed in higher figure of the ratio which is better and vice versa. EPS of banks are presented in the following table.

Table: 4.6 Earnings per Share (NRS)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	18.27	39.35	28.33	23.69	24.85	22.93	32.75	27.16	134	742.86
HBL	59.24	60.66	62.74	31.80	44.66	39.94	34.19	47.60	134	742.86

The earnings per share of NSBI bank rose to a RS. 18.27 During the year 063/64. In the fiscal year 2064/65 it was 39.35 and it decreased to 28.33 in the year 2065/66 then it decreased smoothly.. HBL rose to a maximum of 62.74 in the years 2065/66 and it fell down the earning per share up to 31.80 in the fiscal year 2066/67. Then again it recovered its fall and increased shortly.. The reason for the decline of EPS was found increment in the number of shares on the hand while the net profit significantly declined. The mean ratio of NSBI is lower than the HBL i.e. 27.16 and 47.60 respectively. The CV of nsbi (742.86) is higher than that of HBL (366.74) which shows the EPS of NSBI is more fluctuated.

Figure: 4.6 Chart showing earning per Share



*(**sources:**annual report)*

The above chart reveals the earning per share for the ten fiscal years. Fiscal year is represented X-axis and amount represented by Y-axis. The earnings per share for the whole ten years of Himalayan Bank is higher than Nepal SBI Bank.

(v) Dividend per Share

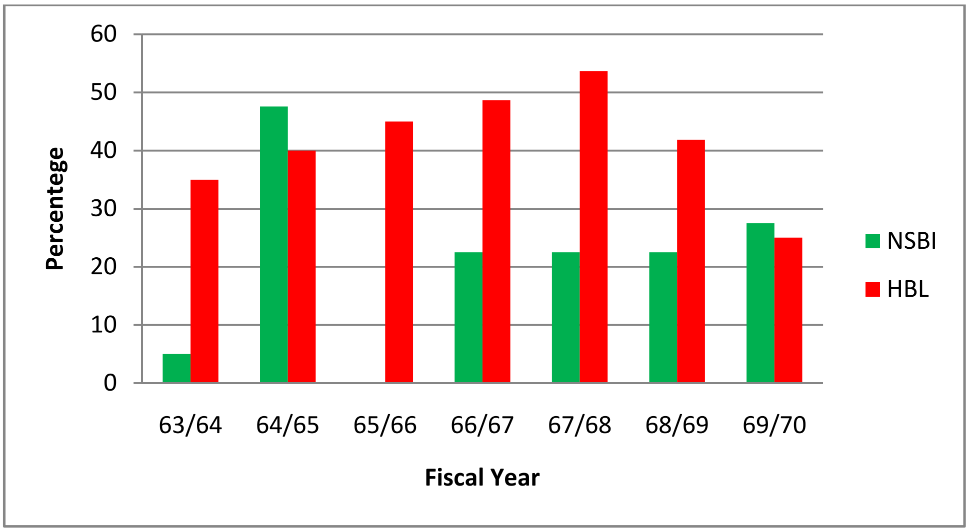
People prefer present income more to the prospective future income. The shareholders and prospective investors emphasize the current earning on their shares. Because future is uncertain and their lies time value of money, higher EPS also cannot satisfy the shareholders and prospective investors. To grasp the current market opportunity and benefit from trade of shares, the shareholders are more interested in dividend per share. Dividend per share given by NSBI and HBL has been calculated in the following table:

Table: 4.7 Dividend per Share (NRS)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	5.00	47.59	0.00	22.5	22.5	22.5	27.5	10.23	18.67	182.56
HBL	35	40	45	48.68	53.68	41.84	25	44.04	332.61	755.25

The dividend per share of NSBI rose to maximum 47.59 during the fiscal year 2064/65. In the fiscal year 2063/64 it was Rs5 which increased smoothly. In fiscal year 065/66 the bank had not provided any dividends to its equity shareholders however it gave dividend RS. 22.5 per share in the fiscal year 066/67. And the bank provided the highest dividend during the study period which was Rs. 47.59 in the 2064/65. Similarly, in the fiscal year 2063/64 HBL provided dividend of Rs. 35.in the fiscal year 2064/65 provided 40. In the fiscal year 2068/69 DPS declined to Rs. 41.84 and it fell up to Rs 25 in the fiscal year 2069/70. The mean ratio of HBL is higher than the NSBI i.e. 43.32 and 21.08 respectively. The CV of NSBI is lower than that of HBL (755.25). That means DPS of HBL is found more fluctuating in the study period.

Figure: 4.7 Chart showing Dividend per Share



*(**Sources**:annual report)*

The above table reveals the dividend per share for the ten fiscal years from 2063/64 to 2069/70. Fiscal year is represented by X-axis and amount is represented by Y-axis. DPS of HBL Bank is higher than NSBI except fiscal year 2064/65. The chart also shows that NSBI Bank didn't provide any dividend in fiscal year 2063/64, 2064/65, 2065/66;2066/67,2067/68,2068/69 and 2069/70.

(vi) Net Profit to Total Deposit Ratio

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

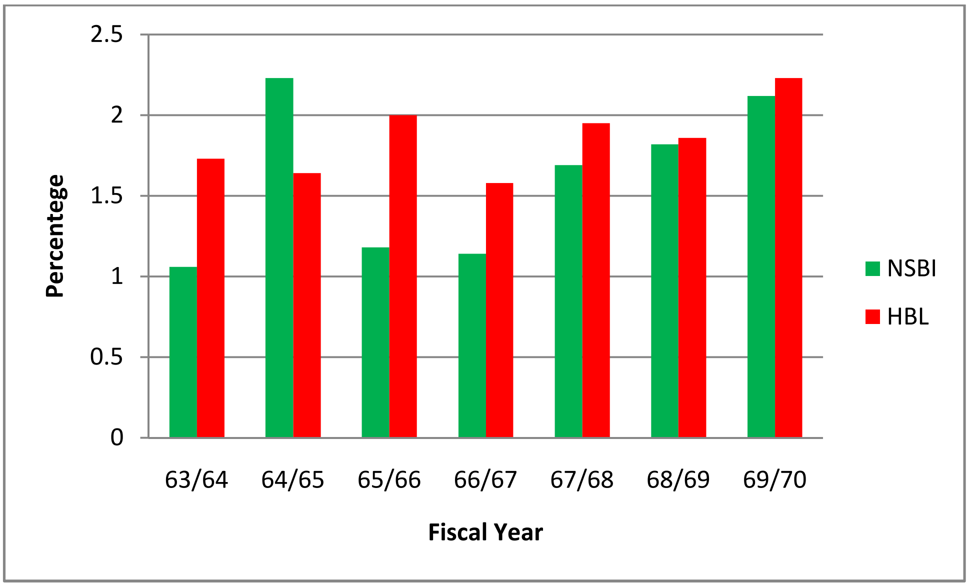
Table: 4.8 Net profit to Total Deposit Ratio (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	1.06	2.23	1.18	1.14	1.69	1.82	2.12	1.61	0.37	38.54
HBL	1.73	1.64	2	1.58	1.95	1.86	2.23	1.86	0.081	2.46

The above table indicates net profit (income) to total deposit ratio for ten fiscal years. The ratio of NSBI Bank has fluctuating. The ratio of NSBI Bank for the FY 2063/64 is 1.06, it increases to 2.23% in FY 2064/65. Then it decreased to 1.18% in the FY 2065/66. Then after it was in increasing trend until 2067/68 to2069/70. Similarly, the ratio of HBL Bank bears the fluctuating trend. The ratio for the FY 2063/64 was 1.73, it decreased to 1.64% in the FY 2064/65 than it increased for the 3rd year and it was in decreasing trend until 6th year. Then after it started increasing for 2069/70 years.

From the above calculated ratio, we can analyze that the bank has not been able to mobilize the deposit to the fullest or generate income from mobilized fund satisfactory. The average ratio for seven years period of NSBI is 1.61% that is lower to HBL Bank 1.86%. The CV of ratio of NSBI bank is 28.34% and 2.46% of HBL Bank. It indicates that the Net Profit to Total Deposit Ratio of the NSBI Bank is less consistent.

Figure: 4.8 Chart Showing to Net profit to Total Deposit Ratio



*(**Sources:** annual report)*

The above chart depicts the net income to total deposit ratio of seven fiscal years. X-axis represents the seven fiscal years 2063/64 to 2069/70 and Y-axis represents the percentage. From the above chart, we can say that the ratio of NSBI bank is much lower than to the ratio of HBL bank except in fiscal year 2065/66.

c. Earning Spread

(i) Operating Expenses Ratio

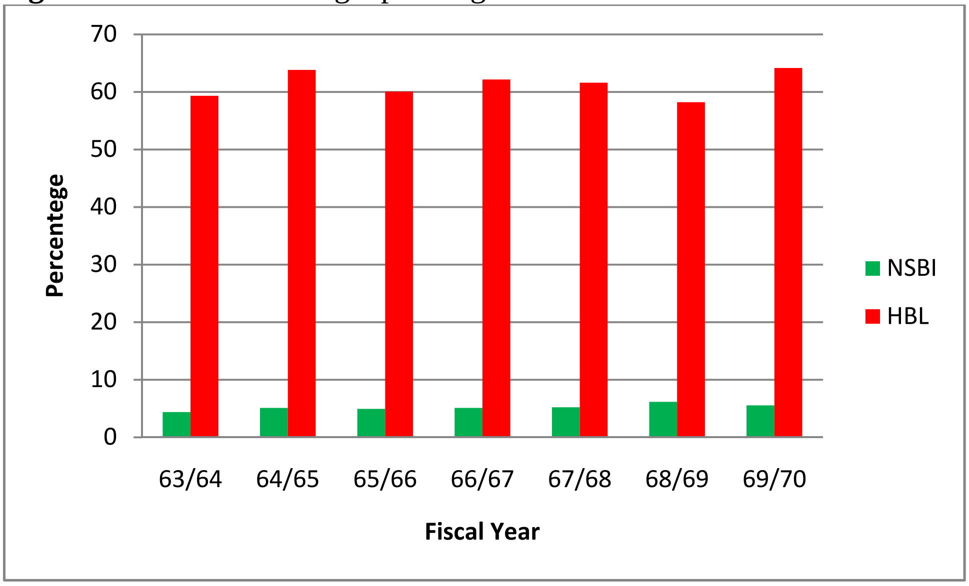
The bank carries out its normal activity for which it has to bear various costs. These bearing cost are called operating costs.

Table: 4.9 Operating Ratio (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	4.40	5.12	4.97	5.12	5.23	6.16	5.56	5.22	1.92	32.60
HBL	59.34	63.82	60.07	62.19	61.63	58.21	64.14	61.34	8.89	14.64

The above table shows that the operating ratio of NSBI and HBL Bank. The operating expense of HBL Bank has greater mean ratio 61.34 than that of NSBI Bank 5.22. The percentage of operating expenses data of the both banks is fluctuating. The CV of ratios of NSBI Bank is 32.60% that is much higher than HBL Bank 14.64%. It indicates the operating expenses to total income ratio of the HBL Bank is more consistent.

Figure: 4.9 Chart Showing Operating Ratio



*(**Sources:**annual report)*

The above chart is graphical presentation of table no. 4.7 which shows the operating ratio. X and Y- axis show the seven fiscal years and percentages respectively. From the chart, we can easily conclude that the operating cost of NSBI is higher than HBL in terms of net profit.

(ii) Interest Payout Ratio

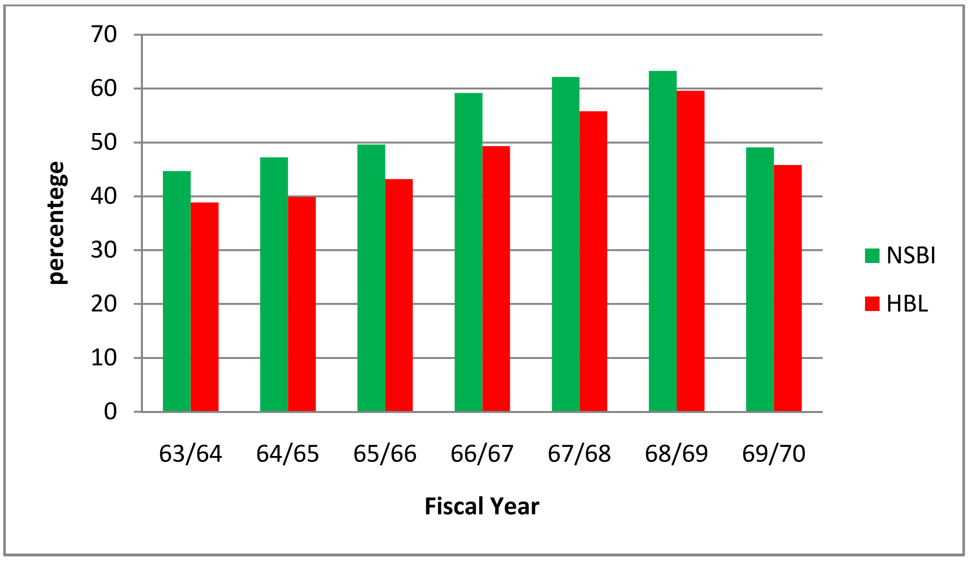
Interest payout ratio provides the proportion of interest payment by the bank as compared to the interest collection. It provides the information of the banks towards interest expenses. The ratio is presented in the following table:

Table: 4.10 Interest Payout Ratio (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	44.68	47.24	49.60	59.16	62.13	63.26	49.1	53.60	115.66	200.40
HBL	38.85	39.89	43.22	49.34	55.81	59.6	45.8	47.51	62.67	132.04

The above listed table shows that mean ratios from the two banks; it is found that NSBI Bank has higher ratio i.e. 57.60 then that of HBL Bank 47.51. The CV of ratios of NSBI Bank is 200.04% that is much higher than HBL Bank 132.04. It indicates the total interest expense to total interest income ratios of the NSBI Bank is less consistent. Less CV more will be the uniformity; consistency and more the CV less will be the uniformity.

Figure: 4.10 Chart Showing Interest Payout Ratio



***(Sources:** annual report)*

The above chart is the graphical representation of interest payout ratio. X axis represents seven fiscal years and Y-axis represents percentage. From the chart, we can easily conclude that the ratio of NSBI Bank is higher in every fiscal year which shows the payment of interest in terms of interest income of NSBI is higher.

(iii) Interest Expenses to Total Expenses Ratio

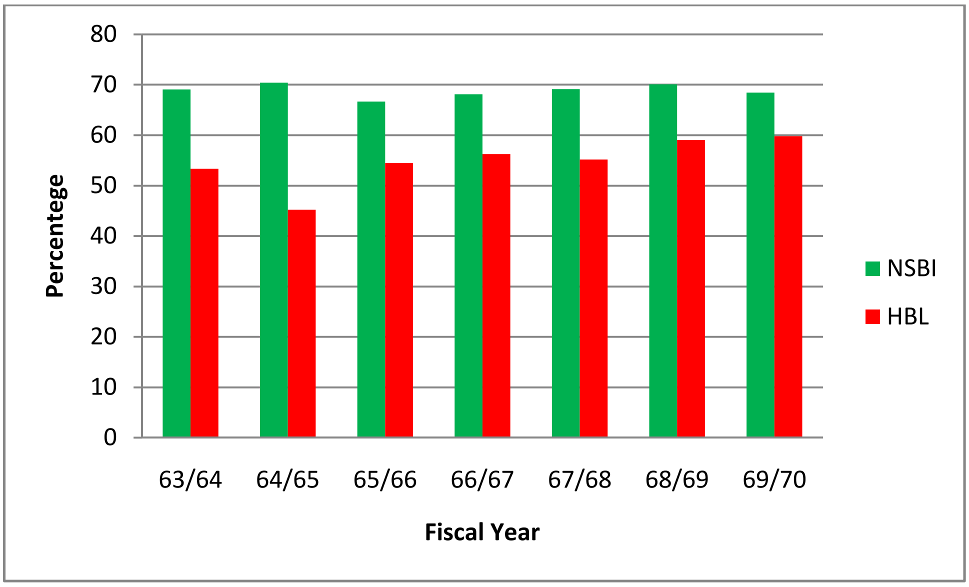
The major head expense of commercial bank is the interest expenses. Interest expenses occur on various LCY and FCY deposits, inter bank borrowings, borrowing from Nepal Rastra bank and from other foreign banks. Since deposits are the raw materials input for banks to produce loans, bank management should be able to screen up the various deposits, obtain an economic deposit mix and minimize the cost of deposit so that higher spread gap remains to contribute in the profitability. In fact, lower the cost of deposits, higher the profitability margin and vice-versa.

Table: 4.11 Interest Expenses to Total Expenses (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	69.09	70.40	66.66	68.12	69.15	70.09	68.45	68.85	25.86	35.55
HBL	53.36	45.22	54.45	56.23	55.20	59.02	59.83	54.76	114.80	182.55

The above table shows that mean ratio of the two banks that gives NSBI Bank has higher ratio of 68.85 % than that of HBL Bank 54.76%. The CV ratio of HBL Bank is 182.55% that is much higher than NSBI Bank 35.33%. It indicates the total operating expenses ratio of the HBL Bank that is less consistent, less the CV, more will be the uniformity.

Figure: 4.11 Chart showing Interest Expenses to Total Expenses Ratio



(***Sources:*** *annual report)*

The above chart shows the relationship between interest expenses to total expenses. The ratio of NSBI Bank is higher than HBL Bank which shows that NSBI bank has higher interest expenses in terms of total expenses.

(iv) Foreign Exchange Income to Total Income Ratio

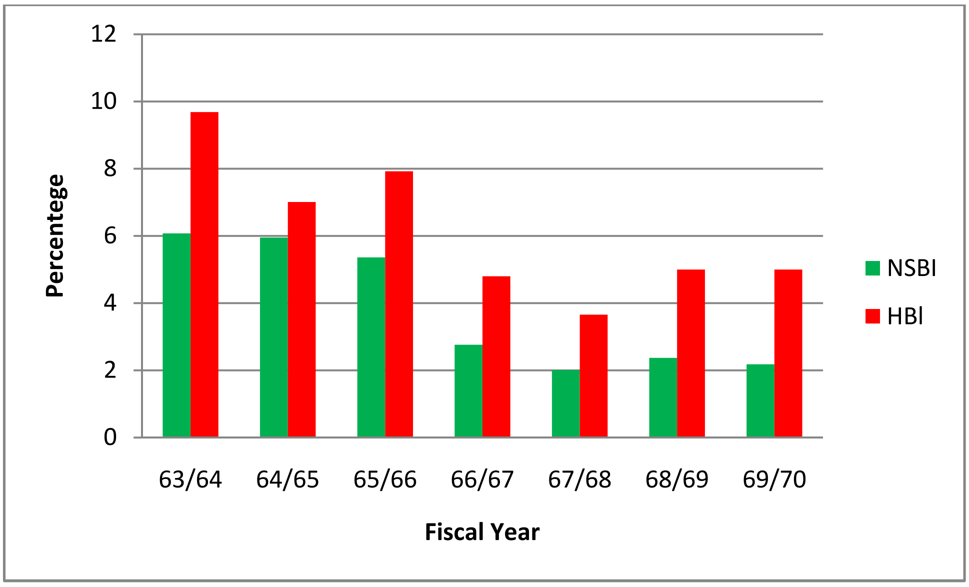
Commercial banks facilitate foreign-trade through letter of credit; the incoming and outgoing foreign exchanges in remittances, purchase and sale of foreign bills, and other activities include commercial banks to deal with foreign currencies. Such trade on various foreign currencies result gain or loss to the banks. Further, the position or stock of currency is affected by the exchange rate revalue time to time. In this way, foreign exchange income comprises two types of income: trading gain and revaluation gain.

Table: 4.12 Foreign Exchange Income to Total Income Ratio (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	6.08	5.95	5.36	2.76	2.01	2.37	2.18	3.82	3.12	100.18
HBL	9.69	7.01	7.92	4.8	3.66	5	5	6.15	2.23	9.52

Both the banks are authorized by Nepal Rastra Bank to deal in foreign exchange. Foreign exchange income is made by dealing in foreign exchange and appears to change on foreign exchange rates. The ratio of the foreign exchange income to total operating income of the NSBI Bank in 2063/64 to 2069/70. NSBI Bank has fluctuation over the period. In the fiscal year 2063/64 the ratio was 6.08 and the fiscal year 20667/68 ratio has become 2.01. It appears that NSBI Bank has fluctuation in the foreign exchange. Similarly, HBL Bank’s ratio is also in its fluctuating trend. In the fiscal year 2063/64 the ratio was 9.69 and the fiscal year 2067/68 the ratio was 3.66. If the mean ratios from the above table are observed, it is found that NSBI Bank bas lower ratio of 3.82 than that of HBL Bank 6.15. The CV of ratios of NSBI Bank is 100.18% that is higher than HBL Bank 9.52 it indicates the foreign exchange earned to total operation income ratio of the NSBI that is less consistent.

Figure: 4.12 Chart Showing Foreign Exchange Income to Total Income Ratio



***(Sources:**annual report)*

The above table shows the relationship between foreign exchange income and total income for 7 fiscal years 2063/64 to 2069/70. The diagram depicts that the ratio of NSBI is much more fluctuating. The ratio of HBL bank is more stable and higher than the ratio of NSBI except the fiscal year 2063/64.

v. Interest Spread

The Interest spread is the difference between buying and selling rates of the fund. The major source of income in a bank is from the interest on loans and advances. Thus, the rate of interest spread is of significant importance in the aspects of profitability. The spread can be increased either by acquiring funds of lower casts or lending at higher rates of interest. Both these choices have drawbacks as acquiring funds at low cost is difficult to achieve while lending at high rates means taking higher risk of default.
The interest spread of banks for the last seven years tabulated below:

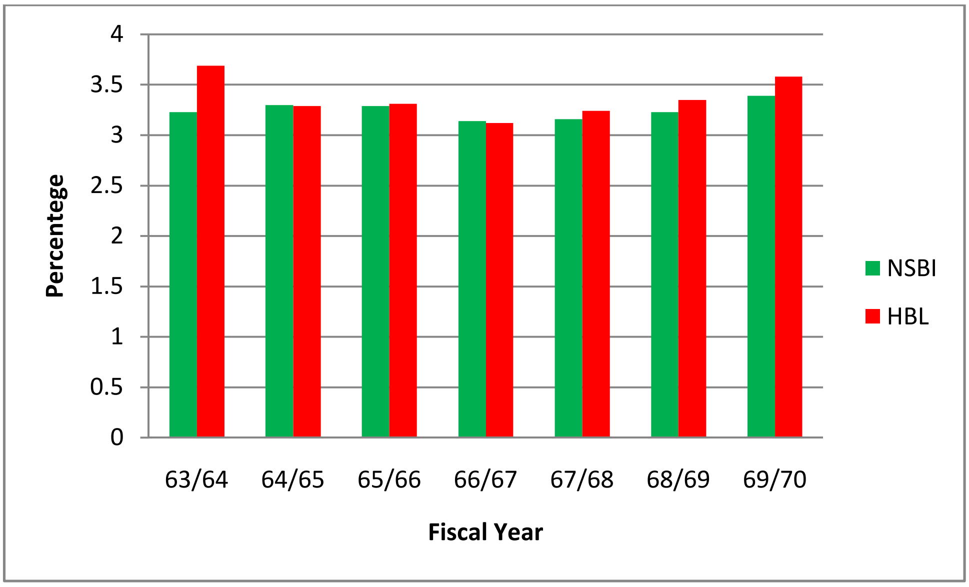
Table: 4.13 Interest Spread (%)

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	3.23	3.30	3.29	3.14	3.16	3.23	3.39	3.25	0.69	17.31

HBL	3.69	3.29	3.31	3.12	3.24	3.35	3.58	3.36	0.041	1.20

The above table shows that the ratio of NSBI Bank has ranged from 3.14 to 3.39. Similarly, the ratio of HBL Bank has ranged below 3.71. The mean ratio of NSBI is higher than that of HBL Bank i.e. 3.36 and 3.25 and CV of both banks show that the interest spread is more consistent in case of HBL (1.20%) then that of NSBI Bank (17.31). But HBL Bank has more consistent interest spread ratio which means HBL has change their interest rate proportionately.

Figure: 4.13 Chart Showing Interest Spread



***(Sources:** annual report)*

The above chart shows the interest spread of NSBI and HBL Banks. Interest spread of NSBI is higher in initial year but it decreased in remaining years and became lower than HBL bank.

vi. Staff Expenses per Employee

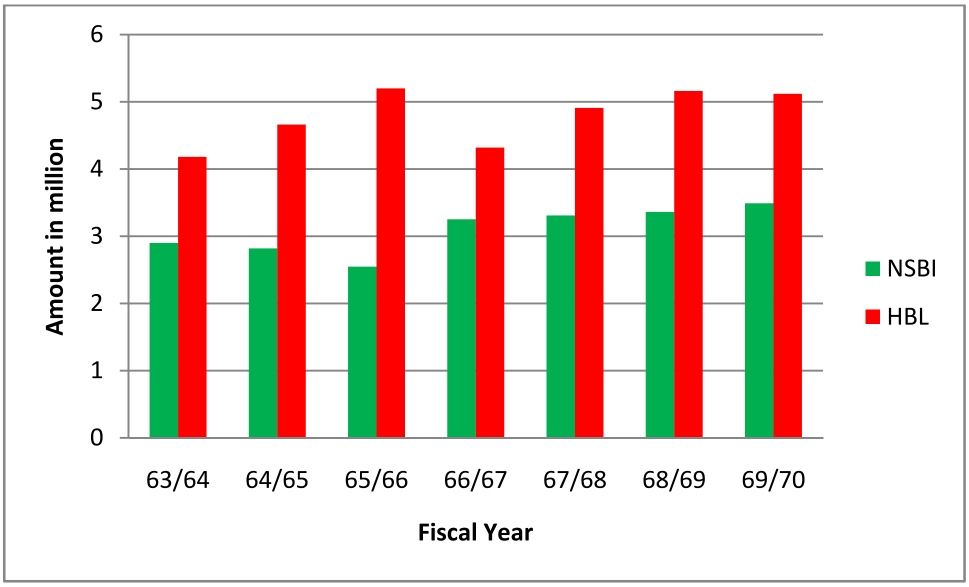
The human resource of any organization is a very important aspect. The organization needs to keep its human element satisfied and motivated. The spending of banks on its human resources is as follows:

Table: 4.14 Staff Expenses per Employ In ’00,000

FY	63/64	64/65	65/66	66/67	67/68	68/69	69/70	Mean	S.D.	C.V.
NSBI	2.90	2.82	2.55	3.25	3.31	3.36	3.49	3.1	0.62	30.92
HBL	4.18	4.66	5.20	4.32	4.91	5.16	5.12	4.79	1.21	36.78

The above table demonstrates that the NSBI has followed the cost minimize method to per employee. Although this is good from the cost aspect, other influences like staff motivation cannot be ignored. The reason of higher ratio in expenses may be attributed to the total number of employed in the bank. In NSBI Bank, there are 538 staff at the end of 2069/70 but in HBL there are 830. The number of staff of HBL Bank is higher. So, it has still more staff expenses per employee. Himalayan bank bears higher cost for their employee. Comparatively, NSBI Bank ignored staff motivation and training and development expenses. The mean ratios from the above table are observed and it is found that NSBI Bank has lower ratio of 3.1 that of HBL Bank 4.79. The CV of ratios of NSBI Bank is 30.92 that are comparatively lower than HBL Bank. It indicates the total expense to per employee ratio of the NSBI that is more consistent.

Figure: 4.14 Chart showing Staff Expenses per Employee



***(Sources:** annual report)*

The above chart depicts the staff expenses per employee for 7 years. X-axis represents the ten year 2063/64 to 2069/70 and Y-axis represents the amount in million. From the above chart, we can say that the staff expense per employee of Himalayan Bank is much higher than Nepal SBI Bank.

4.1.1.2 Coefficient of Correlation Analysis

Under this chapter, Karl Pearson’s Coefficient is used to find out the relationship between total deposit and loan and advances, net profit and total Assets, total investment and total deposit and also the determination of coefficient which is square of correlation is used and it is very much useful in interpreting the value of correlation coefficient. Similarly, probability error of the correlation coefficient is applicable of the measurement of reliability of the computed value of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient ‘r’.

The profitability error (P.E.) is defined by:

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

Where,

R^2= determination of coefficient

N =number of observation

a. Correlation Coefficient between Total Deposit and Loan and Advances

Deposit plays vital role in collection of funds and similarly loan and advance are also important for mobilizing the collected funds. Correlation coefficient relationship between total deposit and loan and advances measures the degree of two variables. In this analysis, deposit is independent variable (X) and loan and advances is dependent variables (Y), the main objective of this analysis is to find out whether deposits are significantly used to loan and advances in proper way or not.

Table:4.15 Correlation Coefficient between Total Deposit and Loan and Advances

Evaluation Criteria	**Value of NSBI**	**Value of HBL**
Karl Pearson’s coefficient of correlation (r)	0.98	0.97
Coefficient of Determination (r^2)	0.96	0.96
Probable Error (P.E)	0.0086	0.0085
6 P.E.	0.0516	0.051

Above table shows the coefficient of correlation(r) of NSBI bank is 0.98 and HBL Bank is 0.97, which shows high degree of positive correlation with each other not only that, it also shows that there is optimum utilization of deposit fund in the bank. Similarly, the value of coefficient of determination (r2) of NSBI is found 0.96 and HBL is found 0.96 which shows 0.96% of both banks in dependent variable has been explained by the independent variable.

Loan and advance of total deposit are positively correlated which shows that an increase in total deposit leads to increase in loan and advance and vice versa.

Positive correlation between loan and advance and total deposit i.e. 98% of NSBI and 97% of HBL is a good sign, until the deposit follows and leads in increasing trend. But the deposit suffers, loan and advance will also aversively affect. HBL is successful to mobilize its fund in proper way in loan and advances in comparison to NSBI Bank.

PE i.e. 0.0086 of NSBI and 0.0085 of HBL Bank which says significant, since correlation (r) in comparison with 6 PE i.e. 0.0516 of NSBI and 0.51 of HBL the value of (r) is more 6 PE. Which reveals that is significant relationship between total deposit and loan and advances.

b. Correlation Coefficient of Net Profit and Total Assets

Net profit plays important role in any organization for its survival for a long period of time. Profit can be earned by investing the total deposit in the productive sectors. So total deposit is the main sources of fund collection of the bank when there is increment in the total deposit, there is increase in current assets of the bank. Coefficient of correlation relationship between net profit and total deposit measures the degree of two variables. In this analysis, net profit is independent variable (X) and total assets is dependent variables (Y).The main objective of this analysis is to find out whether the total assets are invested in proper way to earn profit or not.

Table: 4.16 Correlation Coefficient between net Profit and Total Assets

Evaluation Criteria	**Value of NSBI**	**Value of HBL**
Karl Pearson’s coefficient of correlation (r)	0.83	0.90
Coefficient of Determination (r^2)	0.69	0.81
Probable Error (P.E)	0.066	0.0406
6 P.E.	0.369	0.2436

Above table shows correlation (r) =0.83 (NSBI) i.e. 83% and 0.96 i.e. 90% (HBL), it can be said a high degree of positive correlation between net profit and total assets in HBL than NSBI. Similarly, coefficient of determination (r2) = 0.69 i.e. 69% (NSBI) and 0.81 i.e. 81% (HBL) which shows the dependent variable has been explained by the independent variable.

Here, the both values of total assets and net profit is in increasing trend so the relationship between to variables, total assets and net profit is highly and positively correlated.

PE i.e. 0.066 (NSBI) and 0.0406 (HBL) which say significant, correlation (r) i.e. 0.83 (NSBI) and 0.90 (HBL) comparing with 6PE 0.369 (NSBI) and 0.2436 (HBL), the value of r is greater than 6 PE which reveals that three significant relationship between net profit and total assets.

c. Correlation between total Investment and total Deposit

To run a bank successfully, it needs to invest in different sectors like government securities, shares and debentures and NRB bond. To invest in these sectors, bank need fund which can he collected from the deposit of the bank. Correlation coefficient between total investment and total deposit measures the degree of two variables. In this analysis, total investment (X) is in dependent variables and total deposit is dependent variable. Its aim is to analyze whether the deposit are invested properly or not.

Table: 4.17 Correlation Coefficient between total Investment and total Deposit

Evaluation criteria	**Value of NSBI**	**Value of HBL**
Karl Pearson’s coefficient of correlation (r)	0.90	0.93
Coefficient of Determination (r^2)	0.81	0.8649
Probable Error (P.E)	0.0406	0.0288
6 P.E.	0.2436	0.1729

Above table shows that the correlation between total investment and total deposit (r) of NSBI is 0.90 i.e. 90% and HBL's is 0.93 i.e.93% which shows there is high degree of positive correlation between the two variables. In the same way the coefficient of determination (r2) of NSBI is 0.81 and HBL is 0.86, which reveals dependent variable has been explained by independent variable. Hence, the two variable total investment and total deposits are said to be positively correlated.

PE (r) of NSBI is 0.0406 and HBL is 0.0288, which says significant, correlation (r) i. e. 0.90 and 0.93 comparing with 6PE i. e. 0.2436 of NSBI and 0.1729 of HBL, the value of r is more than 6PE which reveals that there is significant relationship between total investment and total deposit.

4.1.1.3 Trend Analysis

Trend analysis is a widely used method where various sub-methods are used for trend analysis; out of which least square method is one of the popular methods used in the study. In the present study, the tendency of total deposit, net profit, loan and advances, and EPS are examined during the observation period. And expected future result for three years have been calculated and analyzed.

The projections are based on the following assumption:

- The main assumption is that, the other things will remain constant.
- The bank will run in the present position.
- The economy will remain in the present stage.
- The forecast will be true only when the limitation of least square method is carried out.
- NRB will not change its guidelines to commercial banks.

a. Observation of the Total Deposit

Under this section, an effort has been made to calculate the estimated value and actual value of deposit for the 7 fiscal years from 2063/64 to 2069/70. The following table shows the both values.

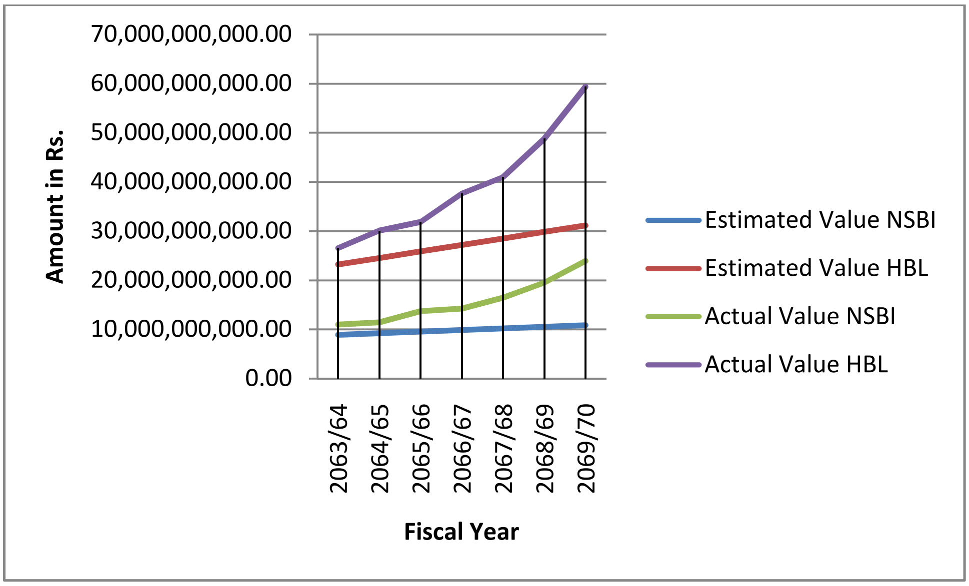
Table: 4.18 Value of Total Deposit

Fiscal Year	**Estimated Value**		**Actual Value**	
	NSBI	HBL	NSBI	HBL
2063/64	8917372490	23209075029	11002040633	26490851640
2064/65	9235191556	24533879482	11445286030	30048417756

2065/66	9553010621	25858683935	13715394960	31842789356
2066/67	9870829687	27183488388	14235648758	37611569874
2067/68	10188648753	28508292841	16457897121	40925694531
2068/69	10506467819	29833097294	19462584323	48731564592
2069/70	10824286884	31157901747	23894652139	59369246317

***(Sources:** annual report)*

Table 4.18 Chartshowing Value of Total Deposit



In the figure, the vertical line shows the value of the variables whereas the horizontal lines shows the time in same year. The changing rate of total deposit of HBL bank is high which is in increasing trend but the trend of NSBI is less increasing trend. Therefore, HBL must follow some new schemes to increase their deposits and mobilize them in some income generating activities.

b. Analysis of Net Profit

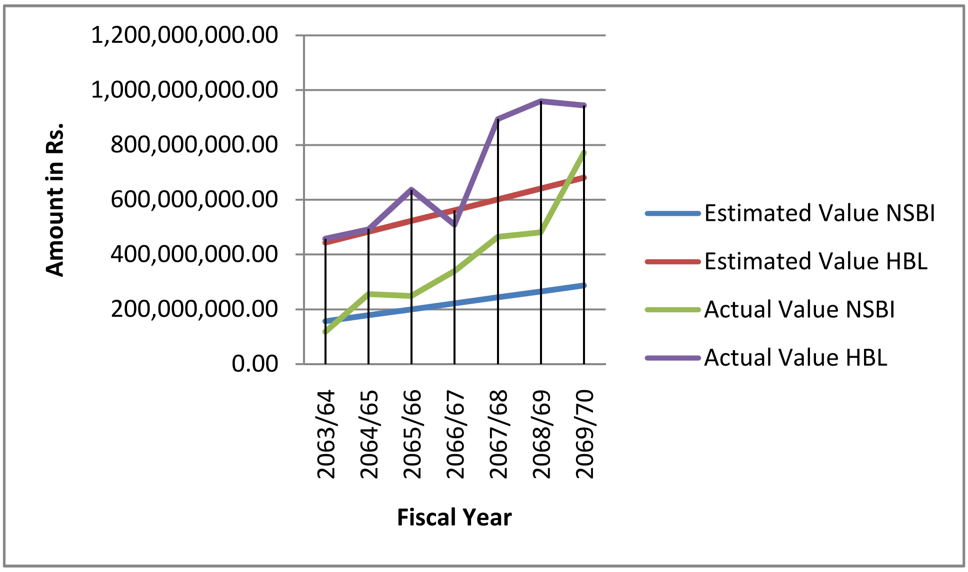
Under this section, an effort has been made to calculate the value of net profit for seven fiscal years from 2063/64 to 2069/70. The following table shows the both values.

Table: 4.19 Estimated and Actual Value of Net Profit

Fiscal Year	**Estimated Value**		**Actual Value**	
	NSBI	HBL	NSBI	HBL
2063/64	155730978	442906312.1	117001973	457457696
2064/65	177643829	482365135.2	254908844	491822905
2065/66	199556679.9	521823958.3	247770758	635868519
2066/67	221469530.8	561282781.4	338789315	508798563
2067/68	243382381.8	600741604.5	464561289	893115999
2068/69	265295232.7	640200427.7	480105897	958638152
2069/70	287208083.7	679659250.8	771478963	943698174

***(Sources:** annual report)*

Figure: 4.19 Chart Showing Estimated and Actual Value of Net Profit



After analyzing the data, it is concluded that the net profit of both NSBI and HBL has been increasing every year. The above graph shows that the trend value of NSBI and HBL is also in increasing trend.

c. Trend Analysis of Loan and Advance

Under this section, an effort has been made to calculate the trend value of loan and advances for seven fiscal years from 2063/64 to 2069/70. The following table shows the both values.

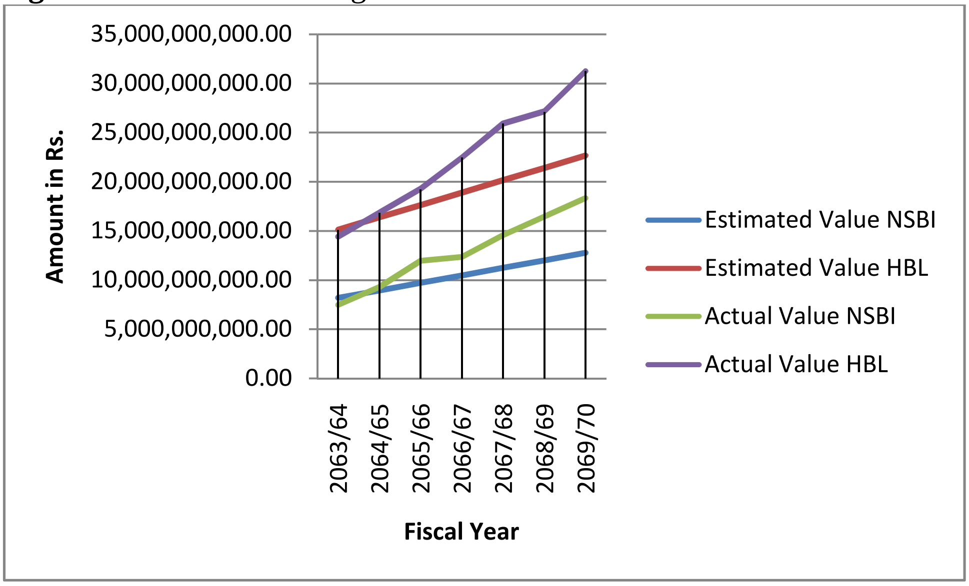
Table: 4.20 Estimated and Actual Value of Loan and Advance

Fiscal Year	**Estimated Value**		**Actual Value**	
	NSBI	HBL	NSBI	HBL
2063/64	8193446729	15110505578	7457252399	14395843343
2064/65	8958775180	16370112112	9274335463	16831888936
2065/66	9724103631	17629718646	11948028432	19257717341
2066/67	10489432081	18889325180	12349865216	22456521989
2067/68	11254760532	20148931714	14567412393	25898756321
2068/69	12020088983	21408538248	16456784321	27126798525
2069/70	12785417434	22668144782	18345634652	31234674369

(Source: Annual Report)

From the above table, NSBI's expected total loan and advance in FY 2063/64, 2064/65, 2065/66, 2066/67, 2067/68, 2068/69, 2069/70, 2070/71, are expected to be Rs. 8193446729, 8958775180, 9724103631, 10489432081, 11254760532, 12020088983, 12785417434 respectively. Similarly, from the above table, HBL's expected total deposit in FY 2063/64, 2064/65, 2065/66 ,2066/67, 2067/68, 2068/69, 2069/70, 2070/71, are expected to be Rs 15110505578, 16370112112, 17629718646, 18889325180, 20148931714, 21408538248, 22668144782, 23927751316 respectively.

Figure: 4.20 Chart Showing Trend Value of Loan and Advance



The above table shows the increasing Estimated and Actual value of loan and advance in every year of both Bank.

D. Trend Analysis of Earning Per Share

Under this section, an effort has been made to calculate the trend value of earning per share of seven fiscal years from 2063/64 to 2069/70. The following table shows the both values.

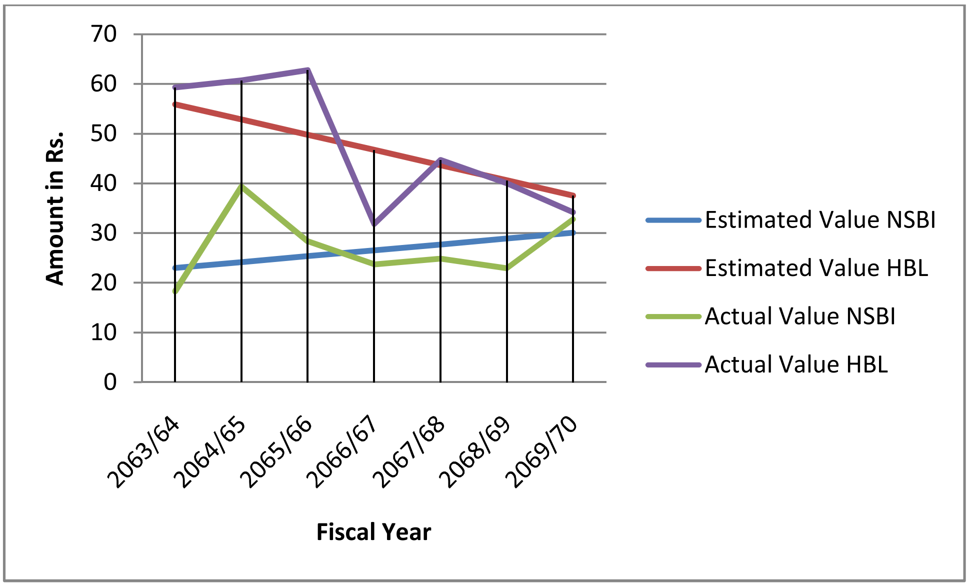
Table: 4.21 Estimated and Actual Value of Earning per Share

Fiscal Year	**Estimated Value**		**Actual Value**	
	NSBI	HBL	NSBI	HBL
2063/64	22.98	55.87	18.28	59.24
2064/65	24.14	52.82	39.35	60.66
2065/66	25.36	49.76	28.33	62.74
2066/67	26.51	46.71	23.69	31.80
2067/68	27.69	43.64	24.85	44.66
2068/69	28.89	40.57	22.93	39.94
2069/70	30.08	37.51	32.75	34.19

(Source: Annual Report)

From the above table, NSBI's expected total earning per share in FY2063/64, 2064/65, 2065/66, 2066/67, 2067/68, 2068/69, 2069/70, are expected to be Rs. 22.98, 24.14, 25.36, 26.51, 27.69, 28.89, 30.08, 31.27 respectively. Similarly, from the above table, HBL's expected total deposit in FY 2063/64.2064/65, 2065/66, 2066/67, 2067/68, 2068/69, 2069/70, 2070/71, are expected to be Rs.55.87, 52.82, 49.76, 46.703, 43.64, 40.577, 37.514, 34.451 respectively.

Figure: 4.21 Chart Showing Estimated and Actual Value of Earning per Share



According to the above graphs, the increasing trend of earning per share of NSBI is observed. But the EPS of HBL is decreasing trend.

4.2 Major Finding of the Study

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

a. Liquidity

- The liquidity position of Himalayan Bank is comparatively not better than that of Nepal SBI Bank. It has the lowest current ratio and cash and bank balance to total deposit ratio. The liquidity ratios of HBL bank are more stable and consistent then the NSBI Bank which indicates the stable policy of Himalayan Bank Ltd.

b. Profitability Ratio

- Return on equity signifies how management has employed the equity of shareholders in general profit. The mean ratio of return on equity of NSBI is nearly to 3 times of HBL Bank. NSBI has failed to maintain the higher ratio as HBL Bank. The variability of return on overall equity of HBL is higher than that of NSBI Bank. It shows the inconsistency in return on equity.
- The ratio of Net profit margin of NSBI bank is remarkably lower comparing to HBL bank (18.72 VS 11.36). The bank is able to produce 11.36% net profit. The bank is not able to control operating expenses and other leakage. ssssThe net profit margin of Himalayan bank, at its highest was 26.16% in the year 2064/65.

In simple terms it means that out of revenue of Rs. 100, NSBI bank is only able to convert to a net profit of 26.16%. The mean ratios of the both banks show that HBL has higher mean ratio of net profit margin 18.72 than that of NSBI bank 11.36%.

- The earnings per share of the HBL are very good during the period in comparison to NSBI. But both banks have fluctuating EPS.
- The ROA of HBL is comparatively higher than NSBI. It shows that HBL is efficient in utilizing its assets to generate more operating profit in comparison to NSBI.
- Dividend per share of NSBI bank is not satisfactory, which can generate negative impact on its shareholders. HBL is also decreasing its DPS during the period but its dividend to the shareholders i.e. HBL's DPS was not found zero during the study period.

c. Earning Spread

- The earning spread is a main measurement of way of earning from operation in commercial banking. It is the difference between weighted average revenue from earning and weighted average cost for all cost. NSBI is maintaining lower operating ratio than HBL.

d. Staff Expenses per Employee

- A staff expense per employee represents the bank's expenses for one employee for their welfare, training salary etc. Staffs expenses of Nepal SBI bank are very lower to Himalayan Bank Ltd. that indicates NSBI bank is less careful to its staff in terms of their aspect.
- From the above result it can be concluded that the profitability position of NSBI bank is comparatively worse than that of HBL bank. The bank must maintain its high profit margin for the well being in future.

e. Statistical Analysis

The calculation of coefficient of correlation reveals the followings:

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

- Correlation coefficient between deposit and investment of bank is also found that it is positive and it is directly related to deposit.
- Correlation between total assets and net profit of HBL is positive however NSBI bank has got moderate relation.

CHAPTER - V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is a very important chapter of research because it is an extract of the entire chapters previously discussed. This chapter consists of mainly three parts: Summary, Conclusion and Recommendations. In summary part, very short revision has been made of the whole text presented before. In conclusion part, the result from the research is summed up and in recommendation part, suggestions and recommendations are made based on the result and experience of thesis. Recommendations are made for improving the present situation to the concerned parties as well as further research.

5.1 Summary

A bank is an institution which deals with money by accepting various types of deposits, disbursing loans and rendering other financial services, to the greater extent, economic growth rate is based on the banks and other financial institutions' performance in an economy. Many researchers have revealed that banks and economic condition are two wheels of the same chariot. Now days, banking activities are spreading all over the world. In this time, there are 30 commercial banks operating in Nepal, licensed by NRB up to June-2014 AD. Besides, some other development banks are in the process of their conversion into commercial banks and few other commercial banks are emerging too. This has led to the intense competition in the banking business. Only those banks, providing better services and having a greater profit margin would survive in the long run.

The prosperity of every developing country can be ensured by its economic growth. The role of commercial banks in the economic growth can be fairly estimated to be very prominent. By mobilizing the scattered idle volume in order to feed the fund requirement of productive sector of the economy. To remain as the major contributing factor to the growth of the nation's economy, they themselves have to have sustainable existence and growth of themselves for which profitability is a must.

Therefore, the profit of commercial organisation has been defined as the lifeblood for the organization. A commercial bank also, being a commercial institution has to plan for the reasonable profit earnings. Thus this study is conducted to examine the profitability position of the Nepal SBI Bank Ltd. and Himalayan Bank Ltd. The review of one specific institution can only say so much as compared to the conclusion that can be drawn from the comparisons with the competitors and the industry. Thus, the study makes use of comparison with other similar foreign joint venture banks and their average in order to gauge (measure) the performance of the bank.

Nepal SBI Bank Ltd. is a Joint venture bank registered on 2050/01/16 in the department of industry, under the company Act 2021 BS and commercial act 2031 BS. The authorized capital of the bank is RS 240 million. It is divided into two million four hundred thousand ordinary shares of Rs 100 each. The bank has fully issued capital is 877,500,000 and paid up shares is 874,527,840.

Himalayan Bank was established in 1992 AD by a few distinguished business personalities of Nepal in partnership with Employee Provident Fund and Habib Bank Ltd., one of the largest commercial banks of Pakistan. The authorized capital of HBL is Rs. 1,000,000,000. The bank has fully paid up 10,135,125 ordinary shares of Rs. 100 each.

Himalayan Bank Ltd. is a joint venture bank that is established after the restoration of multi-party democracy as the third joint venture bank in Nepal. Himalayan Bank Ltd. is also playing important role in upgrading the Nepalese economy as this is one of the leading commercial banks in Nepal and covers a significant market.

The study is concentrated on the financial performance of two second generation joint venture banks, namely Nepal SBI Bank Ltd, and Himalayan Bank Ltd. to provide valuable insight observation regarding how they are performing financially. The first chapter contains the detail information about the growth of commercial banks in general and gives a brief profit of two joint venture banks considered under study. In the 2nd chapter relevant nature of study has been carefully made to have a grasp of what others have said or made on the topic. In the 3rd chapter suitable research methodologies have been used covering the use of financial and statistical tools. The available data have been analyzed according the need to portray the overall financial performance of commercial banks. Certain issues and findings have been materialized from analysis of data followed by a package of suggestions and recommendations.

5.2 Conclusions

The effectiveness of intermediation role-played by the banking sectors ultimately contribute to the economic development of a country. No doubt, the monitoring and apt measures adopted by central banks to regulate and supervise the banks and financial institutions determine the extent of banking sector development. The trend has gone far towards a more open and liberal policies that help the banking sectors to grow and flourish. Results visualized are increased competition, internationalization of banking business, economic cooperation and innovation in financial instruments. Banking is no longer a national phenomenon now. The banking business has crossed the national boundaries and this has created more risks and challenges to the regulatory framework in the SAARC countries and this has called the needs for harmonization for banking policies to manage the banking business in this globalize world.

From the conducted studies following points have been drawn.

- The liquidity position of HBL Bank is comparatively not better than that of NSBI Bank. It has the lowest current ratio, cash and bank balance to the total deposit ratio. The liquidity ratios of HBL bank which indicates the stable policy of Himalayan Bank has not made enough cash and bank balance while NSBI Bank has not good deposit collection in comparison to HBL.
- The profitability position of NSBI bank is comparatively not better than that of HBL. The bank has followed moderate position in comparison to other banks.
- Through the trend analysis it is found that the deposit collection position, lending position, investment position and net profit position HBL is better than NSBI Bank except in the case of EPS. Because the trend value of EPS of HBL Bank is declining.
- The Interest Spread is the difference between the buying and selling rates of the fund. The rate of Interest Spread has significant importance in the aspect of profitability. Interest spread of NSBI was found marginally higher than that of HBL Bank. It can be concluded that interest expenses covered more portion in

NSBI Bank compared in HBL Bank. It may be the result of their success to attract the depositors due to higher rate of interest.

- Organization itself does nothing but their success or failure is mainly based upon their employee, efficient and well motivated staffs, are the ornaments of any organization. HBL Bank's staff expenses per employee is very high than that of NSBI Bank. Moreover, there are more staffs working in HBL Bank. In this way staff expenses includes as the expenses made upon their employees such as salary and allowance, training, uniform, and other contribution to provident fund. Intensive fringe benefit etc. NSBI Bank should care more to its staff in future.

5.3 Recommendations

After the analysis of financial performance of Himalayan Bank Ltd. and Nepal SBI Bank Ltd., the following recommendations are made to overcome their weakness and inefficiency for improving their financial performance in a better way.

- **Liquidity**: HBL has invested maximum amount of its funds on risky assets i. e. loan than NSBI Bank. Thus the bank is always threatened by the fear of default. It will be better if the bank diverts some amount of funds from lending and invest in less risky investment alternatives, which helps the bank to diversify the risk. Both banks should provide the facility to interest rate rebate to borrower when repays the loan before stipulated time; this may help to increase number of early payers that will reduce default risk. Both the banks should be established after proper diagnosis of the root causes of unsatisfactory liquidity. In this regard, HBL Bank should be more serious then NSBI Bank.

- **Profit Margin**: Both banks should attract more non-interest bearing amount deposit to increase profit margin. Moreover, this should be invested for earning of interest. So, it is recommended reducing its fixed deposit.

- **Control Expenses:** Both banks must control in their expenses, which are unnecessary and burden for the bank. Both banks must formulate the strategy to control such expenses using modern technology, computer networks, and experts and well trained personal which also increase the operating efficiency of the bank.

- **Earnings Per Share**: The earning per share and dividend per share attract the investors. Nepal SBI Bank is not generating sufficient return for equity as HBL Bank. So, higher dividend strategy should be adopted by both banks for the better growth of shareholders worth.

- **Need to Invest on small Entrepreneurs Development Programs**: Joint Venture Banks like NSBI bank and HBL banks are at present concentrating their business with big clients like big groups in trade and industry, manufacturers, exports of garments ad carpets, service related to tourism industry, subsidiaries of multinational companies operating in Nepal. These banks should encourage to the small scale investors to invest in their business through these banks. So the bank should come forward to increase the number of clients, develop entrepreneurship, diversify its business with the large numbers of small investors and come forward to meet the national objective of privatization and more entrepreneurs.

- **Training of Employees:** It is suggested that the commercial banks of Nepal have to use well-trained personnel. Well-trained personnel will provide better services to the bank and people. They will increase the operating efficiency of the banks. Thus, the banks have to conduct Training School of their personnel if necessary the banks have to be ready to drain personnel on abroad too.

- **Introducing to Foreign Investors for National Development: T**he Joint Venture Banks are suggested to promote the foreign investors for making their investment for the development of country. The foreign investors and industrialists are unfamiliar with the local rules, regulations, customs and practices. So, the JVBs should try as far as possible to promote the investment of foreign investors at industrial development of country which enables to solve a great unemployment problem of the nation.

- **Mobilizing the Deposits Funds in Productive Sector:** The Joint Venture Banks basically are not concentrating to mobilize their deposit funds in productive sectors. So, they are suggested to come forward to meet government obligations by financing in the priority sector development programs such as poverty alleviation programs, women development programs, income generating programs, generating new services etc.

- **Grant more Priority to Local Staffs:** These days JVBs have seconded staffs. They are here for the short period and are highly costly than local staffs. So the banks should come forward to develop the banking capacity in their local staffs. Banking capacity in their staffs can be developed by training and development programs and by allocating more authority and responsibility to them. These banks can achieve their goals in minimum cost by exercising and granting more priority to the local staffs. This will ultimately increase in their profits. It is well known from working staffs that Nepalese Degree Holders are highly neglected on higher posts by the management of joint venture Banks. The concept of negligence on Nepalese degree holders should be changed because they are comparatively no inferior to the one hired from the foreign countries. The management of all Joint Venture Banks should think seriously about matter and put emphasis to Nepalese degree holders on the higher posts by allocating more authority and responsibility.

- **Banking Technology:** It is found that the modern banking technologies followed by joint venture banks in Nepal are mostly beneficial to the high level depositors. NSBI Bank and HBL Bank are suggested here to make these technologies accessible to their all kind's depositors as far as possible. They should adopt efficient and latest market strategy to make their transaction more capable as well as to fulfil growing demand of new financial service and facilities.

- **Planning Research and Development:** An emphasis should be given on planning, research and development for the proper planning and controlling purpose. Proper and regular internal audit system can help the management in regards the cost control strategy and avoid unnecessary leakage in the expenses.

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ANNEXURE

Annexure-1

Correlation Between Total Deposit and Loan and Advances of NSBI Bank

Amount in '000'000

Total Deposit (X)	Loan and Advances (Y)	x =X-1574.48	y = Y-1291.42	x^2	y^2	xy
1100.204	745.725	-474.276	-545.695	224937.8	297783.12	258810.1
1144.528	927.433	-429.952	-363.987	184858.8	132486.54	156496.94
1371.539	1194.802	-202.941	-96.618	41185.1	9335.1	19607.76
1423.564	1234.986	-150.916	-56.434	22775.7	3184.8	8516.8
1645.789	1456.741	71.309	165.321	5084.98	27331.12	11788.9
1946.258	1645.678	371.778	354.258	138218.89	125498.74	131705.4
2389.465	1834.563	814.985	543.143	664200.56	295004.32	442653.4
X X 11021.347	Y X 9039.928	x =- 0.013	y X- 0.012	x^2 = 1281261.83	y^2 = 890623.74	xy = 1029579.3

$$r \text{ X} \frac{xy}{\sqrt{x^2}\sqrt{y^2}} = = \frac{1029579.3}{1131.92 \mid 943.73} = \frac{1029579.3}{1068225.319} = 0.98$$

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

$$\text{P. E.} = 0.6745 \mid \frac{(1 \text{Z} r^2)}{\sqrt{N}}$$

$$= 0.6745 \mid \frac{(1 \text{Z} 0.86)}{\sqrt{7}} \qquad = 0.6745 \mid \frac{0.14}{2.645}$$

$$= 0.6745 \mid 0.0529 \qquad = 0.0086$$

ANNEXURE- 2

Correlation between Total Deposit and Loan and Advances of HBL

Total Deposit (X)	Loan and Advances (Y)	x=X-3928.8585	y=Y-2245.7452	x2	y2	Xy
2649.085	1439.584	-1279.774	-806.1612	1637821.49	649895.88	1031704.2
3004.841	1683.138	-924.0175	-562.5572	853808.34	316470.603	519812.69
3184.278	1925.771	-744.5805	-319.9742	102383.48	102383.49	238246.55
3761.156	2245.652	-167.7025	0	28124.13	0	0
4092.569	2589.875	163.7105	344.1298	26801.13	118425.32	56337.67
4873.156	2712.679	944.2975	466.9338	891697.77	218027.18	440924.42
5936.924	3123.467	2008.0655	877.7218	4032327.1	770395.5582	1762522.865
X = 27502.009	Y X 15720.166	x =-0.001	y =0.0928	x^2 = 7572963.44	y^2 = 2175598.0312	xy = 4049548.395

(A)

$$r \text{ X} \frac{xy}{\sqrt{x^2}\sqrt{y^2}} = \frac{4049548.395}{\sqrt{7572963.44} \mid \sqrt{2175598.0312}} = \frac{270960578.14}{2751.90 \mid 1474.99}$$

$$= \frac{270960578.14}{277201765.70} \quad = 0.9$$

(B) $r^2 = (0.9775)^2$ =0.96

(C) P.E. = $0.6745\text{x}\frac{(1 \text{Z} r^2)}{\sqrt{N}}$ $=0.6745\text{x} \frac{(1 \text{Z} 0.95547)}{\sqrt{7}}$ =0.6745x0.01682= 0.0085

ANNEXURE-3

Trend Analysis of Total Deposit of NSBI

Year (X)	Total Deposit (Y)	x=X-2066/67	x2	xy	y=a+bx
063/64	11002040633	-3	9	-33006121900	17796748180
064/65	11445286030	-2	4	-22890572060	19848710090
065/66	13715394960	-1	1	-13715394960	21900671990
066/67	14235648758	0	0	0	23952633890
067/68	16457897121	1	1	16457897121	2600459580
068/69	19462584323	2	4	38925168650	2805655770
069/70	23894652139	3	9	71683956420	3010851960
n = 7	Y = 110213503964	x =0	x^2 = 28	xy = 57454933271	y = 91915731460

Calculation of the value of a and b

We know,

The straight line trend is given by the following formula:

Y = a + bx …………………. (i)

Where,

Y = Values of total deposit

a = Total deposit

b = Rate of change of total deposit

X = Year

a X $\frac{y}{n}$ $\qquad$ b X $\frac{xy}{x^2}$ =

$$110213503964/7 \qquad = \frac{574549332 71}{28}$$

$$= 15744786280 \qquad = 2051961903$$

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

If X = 2069/70, then, Y = 15744786280 + 2051961903 x 7,

=30108519600

And so on………………

ANNEXURE -4

Trend Analysis of Total Deposit of HBL

Total Deposit (Y)	x=X-066/67	x2	xy	y=a+bx
26490851640	-3	9	-79472554920	44470175680
30048417756	-2	4	-60096835510	49651760790
31842789356	-1	1	-31842789356	54833345890
37611569874	0	0	0	59463478121
40925694531	1	1	40925694531	6519651610
48731564592	2	4	97463129180	7037810120
59369246317	3	9	178107739000	75559686310
y = 275020134066	x =0	x^2 =28	xy = 145084382925	y = 297535908521

Calculation of the value of a and b

We know,

The straight line trend is given by the following formula:

Y = a + bx …………………. (i)

Where,

Y = Values of total deposit

a = Total deposit

b = Rate of change of total deposit

X = Year

$a \text{ X} \frac{y}{n}$ $\qquad$ $b \text{ X} \frac{xy}{x^2}$

$= \frac{275020134066}{7}$ $\qquad$ $= \frac{145084382925}{28}$

= 39288590580 $\qquad$ = 5181585104

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

If X = 2069/70, then, Y = 39288590580+ 5181585104x 7 = 75559686310

And so on